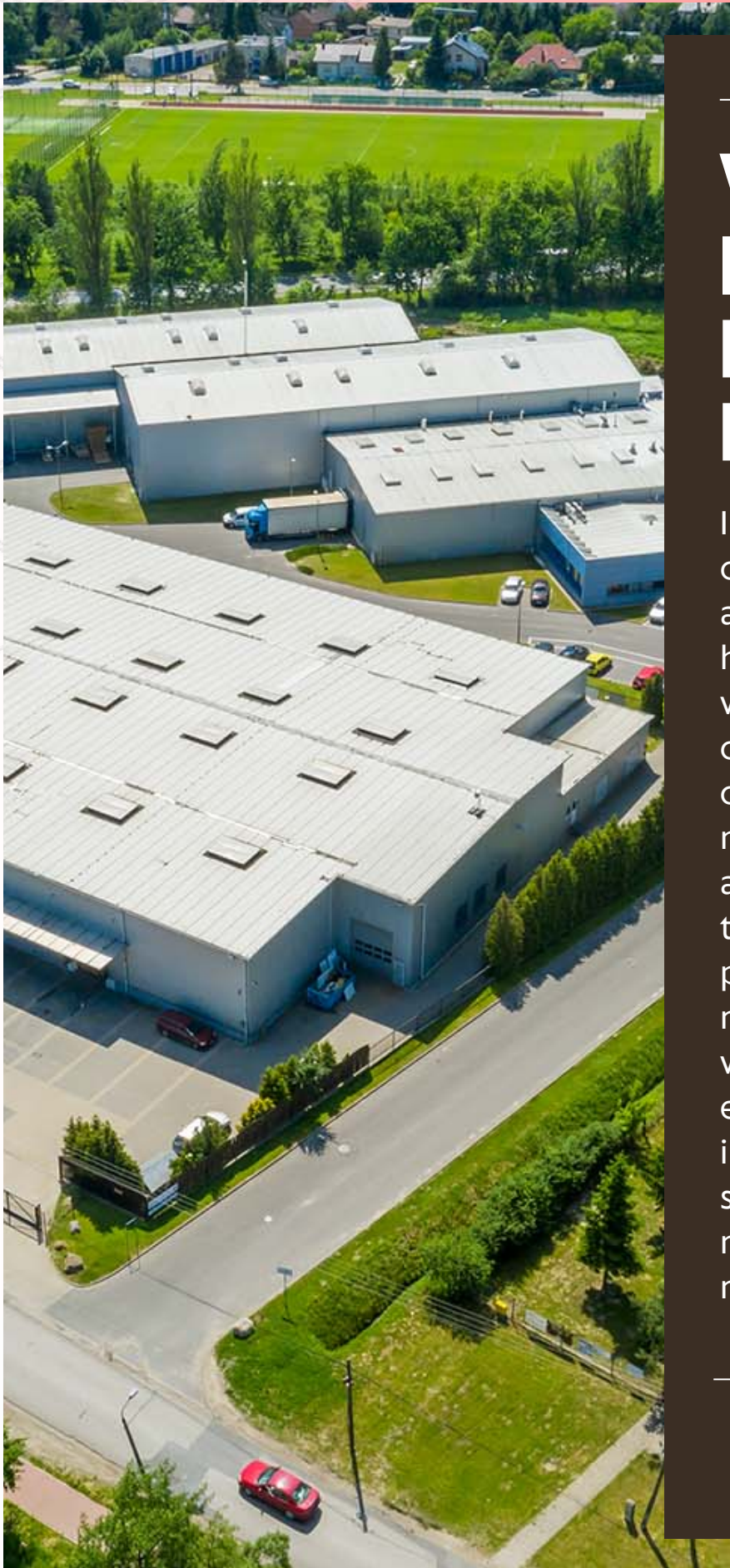




WHY IT'S A GOOD IDEA TO

**INVEST IN
INDUSTRIAL
REAL ESTATE?**



What is Industrial Real Estate?

Industrial real estate in this case can be defined broadly as any property that either has a storage facility, like a warehouse, a distribution center, or a flex space, or can accommodate any number of industrial activities, such as a building that can be converted into a production area or a manufacturing plant. In this way, all opportunities are explored, potentially increasing the chances of sealing that one money-making deal that can lead to more of such deals.



