



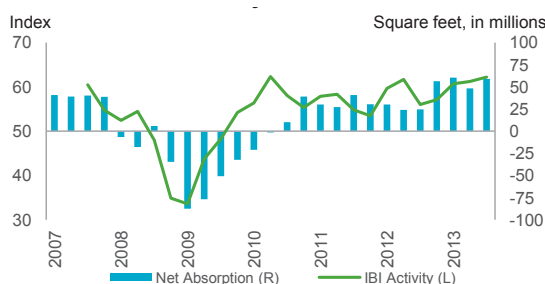
U.S. NET ABSORPTION TO ITS HIGHEST LEVEL SINCE 2006: PROLOGIS INDUSTRIAL BUSINESS INDICATOR REVEALS ONGOING STRENGTH

Prologis' Industrial Business Indicator (IBI), our proprietary survey of customer activity levels and facility utilization rates, continued to rise in Q3 2013 and was up 6% yr/yr in October. We have raised our forecast for 2013 net absorption in the U.S. to 200-225M sf and expect even better momentum in 2014. These will be the highest annual results in seven years. Recent results for PMIs, retail sales growth, inventory levels and employment indicate a similar net absorption trend. With all these factors considered, our outlook suggests demand running at more than twice the pace of expected development completions in 2014, which would push the vacancy rate to its lowest level in more than a decade.

Activity levels among our customers are the highest since the inception of the IBI in 2007.

Each month we survey our customers regarding their activity levels and facility utilization rates. The activity index in October was 63.2, up 6% yr/yr. The drivers of logistics demand, such as aggregate economic activity or, simply, population levels, are above prior peak levels established in 2007. In fact, nearly all of the key industrial drivers we track are at or above prior peak levels.

EXHIBIT 1:
IBI - Activity Index



Source: CBRE, Prologis

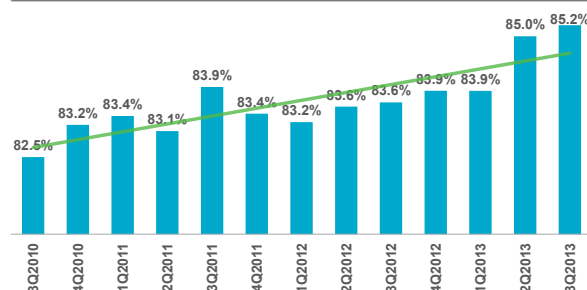
Recent readings of the IBI are consistent with an annualized net absorption pace of 217M sf.

We estimate quarterly net absorption based upon the correlation with the monthly IBI. The data has a high correlation and acts as a leading indicator of demand. Using a two-month lead for the IBI, regressing net absorption on the IBI yields an R-squared of 0.84. The most recent monthly readings of the IBI were 61.8, 61.5 and 63.2 for

August-October. The average, 62.2, is consistent with forward quarterly net absorption of 54M sf, which annualizes to 217M sf.

The utilization rate among our customers is also at the highest level since the inception of the survey. The utilization rate was 85.2% in Q3 2013 and 85.6% in October, up 160 bps and 150 bps yr/yr, respectively. The recovery of logistics demand has lagged the macroeconomic recovery of 2010-2012, constrained by economic and political uncertainty. Nonetheless, their underlying businesses have grown and have pushed utilization rates to their highest-ever levels. Our customers are short on space to handle their current needs, much less their future growth. This pent-up demand has been a tailwind at this point in previous cycles. Yet, still-rising facility utilization rates suggest that the recent notable bounce in net absorption reflects the ongoing catch-up between the logistics cycle and macroeconomic recovery.

