

FIRST QUARTER 2022

© SOCIETY OF INDUSTRIAL AND OFFICE REALTORS® | WWW.SIOR.COM

SUMMARY

The red-hot industrial market is starting to see the effects of high demand and lack of space catching up with each other. This strain caused by limited supply caused confidence in the industrial sector to drop for the first time in sentiment reporting. While still prospering despite a pandemic, increasingly low vacancy and continued rising interest rates and construction costs are leaving many SIOR industrial specialists with less options. As a result, on-schedule transactions declined slightly for industrial specialists for the first time in a year.

The office sector, however, is continuing its rebound, with SIORs reporting a higher confidence in market conditions, an improvement in transactions, and both vacancy and subleasing dropping significantly.

Is the cost of gas prices impacting those starting to return to work who are now struggling to afford the higher commute cost? Is there a worry about where cap rates will compare with rising interest rates? SIORs report on all of this in the Q1 2022 SIOR Sentiment Snapshot Report.

Below are highlights from SIOR's report on the current state of the industry:

- Average Level of Confidence
 - » The average level of confidence in the industrial sector dipped below 8 (out of 10) for the first time in sentiment reporting, declining 6% from 8.2 in Q4 2021 to 7.7 in Q1 2022.
 - » Confidence in the office market continues to improve, rising to 6.5, up 10% from a year ago (at 5.9).
- Status of In-Progress Transactions
 - » For nearly a year the industrial sector experienced a steady incline of on-schedule transactions. This shifted in Q1 2022, declining by 3%, with 84% of SIORs reporting transactions progressing as usual (down from 87% in Q4 2021). On-hold transactions increased by 10% and canceled transactions increased from 4% to 6%.
 - » Conversely, the office sector, which had been experiencing a consistent decline in transaction progression, saw a 10% rise in on-schedule deals in Q1, with 76% remaining on schedule. This is a 26% increase from a year ago. On-hold transactions subsequently declined, with cancelled transactions dipping from 12% to 8%.

• Economic Conditions

- » Local markets continue to have the largest positive impact for both sectors, but the disparity between industrial and office impacts narrowed across all markets in Q1 2022.
 - » The positive economic impacts on industrial at the local level dropped from 82% to 74%. At a national level, it dipped 13 points from 78% to 65%. At the global level, only 47% saw a positive impact, a 32% decrease from Q4 2021 when it was 69%.
 - » The office sector reported improving conditions, with an increase in positive impacts across all markets. Locally, 49% of SIORs reported a positive impact, up from 46% last quarter. Nationally, it rose 1 point to 33%, and globally 29% reported positive impacts, up from 20%.

• Leasing Activity

- » Lack of space seems to have caught up to the industrial sector, which saw a 25% decrease in leasing activity in Q1. Only 61% of industrial SIORs reported high leasing activity, compared to 81% in Q4 2021, marking the lowest reported leasing activity in more than a year, and nearly matching office leasing reporting.
- » Office leasing remained about the same, dropping slightly from 60% to 58% of office specialists reporting high leasing activity.
- Asking Rents
 - » Asking rents remain elevated for industrial specialists, with 94% of SIORs reporting high rents, dropping slightly from a peak 96% in Q4 2021.
 - » Office rents continue to creep higher, with nearly half (49%) of SIOR office specialists reporting high asking rents in their markets, up from 48% in Q4.

• Current Vacancy

- » There's virtually no industrial space in any market, with only 1% of SIORs reporting high vacancy. Ninety-three percent (93%) claim vacancy is lower than a year ago, and only 6% claim it remains about the same.
- » The office market continues to show signs of a rebound, with only 28% reporting high vacancy, a 36% drop from last quarter. Forty-one percent (41%) claim lower vacancy and 30% feel it remains the same as a year ago.

Subleasing

- » SIOR industrial specialists continue to report low subleasing, with only 5% saying there is an adequate or extensive amount of subleasing space available. This was a slight increase from only 3% reporting high subleasing space last quarter, but still remains incredibly low.
- » Office subleasing has hit its lowest vacancy in sentiment reporting, with only 38% reporting adequate or extensive amounts of subleasing space available. This is a 43% drop from Q4, when 67% felt subleasing was high.

• Development Conditions

- » Development conditions continue to steadily thrive in the industrial sector, with 81% of SIORs reporting booming or above average development conditions in their market. This is up from 80% last quarter.
- » The office sector is also seeing more development with 51% reporting higher development conditions, a 24% increase from last quarter when 41% felt development was strong. This is a 96% increase in positive sentiment from a year ago when only 26% of office specialists felt development was high.

