



SRS

NATIONAL
NET LEASE
GROUP

Q4/2021 REPORT

Industrial

Market Trends Review

Year-over-year e-commerce has declined as economic conditions are challenged by supply chain issues, inflation, and labor shortages. A lack of truckers, railroad workers, warehouse workers, and others along the nation's supply chain logistics has resulted in historical port congestion. The supply chain crisis has resulted in pushing warehouses to capacity and forcing logistics managers to scramble for space. Despite these fundamental challenges, the industrial sector continues to be the most resilient real estate product. As demand for quality industrial space continues to be driven by e-commerce demands and available industrial space continues to decrease, single-tenant industrial cap rates are expected to fall into the mid-to-low 6% in the coming quarters.

QUARTER ADJUSTED	RETAIL SALES (MILLIONS OF DOLLARS)		E-COMMERCE AS A PERCENT OF TOTAL	PERCENTAGE CHANGE FROM PRIOR QUARTER		PERCENTAGE CHANGE FROM SAME QUARTER A YEAR AGO	
	TOTAL	E-COMMERCE		TOTAL	E-COMMERCE	TOTAL	E-COMMERCE
Q3/2021	\$1,648,619	\$214,586	13.0%	-1.1%	-3.3%	13.1%	6.6%
Q2/2021	\$1,667,438	\$221,951	13.3%	+5.2%	+3.1%	28.2%	8.9%
Q1/2021	\$1,584,491	\$215,290	13.6%	+8.1%	+7.8%	17.0%	39.3%
Q4/2020	\$1,466,118	\$199,665	13.6%	+0.5%	-0.9%	6.9%	32.0%
Q3/2020	\$1,458,136	\$201,385	13.8%	+12.1%	-1.2%	7.0%	36.1%

Source: U.S Census Bureau, November 18, 2021

2022 INDUSTRIAL TRENDS



Transportation - Challenges will continue into 2022 due to driver shortages and congestion at US container ports.

Logistics Operations - Expected to transform with investment in robots, cobots, digital technology and artificial intelligence.

Oil & Gas Industry – Growing regulations will likely increase operating costs for industry players, preventing large gains in profitability.

Engineering & Construction – Connected construction is expected to be a catch-all for major digital investments to connect, integrate, and automate operation.

Industrial Sector – Boston, San Diego and the San Francisco Bay are the target markets for Lab/R&D market fundamentals as biotechnology continues to be the driving force.

Landlords – Seeking to decrease management responsibilities across the board, cap rates are expected to remain relatively steady as growing net leased product comes online.

Source: Deloitte & IBIS World

U.S. Economic Review & Forecast



COVID 19 VACCINATION

203.8 million (61%) people in the U.S. are fully vaccinated (12/21)



STARTUPS ARE GROWING

432,000 New Business Applications in Nov 2021 (up 9% YOY)



LIQUID DEPOSITS

increased by 4.8% since November 2020



10-YEAR TREASURY NOTE

is expected to rise to 2.1% in 2022, up from the current rate of 1.52%



YEAR-END INFLATION

closed at 6.8%, highest in nearly 40 years - forecasted to average 7% in 1Q/22



GDP

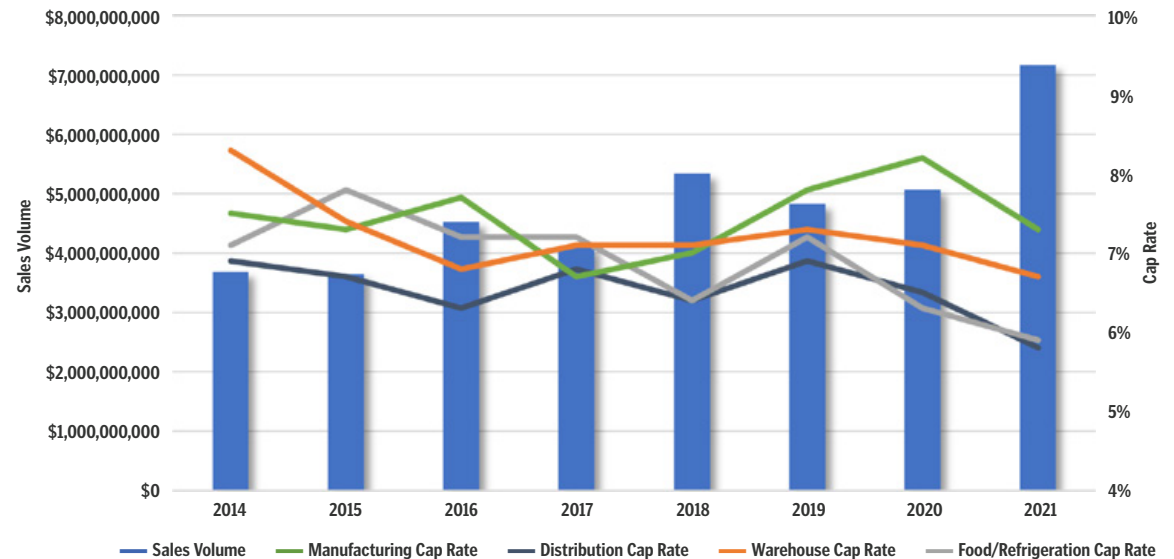
is expected to growth 4.0% in 2022, down from 6.9% growth in 2021