EXHIBIT 2:
IBI - Utilization Rate

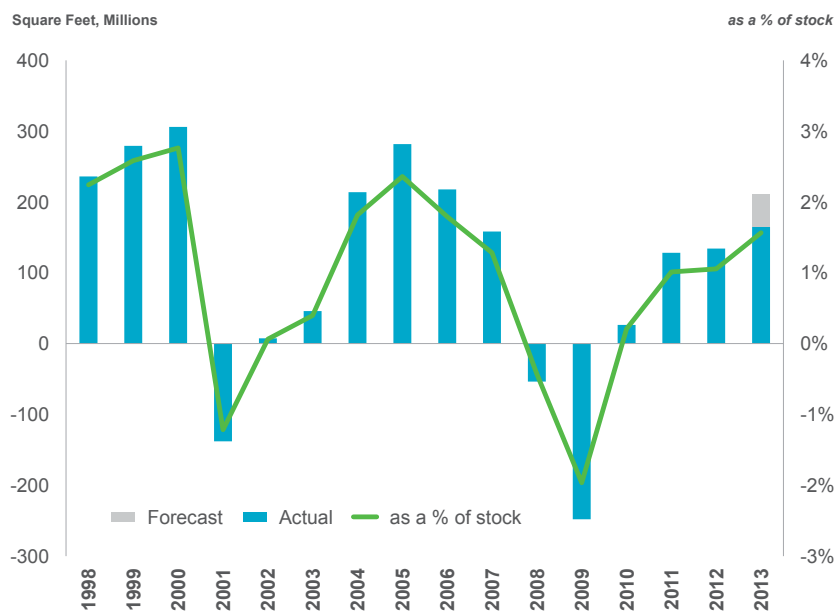


Source: Prologis

We expect net absorption in 2013 to be 200-225M sf, the highest result since 2006.

Incoming data from the past three months have been catalysts for our increase (up from 180M sf as of July). First, Q3 2013 net absorption of 55M sf outperformed expectations. Second, the IBI continues to rise and points to higher activity levels. Third, incoming economic data for October has exceeded economist projections, including positive surprises for both non-manufacturing PMIs and employment.

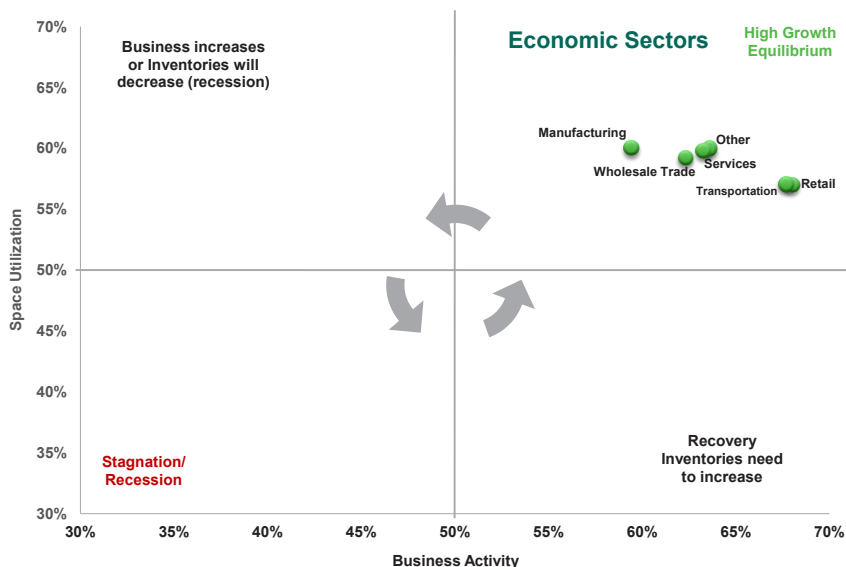
**EXHIBIT 3:
Net Absorption Recovery Picking Up**



Source: CBRE, Prologis

IBI by customer segments; unified expansion. Exhibit 4 compares the IBI Activity and Utilization indices by customer segment. All customer sectors are well within the high growth equilibrium quadrant. In fact, each customer segment has improved by at least one metric in the past year (either activity or utilization), although retail has seen the largest increase.

**EXHIBIT 4:
IBI by Economic and Customer Segment**



Source: Prologis

We expect the pace of net absorption to strengthen in 2014. Momentum grew through 2013 as the recovery broadened not only to more industry segments, as discussed above, but also to more markets and to more size categories as well. Initial signs of recovery for smaller properties emerged; the availability rate declined 140 bps yr/yr as of Q3 2013 for properties under 100,000sf as compared to a 110 bps decline for larger properties, according to data from CBRE. In addition, economists forecast stronger economic growth. GDP is forecast to rise 2.6% in 2014, up from 1.6% in 2013 per Consensus Economics, along with better trends in underlying logistics drivers including consumption, industrial production and trade. And lastly, shifts in facility utilization rates may lead to surprises in net absorption as pent-up demand uncoils.

