

## INDUSTRIAL INDEX

### STRONG OPERATING ENVIRONMENT DRIVES LOGISTICS OUTPERFORMANCE

In the third quarter of 2017, total returns for the industrial/logistics sector outperformed all other property types for the sixth consecutive quarter. Income returns increased a healthy 1.3%, with strong operating fundamentals bolstering market rent growth. Strong investor demand for logistics assets fueled further cap rate compression and propelled appreciation returns of 1.6%. These trends are a continuation of the outperformance of recent years. On a compound annual basis, industrial total returns averaged 13.6% over the past three years, compared with an average of 10.4% for all commercial property types.

Looking back, the combination of falling cap rates, increasing occupancy and the unwinding of rental rate discounts that had been put into place during the Global Financial Crisis propelled outsized investment returns for logistics. Net absorption surpassed 250 million square feet per year from 2012 to 2016, and is poised to total more than 200 million square feet in 2017. Completions have generally lagged, allowing to the vacancy rate to fall to an all-time low of 4.6%, according to data from CBRE-EA.

As the expansion has progressed, rent growth has become the primary driver of NOI and value growth. With rents in most markets at or above prior peaks, today's rent growth is largely fueled by competition for limited available space, which stems from three key forces:

1. **Tailwinds to demand.** A long economic expansion and structural shifts in consumer habits, namely e-commerce, have driven the need for new logistics requirements from a broad base of users.
2. **Rising barriers to new supply.** A lack of developable land and qualified labor continues to govern the amount of new supply delivered each year. Additionally, increasing municipal requirements are making development timelines longer and adding to costs.
3. **Growing customer appreciation—and need—for premier location and facility.** Consumer want their goods ever-faster, putting pressure on logistics users to expand distribution networks to compete. Still, the ability to manage other supply chain costs through superior location strategy is supporting customer willingness to pay for the right space.

Both strong investment performance and a compelling demand-side story have attracted capital to the sector, driving the institutionalization of logistics ownership and the re-pricing of those assets. Looking ahead, cap rates should eventually reach a floor, although some near-term compression is still likely. This trend, coupled with rising replacement costs, should put upward pressure on rental rates as demand remains robust. Prologis Research expects balanced supply/demand through 2018, which should keep the vacancy rate at a historic low of 4.6%, maintaining landlords' bargaining power. Continued healthy rent growth should keep the gap between in-place and market rents wide, allowing for NOI growth as leases roll and, in turn, driving total returns.

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### INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2017	1.70	3.29	3.05	2.10	2.34	4.08
2nd Q 2017	1.75	3.07	3.21	2.02	2.77	3.41
One Year	6.89	12.80	12.98	8.75	10.51	14.79
Three Years	9.83	13.63	12.47	11.27	11.91	15.42
Five Years	10.35	12.99	12.17	10.87	12.06	14.25
Ten Years	6.23	7.09	6.79	5.50	6.73	7.80
Twenty Years	9.60	10.04	9.90	7.94	8.66	11.42

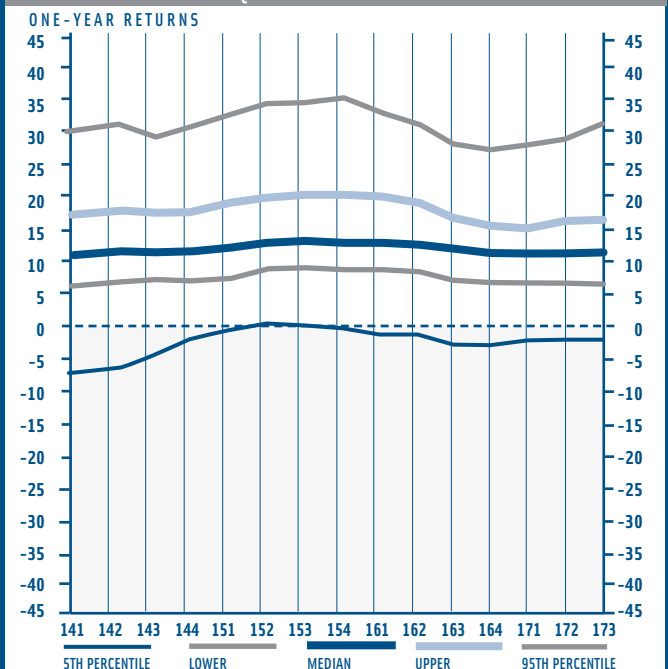
### INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2017	1.14	1.24	1.29	1.38	1.35	1.14
2nd Q 2017	1.16	1.26	1.32	1.40	1.37	1.15
One Year	4.66	5.13	5.42	5.68	5.58	4.68
Three Years	4.86	5.33	5.61	5.89	5.83	4.88
Five Years	5.14	5.59	5.99	6.08	6.05	5.11
Ten Years	5.56	6.07	6.45	6.50	6.42	5.65
Twenty Years	6.66	7.14	7.48	7.48	7.38	6.81

