INDUSTRIAL INVESTOR SENTIMENT REPORT

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The industrial sector is navigating a robust and sometimes volatile growth trajectory, as unprecedented demand fuels intense leasing, development and capital markets activity across the U.S. With the national vacancy rate around 4% and markets such as Los Angeles seeing rates dip to 1%, the supply-demand imbalance is creating a frenzied environment, as rents rise and cap rates compress.

The growth and transformative effect of e-commerce during the pandemic -- and the broad economic recovery after the initial shutdowns -- has set the stage for a massive race for space that is challenging tenants and pushing developers to keep pace with demand. Retailers, logistics providers, food manufacturers and other businesses are investing significant capital to support strategic growth plans that hinge on industrial space utilization.

The nation's industrial supply has grown significantly in recent years, with about 150 million square feet (msf) added during the first half of 2021 alone. Even with an additional 410 msf in the pipeline, tenant demand is likely to continue outweighing supply in many key markets.

Investment and brokerage professionals surveyed and interviewed for this report say these dynamics have created the perfect storm for investors. Many are increasing allocations for industrial assets and some have shifted away from other under-performing sectors.

Investors overwhelmingly remain bullish on this sector despite concerns about supply chain volatility, port congestion and a slowdown in product flow. Robust investment activity is putting the sector on track to finish 2021 with record investment volume that eclipses levels in 2019.

Key Findings of the 2021 LightBox-SIOR Industrial Sentiment Report

- 2021 Industrial sales could exceed the $120 billion record set in 2019
- Occupier demand, led by retailers and logistics providers, will push rents 5% to 7% higher; asset pricing could increase the same or more.
- Large portfolios, particularly those tied to logistics, are in great demand
- Rising construction costs and material and labor shortages are key headwinds

"As e-commerce continues to transform our economy, investors are looking for every opportunity to gain entry or expand their positions in the industrial sector. Industrial is attracting significant amounts of domestic and foreign capital and is well-positioned to withstand supply chain disruption or other volatility that might occur."

Tina Lichens, Senior Vice President, Broker Operations, LightBox

> *"We expect 2021 to be a record year for industrial investment, given the strong momentum in the first half of the year and the insatiable demand from institutional, private and foreign investors. Industrial investment reached nearly $120 billion in 2019 and we expect to exceed that level this year."*
>
> Jack Fraker, SIOR, Vice Chairman, Managing Director, Industrial Capital Markets, CBRE

2022 Outlook

The outlook for the industrial sector is strong heading into 2022, with leasing, construction and investment activity all expected to continue along a strong growth trajectory.

Investors surveyed and interviewed for this report were bullish on activity, particularly in markets that tap into growing population centers. Nearly 72% of survey respondents expect investment levels to increase, with nearly 50% of those predicting a notable increase. Approximately 25% expect levels to remain at the current, robust levels; just 4% predict that activity will decrease.

Survey Results: Outlook for Industrial Investment Levels into 2022

Increase Above Current Levels	49.0%
Increase But Only Nominally	22.7%
Remain About The Same	24.3%
Decrease But Only Nominally	2.5%
Decrease	1.5%

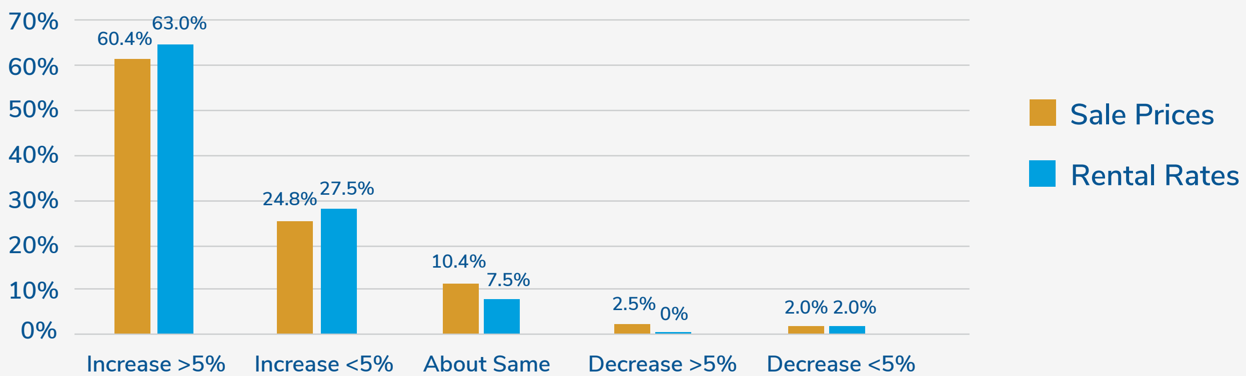
This positive outlook is supported by the expectation that many pandemic-induced online buying habits will become ingrained patterns. With e-commerce sales growing by 40% over the past year, the industrial sector has seen an expansion among many business segments, from the behemoth Amazon to regional third-party logistics providers and transportation and delivery businesses that support online shopping.

