Ascendas Reit

Independent Market Study Report 2021

Who We Are

Ascendas Real Estate Investment Trust (Ascendas Reit) is Singapore's first and largest listed business space and industrial real estate investment trust (REIT).

As one of Singapore's REIT pioneers, Ascendas Reit has played a crucial role in the development of the Singapore REIT sector. It provides an attractive platform for investment in business and industrial properties across developed markets.

Ascendas Reit owns and manages a well-diversified portfolio, valued at S$16.3 billion. The portfolio comprises 220 properties in Singapore, Australia, the United Kingdom (UK)/Europe and the United States (USA).

Ascendas Funds Management (S) Limited (AFM), the manager of Ascendas Reit (the Manager), is a wholly owned subsidiary of Singapore-listed CapitaLand Investment Limited (CapitaLand Investment), a leading global real estate investment manager with a strong Asia foothold.

Vision

To be a leading global real estate investment trust

Mission

To deliver predictable distributions and achieve long-term capital stability for Unitholders

Contents

ascendas Reit
A Member of CapitaLand Investment

Our cover page features the letters "C" and "O" intersecting to form an interlocked design, where the "C" stands for CapitaLand and the "O" stands for ONE. Together, they represent the ONE CapitaLand ecosystem, and symbolise how the respective REITs, business trusts and businesses that are part of our CapitaLand Investment Group benefit from cross-platform synergies and complementary strengths; and are united and committed to the same shared purpose of Enriching Lives, Building Communities and Growing Sustainably.

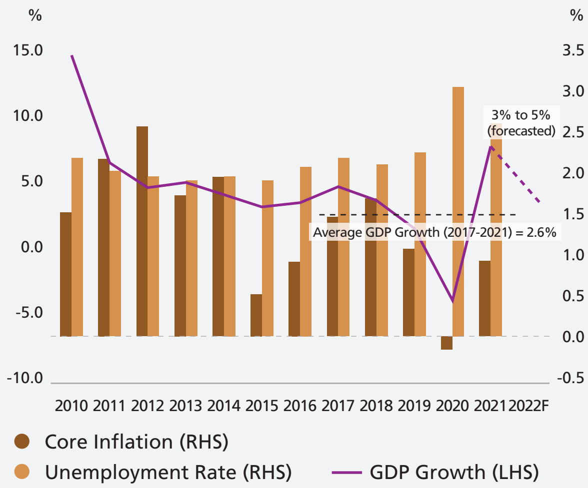
1.0 ECONOMIC OVERVIEW

With the quickened pace of booster vaccination, growth trajectory is expected to be sustained

Singapore's economy grew by 7.6% in 2021 – a reversion from the 4.1% contraction in 2020. The recovery in the job market was fuelled by the improving economy, although recovery in the labour market was uneven across the various sectors. In 2021, the average unemployment rate fell to 2.6%[1] as compared to 3.0% in 2020.

The manufacturing sector expanded by 15.5% y-o-y in 4Q21, extending the 7.9% growth in 3Q21, supported by output expansions in all clusters, particularly from the precision engineering clusters, electronics clusters and transport engineering experiencing the fastest growth. The Index of Industrial Production, an indicator for manufacturing output, increased by 15.6% y-o-y in December 2021 on the back of an expansion in the biomedical manufacturing (87.7%), transport engineering (40.8%) and precision engineering clusters (16.4%).

Figure 1: GDP Growth, Core Inflation[2] and Unemployment



Source: Department of Statistics Singapore (DOS), Ministry of Trade and Industry Singapore (MTI)

Amid myriad risk factors, the Omicron Covid variant is the main risk factor that could threaten Singapore's economic growth in 2022. However, with the quickened pace in booster vaccination, we expect the growth trajectory to be sustained. The forecasted growth for Singapore's economy is expected to be between "3.0% to 5.0%" in 2022, a moderation from the 7.6% expansion in 2021.

2.0 KEY GOVERNMENT POLICIES AND PLANS

Long term urban redevelopment

The Urban Redevelopment Authority charts Singapore's land use development. In particular, there are a few urban transformation projects that are ongoing into the medium to long term, which strive to bring forth economic growth, create jobs and increase the amenities of the areas.

1. Changi region: To create a vibrant ecosystem around the airport. Key projects in the area are Changi Airport Terminal 5, Changi East Industrial Zone and Changi Urban District.
2. Punggol Digital District: Singapore's first enterprise district, housing growth industries from cybersecurity to digital technology and a lifestyle destination for the community.
3. Woodlands Regional Centre: Economic hub in Singapore's North region, which serves as the future strategic centre for the Northern Agri-Tech and Food corridor.
4. Jurong Innovation District (JID): JID will be an industrial district for advanced manufacturing, supporting an ecosystem of manufacturers, technology providers, researchers and education institutions with Nanyang Technological University nearby.
5. Tuas Mega Port Project: The project will leverage on advanced automation and more efficient processes, handling 65 million twenty-foot equivalent units when fully operational by the 2040s, twice the volume handled by our ports presently. The port's global reach and connectivity can also benefit factories in Tuas and Jurong with quicker production-to-market turnarounds.

Industry transformation road map (ITM)- Industry 4.0

The ITM highlights the long-term strategies of the Singapore government, where integrated efforts between the government, firms, industries, trade associations and chambers are aligned to bring

1 Based on preliminary estimates, Ministry of Manpower
2 Core inflation defined by the Monetary of Singapore is a measure that excludes the components of "Accommodation" and "Private Road Transport".

forth the change in the industries. The future of manufacturing is set to transform with digitalisation and automation. With Singapore's focus of being an advanced manufacturing hub, collaboration between partners[3] is key to achieve Singapore's goal of becoming an advanced manufacturing hub.

Singapore Green Plan 2030

The government has set up Green Plan 2030, a national sustainability movement to tackle both climate change and sustainable development as a nation. The plan charts Singapore's road map to achieve its long-term-zero emissions goal over the next 10 years, focusing on technology and policy solutions. In particular, the key targets are – City in Nature, Sustainable Living, Energy Reset, Green Economy and Resilient future. Some key goals of the Green Plan include ramping up the use of solar energy and sustainable fuels, as well as importing and promoting the use of cleaner-energy cars and Electric Vehicles (EV). The plan will transit and change in accordance with the five ministries[4], to co-create solutions for sustainability.