MoHall Commercial
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CLASS TYPES OF

INDUSTRIAL BUILDING

For any commercial building, there will be a class grade attached to it- Class A, Class B, Class C. It is important to consider which class will make the most sense for your investment as some of these assets are more likely to see capital appreciation whereas others will be better suited, rather, for capital preservation. Of course, your return on investment will be influenced by a variety of factors associated with the property that you purchase, but identifying these differences in these classifications may help to narrow your focus as you move forward in the search process.



Class A Industrial

A

Class A buildings typically represent the newest and best-quality structures that exist in the market. The industrial assets built today are made of high-quality materials and amenities like tall ceilings and top of the line mechanical and utility systems. Because these spaces are “The Cream of the Crop,” they usually have the high-income earning tenants with low vacancy rates. These top-of-the-line industrial properties provide investors with the security that there are very few outstanding issues that will require them to invest further into their asset.

Class A assets usually are priced high with lower CAP rates associated with them, especially if they are fully leased, but these Class A assets carry far less risk to investors and can be a great option for someone to preserve capital or to passively invest in some cases.

Class B Industrial

B

Class B properties are usually older buildings, but can also be new buildings without all of the bells and whistles. Rental income is typically lower than rates that Class A owners will see, however Class B buildings are oftentimes well-maintained, so investors can view these assets as “value-add opportunities” as they can sometimes be converted in to A or B+ class buildings through renovations and improvements. In this tier of Class B industrial properties, it is sometimes easier to find an attractive deal, because these assets are viewed as a higher risk to buyers due to potential vacancy issues.

Class B properties can be a great option for an investor who is looking to immediately cash flow and sit on their asset while the land appreciates, if the property is in a desirable location. Some industrial real estate is now being rezoned into multifamily or mixed-use sites in order to increase

city density, so an investor with knowledgeable foresight could make a good guess as to whether their industrial property investment may fall into this category.

Class C Industrial

C

Class C properties are buildings that are usually 20 or more years old, have multiple deferred maintenance issues, and are sometimes located in less-desirable areas.

Class C buildings typically bring in the lowest rental rates in the market, which makes passive investment opportunities less available. For the investor that is willing to put time, money, and creativity in this type of property, Class C industrial properties can be converted into higher value assets with some significant renovations and updates, and create significant upside if executed correctly.

Class C properties can also be fantastic opportunities for an owner/user type of business because the improvements that you make not only help your business, but also add value to

ADVANTAGES AND REASONS WHY YOU SHOULD INVEST IN INDUSTRIAL REAL ESTATE



Higher Diversity, Higher Stability

The basic rule of thumb about industrial real estate investing is that you should never put your eggs in one basket. Buying industrial real estate means that you'll have your hands full with lots of different options.

On the other hand, residential real estate keeps you restrained to limited choices.

It's simple, industrial properties are used for a plethora of activities like manufacturing, logistics, storage, and production. This means, even if one asset class isn't performing well due to inflation or other economic reasons, another part of your investment will be working well at all times.

Hassle-Free Passive Income

The reason people consider buying industrial property is that it's a hassle-free way to earn a steady income as compared to other side hustles. However, if you consider buying a property, you'll find that residential properties are more trouble than they're worth.

You'll have to take up regular maintenance, renovations, and improvements to keep your property striving in the market. And if the property is miles away from where you live, get ready for long trips for inspections and approvals. On the other hand, investing in real estate means minimal concerns and hassles for people who're already taken up with their jobs or businesses. They require less maintenance and have lower vacancy rates, which ensure a steady, long-term income.

Industrial asking rents at record high 10.6%



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Think of it this way, you're a company as large as Amazon or eBay, and you need a place to stack your products and maintain inventory.

How frequently would you want to relocate your warehouse? That's exactly the reason why industrial, especially warehouse investment properties, ensure long term benefits.

Besides that, residential tenants are more likely to sign short leases. That's because of frequent changes in family status and needs, leaving you to look for a new tenant for your dormant property.

On the contrary, industrial property tenants tend to sign longer leases to keep their businesses running smoothly. This means long term, undisrupted cash flow for you.

