INDUSTRIAL

Unprecedented demand continues to fuel industrial expansion

If container ships queued up at the ports of Los Angeles and Long Beach is an apt image of the demand-side pressure for goods distribution across the United States, the enormous investment surge in warehouse and related property—well above $100 billion in 2021—speaks of the capital appetite for industrial real estate.

There is no sign of either user or investor demand abating in this sector. As the $1 trillion-plus U.S. infrastructure spending hits the economy, look for even more activity around ports, airports, rail and trucking hubs, and goods-production centers in 2022 and beyond.

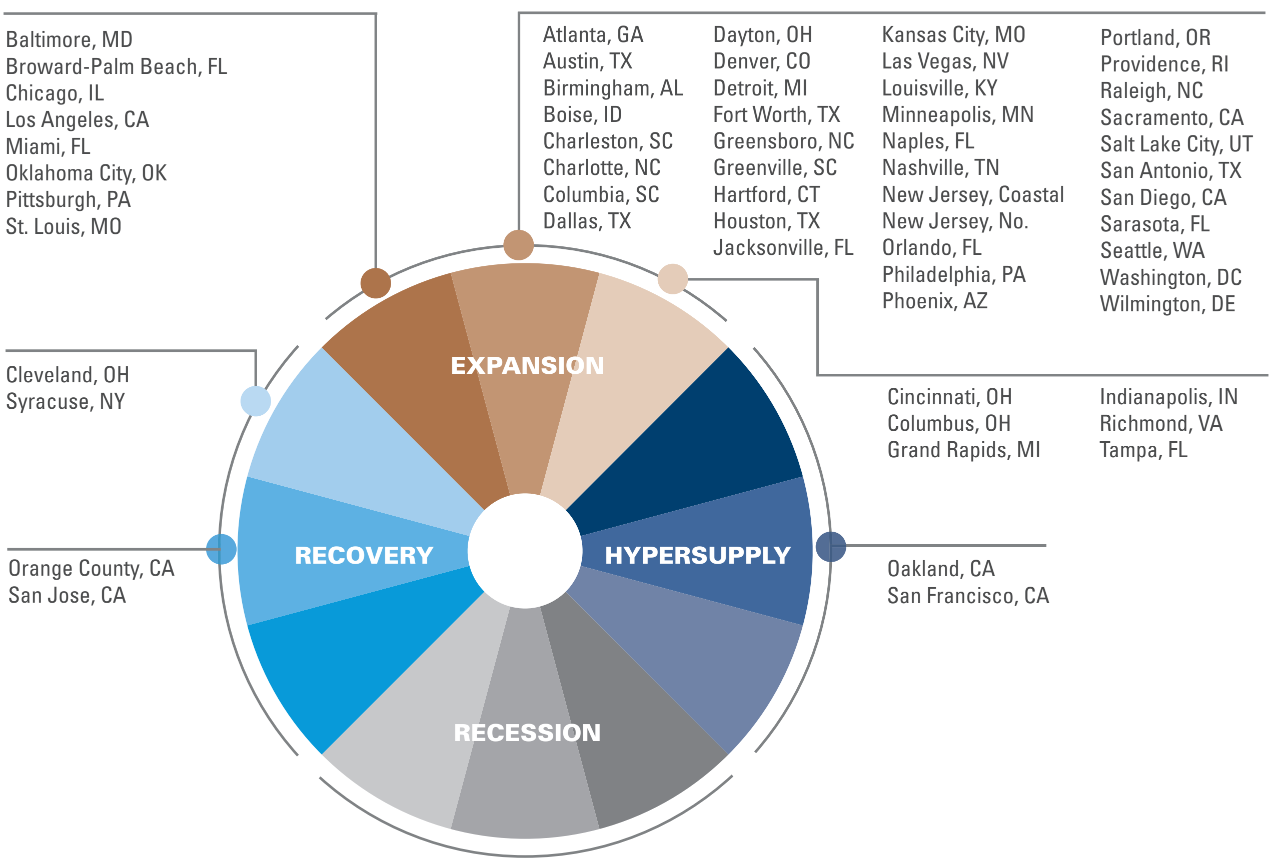
It was Shakespeare who wrote in his 1591 play *Henry VI*, "Ill blows the wind that profits nobody." This was shortly after one of England's periodic outbreaks of the bubonic plague (1585-1587). As we navigate through the COVID-19 pandemic, the Bard's words resonate as they often do, with contemporary meaning.