2022 Outlook (cont'd)

This activity is all good news for landlords, as warehouse and distribution space is in low supply and rents are rising. "Given the favorable fundamental backdrop driving record rental rate growth and record-low cap rates, we would expect 2022 to be another excellent year for our sector," said JoJo Yap, Chief Investment Officer of First Industrial Realty Trust, Inc., based in Chicago.

The outlook on the tenant side is more challenging, however. "If you are looking to lease or purchase industrial real estate in any major market, welcome to the extensive waiting list of other businesses all seeking similar solutions for their space needs," said Robert G. Thornburgh, SIOR, CCIM, FRICS and the CEO of SIOR. "Supply and demand imbalances are the most significant we have ever seen for industrial space."

Survey Results: Outlook for Industrial Pricing and Rental Rates into 2022



According to Colliers mid-year 2021 research, year-to-date U.S. industrial investment sales volume increased approximately 10% from the previous year and pricing reached its highest levels yet. Year-to-date transactions totaled $51.9 billion, while the average price rose nearly 25% to reach $120 per square foot.

Heading into year-end, when deal flow often peaks, competition for investment sales is intense. "We are seeing interest from pension funds and other institutions, our REIT peers, along with private investors, sovereign wealth funds and local groups," said Yap. "Demand is strong across the country, but competition in land-constrained coastal markets, where we are focusing our new investment, is particularly fierce."

Much of the volume in recent years is tied to large portfolio sales, particularly with logistics-focused properties, that allow investors to scale up quickly. In Q3 2021, Blackstone acquired Toronto-based WPT Industrial REIT in a $3.1 billion deal that involves 110 properties in 19 U.S. states, for example. This transaction is providing Blackstone with immediate scale with properties that are 97% occupied and span 37.5 million square feet.

New Construction: Still Filling the Pipeline

According to Colliers' Mid-Year 2021 Industrial Outlook Report, there was 151.5 msf of new space delivered in the first half of the year, an impressive level but one that is down almost 16% from last year when 180.2 msf was completed. However, deliveries in the second half of the year are expected to make up for that shortfall by year-end.

The total amount of space now in the development pipeline is almost 410 msf – approximately 30% more than the same time one year ago. More than 60 percent of that space is preleased, an historic level and one that supports sentiments from many LightBox-SIOR survey respondents who consider construction supply to be in line with occupier demand.

There are headwinds in the construction industry, however, as the ongoing volatility in materials pricing and availability continues. Over the past year, the industry has been experiencing an unprecedented increase in the price of steel, lumber, plywood and other key construction materials. Pricing levels along with ongoing issues with a labor shortage and supply chain disruption are keeping the threat of additional volatility on the table.

According to the Associated General Contractors of America (AGC) trade association, the overall cost of construction items rose by double digits for the seventh straight month in July. Over the past year, some broad categories increase from 5% while others, including lumber jumped periodically by more than 60%.

Material cost issues trace back to the early days of the pandemic as statewide business closures and subsequent shutdowns by suppliers due to COVID-19 outbreaks disrupted the flow of materials. Many factories and fabrication facilities were shut down and are still struggling to get back to full production due to loss of productivity among their workforce or that of suppliers and freight haulers. Add in ongoing supply chain disruption that impacts imported products; higher transportation costs, and extra expenditures for protective gear and added sanitation, and the scenario becomes even more complex.

Due to the nature of construction pricing, with bids secured months ahead of a project's ground breaking and then ultimate delivery, suppliers and general contractors are navigating a challenging landscape.

"There is considerable occupier demand as businesses race to keep up with e-commerce growth and shifts in consumer buying habits. The solution for many companies is to find new and more efficiently designed facilities that can help them move products more quickly to their customers."

Anthony J. Johnson, President, Industrial Business Unit, Clayco Corp.

Greatest Threat: Construction Costs, Labor and Disruption

The industrial sector is not without its headwinds that are causing slowdowns, product shortages, and related issues. From computer chip shortages to low supplies of outdoor furniture, school backpacks and running shoes, the industry has experienced significant disruption during the pandemic. “The cost implications of the supply chain disruption have been significant, with some material costs going up by 200% in the last nine months,” said Johnson.

