

U.S. INDUSTRIAL BUSINESS INDICATOR™ | January 2020

Solid Demand Momentum Heading into 2020



Prologis Gateway Phase III, Sterling, Virginia

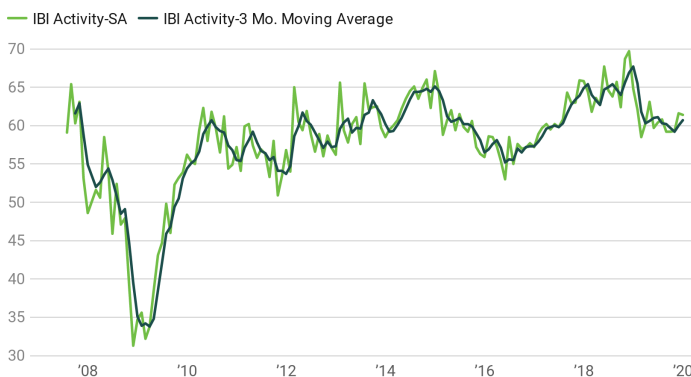
The Broad View

1. Prologis' IBI™, our proprietary survey of customer sentiment, accelerated in Q4 2019 to end the year at 61.4. Utilization rose to 87%—the strongest point since December 2018—indicating that there is little shadow space in the market as customers fully use existing facilities.
2. Absorption kept pace with new supply throughout most of 2019, with demand supported by healthy consumption growth, as well as structural drivers. Further, the combination of seasonality and a record wet spring in many regions resulted in a high level of 4Q deliveries, many of which are still in the lease-up phase.
3. Prologis Research anticipates net absorption of 250 MSF and 275 MSF of completions in 2020, which will keep the vacancy rate historically low at roughly 4.6 to 4.7%.¹
4. Market rental growth of 8% in 2019² reflects two key factors: the scarcity of available product and rising replacement costs in most markets. That said, conditions have eased for customers in select locations.³

Exhibit 1

IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted

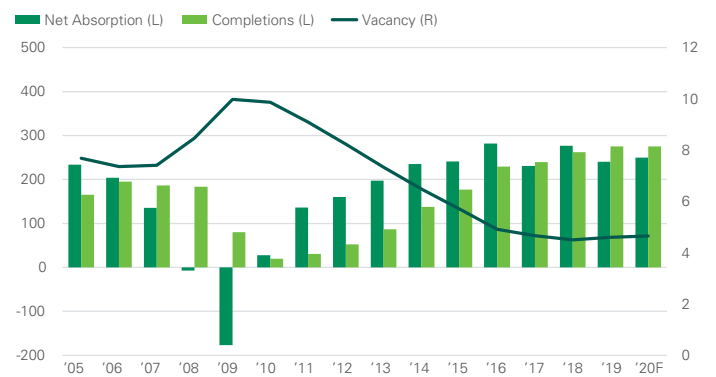


Source: Prologis Research

Exhibit 2

MARKET FUNDAMENTALS, U.S.

MSF



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CBRE-EA, Prologis Research

The Details

Logistics real estate demand was diverse and strong, supported by cyclical and structural trends. Demand grew by approximately 240 MSF in 2019, down slightly from the elevated levels of 2018.⁴ Despite a record-long economic expansion, cyclical growth in the U.S. remained on solid footing as consumption accelerated toward the close of the year.⁵ On the structural side, e-commerce users were very active throughout 2019 (bringing with them a broadening array of requirements),⁶ and they are poised to expand further in 2020. Net absorption is expected to rise by 250 MSF in 2020.

Supply increased in lower barrier locations. The development pipeline expanded in 2019 as a response to strong investor interest in logistics real estate. Supply remains concentrated in markets with lower barriers to new development. Locations at risk of oversupply include Central PA and outlying submarkets in Houston and Atlanta. Completions increased to 275 MSF in 2019, up 3% from 262 MSF in 2018.⁷ Supply is expected to total 275 MSF in 2020, as volume of projects breaking ground stabilized in 2019. With demand constrained by available capacity, net absorption is closely linked to new supply, and Prologis Research anticipates that realized demand will rise slightly in 2020. Supply/demand imbalance is mostly the result of “frictional vacancy,” as higher levels of new supply take time to lease up. The national vacancy rate is expected to remain roughly stable in the near term, keeping the operating environment challenging for customers with upcoming requirements.

Rental growth responded to persistent scarcity and rising replacement costs. These trends were exacerbated in the coastal metropolis markets that drove 8% market rental growth in 2019. Land price spikes, particularly, pushed construction costs of logistics buildings to new heights in most markets, with the fastest growth in infill submarkets well-positioned for Last Touch® and City Distribution.⁸ Developers must charge higher rental rates to make new projects financially feasible.