The performance of industrial markets, by their point in the real estate cycle, depicts how the disruption of the American economy since the spring of 2020 has indeed brought profit to at least one commercial property sector. Our survey this year finds 90% of industrial in the Expansion phase of the cycle, 7% in Recovery, and just 3% in Hypersupply. Notably, not a single industrial market is rated as being in Recession. By far, this is the strongest profile of the major property types, even ahead of the solid multifamily sector.

> Net absorption tracked by national brokerages reached record territory during 2021, with the potential to exceed 400 million square feet by year's end.

A year ago, *Viewpoint* underscored the nation's vulnerability to stresses stemming from the "just-in-time" inventory management approach, which had not yet fomented the supply-chain crisis that became headline news as 2021 developed. But the expanding dependence on e-commerce, pandemic-exacerbated labor shortages in manufacturing abroad and distribution at home, and the risk of a single unobtainable part to bring an entire assembly process to a halt, has now been the subject of investigation in pretty much every serious journalism medium.

INDUSTRIAL MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

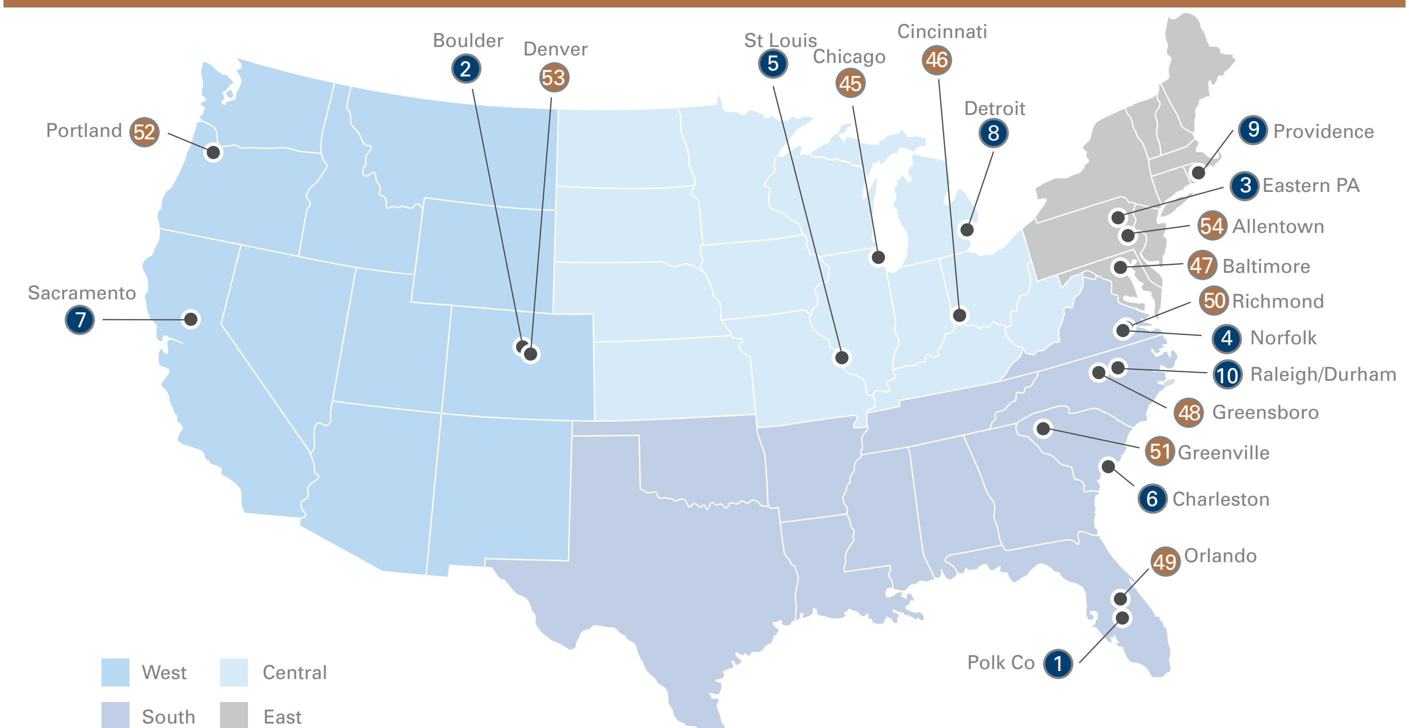
Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

The pressure of relative scarcity has not stalled out demand for warehousing and distribution real estate from either the user or investor. On the contrary, it has inspired a seemingly national spirit of FOMO (Fear of Missing Out). Since the summer of 2021, it seems, consumers have been inundated with warnings that shortages were likely to lead to disappointments when the holiday shopping season came around. Coupled with the price increases that are triggered when the supply and demand curves are misaligned, the result has been a feverish rush for maximum through-put in the goods sector of the economy.