Many occupiers are responding to supply chain disruption by expanding their warehouse space by 5 to 10 percent for “safety stock,” as they try to hedge against future disruptions. This additional space is a significant driver of leasing activity and will likely translate to 500-600 msf of leasing demand nationally over the next several years, said Fraker.

Another key issue in some regions is government regulation that pushes up business costs. Anthony J. Lydon, CSCMP, National Director in the Phoenix office of JLL, noted that states such as California are increasingly creating incremental revenue streams such as the Vehicle Miles Traveled programs (VMTs) that “tax” trucking movements and businesses—such as logistics firms. Some fees could be as high as $1 psf of leased space. Additionally, developers and/or occupiers may need to also contribute to the creation of parks and community projects such as childcare facilities.

Survey Results: Greatest Potential Headwinds for Industrial Market

“People are aware of backups at the ports,” said Lydon. “But the causes are more complicated. There is a worldwide shortage of containers, as well as the chassis for the trucks that haul the containers. It’s a real problem that reverberates through the industry and creates delays and shortages that ultimately impact the end-user.”

Industrial Fundamentals: Fall 2021

Industrial fundamentals -- from historically low vacancy rates in many markets to strong investor demand for warehouse and logistics assets -- paint a highly positive long-term outlook. While supply chain disruption and other factors continue to create headwinds, they are not enough to dampen investor demand. “Market fundamentals are incredibly well-positioned to support long-term demand and investment growth,” said Fraker.

According to CBRE Q2 2021 research, the national industrial vacancy rate is 4%, with many markets seeing lower levels. For example, Los Angeles, the Inland Empire, and Northern and Central New Jersey, saw vacancies of 1.2%, 1.4%, 2.1%, and 2.1%, respectively. Other vacancy rates include Las Vegas (2.9%), Charleston (3.0%), Louisville (3.4%), and Charlotte (3.7%).

Greatest Impact on Industrial Investment

39.0%	22.5%	18.0%	15.0%	5.5%
Pandemic Related Consumer Shifts	Availability of Investment Capital	Lack of Overbuilding	General Economic Strength	Other

This low vacancy environment is putting intense pressure on occupiers, however, as they scramble to find space. “The LA. vacancy rate is below the national average, sitting at 1% or lower in most submarkets,” said Thornburgh. “The limited inventory of available industrial space that does actually see the market is also evaporating rapidly. With rising prices and no substantial change to market fundamentals on the horizon, decision makers will be faced with serious challenges in the coming months.”

According to a mid-year 2021 report from JLL, U.S. industrial rents were among the highest on record, hitting $6.62 psf with year-over-year rents increasing at a 5.1% rate. In Phoenix, for example, rents are expected to increase by 5% to 7% in 2022. “It is creating renewal sticker shock for those occupiers whose leases are coming up for renewal after five or seven years,” said Lydon. “In some cases, lease rates may be up 40%, 50% or 60% from when they originally signed.”

Top Markets to Watch

Industrial markets with expanding population centers, including those with connectivity to ports and air cargo facilities, continue to drive occupier demand, development and investment activity. “Retailers are racing to evolve their supply chain operations and determine where they need to be and how much space they need to service their customers,” said Johnson of Clayco.

Many Midwest locations, such as Indianapolis, have experienced notable growth in recent years. Plymouth Industrial REIT, for example, focuses on investing in secondary U.S. markets, such as Columbus, Indianapolis, Jacksonville, Kansas City, Memphis, and St. Louis. The profile of Plymouth’s holdings supports the sentiment of 64.7% of survey respondents who believe the greatest opportunities for growth are in secondary markets. More than 21% believe traditional top tier markets offer the greatest opportunity while 13.6% peg port markets as having the greatest opportunity.

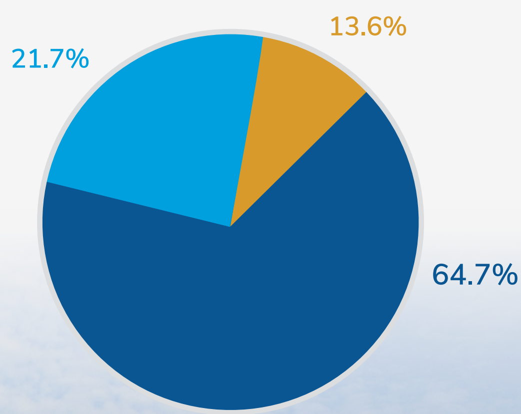
“We’re seeing more competition in the secondary markets,” said Pendleton White, President, Chief Investment Officer & Co-Founder, Plymouth Industrial REIT. “A lot of the more traditional institutional investors increasingly are growing tired of chasing yield in core markets and instead are turning to the secondary markets.”