• Site acquisition conditions

- » Now continues to be a good time for sellers in the industrial sector, as 93% report a strong seller's market with site acquisition prices continuing to rise.
- » On the office side, it's become more of a seller's market as well, with only 6% reporting a buyer's market, down 74% from the 23% of SIORs who reported a buyer's market in Q4.

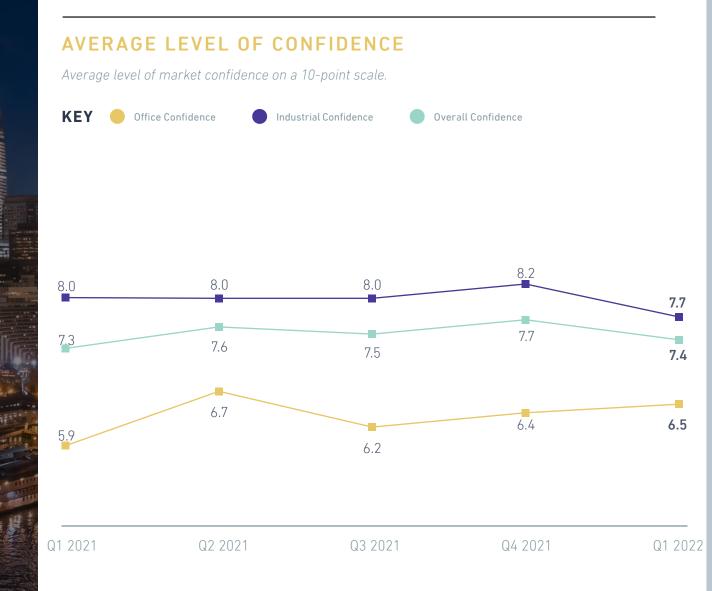
• Tenant Concessions

- » Landlords continue to hold the bargaining power in the industrial sector going into 2022, as 89% of SIORs report limited or no tenant concessions available. This is an increase from 87% in Q4 2021. Only 2% feel tenants have the bargaining power, no change from last quarter.
- » Office tenant concessions continue to decrease, but levels remain much better for office tenants. 55% of SIORs report moderate or extensive tenant concessions, down from 60%, and there was a 52% increase of SIORs reporting a stronger buyer's market, with 32% saying there are low concessions, compared to 21% in Q4.

Investment Pricing Conditions

- Investment pricing conditions remained steady in the industrial sector, with a slight decrease in the number of SIORs who reported above cost conditions.
 68% felt it was extremely profitable to build, compared with 71% last quarter.
- » Office specialists were nearly split on whether conditions were favorable to build or not, with 40% reporting higher costs and profitable conditions, and 42% reporting conditions were substantially below replacement costs.

* Previous CREI survey data did not include global SIOR responses. SIOR began tracking global data beginning in Q4 2020. In addition to combining the sentiment survey and CREI survey, beginning in the Q4 2020 report, several survey questions were also reformatted and streamlined to enhance the user experience, which should not change the response outcome, but must be noted.