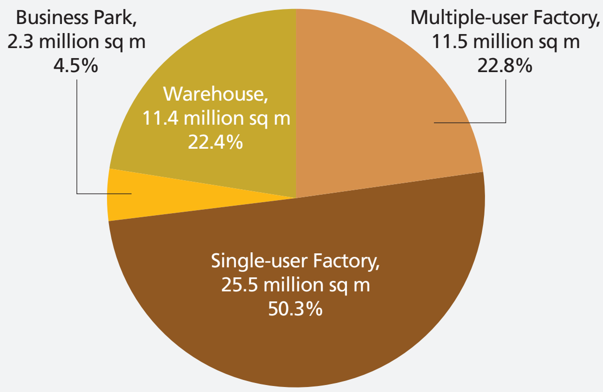
Emerging Stronger Taskforce (EST)

The EST was set up for Singapore to transit into an endemic COVID-19 and to chart Singapore's post-pandemic economy. Through the taskforce, change can be accelerated at a faster pace to transform the economy, businesses and the workforce. Recommendations were also put forth – 1) being virtually unlimited where enterprises will be supported to ride on the digital wave, 2) seizing growth opportunities from sustainability, 3) growing an agile and strong Singapore core, as well as 4) being stronger together through private-public and international partnerships. With the vision and right execution, Singapore is set to emerge stronger from the crisis.

3.0 INDUSTRIAL PROPERTY MARKET OVERVIEW

As at Q4 2021, total industrial stock stood at about 50.7 million sq m[5], of which 86.5% (43.9 million sq m) is private stock. Out of the total stock, 50.3% (25.5 million sq m) is single-user factory, followed by multiple-user factory (22.8%, 11.5 million sq m), warehouse (22.4%, 11.4 million sq m) and business park (4.5%, 2.3 million sq m) (Figure 2).

Figure 2: Island-wide Industrial Stock, in Net Lettable Area (NLA) (Q4 2021)



Source: JTC

Government Land Sales Program

A total of three sites on the Confirmed List and four sites on the Reserve List will be released under the H1 2022 Industrial Government Land Sales (IGLS) Programme, totalling some 4.48 hectares (ha). This marked an increase from the 3.86 ha of industrial land offered a year ago in the H1 2021 IGLS Programme. JTC has scaled back the confirmed sites in view of the significant supply pipeline of industrial properties as well as project delays arising from Covid-19 disruptions to construction activities in 2020-2021. However, to cater to varying business needs, the government has placed more industrial space on the Reserve List for industrialists to trigger in response to market demand. When combined, the Confirmed and Reserve Lists can potentially yield some 34,745 sq m and 40,505 sq m of NLA to the total pipeline supply respectively, a marginal increase of 0.15% relative to the current stock of 50.7 million sq m. All the land plots in the IGLS Programme are zoned Business 2 (B2) and all the sites are essentially small plots smaller than 1.0 ha. Apart from one plot on the Confirmed List and two plots on the Reserve list with 30-year leasehold tenure, the remaining plots are offered with 20-year leasehold tenure, in an effort to keep industrial land affordable for small industrialists. The largest plot offered (by GFA) is a 0.88 ha plot at Plot 2 Tanjong Penjuru, which can yield 18,023 sq m of space based on a gross plot ratio of 2.5.

3 Hyundai Motor Group, DMG Mori, Fanuc, Makino, Konica Minolta, and Advanced Manufacturing Training Academy
4 Ministry of Education, MND Singapore, Ministry of Sustainability and the Environment, Ministry of Trade and Industry and Ministry of Transport
5 All data on areas are NLA unless otherwise stated.

Major Investment Sales

Total major investment sales (each valued at S$10 million and above) worth nearly S$2.6 billion were transacted in 2021. The industrial sector's resilient performance during the pandemic was uplifted by the manufacturing and logistics sectors. Against the backdrop of an economic recovery, this sector is poised for further growth trajectory. The COVID-19 pandemic has shone a spotlight on the growing demand and importance for specialised assets such as data centres and warehouse facilities.

The largest transaction for industrial properties in 2021 was the sale of a business park, Rochester Park, located at 20-23 Rochester Park with remaining tenure of 23 years for S$144.8 million (S$1,046 per sq ft per land area) (Table 1). The second largest transaction (S$121 million) was Boustead Industrial Fund's acquisition of 351 on Braddell, a high-specs industrial property located in the Central Region, with 26 years remaining in its land tenure.

Table 1: Selected Industrial Investment Transactions (2021)

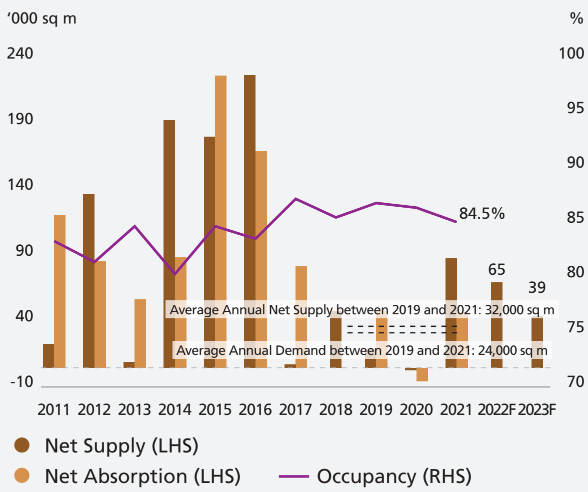
Development	Land Lease Tenure	Site Area (sq m/sq ft)	GFA (sq m/sq ft)	Vendor	Buyer	Transacted Price (S$ million)	Unit Price per GFA (S$ per sq ft)
Light Industrial							
351 on Braddell	30 yrs from 26/12/2018	9,716 / 104,585	24,290 / 261,458	Boustead Projects	Boustead Industrial Fund	121	463
Breadtalk IHQ	30+30 yrs from 01/02/2010	6,722 / 72,359	23,124 / 248,902	BreadTalk Group Pte Ltd	Lian Beng Group, Apricot Capital, & 32RE Investments	118	474
Sime Darby Business Centre	99 yrs from 02/03/1956	7,720 / 83,102	16,647 / 179,188	Aster (Alexandra) Pte Ltd	Aims Apac Reit	102	569
Bukit Batok Connection	30 yrs from 26/11/2012	15,011 / 161,579	37,533 / 404,000	Soilbuild Business Space Reit	DWS and Hines JV	93.8	232
Business Park							
Rochester Park	30 yrs from 16/05/2015	12,855 / 138,367	–	Unknown	Unknown	144.8	1,046 (Land Premium)
1 Science Park Drive	95 yrs from 01/01/1985	31,856 / 342,894	–	Ascendas Reit	Ascendas Reit and CapitaLand Development JV	103.2	301 (Land Premium)
Warehouse							
Global Trade Logistics Centre	30+14 yrs from 01/05/2006	22,389 / 240,990	48,681 / 524,000	Montview Investments	ESR-Reit	112	214
28 Quality Road	30+30 yrs from 01/06/2007	24,999 / 269,090	20,919 / 225,175	Pteris Global	LOGOS	49.7	221