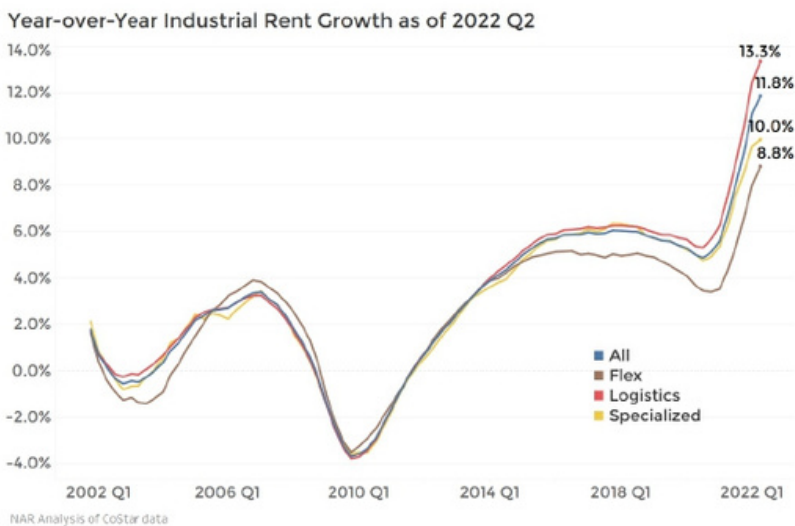
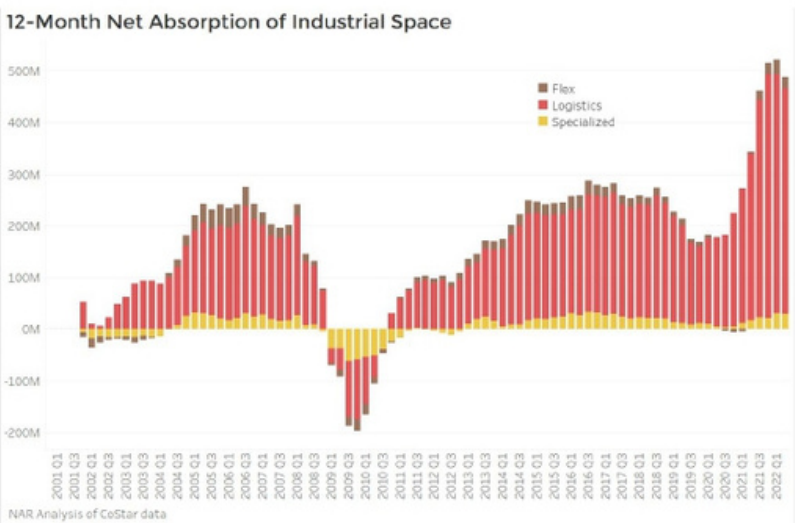
Industrial

Net absorption is still double the pre-pandemic level

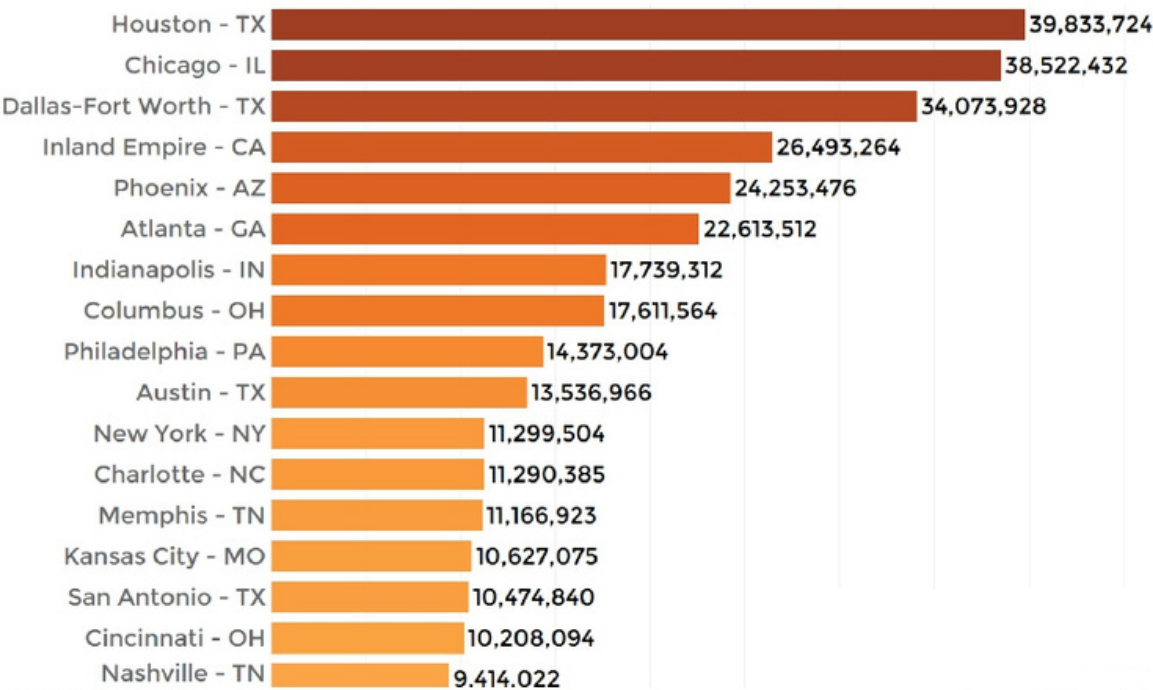
In the industrial property market, logistics (warehouse, distribution, fulfillment centers) have been the growth driver, accounting for nearly 90% of the net absorption of 490 MSF of space. The demand for logistics space continues to be driven by e-commerce sales, which account for 16% of sales, up from 13% before the pandemic. Net absorption for industrial space in the past 12 months as of May has tapered somewhat but the volume of industrial space absorbed is still double the pre-pandemic level.