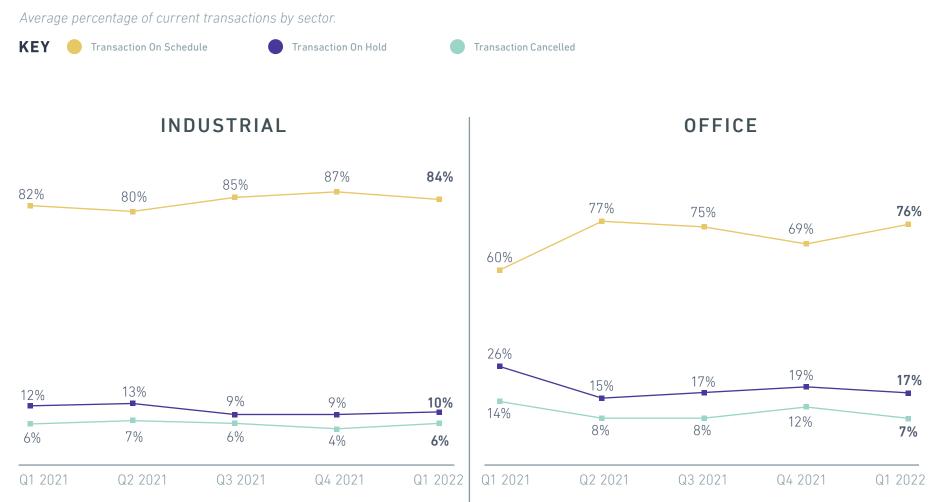


FROMTHE Experts

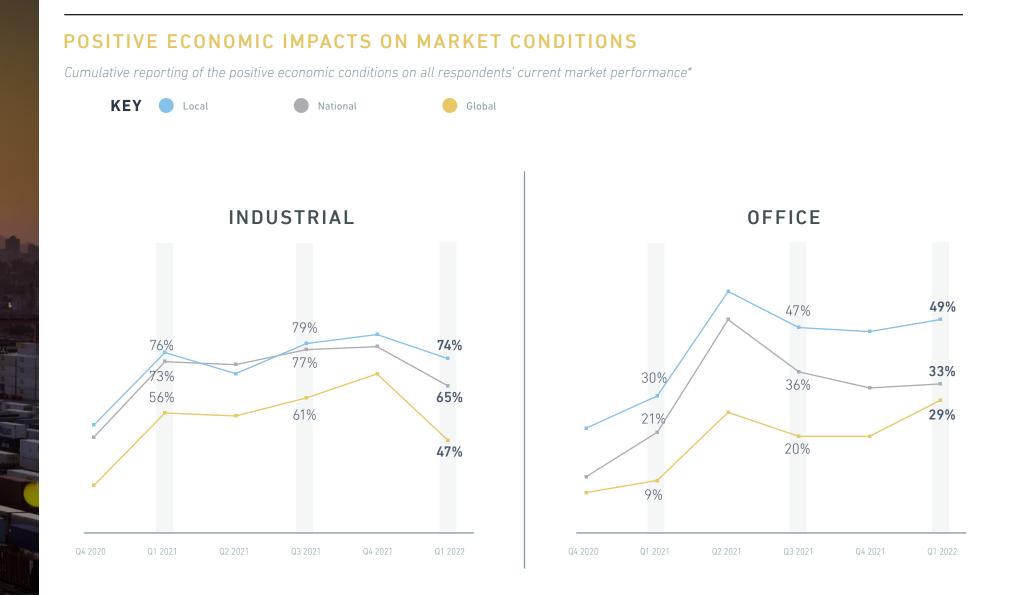
Activity is picking up, BUT tenants are also re-working their footprints which in many cases is a downsize as more folks are remote 40% of the time."

> - Office Specialist SIOR Minnesota Chapter

STATUS OF IN-PROGRESS TRANSACTIONS - INDUSTRIAL VS. OFFICE



Totals may not equal 100% due to rounding or not applicable responses.

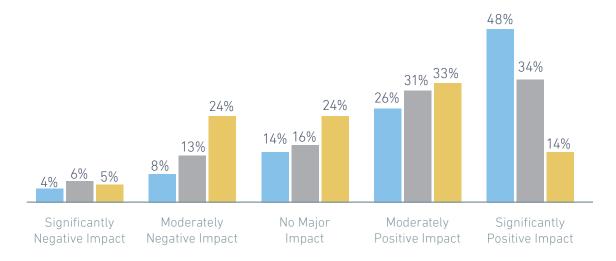


*Positive conditions reflect the combined average of moderately positive and significantly positive responses in the survey results.

ECONOMIC IMPACTS ON MARKET CONDITIONS

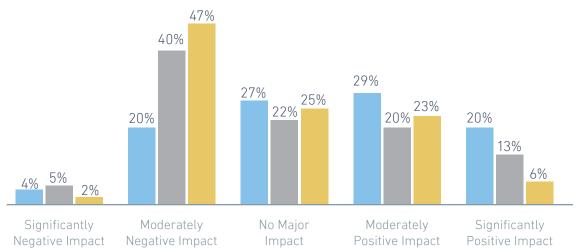
Average percent of economic conditions on all respondents' current market performance