Source: EDMUND TIE Research (as at 8 February 2022)

4.0 BUSINESS PARK

Demand for business park space was driven by rising demand for R&D operations. As the economy grows in 2022, demand for business park spaces by bio-medical research & development, technology and e-commerce companies would be sustained. Rents of well-located business parks are expected to recover by 0-1% in 2022 in tandem with the prime office market.

Figure 3: Net Supply, Net Absorption and Occupancy (Business Parks)



F refers to forecast.
Source: JTC, EDMUND TIE Research

Stock and Supply

Total business park space was broadly unchanged at 2.3 million sq m as at Q4 2021, with 83.9% of the total stock being privately held (1.9 million sq m). The largest project completed in 2021 is a 42,290 sqm NLA built-to-suit Grab Headquarters at 1 & 3 Media Close developed by Ascendas Reit. Net supply increase in 2021 was 83,000 sq m, higher than the preceding years but significantly below the robust supply increases of 2014-2016 (196,000 sq m average per annum).

Demand and Occupancy

Occupancy for business parks declined in the East and West regions

In 2021, net absorption was 42,000 sq m, an increase from the -12,000 sq m recorded in 2020. Although demand held up in the Central and West Regions, it fell in the East Region. Net absorption was -27,740 sq m in the East Region in 2021, compared with -13,000 sq m in 2020.

Demand was largely driven by tech and biomedical firms' expansion of R&D operation plans and occupiers' demand for quality office spaces. However, business park space demand was not sufficient to offset the new supply and the overall occupancy rate of business park space dipped slightly by 1.3 percentage points to 84.5% in 2021. The occupancy rate was highest at 91.5% in the Central Region, an improvement of 0.4 percentage points. On the other hand, occupancy rates declined by 3.6 percentage points to 78.5% in the East Region and by 2.7 percentage points to 70.1% in the West Region.

Potential Supply

Bulk of pipeline supply for business park space is in Jurong Innovation District

About 79,000 sq m (GFA) of business park space is expected in 2022, yielding an estimated 64,780 sq m in NLA (Table 2). The key supply coming forth in 2022 is from the JTC-developed Cleantech 3[6] located at Cleantech Park and Surbana Jurong Campus. The Surbana Jurong Campus development is already fully committed by the end-users. In 2025, SPRINT Plot 1 TM Pte Ltd will be developing a 116,200 sq m GFA business park at Science Park Drive.

6 Cleantech 3 will be an integrated development by JTC, for research laboratories and start-ups.

Table 2: Pipeline Supply (2022 to 2025, Business Park)

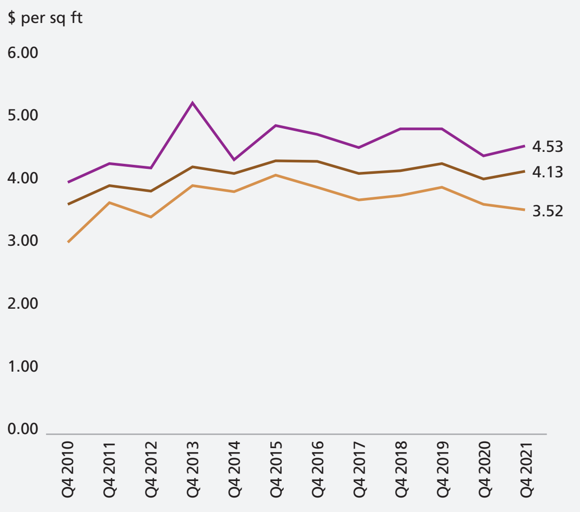
Development	Developer/Owner	Location	Region	GFA (sq m)	NLA (sq m)
2022					
Surbana Jurong Campus	Surbana Jurong Capital (JID) Pte Ltd	Cleantech Loop	West	41,350	33,907
CleanTech Three	JTC Corporation	Cleantech Loop	West	25,830	21,181
2023					
Elementum	HB Universal Pte Ltd	North Buona Vista Drive	Central	35,180	28,848
2024					
Business park development	JTC Corporation	Punggol Way	North-East	165,290	135,538
Business park development	Science Park Property Trustee Pte Ltd	Science Park Drive	Central	28,818	23,631
2025					
Business park development	SPRINT Plot 1 TM Pte Ltd	Science Park Drive	Central	116,200	95,284
Business park development	JTC Corporation	Punggol Way	North-East	68,950	56,539

Source: JTC, EDMUND TIE Research

Rents

JTC's business park Rental Index declined slightly by 0.2% in 2021. The 75th percentile rent[7] increased by 3.7% in 2021 to $4.53 per sq ft per month, while the median rent increased by 3.2% in 2021 to $4.13 per sq ft per month. On the other hand, the 25th percentile rent[8] experienced a moderate decline at 2.2% to $3.52 per sq ft per month. With the entrenchment of hybrid working models in 2021 and employees placing greater priorities on quality workspaces, it may have led to better demand and rental performance for higher quality spaces (Figure 4).