Asking rents for logistics space is up on average 13.3% year-over-year compared to 8.8% for flex space (which can be used also as a warehouse, showroom, or office space).

Houston has the largest absorption of industrial space in the past 12 months, driven by the oil industry. Chicago, Dallas, the Inland Empire, Phoenix, and Atlanta are all absorbed over 20 MSF over the past 12 months as of May.



12-Month Net Absorption of Industrial Space as of 2022 Q2



LOW MAINTENANCE COSTS



The bane of being a real estate property holder is to cover maintenance costs for your properties. In the residential real estate business, these costs are usually more frequent and at times, over the top. That's because you're dealing with families. Here, the slightest mishap, such as wall molds and roof leakage become an irritant problem for you. Sometimes, tenants tend to leave such problems until they build-up, which hikes up the repair costs for you.

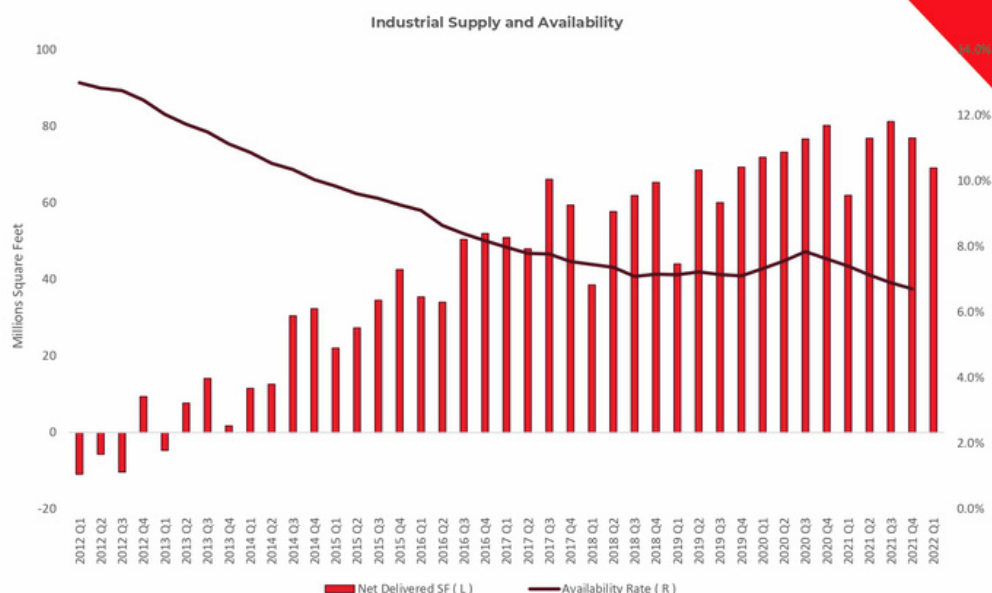
Industrial properties are less likely to cause all this nuisance for you. First of all, these maintenance problems are less likely to arise due to less intrusive use of the property. Also, if they do require maintenance, it'll be less frequent than residential properties.