AMAZON TRENDS

- Two-thirds of shoppers start product search on Amazon.
- E-commerce sales are still growing faster than the overall market. (Amazon: \$367.2B, Walmart: \$64.6B, Target: \$20.2B).
- Second HQ under construction in Arlington, VA costing \$2.5 billion with plans to hire 2,500 new employees.



INDUSTRIAL SINGLE-TENANT NNN SALES VOLUME & CAP RATE



Source: Kiplinger Forecast & Reuters

Source: Costar

INDUSTRIAL INVENTORY

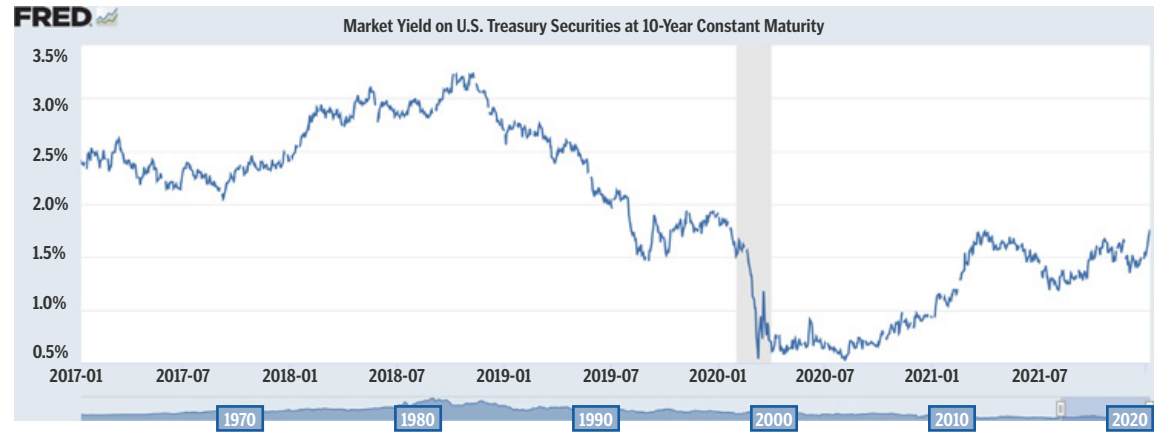
Although overall e-commerce demand has declined, some retailers are having to adapt and make changes to their business strategies. To keep up with grow e-commerce demands, Walmart is building it's first fulfillment center in Salt Lake City, UT. The industrial building will be more than 1 million square feet and will be used to fulfill online orders by storing millions of items that are picked, packed, and shipped directly to customers.



NATIONAL INDUSTRIAL EMPLOYMENT

NOV/2021	MANUFACTURING	CONSTRUCTION	TRADE, TRANSPORTATION & UTILITIES
12 Month Employment Change	2.87%	2.45%	2.85%
12 Month Actual Employment Change	350	180	768

Source: BLS; November 2021



Shaded areas indicate U.S. recessions.