Figure 4: Rents (Business Park)[9]



Source: JTC, EDMUND TIE Research

Outlook

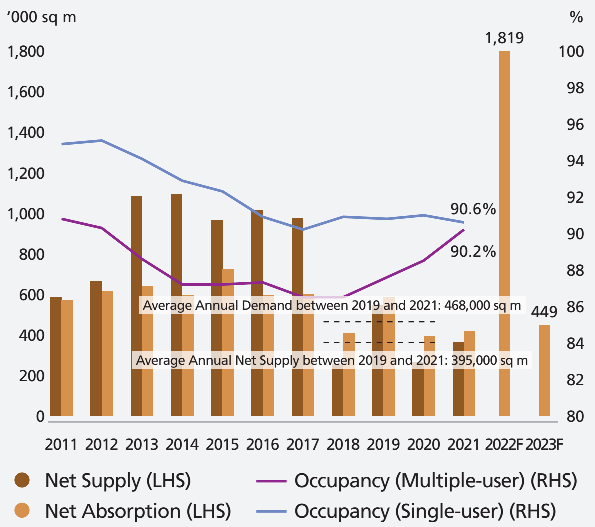
With sound economic prospects in 2022, demand for business park spaces by bio-medical research & development, technology and e-commerce companies is expected to increase to accommodate their expansion plans. The pressure from supply pipeline will likely be mitigated by stronger commitment rates. Quality business park space remains as an attractive alternative to office space in prime locations and rents of well-located business parks are expected to recover by 0-1% in 2022 in tandem with the prime office market.

7 75th percentile rents is a proxy for better and newer business park spaces.
8 25th percentile rents generally represents transactions in older stock.
9 Refers to gross rent per month including service charge but excluding Goods and Services Tax (GST).

5.0 HIGH-SPECS AND LIGHT INDUSTRIAL SPACE

The outlook for the manufacturing sector remains bright; The evolution of Industry 4.0 and the increasing adoption of 5G technology in many countries will likely support the buoyancy of this market segment. Rents could post a slight increase in 2022.

Figure 5: Net Supply, Net Absorption and Occupancy (Multiple-and-single-user Factory Space)



F refers to forecast.
Source: JTC, EDMUND TIE Research

Stock and Supply

In 2021, the total factory stock comprising high-specifications (or high-specs) industrial and light industrial space grew by 1.0% (365,000 sq m) to 37.1 million sq m. About 12.3% of this stock is high-specs industrial spaces (excluding data centres)[10].

Located at Tuas South Link 1, a high-specs industrial building known as Tuas South Connection (39,114 sq m NLA) owned by Yee Lee Development was completed in 2021. A major factory completion is located at 94 Tuas South Avenue 3 (39,877 sq m NLA) developed by Hydrochem. There was one data centre completed in 2021, developed by Equinix Singapore with about 26,150 sq m NLA.

Demand and Occupancy

Net absorption for factory space strengthened and occupancies improved amid headwinds
Overall demand for factory space strengthened in 2021 amid strong manufacturing output; net absorption rose to 422,000 sq m from 397,000 sq m in 2020. The West Region proved to be the bright spot, recording an increase in demand from 273,000 sq m in 2020 to 160,745 sq m in 2021. This is likely due to the completion of several major industrial projects throughout 2021, such as Yee Lee Development's Tuas South Connection at Tuas South Link 1 with NLA of 39,114 sqm completed in Q3, and Hydrochem's factory at 94 Tuas South Avenue 3 with a NLA of 39,877 sq m, completed in Q4. The islandwide occupancy rate for multiple-user factory space rose by 1.7 percentage points to 90.2% in 2021 while single-user factory space declined by a moderate 0.4 percentage points to 90.6%.

Potential Supply

Upcoming supply largely comes from Defu Industrial City
The pipeline of factory space for 2022 and 2023 stood at 2.3 million sq m NLA (6.2% of existing stock). The bulk of the pipeline (around 1.8 million sq m) will come onstream in 2022, of which most arise from delays in previous year's project completions due to pandemic-induced construction delays and supply chain disruptions. Single-user factory constitutes 56.1% of the supply pipeline for factory space over the next two years.

About 384,290 sq m (GFA) of the 2022-2023 pipeline supply are expected to be high-specs industrial space, including 81,050 sq m (GFA) of data centres (Table 3). The most significant supply of factory space in 2022 is the development of Defu Industrial City (267,320 sq m NLA) by JTC, which features single-storey terrace workshops to four-storey industrial shops and land-based prototype factories. When completed, Defu Industrial City will be mainly occupied by tenants and lessees of land-based factories at the Defu Industrial Estate, who will be relocated in view of the site's impending redevelopment under JTC's Industrial Redevelopment Programme. In 2023, the completion of Malkoha's single-user factory will bring forth nearly 140,500 sq m NLA of factory space.

10 Based on EDMUND TIE's estimates.

Table 3: Selected Pipeline Supply (Light industrial, high-specs and data centres)

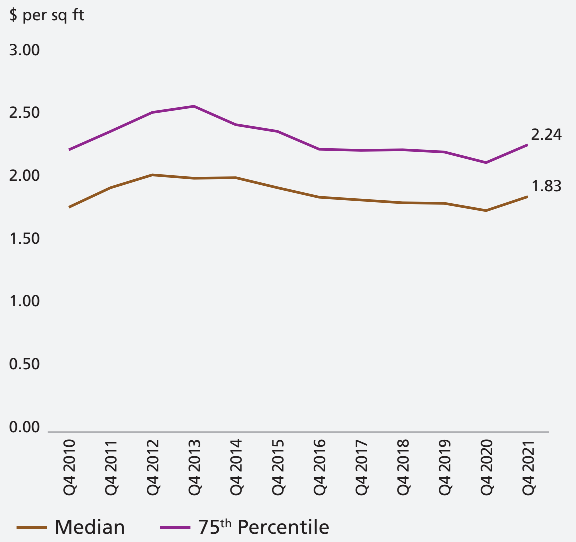
Development	Developer/Owner	Location	Region	GFA (sq m)	NLA (sq m)
2022					
Light Industrial					
JTC Defu Industrial City	JTC Corporation	Defu South Street 1	North-East	326,290	267,558
TimMac @ Kranji	JTC Corporation	Kranji Loop/Kranji Road	North	143,370	117,563
Kranji Green	JTC Corporation	Kranji Loop	North	133,040	109,093
Solaris @Tai Seng	SB (Ipark) Investment Pte. Ltd.	Tai Seng Avenue	North-East	105,250	86,305
High-specs					
Multiple-user factory	Mapletree Industrial Trust	Kallang Way	Central	80,420	65,944
Single-user industrial development	Arkema Pte Ltd	Banyan Avenue	West	17,860	14,645
Data Centres					
Multiple-user factory	AirTrunk Singapore Holding Pte Ltd	Loyang Drive	East	22,230	18,229
Single-user factory	STT Defu 3 Pte Ltd	Defu Lane 10	North-East	14,470	11,865
2023					
Light Industrial					
Single-user factory	Malkoha Pte Ltd	Sunview Way	West	171,340	140,499
JTC Space @ AMK	JTC Corporation	Ang Mo Kio Street 64/65	North-East	116,940	95,891
Polaris @ Woodlands	Soon Hock Investment Group Pte Ltd	Woodlands Avenue 12	North	52,340	42,919
High-specs					
Single-user factory	Global Foundries Singapore Pte Ltd	Woodlands Industrial Park D Street 2	North	96,200	78,884
Single-user industrial development	3M Innovation Singapore Pte Ltd	Tuas Link 4	West	27,500	22,550
Data Centres					
Single-user factory	Memphis 1 Pte Ltd	Genting Lane	Central	44,350	36,367