KEY National Global Local



INDUSTRIAL

OFFICE



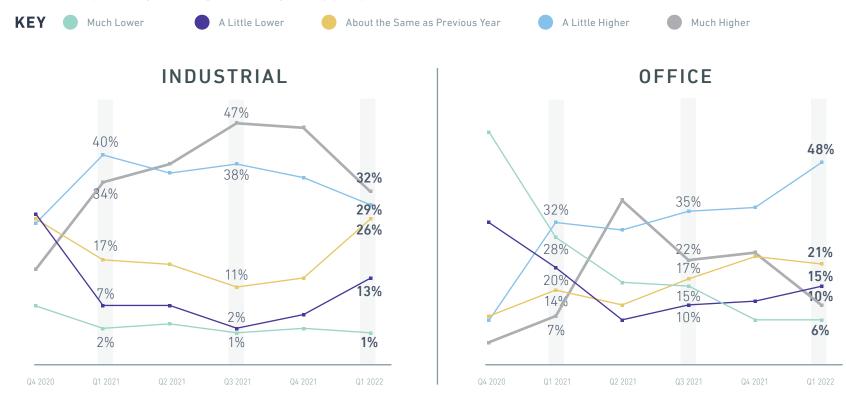
Totals may not equal 100% due to rounding or not applicable responses.

Inflation in construction costs is causing projects to be deferred or canceled until material costs come down."

> - Office Specialist SIOR Chicago Chapter

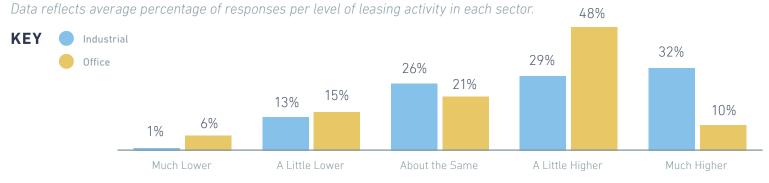
QUARTERLY LEASING ACTIVITY

Data reflects percentage of ratings for leasing activity per quarter.



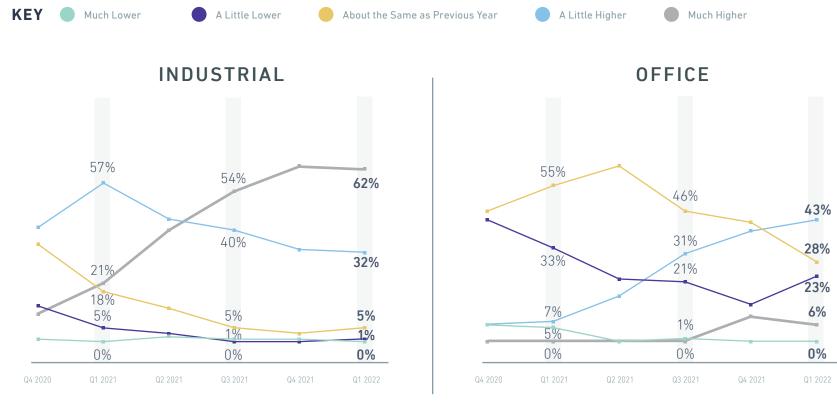
Totals may not equal 100% due to rounding or not applicable responses.

Q1 2022 CURRENT LEASING ACTIVITY



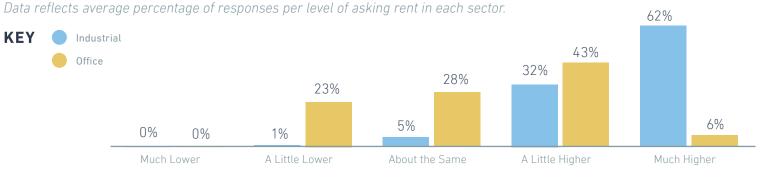
Totals may not equal 100% due to rounding or not applicable responses.

QUARTERLY ASKING RENTS Data reflects percentage of ratings for asking rents per quarter.



Totals may not equal 100% due to rounding or not applicable responses.

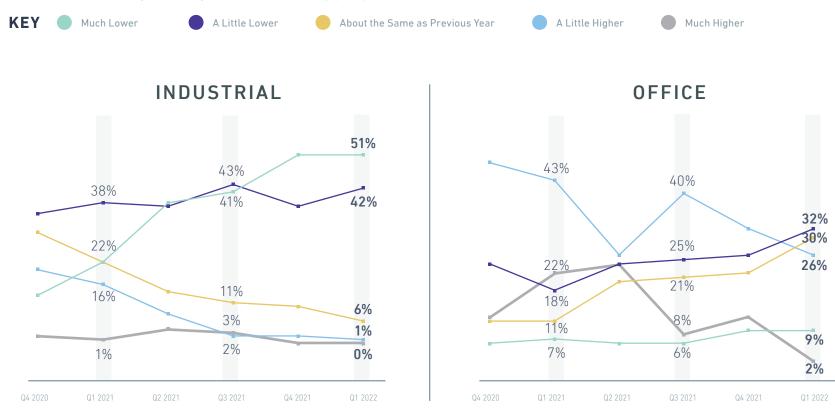
Q1 2022 CURRENT ASKING RENTS



Totals may not equal 100% due to rounding or not applicable responses.