INCOMING ECONOMIC DATA ILLUSTRATES GROWTH

Forecasting net absorption requires balancing structural and cyclical drivers. Long-term drivers, such as aggregate economic activity, demographic shifts, and consumer preferences (e.g., e-commerce), are central to understanding the industry's structural growth potential. However, these high-level themes have relatively little explanatory power of year to year variations in the pace of new demand. The R-squared for a regression between GDP and net absorption is 0.42. In contrast, we obtained higher R-squareds using indicators specific to drivers in the logistics industry, including PMI indices, retail sales growth, changes in inventories and job growth. As a result, they are better predictors of near-term demand.

1. **PMI Indices:** The manufacturing and non-manufacturing indices serve as leading indicators of net absorption. These figures remain solidly above 50 and are consistent with modestly stronger demand than the current run rate.

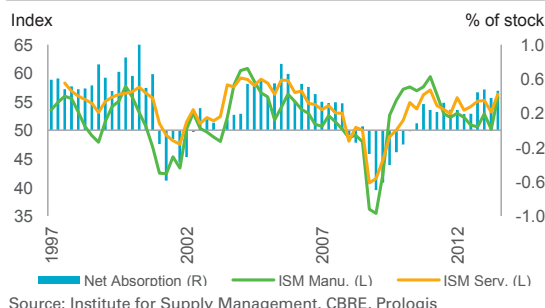
2. **Retail Sales:** Retailers are important customers within logistics and their sales activity has a close relationship with net absorption. Retail sales rose 4.6% yr/yr in the third quarter. E-commerce sales, an increasingly active customer vertical within logistics, grew 18% yr/yr as of Q2 2013.
3. **Inventories:** While the nature of logistics has transitioned away from strictly warehousing and goods storage, real inventory levels are nonetheless illustrative of the volume of products flowing through supply chains. Recent restocking activities have taken real inventories back to their prior peak levels and support the current pace of recovering demand.
4. **Employment growth:** While employment gains are not an industry-specific indicator of logistics demand, they have a healthy relationship with net absorption. Employment growth has so far been modest during the macroeconomic recovery and expansion, but job gains are projected to increase as productivity growth continues to dissipate.

EXHIBIT 5:
Summary of Net Absorption Indicators

	Latest Reading	as of	Est. Net Absorption, M sf Quarterly	Annualized	Regression Fit (R-sqr)
IBI-Activity	62.2	Oct, 2013	54	217	0.86
Weighted Average of Econ Variables			54	216	
PMI (non-mfg)	56.1	Oct, 2013	56	225	0.79
Retail Sales	4.5%	Sept, 2013	48	191	0.72
Inventories	71.3	Q3 2013	56	222	0.68
Jobs (private)	190	Oct, 2013	57	226	0.74

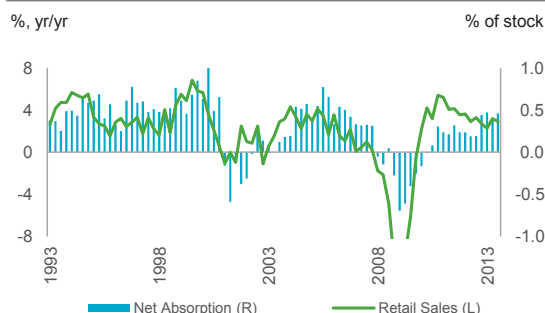
Note: IBI is the three-month moving average index level. PMI is the three-month moving average index level. Retail sales is the yr/yr growth of the three-month moving average. Inventories is the two-quarter moving average in billions of real dollars (2009 basis). Jobs are the three month average change in private employment in thousands. The weighted average is based upon R-squareds.

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

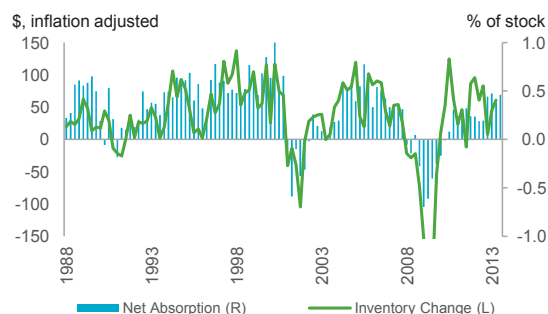
**EXHIBIT 6:
Manufacturing & Non-Manufacturing PMI**

Recent PMI readings are consistent with an annualized demand run rate of 225M sf.