Source: JTC, EDMUND TIE Research

Rents

The increased demand for factory space in 2021 resulted in rents rising across the board, with high-specs industrial space witnessing similar rate of increase. The 75th percentile rents for multiple-user factory, a proxy for high-specs industrial, increased by 6.6% in 2021 to $2.24 per sq ft per month, reversing the downward trend witnessed in the preceding year. Median rents rose by 6.5% to $1.83 per sq ft per month (Figure 6).

Figure 6: Factory Rents[11]



Source: JTC, EDMUND TIE Research

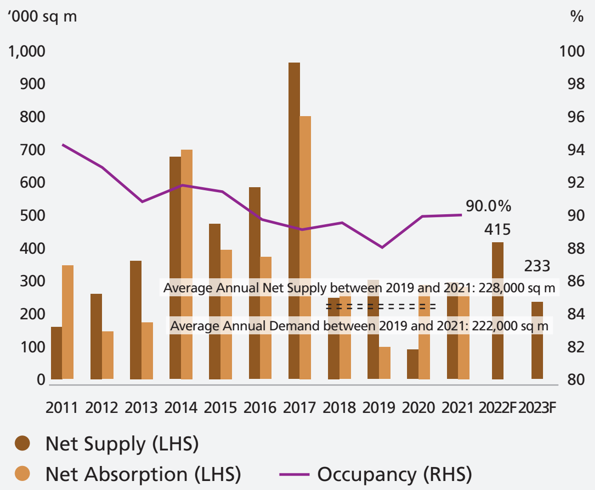
Outlook

The outlook for the manufacturing sector remains positive, though the spread of Omicron infections may prove to be a wildcard going forward. Although the overall manufacturing sector has recorded 19 months of consecutive expansion as at Jan 2022, the pace of expansion has been slower in recent months and persistent supply pressures in 2022 will cap rental growth. There has been expansions from firms in certain clusters such as pharmaceuticals, electronics and precision engineering. We expect an unabated shift towards advanced manufacturing and the advancement of 5G networks will help spur innovation and position Singapore as a leading digital economy, accelerating the nation's Industry 4.0 transformation in the process. Going forward, high-specs industrial assets will likely receive greater occupier interest. Factory rents are thus likely to post a slight increase of 2-3% while high-specs industrial rents are likely to post a higher increase of 3-5% in 2022. Despite the anticipated new supply of data centres coming onstream in response to the recent lifting of the data centre moratorium, continued rental growth is expected due to tight supply in the near term amid strong demand.

6.0 LOGISTICS AND DISTRIBUTION CENTRES[12] (WAREHOUSE)

Rents of warehouses have held steady demonstrating the sector's resilience amid the pandemic. The significant incoming supply is in response to strong market demand. Robust growth prospects for the logistics sector are expected to underpin rental improvements for warehouse spaces this year.

Figure 7: Net Supply, Net Absorption and Occupancy (Warehouse)



F refers to forecast.
Source: JTC, EDMUND TIE Research

Stock and Supply

In Q4 2021, the total warehouse stock increased by 2.6% y-o-y to 11.4 million sq m. The net supply of 293,000 sq m in 2021 was considerably higher than that in 2020 (90,000 sq m).

The largest warehouse completion in 2021 was the additions/alterations to Logos Tuas Logistics Hub at 20 Tuas South Avenue 14 developed by Tuas South Avenue Pte Ltd. The warehouse has a NLA of 68,912 sq m.

11 Refers to gross rent per month including service charge but excluding Goods and Services Tax (GST).
12 As there are no official statistics on logistics and distribution centres in Singapore, warehouse data from JTC is used as a proxy.

Demand and Occupancy

Established global companies are taking up more warehouse space to expand their operations
Changing consumer habits towards online shopping, food and grocery deliveries supported the growth of e-commerce activities. Demand for warehouse space was relatively constant at 281,000 sq m in 2021 compared to 288,000 sq m in 2020. Consequently, the occupancy rate held steady at 90.0% in 2021, the highest level since 2015. The East Region is the only region which recorded improved occupancy from 88.1% in Q4 2020 to 91.1% in Q4 2021.

Potential Supply

Allied Sunview's warehouse development to provide around 116,810 sq m (GFA) of new warehouse supply in 2022
Around 754,000 sq m (GFA) of warehouse space is expected to come onstream in 2022-2023, which amounts to about 6.6% of the existing stock. The incoming supply is about 97.0% higher than the net supply over 2020-2021.

Major potential supply in 2022 includes a 100,457 sq m (NLA) warehouse development by Allied Sunview and Soilbuild Business Park REIT's 2PS1 (60,484 sq m NLA) (Table 4). All the major warehouse developments in the pipeline are located in the West Region.

Table 4: Selected Pipeline Supply (Logistics and Distribution Warehouse)