Tips

Finding the Right Tenants is Key: Industrial warehouses are oftentimes single-tenant properties with long-term leases. This is great news for you as an investor because it means less churn between tenants and thus, more stable income. However, that's only if you find a good tenant to begin with. As with any commercial investment, the right tenants are worth their weight in gold. If you find a successful tenant with good growth potential, it will pay (literally) to offer them the best amenities and layout for their needs.

LESS MARKET SATURATION RISK

Industrial supply and availability: Both at record lows



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If you're selling your property or putting it out for rent, you'll be in trouble if you face market saturation. In other words, no one currently wants the property you're offering.

This makes your investment stuck with no benefits or cash flow.

There's a less likely chance of oversupply and market saturation when it comes to industrial investments. There are many factors affecting buyers' and tenants' behavior in the real estate market. This includes inflation, interest rates, and consumer lifestyle changes.

What's common between all these factors is that they usually occur in the residential real estate sector.

You're unlikely to hear that there's a vacant industrial property that nobody wants. Industrial properties are more expensive than residential ones. But they allow their tenants to earn through them, which makes sure they're always in demand.

Tips

Understand the Risks

There are many pros to investing in industrial real estate. But a good investor understands that they must always be weighed against the cons. Yes, industrial spaces are typically managed by long-term leases for single tenants. But what happens if that single tenant disappears? There are financial risks to relying on one tenant to cover your expenses. And vacant properties create long-term risks if a new suitable tenant cannot be found with the same building needs.

SIMPLE AND STRAIGHTFORWARD



Industrial real estate gives you a simple, clear-cut way to turn your capital into regular income returns. That's because, with industrial properties, there are fewer anomalies involved as compared to residential properties.

Usually, an industrial rental building consists of a large, vacant space and a limited office area. These buildings are either used as storage or production areas, which makes them easy to manage and maintain.

This means with industrial real estate, it's easy for a newbie to learn the ropes and earn easy cash.

Tips

Know Your Lease Terms

Industrial tenants sign leases typically ranging from 3-10 years. But leases of 20 years or more are not unheard of. With such a significant time investment, it's important to understand the terms of your lease. In a full-service lease, tenants pay a flat rent amount from which all property maintenance and taxes are pulled. In a net lease, the tenant pays a base rent as well as a portion of property expenses based on the size of their space in relation to the whole property. Lastly, a triple-net lease works the same way as a net lease, but tenants pay a prorated share of all the landlord's expenses based on the size of the spaces they're renting.

Commercial Market Overview

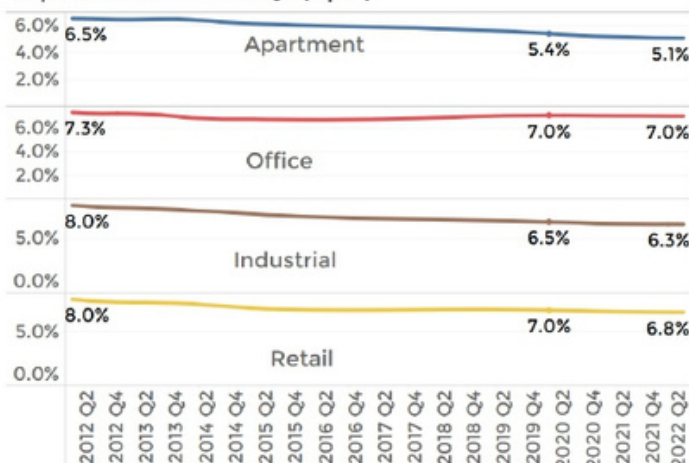
Multifamily and industrial assets offer a hedge against inflation

The volume of investor acquisitions over the 12-month period ended April 2022 slowed somewhat compared to the 12-month level ended in March 2022, but acquisitions are still outpacing the level one year ago. Total acquisitions for multifamily, office, industrial, and retail properties totaled \$544.8 billion. Sales deals are 13% below the \$623 billion in 12-month acquisitions ended March 2022 but are up 70% from the 12-month sales deal volume of \$365 billion ended 2021 Q2. Of total acquisitions, 46% of dollar volume went into multifamily acquisitions.