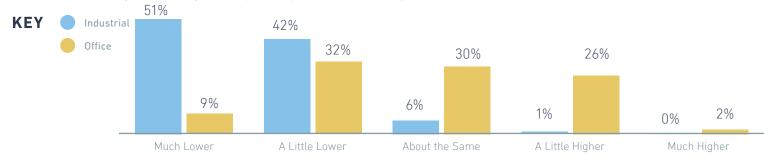
QUARTERLY VACANCY CONDITIONS

Data reflects percentage of ratings for current vacancy per quarter.



Totals may not equal 100% due to rounding or not applicable responses.

Q1 2022 CURRENT VACANCY CONDITIONS

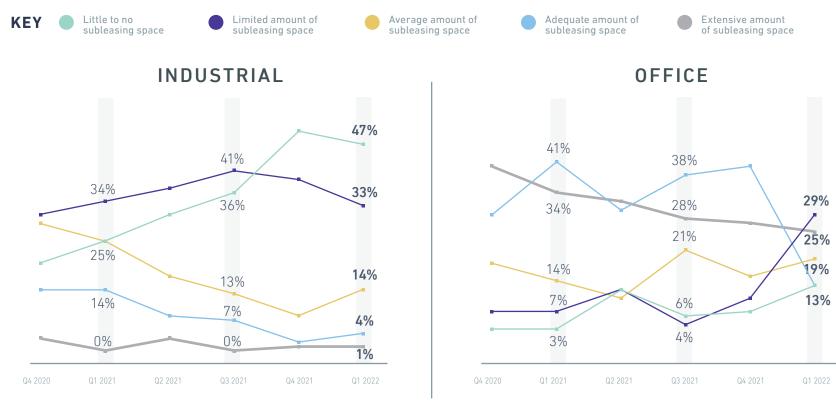


Data reflects average percentage of responses per level of vacancy in each sector.

Totals may not equal 100% due to rounding or not applicable responses.

QUARTERLY SUBLEASING CONDITIONS

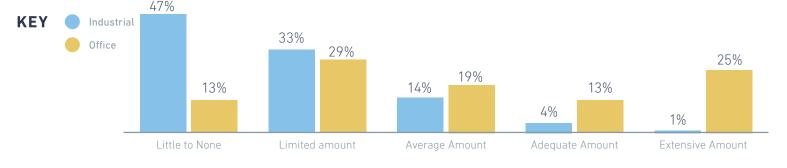
Data reflects percentage of ratings for amount of subleasing space per quarter.



Totals may not equal 100% due to rounding or not applicable responses.

Q1 2022 SUBLEASING CONDITIONS

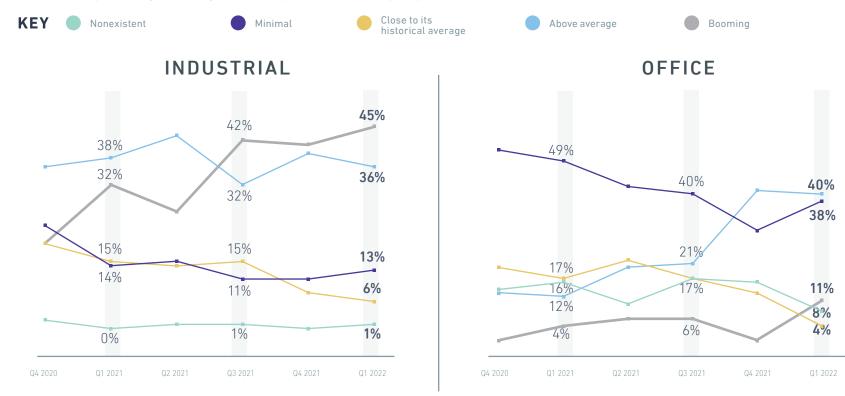
Data reflects average percentage of responses per level of subleasing space in each sector.



Totals may not equal 100% due to rounding or not applicable responses.