The PMI monthly indices are notable leading indicators of the economy and of logistics net absorption. Both are surveys of purchasing and supply executives, measuring changes in a variety of conditions, such as business activity and new orders. The non-manufacturing index has a tighter relationship with net absorption (R-squared = 0.79) than the manufacturing index (R-squared = 0.70). The non-manufacturing survey measures activity in the services economy; many respondents are key tenants within the logistics industry (such as construction, wholesale and retail trade, and food services), although some are not (e.g., arts, recreation, and finance). The most recent trailing 3 month averages for the non-manufacturing PMIs was 56.1 for August-October, which is consistent with quarterly net absorption of 56M sf and annualizes to 225M sf. The manufacturing PMI index indicates an even higher pace for net absorption.

**EXHIBIT 7:
Advance Monthly Retail Sales**

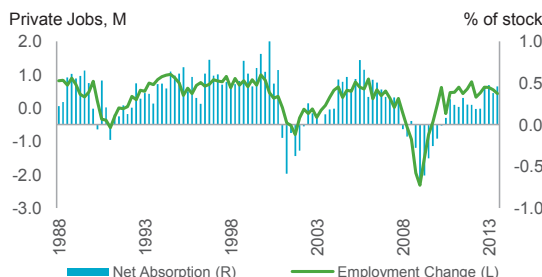
Recent monthly retail sales velocity is consistent with an annualized demand run rate of 191M sf. Retail sales are an important leading indicator of logistics net absorption, as they signal velocity through the supply pipeline. They can also lead attitudes around inventory building or de-stocking, which also affects changes in user requirements. Regressing net absorption on retail sales growth yields an R-squared of 0.72. Retail sales are up 4.5% yr/yr (based off of three-month moving averages), which is consistent with a quarterly pace of demand of 48M sf, an annualized rate 191M sf. In addition, e-commerce sales create upside to this estimate. The rising share of online retail sales, an intensive user of logistics facilities, is an added positive that backward looking regression models will miss.

**EXHIBIT 8:
Real Inventories**

Recent inventory building is consistent with an annualized demand run rate of 222M sf.

The building up or de-stocking of inventories is generally consistent with general attitudes surrounding the leasing of space, although the rise of cross-dock and High Throughput Distribution (HTD®) facilities increases the emphasis on other indicators of logistics demand. The highest correlation with net absorption is achieved using inventory changes as a coincident, rather than leading, indicator. On that basis, regressing net absorption on inventories yields an R-squared of 0.68. Inventories have risen by an average of \$71B in the past two quarters (SAAR, 2009 inflation-adjusted dollars), which is consistent with a quarterly pace of demand of 56M sf and annualizes to 222M sf.

EXHIBIT 9: Monthly Change in Employment



Source: Bureau of Labor Statistics, CBRE, Prologis

Recent employment growth is consistent with an annualized demand run rate of 226M sf. While not an industry-specific indicator of logistics demand, monthly employment changes have a higher statistical relationship with net absorption than other macro variables. The R-squared of our regression is 0.74. Private employment has grown by an average of 190,000 during the past three months, a level consistent with quarterly net absorption of 57M sf, which annualizes to 226M sf, a healthy pace. In addition, economists expect even stronger employment growth in 2014, which should support an even higher pace of net absorption.

CONCLUSION

Operational momentum appears poised to strengthen in 2014. All of the underlying indicators of net absorption provide support for the recent pace of demand and suggest higher levels in 2014 (>200M sf). Based on incoming customer dialogues and activities, there may still be some upside to this forecast. While stalwart customers continue to report improving sentiment, customers in industries that are sensitive to the economic cycle, such as housing and automotive, are becoming more active with an already-elevated level of space utilization. Activity is also improving in smaller facilities (<100K sf) with yr/yr availability rate declines that pace ahead of larger properties, according to data from CBRE.

Expect further market tightening. Vacancy rates, already approaching the 2007-low from the prior cycle (currently 7.4% as of Q3 2013 vs. 7.3% low in Q3 2007), appear poised to move well below that level. Supply has not yet risen enough to match demand; the current under-construction pipeline in the U.S. is ~65M sf, indicative of ~100M sf of completions in the marketplace during 2014, or less than half the pace of net absorption. Tight vacancies will continue to support outsized rent gains.