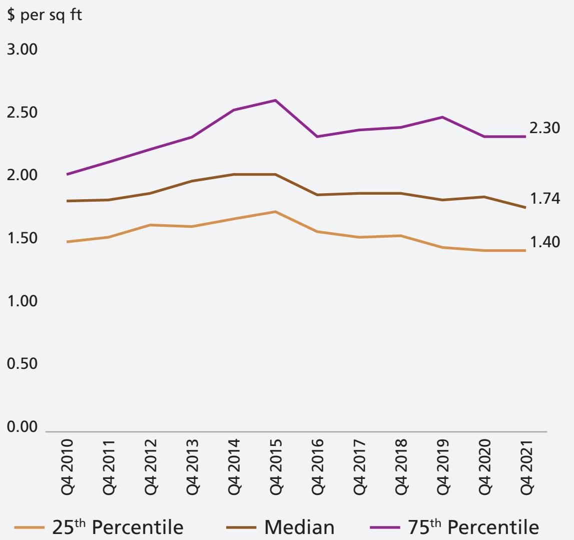
Development	Developer/Owner	Location	Region	GFA (sq m)	NLA (sq m)
2022					
Warehouse development	Allied Sunview Pte Ltd	Sunview Road	West	116,810	100,457
2PS1	Soilbuild Business Park REIT	Pioneer Sector 1	West	70,330	60,484
Fairprice Group Fresh Food Distribution Centre	NTUC Fairprice Co-operative Ltd	Sunview Road	West	69,610	59,865
Logos Penjuru Logistics Centre	2TPC Pte Ltd	Tanjong Penjuru Crescent	West	33,860	29,120
Warehouse development	Tiong Nam Logistics (S) Pte Ltd	Senoko Loop	North	24,940	21,448
2023					
Logos eHub	Pandan Crescent Pte Ltd	Pandan Crescent	West	81,050	69,703
JTC Logistics Hub @ Gul	JTC Corporation	Gul Circle	West	54,780	47,111
Single-user industrial development	F&N Foods Pte Ltd	Tuas Link 3	West	20,500	17,630
Warehouse development	Neo Hardware Pte Ltd	Tuas Avenue 11	West	7,780	6,691
Warehouse development	Drex-Chem Technologies Pte Ltd	Tuas Avenue 13	West	4,730	4,068
2024					
Warehouse development	ACW Holdings Pte Ltd	Penjuru Lane	West	46,620	40,093
Single-user industrial development	Peck Tiong Choon Pte Ltd	Tuas Avenue 13	West	10,280	8,841

Source: JTC, EDMUND TIE Research

Rents

Median rents for warehouses declined by 4.5% y-o-y to $1.74 per sq ft per month in Q4 2021. However, 25th percentile rents, a proxy for traditional warehouses, as well as 75th percentile rents, a proxy for modern logistics and distribution centres, remained unchanged. This demonstrated the resilient rental performance of modern logistics and distribution centres during the pandemic (Figure 8). Greater stockpiling demand during the pandemic likely underpinned rental performance for the traditional warehouses.

Figure 8: Warehouse Rents[13]



Source: JTC, EDMUND TIE Research

Outlook

Demand for logistics facilities and warehouses is expected to remain strong in tandem with the e-commerce growth trend, especially for better specifications spaces to suit the end users' requirements. Stockpiling requirements are also likely to increase amid heightened geopolitical tensions and supply chain risks. In spite of increasing global Covid-19 vaccination rates and booster vaccination roll-outs as well as the gradual reopening of borders, global growth is expected to soften for 2022 amid concerns over spread of Omicron variant, continued global supply chain bottlenecks and looming inflation costs. Furthermore, China's slowing growth and regulatory clampdown as well as the expected double whammy of Singapore's fiscal and monetary policy tightening would lead to industrialists and investors adopting a cautious approach towards rapid expansion. However, robust growth prospects for the logistics sector are expected to underpin rental improvements for warehouse spaces this year. Correspondingly, rents could rise by 3-5% on average in 2022.

13 Refers to gross rent per month including service charge but excluding Goods and Services Tax (GST).

1. ECONOMIC OVERVIEW

The Australian economy has shown significant resilience over the past year and has recovered strongly from its first recession in almost 30 years. More recently, Australia's economic recovery has been challenged by the recent lockdown restrictions in New South Wales and Victoria; however, a snapback in economic activity is forecast for Q4 2021 as restrictions begin to ease.

Key trends within the Australian economy are noted as follows:

Gross Domestic Product (GDP)	The Australian economy has grown 9.6% from the depths recorded in mid-2020, with GDP growth of 0.7% recorded in Q2 2021. Economic growth is forecast to total 3.2% in the 2021 calendar year before increasing further to 4.5% in 2022.
Interest Rates	The cash rate remains at an all-time low of 0.1% in December 2021. The RBA continues to suggest that the current low cash rate setting is likely to be in place until 2023; however, upward inflation pressure may bring this forward.
Inflation (CPI)	Australian Consumer Price Index (CPI) increased by 1.3% in the December 2021 quarter, following a 0.8% increase in the September 2021 quarter. In the year to December 2021, CPI has increased by 3.5%, which is above the RBA's target of 2-3%.
Jobs Growth	The unemployment rate in December 2021 has fallen to 4.2% compared to 6.6% in December 2020. Jobs growth in the 12 months to December 2021 totalled just over 375,000.
Population Growth	Australia's population growth slowed to its lowest level since World War I, increasing just 0.14% in the year to March 2021. This compares to growth of around 1.6% per annum before COVID-19. The catalyst behind the material drop in population growth is the result of international border closures. Population growth is expected to pick up substantially once international borders re-open; however, it is not likely to reach pre-COVID-19 levels until 2023.
Wages Growth	Wages growth has increased by 2.2% in the year to September 2021, down from the 10-year average of 2.5% per annum.
Consumer Confidence	Consumer sentiment remains in positive territory with the index currently standing at 104.3 in December 2021. By comparison, the index measured 112.0 in December 2020 and reflected the improving economic outlook following earlier lockdowns.

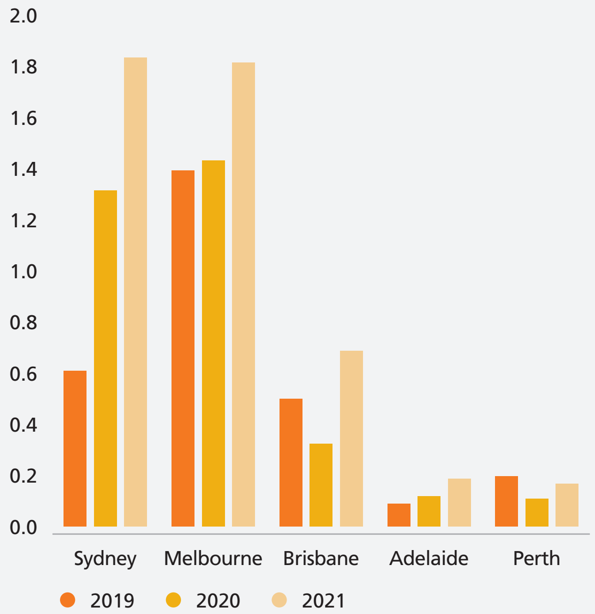
2. INDUSTRIAL & LOGISTICS MARKET OVERVIEW

The Australian industrial and logistics sector is experiencing a phase of unprecedented demand across both the occupier and investment markets. The sector has been the best performing commercial property sector over the past two years, and the outperformance over the office and retail sectors is at the largest level on record.