QUARTERLY DEVELOPMENT CONDITIONS

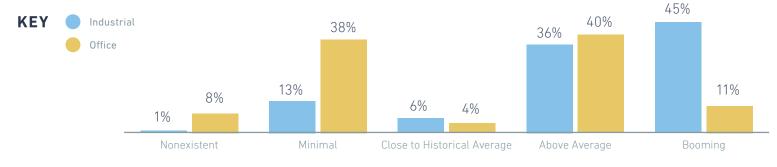
Data reflects percentage of ratings for development conditions per quarter.



Totals may not equal 100% due to rounding or not applicable responses.

Q1 2022 DEVELOPMENT CONDITIONS

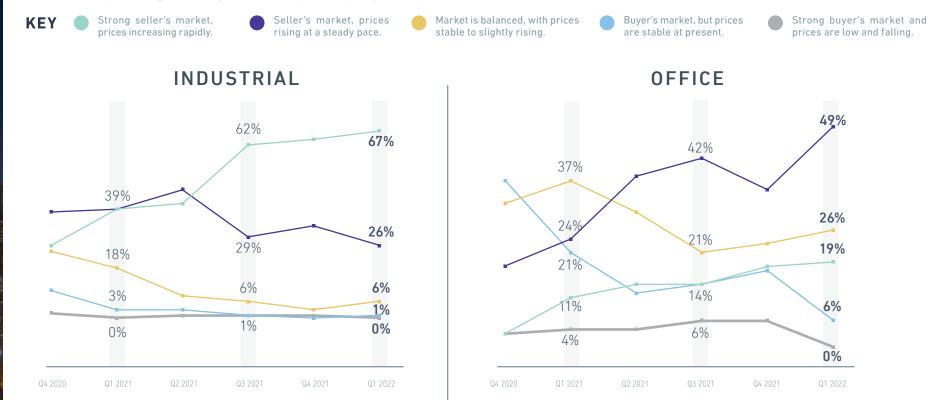
Data reflects average percentage of responses per level of development condition in each sector.



Totals may not equal 100% due to rounding or not applicable responses.

QUARTERLY SITE ACQUISITION CONDITIONS

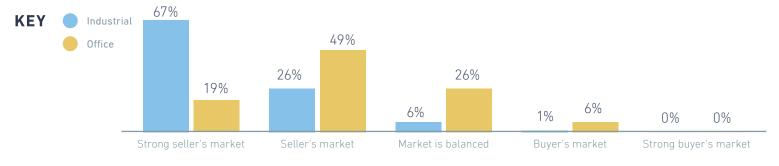
Data reflects percentage of ratings for site acquisition per quarter.



Totals may not equal 100% due to rounding or not applicable responses.

Q1 2022 SITE ACQUISITION CONDITIONS

Data reflects average percentage of responses per level of site acquisition condition in each sector.



Totals may not equal 100% due to rounding or not applicable responses.

QUARTERLY TENANT CONCESSIONS

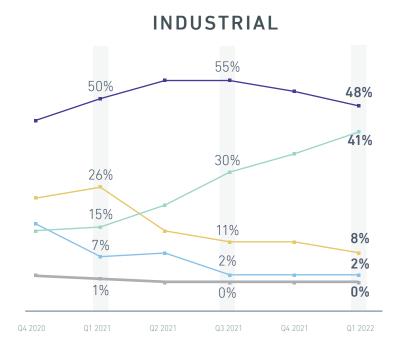
Data reflects percentage of ratings for tenant concessions per quarter.

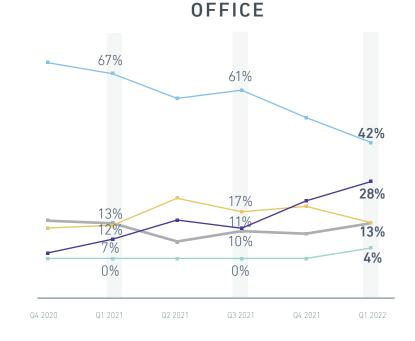
KEY

No concessions are available L as the landlords have strong bargaining power.

Limited levels of concessions, with the market slightly favoring the landlord

Balanced level of concessions, with no bargaining advantage for landlord or tenant Moderate levels of concessions, and the market favors tenants Extensive concessions, with deep discounts on asking rents, substantially favoring tenants

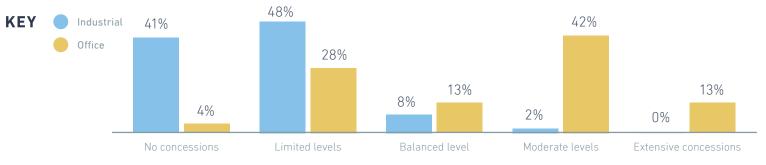




Totals may not equal 100% due to rounding or not applicable responses.