On average, sales prices of industrial properties were up 15% from one year ago, yielding a 19% total return on sold properties. Multifamily property prices rose 10.5%, yielding a total return of 12.7%. Both these assets are earning rental income and returns that are higher than the current inflation rate, which make them attractive assets to hold at a time of high inflation.

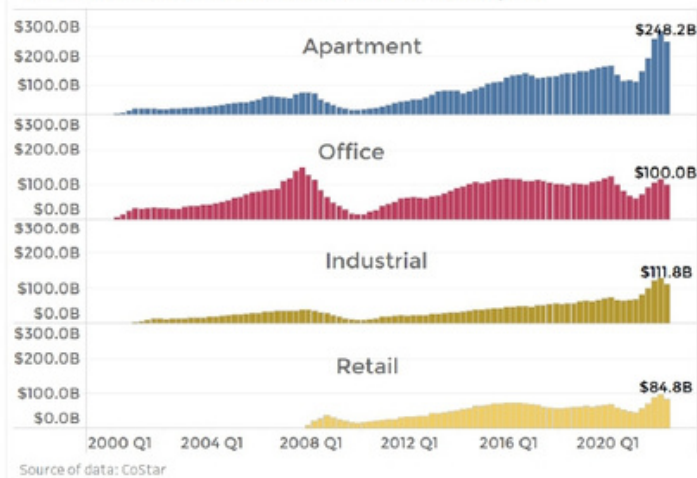
Retail properties also fetched decent prices, up 5% from one year ago. On average, sellers gained a 10% return on their investment. Continuing worker re-entry is driving the demand for office space, with sales price up 2.4% on average with sellers earing a 7% total return on investment. However, the rent growth on these assets is lower than the inflation rate. The low vacancy rate on retail properties reduces the drag of low rent growth on net operating income, but not generally so for office properties which are suffering from high vacancy rates.

Cap Rates as of 2022 Q2 (April)



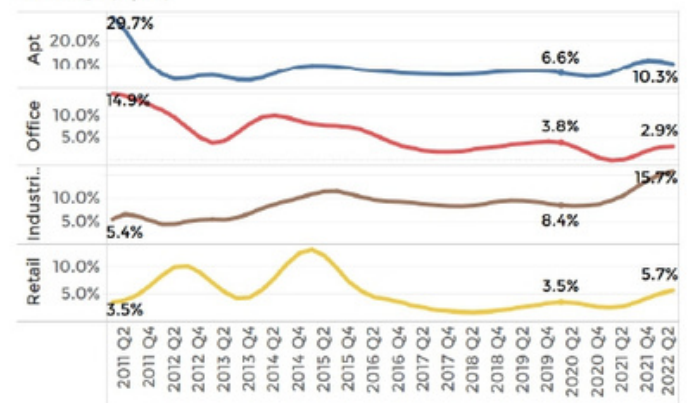
Source of data: CoStar

4-Quarter Sales Volume as of 2022 Q2 (April)



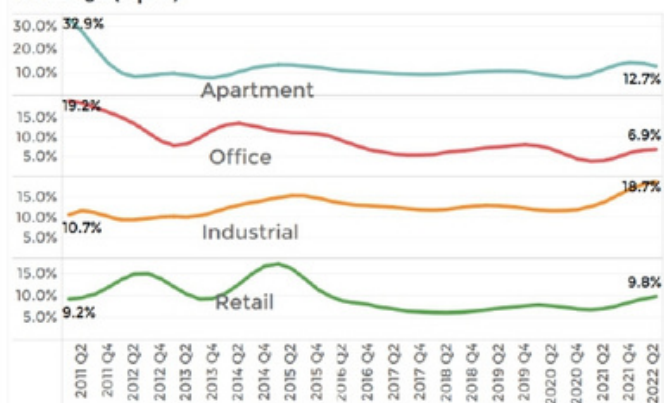
Source of data: CoStar

Average Y/Y Percent Change in Commercial Sales Prices as of 2022 Q2 (April)



Source of data: CoStar

Total Nominal Return on Unleveraged Investments as 2022 Q2 (April)



Source of data: CoStar

Economic Conditions

Rising inflation and interest rates are slowing down spending

Retail sales decreased 4% in real terms in March 2022

With rising inflation, retail sales rose 4.9% year-over-year in March in nominal terms, but adjusted for inflation that has increased 8.5%, retail sales are down about 4%.