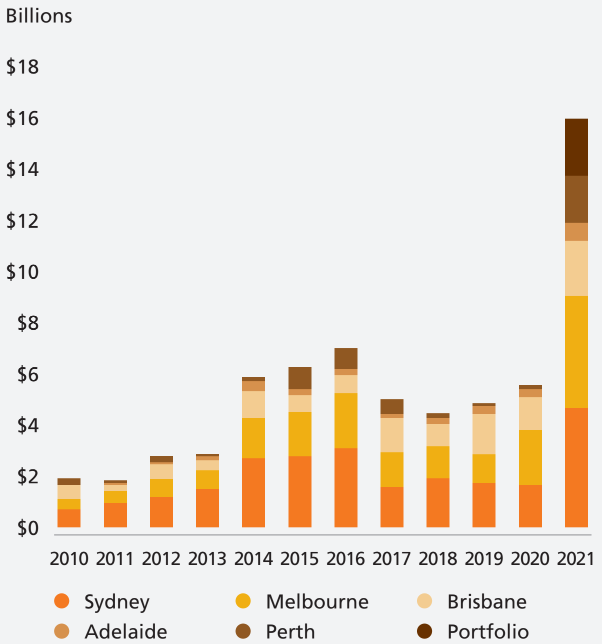
Macro drivers such as e-commerce and infrastructure investment have supported the sector's strong performance. Online retail sales now represent 14.3% of total retail sales, up from around 9.0% prior to COVID-19, while there is approximately A$250 billion in infrastructure projects underway or in the pipeline, which will stimulate warehouse demand over the next decade.

Industrial and logistics take-up reached record levels in 2021, with almost 4.7 million sqm being leased over the year. This level of demand has already surpassed the 3.3 million sqm of take-up recorded in 2020, which was a record year in itself. Sydney and Melbourne have underpinned this strong result, while there has been a sharp rise in leasing activity in the Brisbane and Adelaide markets and reflects the improvement in local economic conditions. Vacancy rates have fallen further and currently average 2.7% in Q4 2021 at a national level.

Australian Industrial and Logistics Gross Take-up (million sqm)



National Investment Volumes (>A$10 million - AUD)



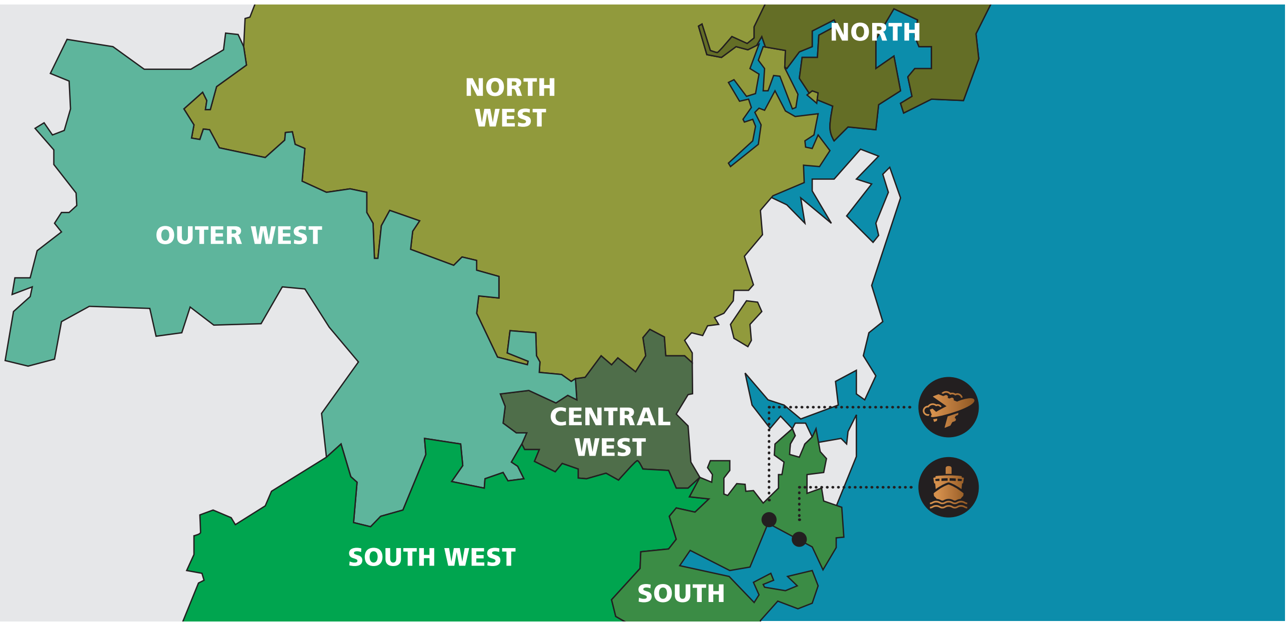
Source: Colliers Research

Strong occupier trends and favourable structural changes more broadly have led to a significant re-weighting of capital towards the industrial and logistics sector. New market entrants, both local and offshore, continue to add to the substantial weight of capital chasing assets in the market, which we estimate to be around A$50 billion.

In 2021, A$16.0 billion has traded within the industrial and logistics sector (>A$10 million), representing a record level of investment and compares to A$5.5 billion for the entire 2020 calendar year. Portfolio transactions have represented 65% of total investment activity in 2021, headlined by the two Blackstone portfolio transactions (collective total of A$4.65 billion).

3. SYDNEY INDUSTRIAL & LOGISTICS

The Sydney industrial and logistics market is broken into several major precincts; Central West, Outer West, North West, South West, South, and North. The South market has traditionally been Sydney's most important industrial hub due to its proximity to Port Botany, the Sydney Airport, and the CBD. Logistics, retail and port-related tenants predominantly occupy the South precinct. In recent years, however, the South Sydney industrial market has experienced strong levels of stock withdrawal for alternative uses due to zoning changes. A similar situation has been experienced in the North industrial precinct where residential activity has continued to encroach on the industrial space market. Today, the North industrial precinct is dominated by smaller and high-value users such as IT, Pharmaceutical, and Hi-tech industries.