Q1 2022 TENANT CONCESSIONS

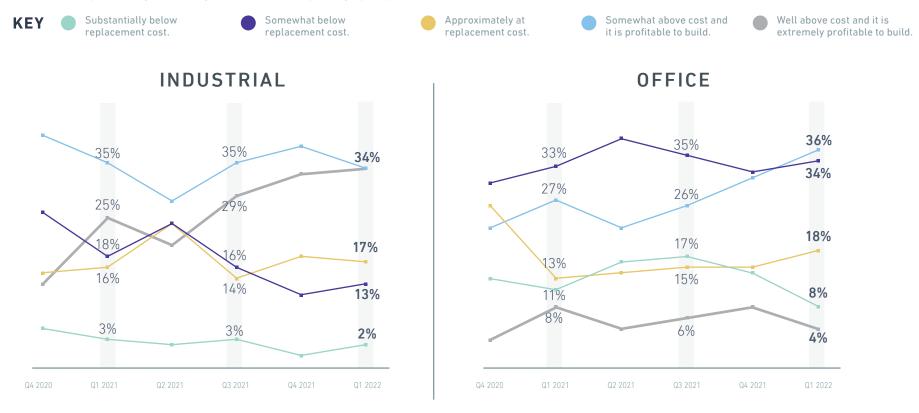
Data reflects average percentage of responses per level of tenant concession in each sector.



Totals may not equal 100% due to rounding or not applicable responses.

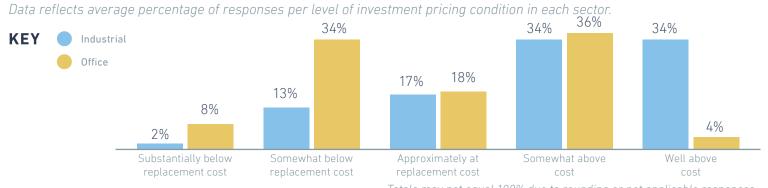
QUARTERLY INVESTMENT PRICING CONDITIONS

Data reflects percentage of ratings for investment pricings per quarter.



Totals may not equal 100% due to rounding or not applicable responses.

Q1 2022 INVESTMENT PRICING CONDITIONS - INDUSTRIAL VS. OFFICE



Totals may not equal 100% due to rounding or not applicable responses.

REPRESENTATIVE COMMENTS FROM RESPONDENTS

"Buyers have a sense of urgency to close before rates rise further. Landlords are able to pass through rent increases." - Office Specialist, SIOR Chicago Chapter

"The lack of supply for industrial space and quickly rising rents are hurting smaller companies that are unable to push through the increases."

- Industrial Specialist, SIOR Florida Chapter

"Second generation CBD buildings show decent occupancy on paper, but are largely empty most days of the week. As the leases roll, there will be problems."

- Industrial Specialist, SIOR Florida Chapter

"Cap rates must rise in tandem with rising interest rates." - Office Specialist, SIOR Ohio Chapter

"Spaces that are move-in ready are much easier to lease. A substantial amount of call center space is hitting the market." - Industrial Specialist, SIOR New Mexico Chapter

"The market is extremely tight with excessive rents being charged to renewing and relocating tenants."

- Industrial Specialist, SIOR Chicago Chapter

"These are rents no one in our market has EVER seen - above \$100/SF on newest Class A."

- Office Specialist, SIOR Florida Chapter

"There is a very limited amounts of supply regarding industrial product types. Tenants looking for space have to employ a broker who will call on off-market properties."

- Industrial Specialist, SIOR Indiana/Kentucky Chapter

"Most workers drive from lower cost areas to get to work and use 2 or more tanks of fuel per week so their costs to get to work have increased by \$75 or more per week. Some landlords have had reimbursement plans in effect but the cost to reimburse these employees may be too much and they may need to cut staff or relocate closer to were there workers live." - Office Specialist, SIOR San Diego Chapter

REPRESENTATIVE COMMENTS FROM RESPONDENTS

"Rising costs of materials and interest rate escalations over the next several months will slow the market as we move forward."

- Industrial Specialist, SIOR St. Louis Chapter

"At some point rising interest rate will cool the market, but that has not happened yet."

- Industrial Specialist, SIOR New England Chapter

"We're seeing significant downsizing with our office tenants but most are renewing their leases. We're also seeing some new lease activity, which is encouraging."