Forward-Looking Statements

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ENDNOTES

- i. The IBI is a proprietary monthly indicator derived from three components: the Business Activity Index; the Space Utilization Index; and the actual reported rate of space being utilized by our customers. Each month, data is collected from a geographically diverse set of Prologis customers, representing a variety of business sizes, sectors and markets, moving inventory through the global supply chain. This data is aggregated into the appropriate indices by markets, submarkets, industry groups and customer types, providing a powerful tool for predicting business and industrial market trends.
- ii. Our IBI model is $y = -1.084\% + 53\%*x_1 + 0.0206\%*x_2$ where y is quarterly net absorption, x_1 is net absorption lagged one quarter, and x_2 is the three month moving average of our IBI activity index. Our model has x_2 lead y by two months. Each of our models expresses net absorption on a percent of stock basis (where current total stock is 12.8B sf). Our regression is based upon all of the IBI data, which reaches back to 2007 and includes 24 observations.
- iii. We use CBRE-Econometric Advisor's industrial data as the basis for our analysis, which tracks 12.8B sf in the U.S. Other sources, such as CoStar, PPR and REIS, track different market sizes, so their net absorption levels are not comparable.
- iv. R-squared is a measure of model fitness and ranges from 0 to 1. Lower figures indicate weak model fitness; higher figures indicate stronger model fitness.
- v. Univariate model with GDP growth leading by two quarters. Including an auto-regressive term improves the fit of the model (R-squared of 0.68), although it relies heavily on the AR term (coefficient of 0.70), which limits the importance of GDP in influencing the estimate of net absorption. These regressions are based upon 25 years of history (100 observations).
- vi. Average monthly change from the prior year, using data as reported by the U.S. Census.
- vii. Our manufacturing PMI model is $y = -1.001\% + 68\%*x_1 + 0.0213\%*x_2$ where y is quarterly net absorption, x_1 is net absorption lagged one quarter, and x_2 is the three month moving average of the manufacturing PMI index. The model has x_2 lead y by two months. Each of our models expresses net absorption on a percent of stock basis (where current total stock is 12.8B sf). Our regression is based upon 25 years of history (100 observations).
- viii. Our non-manufacturing PMI model is $y = -2.471\% + 46\%*x_1 + 0.0484\%*x_2$ where y is quarterly net absorption, x_1 is net absorption lagged one quarter, and x_2 is the three month moving average of the non-manufacturing PMI. The model has x_2 lead y by one month. Each of our models expresses net absorption on a percent of stock basis (where current total stock is 12.8B sf). The data are available back to 1997, representing 63 quarterly observations.
- ix. Our retail sales model is $y = -0.016\% + 57\%*x_1 + 3.19\%*x_2$ where y is quarterly net absorption, x_1 is net absorption lagged one quarter, and x_2 is yr/yr growth rate of monthly retail sales. Retail sales data were first smoothed using a three-month moving average and the model has x_2 lead y by two months. Each of our models expresses net absorption on a percent of stock basis (where current total stock is 12.8B sf). Our regression is based upon all of the retail sales data, which reaches back to 1992, and includes 83 observations.
- x. Our real inventories model is $y = 0.077\% + 49\%*x_1 + 0.0025\%*x_2$ where y is quarterly net absorption, x_1 is net absorption lagged one quarter, and x_2 is the quarterly seasonally adjusted real inventory change (2009 dollars) smoothed two quarters. The model does not incorporate a lead/lag between x_1 and y . Each of our models expresses net absorption on a percent of stock basis (where current total stock is 12.8B sf). Our regression is based upon 25 years of history (100 observations).
- xi. Our employment model is $y = 0.103\% + 42\%*x_1 + 0.00085\%*x_2$ where y is quarterly net absorption, x_1 is net absorption lagged one quarter, and x_2 is the seasonally adjusted three-month moving average of the monthly change of private employment. The model has x_1 lead y by one month. Each of our models expresses net absorption on a percent of stock basis (where current total stock is 12.8B sf). Our regression is based upon 25 years of history (100 observations).
- xii. CBRE – Econometric Advisors
- xiii. Source: Prologis Research based upon starts in the marketplace in our markets sized 50,000sf or greater

ABOUT PROLOGIS

Prologis, Inc., is the leading owner, operator and developer of industrial real estate, focused on global and regional markets across the Americas, Europe and Asia. As of September 30, 2013, Prologis owned or had investments in, on a consolidated basis or through unconsolidated joint ventures, properties and development projects totaling approximately 562 million square feet (52.2 million square meters) in 21 countries. The company leases modern distribution facilities to more than 4,500 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises.

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