Transaction data from Real Capital Analytics (RCA) displays the consequently rising volume of investment, descending capitalization rates, and steeply rising prices for industrial property assets. As the pie chart depicting regional investment volume on page 33 shows, every region of the country was sharing in the over $107 billion of industrial transactions recorded year-to-date through October 2021. Private equity led the parade of buyers, representing 44% of dollar volume, followed by institutional capital at 29.4%. Cross-border investors were reasonably active with a 12.6% market share, which was about double the purchase total of REITs.

Investors are responding to unprecedented demand signals from space users. Vacancies have continued a decade-long downward trend and now stand below 5%. Net absorption tracked by national brokerages reached record territory during 2021, with the potential to exceed 400 million square feet by year's end. Expectations for further expansion in 2022 are high, backed by anticipation that consumption will remain strong and supply chain

TOP MARKETS BY INDUSTRIAL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2021 Rank	City	YOY Change	Total 4Q20-3Q21	Vol. Rank*
1	Polk Co	508.8%	$1,035 M	31
2	Boulder	355.8%	$629 M	45
3	Eastern PA	299.1%	$467 M	50
4	Norfolk	286.4%	$425 M	51
5	St Louis	218.5%	$1,777 M	17
6	Charleston	192.0%	$473 M	49
7	Sacramento	180.3%	$1,197 M	27
8	Detroit	180.0%	$910 M	34
9	Providence	167.6%	$546 M	48
10	Raleigh/Durham	141.5%	$1,541 M	20

Bears (Bottom 10)

2021 Rank	City	YOY Change	Total 4Q20-3Q21	Vol. Rank*
45	Chicago	-4.9%	$5,964 M	5
46	Cincinnati	-4.9%	$762 M	38
47	Baltimore	-5.5%	$1,503 M	21
48	Greensboro	-5.7%	$763 M	37
49	Orlando	-6.4%	$985 M	32
50	Richmond	-11.3%	$574 M	47
51	Greenville	-14.3%	$657 M	44
52	Portland	-19.6%	$918 M	33
53	Denver	-24.0%	$1,449 M	23
54	Allentown	-75.5%	$600 M	46

* Volume Ranking is based on the overall transaction volume among 54 markets nationally

disruptions will ease somewhat. However, there is a shadow side to such robust conditions: price pressures are increasing at nearly every step from producer to end-user. As such, cost-push inflation is very much the economic environment for this sector.

For the 90% of markets IRR classifies in the Expansion phase, rent growth has been exceptional. Double-digit percentage increases in rent, for instance, have been measured in Baltimore, Columbus, Los Angeles, Miami, Northern New Jersey, Sacramento, Salt Lake City, and Washington DC. There are severe shortages of very large distribution properties, which is creating a major squeeze for the nearly 30% of the leasing market represented by logistics firms. The COVID-19 boost in e-commerce demand now has the online sale of goods accounting for nearly 20% of retail sales, resulting in more goods flowing direct to consumers.

With such sunny prospects, it is worth pausing a moment to (perhaps) curb our enthusiasm. The attitude of “what could possibly go wrong?” is very often the precursor to rude shocks. Real estate veterans are rightfully leery of “hockey stick growth” graphs, and that is the shape of many industrial market indicators. So, what are the potential warning signals to watch out for?