- Office Specialist, SIOR Western Pennsylvania Chapter

"We have had virtually no new construction, so we are eating through some inventory. Even suburban Class B is beginning to see some activity."

- Office Specialist, SIOR Iowa/Nebraska Chapter

"Everything is up: rental rates, sale prices, occupancy rates. Activity is the strongest I have ever witnessed." - Industrial & Office Specialist, SIOR LA/MS/AL/NW FL Chapter "Limited supply of space for lease and purchase is making it difficult for tenants to move/expand. There's also limited land for sale for development."

- Industrial Specialist, SIOR Northern California Chapter

"Spec Suites are all the rage! If you don't have a spec suite you may not be on a tour list."

- Office Specialist, SIOR Minnesota Chapter

"In general, a lot of market participants do not know how to play the inflation game. NNN leased properties are going to suffer as cap rates rise with interest rates."

- Office Specialist, SIOR Chicago Chapter

APPENDIX

Survey Questions:

- 1. Indicate the property type (one only) that you will evaluate on this survey form.
 - Industrial
 - Office
- 2. What effects do each of the below have on your market's performance currently? (Local economic conditions, National economic conditions)
 - Significant negative impact, with serious handicaps on the market
 - Moderately negative impact, slowing the market somewhat
 - No major impact, neither impeding nor stimulating the market to any degree
 - Moderately positive impact, slightly accelerating the market
 - Significantly positive impact, greatly impacting the market
- 3. What is the status of your transactions from the last quarter (Answers must total 100)?
 - Transactions have been cancelled outright
 - Transactions are on hold
 - Transactions are moving forward on schedule
- 4. How does each of the following in your market compare with a year ago? (Leasing Activity, Asking Rents, Current Vacancy)
 - Much lower
 - A little lower
 - About the same as last year
 - A little higher
 - Much higher
- 5. What are subleasing conditions like in your market?
 - Extensive amount of subleasing space
 - Adequate amount of subleasing space
 - Average amount of subleasing space
 - Limited amount of subleasing space
 - Little to no amount of subleasing space
- 6. What are development conditions like in your market?
 - Nonexistent
 - Minimal
 - Close to its historical average
 - Above average
 - Booming

- 7. What are acquisition conditions for development in your market?
 - Strong buyer's market prices are low and falling.
 - Buyer's market, but prices are stable at present
 - Market is balanced, with prices stable to slightly rising
 - Seller's market, prices rising at a steady pace
 - Srong seller's market, prices increasing rapidly
- 8. In negotiations between landlords and tenants, what level of tenant concessions characterize your market?
 - Extensive concessions, with deep discounts on asking rents, substantially favoring tenants
 - Moderate level of concessions, and the market favors tenants
 - Balanced level of concessions, with no bargaining advantage for landlord or tenant
 - Limited levels of concessions, with the market slightly favoring the landlord
 - No concessions are available as the landlords have strong bargaining power
- 9. What are investment pricing conditions for a good building in your market?
 - Substantially below replacement cost
 - Somewhat below replacement cost
 - Approximately at replacement cost
 - Somewhat above cost and it is profitable to build
 - Well above cost and it is extremely profitable to build

10. What is your level of confidence in your local market conditions (what will conditions be like) for the next quarter?

- (1) Lowest confidence: activity is much worse and down more than 10%
- (2) Low confidence: activity is worse and down by 6-10%
- (3-4) Moderately low confidence: there is slight decline in activity by 1-5%
- (5-6) No chance from last quarter
- (7-8) Moderately high confidence: activity has slightly improved by 1-5%
- (9) Higher confidence: activty has improved by 6-10%
- (10) Highest confidence: market activity is much better and improved by more than 10%
- 11. Please share what is working well or what challenges you see in your market.
 - Opportunity for open-ended responses.
- 12. Please share any additional comments related to your forecast for the future, such as trends, market conditions, etc.
 - Opportunity for open-ended responses.

The Society of Industrial and Office Realtors (SIOR) is the leading society for industrial and office real estate professionals. With 3,600 members in 45 countries, SIOR represents today's most knowledgeable, experienced, and successful commercial real estate brokerage specialists.

Learn more about SIOR online at sior.com.

SOCIETY OF INDUSTRIAL AND OFFICE REALTORS® Thought Leadership Series www.sior.com/thoughtleadership



Copyright © 2022 by Society of Industrial and Office Realtors

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. For permission requests, write to the publisher at media@sior.com.