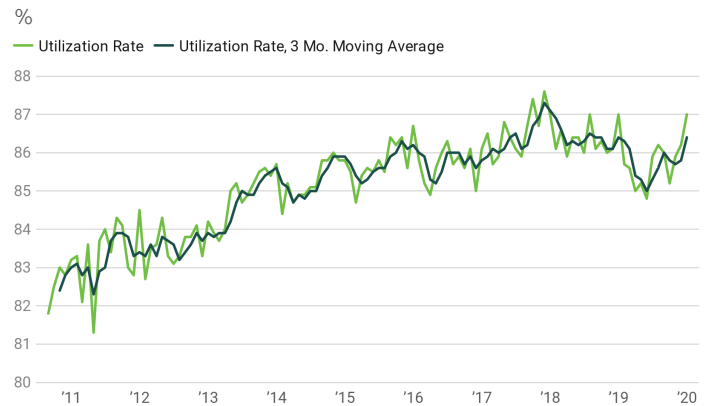
In Summary

The U.S. logistics real estate market is poised for another year of expansion. Cyclical and structural growth drivers are incentivizing customers to invest in logistics capabilities in order to generate revenue and achieve operational efficiencies. Supply is responding to years of strong demand, robust market rent growth and tight operating conditions. Looking ahead, Prologis Research forecasts continued diversity in logistics real estate demand and sustained low vacancy, making advance planning a priority for customers with upcoming requirements in 2020.

Endnotes

1. CBRE, Jones Lang Lasalle, Cushman & Wakefield, Colliers, CBRE-EA, Prologis Research
2. Weighted by estimated total market revenue; market rent growth weighted by PLD NOI is ~8%
3. Prologis Research
4. CBRE, Jones Lang Lasalle, Cushman & Wakefield, Colliers, CBRE-EA, Prologis Research
5. U.S. Census, U.S. Bureau of Economic Analysis
6. Prologis Research
7. CBRE, Jones Lang Lasalle, Cushman & Wakefield, Colliers, CBRE-EA, Prologis Research
8. Prologis Research

Exhibit 3
UTILIZATION RATE



Source: Prologis Research

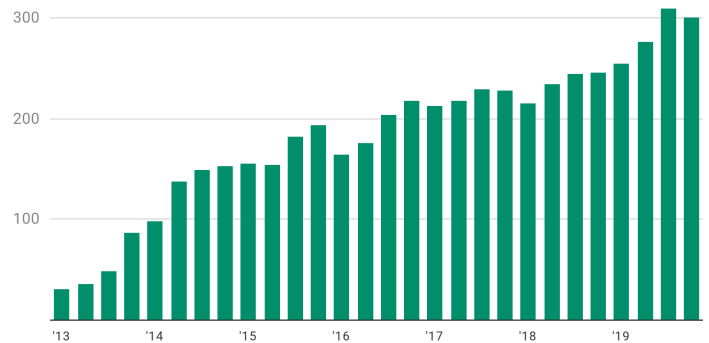
Exhibit 4
SUMMARY OF NET ABSORPTION INDICATORS

	LATEST READING	AS OF	EST. NET ABSORPTION, MSF		REGRESSION FIT (R-SQR)
			Quarterly	Annualized	
IBI-Activity	60.7	Dec 2019	61	245	0.84
Weighted Average of Econ Variables			55	219	
PMI (non-mfg)	54.5	Dec 2019	50	199	0.69
Jobs (private)	182	Dec 2019	59	237	0.72
Core Retail Sales	3.8%	Dec 2019	52	207	0.62
Inventories	67.0	3Q 2019	58	233	0.61

Note: Values are a 3-month trailing average, except inventories.

Source: Institute for Supply Management, Bureau of Economic Analysis, U.S. Census, Bureau of Labor Statistics, Prologis Research

Exhibit 5
UNDER CONSTRUCTION, U.S. INDUSTRIAL
MSF



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CBRE-EA, Prologis Research

Forward-Looking Statements

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About Prologis Research

Prologis' Research department studies fundamental and investment trends and Prologis' customers' needs to assist in identifying opportunities and avoiding risk across four continents. The team contributes to investment decisions and long-term strategic initiatives, in addition to publishing white papers and other research reports. Prologis publishes research on the market dynamics impacting Prologis' customers' businesses, including global supply chain issues and developments in the logistics and real estate industries. Prologis' dedicated research team works collaboratively with all company departments to help guide Prologis' market entry, expansion, acquisition and development strategies.

About Prologis

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of December 31, 2019, the company owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 814 million square feet (76 million square meters) in 19 countries.

Prologis leases modern distribution facilities to a diverse base of approximately 5,000 customers across two major categories: business-to-business and retail/online fulfillment.