### INDUSTRIAL APPRECIATION RETURNS

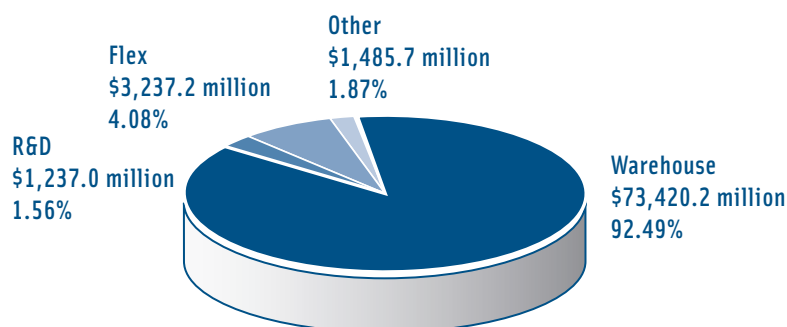
	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2017	0.56	2.05	1.76	0.72	0.99	2.94
2nd Q 2017	0.59	1.81	1.88	0.62	1.40	2.26
One Year	2.15	7.39	7.27	2.94	4.73	9.77
Three Years	4.80	7.98	6.59	5.16	5.83	10.17
Five Years	5.02	7.11	5.91	4.58	5.75	8.80
Ten Years	0.64	0.96	0.32	-0.96	0.30	2.05
Twenty Years	2.80	2.75	2.29	0.43	1.21	4.38

### INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS



# INDUSTRIAL SUB-TYPES INDEX

## TOTAL INDUSTRIAL



Industrial Properties	2,976
R&D Properties	46
Flex Space Properties	202
Other Properties	58
Warehouse Properties	2,670
<b>Total Market Value</b>	<b>\$79,380.1M</b>

\* Other includes manufacturing and office showroom. Other categories are not included in the subtype property returns below due to the small sample size.

WAREHOUSE TOTAL RETURNS				WAREHOUSE INCOME RETURNS				WAREHOUSE APPRECIATION RETURNS			
	Total NPI	Total Industrial	Total Warehouse		Total NPI	Total Industrial	Total Warehouse		Total NPI	Total Industrial	Total Warehouse
3rd Q 2017	1.70	3.29	3.35	3rd Q 2017	1.14	1.24	1.23	3rd Q 2017	0.56	2.05	2.13
2nd Q 2017	1.75	3.07	3.07	2nd Q 2017	1.16	1.26	1.24	2nd Q 2017	0.59	1.81	1.82
One Year	6.89	12.80	12.99	One Year	4.66	5.13	5.07	One Year	2.15	7.39	7.64
Three Years	9.83	13.63	13.93	Three Years	4.86	5.33	5.30	Three Years	4.80	7.98	8.30
Five Years	10.35	12.99	13.30	Five Years	5.14	5.59	5.55	Five Years	5.02	7.11	7.45
Ten Years	6.23	7.09	7.36	Ten Years	5.56	6.07	6.04	Ten Years	0.64	0.96	1.25
Twenty Years	9.60	10.04	10.08	Twenty Years	6.66	7.14	7.10	Twenty Years	2.80	2.75	2.82

R&D TOTAL RETURNS				R&D INCOME RETURNS				R&D APPRECIATION RETURNS			
	Total NPI	Total Industrial	Total R&D		Total NPI	Total Industrial	Total R&D		Total NPI	Total Industrial	Total R&D
3rd Q 2017	1.70	3.29	1.61	3rd Q 2017	1.14	1.24	1.48	3rd Q 2017	0.56	2.05	0.13
2nd Q 2017	1.75	3.07	2.35	2nd Q 2017	1.16	1.26	1.36	2nd Q 2017	0.59	1.81	0.99
One Year	6.89	12.80	10.12	One Year	4.66	5.13	5.80	One Year	2.15	7.39	4.14
Three Years	9.83	13.63	10.44	Three Years	4.86	5.33	5.02	Three Years	4.80	7.98	5.23
Five Years	10.35	12.99	10.35	Five Years	5.14	5.59	5.54	Five Years	5.02	7.11	4.61
Ten Years	6.23	7.09	5.99	Ten Years	5.56	6.07	6.12	Ten Years	0.64	0.96	-0.12
Twenty Years	9.60	10.04	9.56	Twenty Years	6.66	7.14	7.25	Twenty Years	2.80	2.75	2.19

FLEX SPACE TOTAL RETURNS				FLEX SPACE INCOME RETURNS				FLEX SPACE APPRECIATION RETURNS			
	Total NPI	Total Industrial	Total Flex		Total NPI	Total Industrial	Total Flex		Total NPI	Total Industrial	Total Flex
3rd Q 2017	1.70	3.29	2.69	3rd Q 2017	1.14	1.24	1.39	3rd Q 2017	0.56	2.05	1.30
2nd Q 2017	1.75	3.07	3.52	2nd Q 2017	1.16	1.26	1.49	2nd Q 2017	0.59	1.81	2.03
One Year	6.89	12.80	10.22	One Year	4.66	5.13	5.84	One Year	2.15	7.39	4.19
Three Years	9.83	13.63	10.99	Three Years	4.86	5.33	5.94	Three Years	4.80	7.98	4.84
Five Years	10.35	12.99	10.28	Five Years	5.14	5.59	6.12	Five Years	5.02	7.11	3.98
Ten Years	6.23	7.09	4.66	Ten Years	5.56	6.07	6.46	Ten Years	0.64	0.96	-1.72
Twenty Years	9.60	10.04	8.99	Twenty Years	6.66	7.14	7.36	Twenty Years	2.80	2.75	1.54