New orders of non-defense capital goods rose 8% in real terms in March 2022

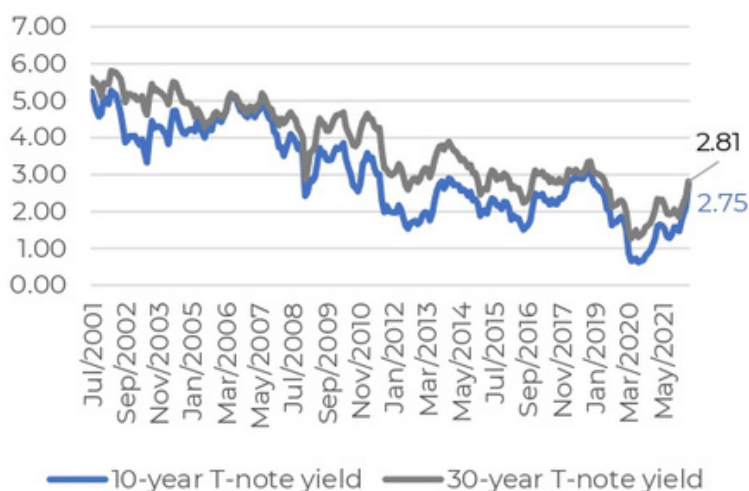
New orders of non-defense capital goods rose 16.7% year-over-year in March in nominal terms, and by about 8% when adjusted for inflation. Higher investment spending means businesses are still broadly optimistic about the medium-term outlook of the economy.

CRE loans up 7% year-over-year in March 2022

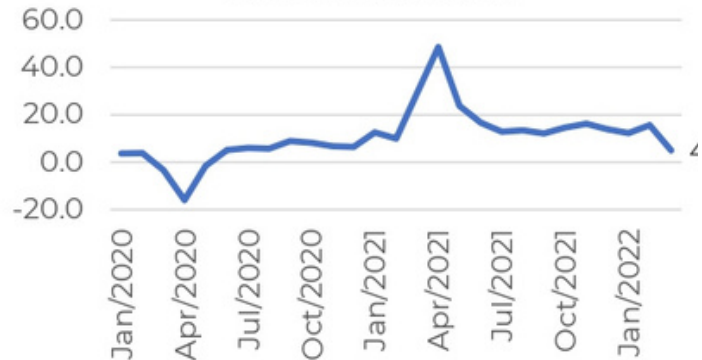
Commercial real estate loans outstanding held by commercial banks started picking in the second half of 2021, and as of March 2021, loans outstanding rose to \$2.6 trillion, up nearly 7%. Commercial real estate loans are loans for the purchase of commercial real estate (like mortgage loans for the personal real estate). Rising loan volume indicates that businesses hold a positive outlook of economic and business conditions.

However, investors see greater economic risks ahead compared to last year, as indicated by the tighter spread between the 10-year T-note (2.75%) and 30-year T-note (2.81%).