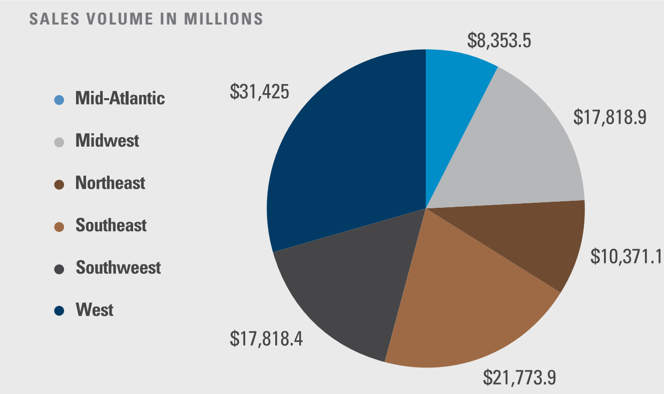
First of all, it is vital to keep in mind that this is anything but a normal real estate cycle, even if it seems an extreme one. We are still coping with a disruption, which is a form of discontinuous change. The boost to household incomes we saw in 2020 and 2021 through direct payments to millions of American households will not be replicated in 2022.

Second, the Federal Reserve is signaling that it will tap the brakes on growth next year in response to the 2021 inflation evidence. We should never forget the maxim of the former Fed Chair William McChesney Martin, who described the Fed’s role as “taking away the punch bowl once the party gets going.”

Third, the pandemic certainly spiked e-commerce demand, and it is reasonable to anticipate that households have greatly satisfied pent-up demand, especially for consumer durables. Deceleration in online shopping growth would not be a surprise.

These cautionary notes are not intended to diminish the remarkable run of success in the industrial sector. But wise managers know the efficacy of contingency planning in advance of slowdowns. After all, we cannot expect that we will be seeing the number of industrial markets in Recession to remain at “zero” indefinitely.

INDUSTRIAL INVESTMENT: BUYERS ACTIVE COAST TO COAST



REGIONAL RATES COMPARISON - INDUSTRIAL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '20 - 4Q '21 CAP RATE △
SOUTH REGION					
Flex Industrial	6.76%	7.97%	$9.01	7.83%	▼ 74 bps
Industrial	6.04%	7.29%	$5.36	8.50%	▼ 71 bps
EAST REGION					
Flex Industrial	6.60%	7.78%	$10.02	10.12%	▼ 34 bps
Industrial	6.29%	7.50%	$7.23	6.03%	▲ 8 bps
CENTRAL REGION					
Flex Industrial	7.58%	8.54%	$7.64	10.43%	▼ 22 bps
Industrial	6.78%	7.96%	$4.49	8.17%	▼ 30 bps
WEST REGION					
Flex Industrial	5.71%	7.21%	$12.93	7.47%	▼ 48 bps
Industrial	5.16%	6.71%	$7.54	6.31%	▼ 48 bps
NATIONAL AVERAGES/ SPREADS					
Flex Industrial	6.65%	7.87%	$9.88	8.59%	▼ 52 bps
Industrial	6.03%	7.32%	$6.01	7.51%	▼ 45 bps

SOURCE & REFERENCE

Top Markets by Industrial Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Market Cycle
Source: Integra Realty Resources

Industrial Investment: Buyers active coast to coast
Source: Real Capital Analytics, Industrial Trends Report, October 2021 year-to-date Sales Volume

Regional Rates Comparison
Source: Integra Realty Resources

ABOUT VIEWPOINT

Integra Realty Resources (IRR) is one of the largest independent commercial real estate valuation and consulting firms in North America, with over 165 MAI-designated members of the Appraisal Institute among over 600 professionals based in our more than 50 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments.
For more information, visit www.irr.com.

COMPREHENSIVE COMMERCIAL REAL ESTATE MARKET RESEARCH, VALUATION AND ADVISORY SERVICES

ABOUT IRR

For over 20 years, Integra Realty Resources, Inc. (IRR has grown to become one of North America's largest independent CRE market research, valuation, and counseling firms. Our clients tell us that our 600+ professionals in 50+ offices deliver extraordinary insight, unbiased advice, and excellent service. In 2021, IRR valued over $166 billion in real estate assets across more than 60 metro markets comprising over 29,000 assignments.

Every IRR office is supervised by one of our more than 165 MAI-designated professionals, industry leaders who have over 25 years, on average, of experience in their local markets. Having more MAI-designated experts than any other firm is just one testament to the high levels of training and experience which we put at our clients' disposal: as of January 2022, IRR's senior management team also includes: 16 FRICS; 9 MRICS; 16 CREs; 25 SRAs; 18 CCIMs; 6 ASAs.

These designations from the most prestigious real estate organizations in the world mean that from a culture of quality and ongoing professional development, we can offer unparalleled expertise in appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. IRR stands ready to serve you with unmatched Local Expertise...Nationally.