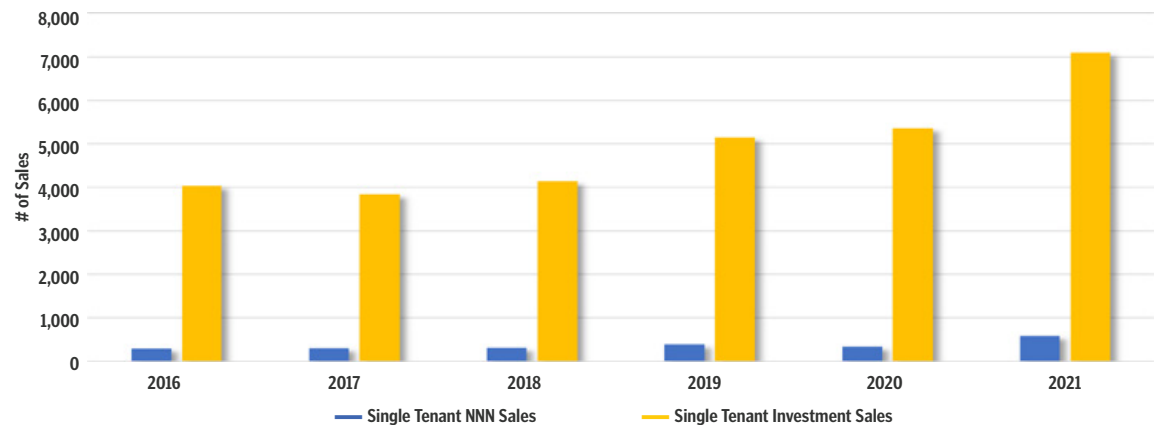
Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

Source: Costar

Note: SRS cannot predict adjustments in the marketplace resulting from pending or future legislation, and we will continue to monitor any potential tax reform over the coming months/years.

NUMBER OF NATIONAL INDUSTRIAL INVESTMENT SALES



Source: Costar

Average Summary Report - Cap Rates by Industry Sector

For this report, SRS reviewed Q4 2021 sales reported by Costar for the following sectors: Distribution, Food Processing/Cold Storage, Manufacturing and Warehouse. In Q4, it's especially important to understand the impact of the ongoing pandemic has had on the relationship between length of lease term and capitalization rates across all product types, as well as how pandemic and overall market conditions have affected buyer bias toward certain sectors. To do so, we compiled the following average summary reports for several data points throughout each mentioned sector. *Note: this report captures data only for transactions which have reported a sale price and capitalization rate. The following data has been collected from sources deemed reliable; it may not include confidential and/or proprietary information of the marketplace.

DISTRIBUTION

Given challenging economic conditions caused by the supply chain crisis, distribution centers have been deemed as an essential industrial sector. As we move into the first half of 2022, demand in sales activity for distribution centers will be driven by e-commerce sales and the effects of the supply chain crisis. Future technology will continue to impact distribution centers as business continue to mold to technology logistic efficiencies. During 4Q, two deals that reached over the \$50 million price point were the Home Depot distribution center in Effingham, IL and the Sherwin Williams distribution center in Salem, OR. Q4 cap rates recorded at 6.18% while average price per square foot increased to \$181.

	SALE PRICE	LEASE TERM REMAINING	BUILDING SF	RENT SF/YEAR	PRICE SF	CAP RATE
Q1/21	\$49,755,163	8 Years	480,095	\$6	\$127	5.72%
Q2/21	\$154,750,000	15 Years	1,233,200	\$6	\$136	4.55%
Q3/21	\$10,886,250	6 Years	115,857	\$8	\$136	6.39%
Q4/21	\$177,275,000	17 Years	2,791,283	\$12	\$291	5.78%

FOOD PROCESSING/COLD STORAGE

Now that the pandemic has change consumer demand and the grocery store industry overall, food processing facilities and cold storage could look very different in the future. In addition, growing demand for pharmaceutical goods from outbound countries will likely cause US pharmaceutical companies to rely on refrigerated storage facilities to store their good. Due to these demand changes, this product type could see a jump of 12-15% if online sale continue post pandemic. Owners in this sector have been reluctant to sell their assets due to the extremely optimistic outlook of food processing & storage facilities moving forward.

	SALE PRICE	LEASE TERM REMAINING	BUILDING SF	RENT SF/YEAR	PRICE SF	CAP RATE
Q1/21	\$34,366,353	20 Years	345,782	\$7	\$99	7.27%
Q2/21	-	-	-	-	-	-
Q3/21	\$1,740,000	3 Years	10,626	\$8	\$164	4.92%
Q4/21	\$4,981,250	7 Years	33,501	\$12	\$159	7.65%



MANUFACTURING

The manufacturing industry is facing a critical labor skill gap because of the pandemic and can expect elevated uncertainty from a range of potential disruptors globally. In 2030, it is expected the skills gap could lead to 2.1 million unfilled manufacturing job. The industry can expect elevated uncertainty from a range of potential disruptors globally. However, despite labor and supply chain challenges, the manufacturing industry is growing at a fast pace. Deloitte projects manufacturing GDP to grow 4.1% in 2022 compared to 3.5% for 2021. As of November 2021, YOY manufacturing jobs increased by 2.9% and are expected to continue to grow. Cap rates for manufacturing product increase by 32 bps from 3Q, closing Q4 at 6.52%.