10-Year and 30-Year T-Note Yields at Constant Maturity



Nominal Y/Y Percent Change in Retail Sales in March 2022



Source: US Census Bureau

Y/Y Percent Change in New Orders of Non-defense Capital Goods



Source: Institute of Supply Management

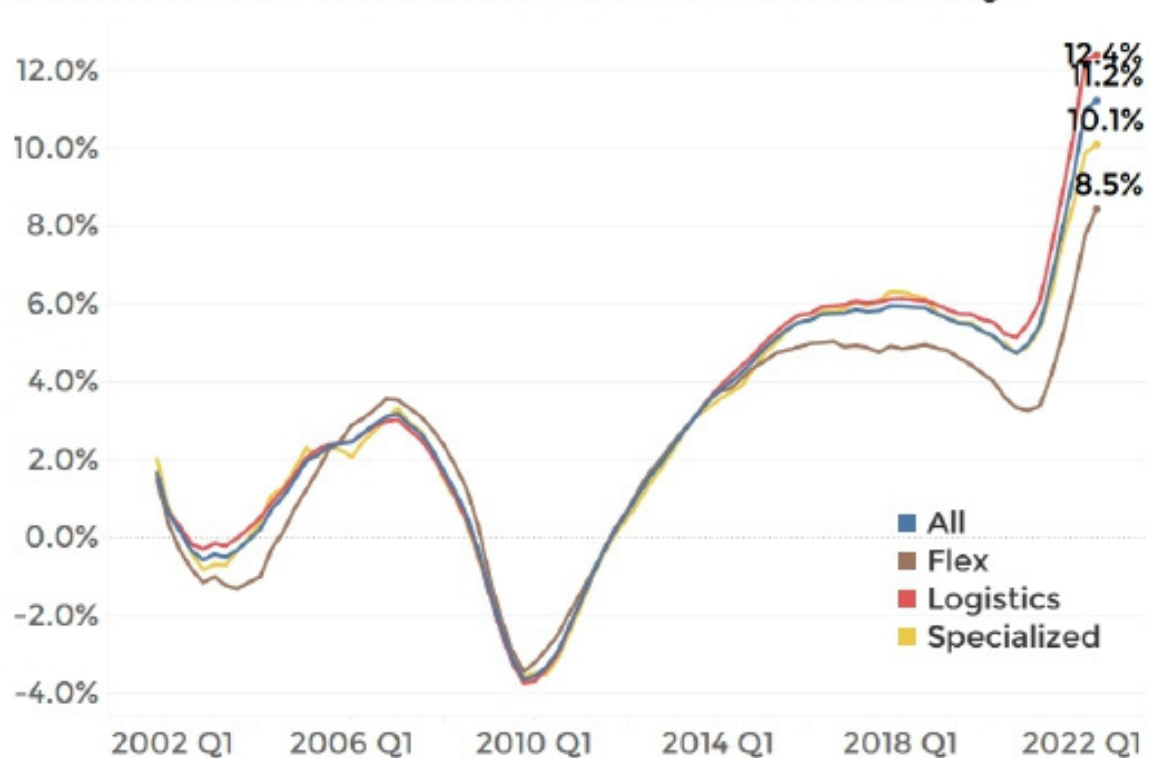
Year-over-year Percent Change in Commercial Real Estate Loans



Source: Federal Reserve Bank

HIGH RENTAL YIELDS

Year-over-Year Industrial Rent Growth as of 2022 Q2



Industrial real estate investments give you the highest yields compared to other real estate sectors. On average, an industrial property gives you about 6 to 7.5% yield, compared to five percent for office properties and five to six percent for retail properties.

What's more, if you start buying industrial properties today, the increment in eCommerce popularity will hike up the demand for warehouses and distribution places.

This demand will work well with your investment, creating a win-win situation for you.

Industrial Outlook as of May 2022

	2021 Actual	2022 F	2023 F
Vacancy Rate	4.8%	4.3%	4.8%
Rent Growth	7.4%	10.7%	9.8%
Price Growth	11.5%	13.1%	9.2%
Cap Rate	6.4%	6.0%	6.2%

TECHNOLOGICAL ADVANCEMENTS AND INDUSTRIAL REAL ESTATE IMPROVEMENTS

Believe it or not, technological advancements are going to change the way we use industrial properties today. Therefore, any improvements you make to your industrial properties are likely to pay off.

Warehouses with multiple floors are rarely found these days. However, they will be great investments due to automatic operations in the near future.

Similarly, as more businesses will begin to offer fast deliveries, distribution centers close to major cities will be preferred.

Also, warehouses are predicted to double up as large retail centers, data centers, and photo studios, as well.

Meaning, if you refurbish your industrial real estate properties in the next few years, you can grow your monthly cash flow even further by bringing in higher-paying tenants.



FLEXIBILITY AND MULTIPLE TENANT FACILITATION

The best part about industrial real estate properties is that they're not restrained to one single purpose. An industrial building doesn't have to be solely an office, manufacturing, or logistics building.

You can rent it out as all three for one single company, or hire multiple tenants as well.

Online businesses today are aiming to reach their customers in multiple places at once. For that, they'll need their warehouses and distribution centers in multiple places as well.

Rather than renting one large storage space, companies are gradually turning to small warehouses in multiple cities. This has led to consumer demands for shared industrial properties.

So, if you can facilitate your property for dual tenants or more, you can create more cash flow and reliable returns on each of your property investments.