Survey Results: Top Growth Markets for Industrial

Growing Secondary Markets: 64.7%

Traditional Top Tier Markets: 21.7%

The Ports: 13.6%



Key Growth Markets

Other investors interviewed for this report noted the following markets as exhibiting strong fundamentals to support growth. Among the markets to watch are:

Boston - which has a strong demographic profile and labor force and infrastructure that has attracted e-commerce, 3PL and life science companies. It is in the fourth most densely populated region in the U.S.

Charleston - is known for its strong port activity and presence in a pro-business growth corridor. The market is home to a growing tenant base in the logistics and automobile industries.

Kansas City - is experiencing strong leasing and construction fundamentals, as well as population growth. It's central location allows for occupiers to connect with national and regional transportation routes.

Las Vegas - has a strong infrastructure and labor force, along with a pro-business focus. There is a growing metro population that has attracted an influx of e-commerce, logistics and retail businesses.

Louisville - has seen 22 consecutive quarters of positive net absorption, according to CBRE research. It is home to the world's fourth-busiest air cargo hub as well as five major auto assembly plants within a 120-mile radius. The market is expected to see continued rent growth, along with declining vacancies.

Nashville - has a growing population base and a strong labor force. This Southeast market continues to attract occupiers looking for last mile and regional distribution facilities.

Salt Lake City - has a large supply of available land and has become a focus as a Mountain West regional logistics hub. It is attracting a vibrant workforce due to its reasonable cost of living and temperate climate.

Industrial Spotlight: Service Facilities are Attracting Investors

While many investors are focused on large-scale facilities, others are turning to niche assets that are an integral part of the overall industrial marketplace. From trucking and transportation related assets to outdoor parking and industrial service facilities, there are many avenues for gaining a foothold in this sector.

One example is the expansion in interest in industrial service facilities—low coverage assets that are considered mission critical facilities. These assets support supply chain users in the storage, maintenance, and dispatch of equipment and/or bulk material.

"E-commerce is having a strong impact on this product type because of the support it provides to a wide variety of firms," said Thomas Barbera, CEO of Chicago-based Industrial Outdoor Ventures, which is active in 11 markets across the country. "E-commerce firms are Pac Men for additional vehicle storage and transportation properties due to the need to store, maintain and service delivery fleets."

Barbera expects pricing for service facilities to increase by at least 5 to 7% through 2022. "We are seeing low 4 caps and even sub 4 cap rates in the best markets," he said.

Conclusion

The paradigm shift in consumer buying patterns during the pandemic continues to shape the outlook for the industrial sector, as businesses rush to expand and redefine their market positions to capture growth. These shifts are having a dramatic effect on space utilization and drawing an even wider pool of global investors to this asset class.

Despite headwinds from supply chain and labor issues, the industrial sector is expected to continue its historic growth trajectory into 2022 and beyond. Corporations large and small are investing significant capital into national, regional and "last touch" warehouse and distribution locations. As evolving consumer shopping habits drive a "new normal," retailers want to be ready to fulfill goods within a wide geographic area. They also are positioning themselves to adapt to a range of shopping and fulfillment requirements.

While the groundwork for this growth was in place before 2020, the pandemic greatly expanded the focus on online shopping, the logistics infrastructure, last mile food distribution, as well as an "I want it now" mindset.

"This run we've had is a once in a lifetime occurrence," said Lydon. "We all need to recognize that."

“The economy and the real estate industry historically have run in decade-long cycles, but today’s industrial sector is rewriting those norms. We’ve crossed the threshold and continue to see the strong benchmarks that will extend the growth trajectory for many years to come.”

Steve Shanahan, General Manager, Broker Solutions, LightBox

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- **Anthony J. Lydon, CSCMP**
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- **Robert G. Thornburgh, SIOR, CCIM, FRICS**
  CEO of SIOR
- **Pendleton P. White, Jr.**
  President, Chief Investment Officer, Co-Founder, Plymouth Industrial REIT
- **JoJo Yap**
  Chief Investment Officer, First Industrial Realty Trust, Inc.

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info@lightboxre.com | 888-440-7261

www.lightboxre.com