WAREHOUSE

As e-commerce continues to grow and evolve, the warehouse market will mold to demand. Rapid advances in technology and rising customer expectations are transforming warehouses from a physical primarily serving infrastructure as long-term storage facilities to order fulfillment centers. Many warehouse sales feature local industrial tenants with relatively small reach and brand recognition compared to distribution, where the sector is dominated by national/credit tenants like Amazon, Home Depot, FedEx, etc. For the past four quarters, cap rates for the warehouse sector have held steady in the mid-6.0% range with Q4 closing at 6.79%.

	SALE PRICE	LEASE TERM REMAINING	BUILDING SF	RENT SF/YEAR	PRICE SF	CAP RATE
Q1/21	\$5,157,273	8 Years	58,398	\$8	\$127	7.24%
Q2/21	\$7,715,000	9 Years	50,100	\$8	\$146	6.48%
Q3/21	\$8,639,788	9 Years	79,381	\$8	\$140	6.22%
Q4/21	\$8,180,178	8 Years	77,204	\$9	\$140	6.56%

	SALE PRICE	LEASE TERM REMAINING	BUILDING SF	RENT SF/YEAR	PRICE SF	CAP RATE
Q1/21	\$5,957,419	7 Years	59,616	\$9	\$140	6.58%
Q2/21	\$3,239,600	6 Years	41,922	\$8	\$136	6.52%
Q3/21	\$10,167,990	8 Years	197,328	\$10	\$166	6.33%
Q4/21	\$4,449,446	10 Years	29,380	\$13	\$192	6.79%



For more information on the industrial market, visit srsre.com/media/blog or contact your SRS real estate professional.

TOP NET LEASE TEAM IN THE U.S.

2021 COMPANY OVERVIEW

840+
PROPERTIES
SOLD
2021

49
STATES WITH
SOLD PROPERTIES
2021

240M+
PROPERTY
EMAILS SENT
2021

390+
PROPERTIES
ON MARKET
currently

\$2B+
VALUE
ON MARKET
currently

110+
PROPERTIES
UNDER CONTRACT
currently

2021 RECAP & STANDOUT ACTIVITY

\$3.1B



2021 TRANSACTION VALUE
62% INCREASE - YOY

2021 TOP SECTORS ACTIVITY (TRANSACTION % & TOTAL VALUE)

17% \$535M+ | Multi-Tenant

12% \$385M+ | Pharmacy

11% \$335M+ | QSR Restaurants

7% \$220M+ | Convenience Stores

7% \$200M+ | Automotive

7% \$200M+ | Dollar Stores

6% \$185M+ | Medical

6% \$180M+ | Casual Dining

5% \$160M+ | Distribution

5% \$140M+ | Pet/Vet

3% \$90M+ | Home Improvement

3% \$90M+ | Grocery Stores

2021 DEAL VOLUME BY REGION

22%
WEST

14%
MIDWEST

15%
SOUTHWEST

8%
SOUTH

25%
SOUTHEAST

16%
NORTHEAST

INDUSTRIAL CASE STUDIES



ON MARKET

HOME DEPOT DISTRIBUTION CENTER | LUCKEY, OH
 \$132,864,000 | SF: 1,642,584



CLOSED

HOME DEPOT DISTRIBUTION CENTER | SALEM, OR
 \$50,750,000 | SF: 465,600



CLOSED

SHERWIN WILLIAMS DISTRIBUTION CENTER | EFFINGHAM, IL
 \$58,200,000 | 1,283,360 SF



THE EXCLUSIVE NET LEASE CAPITAL MARKETS TEAM
OF SRS REAL ESTATE PARTNERS

275+

RETAIL
PROFESSIONALS

27

OFFICES

#1

LARGEST REAL ESTATE
SERVICES FIRM
in North America
exclusively dedicated
to retail

3K+

RETAIL
TRANSACTIONS
company-wide
in 2021

840+

NET LEASE
PROPERTIES SOLD
in 2021

\$3.1B

NET LEASE
TRANSACTION VALUE
in 2021

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