In recent years, the lack of larger space availability in the inner-city markets has resulted in larger industrial users moving towards the South West, Outer West, and North West precincts where much of the new supply is concentrated. In addition, the Western markets are benefiting from a significant level of road upgrades and infrastructure investment. Tenancy profiles include a diverse range of industries, including Third Party Logistics (3PL), retail, supermarkets, and construction.

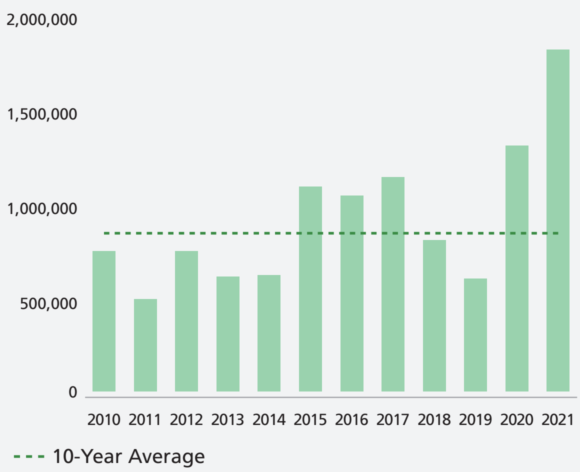
3.1 OCCUPIER MARKET

3.1.1 Leasing Activity

Leasing activity across Sydney reached a record high in 2021 with over 1.8 million sqm being leased over the period. This level of demand is well above the previous high of 1.32 million sqm recorded in 2020. For context, the 10-year average measures 842,000 sqm per annum.

Demand in 2021 was strongest in the Outer West submarket (534,952 sqm) followed by the South West (490,923 sqm) and Central West (298,776 sqm) submarkets. By sector, take-up in 2021 has been led by transport and logistics (37%), followed by retail trade (14%) and wholesale trade (13%).

Sydney Industrial Gross Take-up (sqm)



Source: Colliers Research

3.1.2 Vacancy Rates

As of Q4 2021, the Sydney vacancy rate measured 1.9%, down from 4.8% in Q4 2020. Over the past year, the large drop in the Sydney vacancy rate has been led by the South West submarket, falling from 6.7% a year ago to its current 0.3%. The South West is now the tightest market at 0.3% vacancy rate followed by South (0.9%) and Outer West (1.2%) submarkets.

Sydney Industrial Vacancy Rates by Submarket – Q4 2021

	South	North	Outer West	North West	South West	Central West	Sydney Average
Q4 2020	4.4%	2.3%	4.9%	4.3%	6.7%	2.4%	4.8%
Q4 2021	0.9%	1.8%	1.2%	1.9%	0.3%	3.3%	1.9%

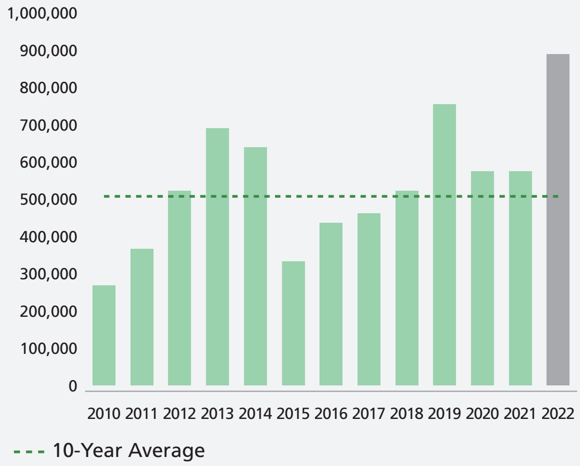
Source: Colliers Research

3.1.3 Supply

Industrial completions reached approximately 575,000 sqm in 2021, down from ~600,000 sqm in 2020. This supply level is moderately below earlier forecasts and results from a select few projects being pushed out given delays in construction materials and mandated lockdowns. Of the stock to complete in 2021, the pre-commitment rate prior to construction was 68%, while the bulk of the remaining space was leased prior to completion.

Beyond 2021, the supply pipeline is expected to increase to approximately 900,000 sqm in 2022 and is dominated by facilities within the Outer West and North West submarkets. From 2023, there is potential for over 1,000,000 sqm to be delivered to the market as this is when the bulk of facilities within the Mamre Road Precinct can potentially come online.

Sydney Industrial Supply (sqm)



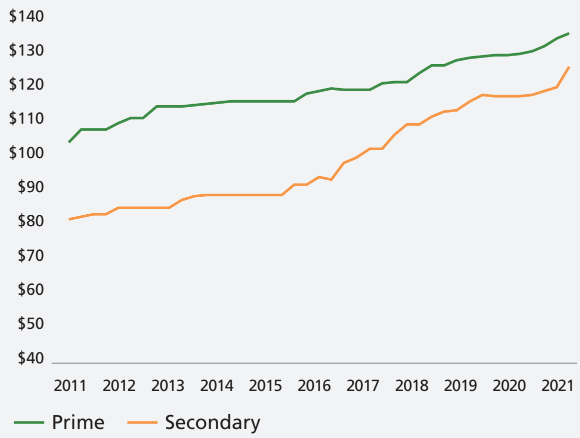
Source: Colliers Research

3.1.4 Rents & Incentives

As a result of a lack of available leasing options and historically high demand levels, rental growth has occurred across all submarkets in 2021. As at Q4 2021, average net face rents measured A$166/sqm for prime (A$135/sqm in Western Sydney) and A$146/sqm for secondary (A$126/sqm in the Western markets). On an annual basis, prime rents grew by 8.0%, the largest YoY increase since 2004. Secondary grade rents have grown by 7.7% over the past year, which was the largest increase since 2017 and well above the 10-year average of 4.5%.

Average prime incentives remained steady at 10.8% in Q4 2021 (range of 7.5% to 12.5%), down from 13.3% a year ago. Secondary incentives are lower at 10.7%, down from 13.7% a year ago.

Western Sydney Industrial Net Face Rents (A$/sqm)



Source: Colliers Research

Sydney Prime Rents by Submarket, Q4 2021

	South	North	Outer West	North West	South West	Central West	Sydney Average
A$/sqm p.a.	$232	$223	$135	$132	$129	$146	$166
12 month change	16.3%	7.4%	3.8%	3.1%	4.5%	8.4%	8.0%
Average Incentive	11.5%	12.5%	10.3%	10.0%	10.5%	10.2%	10.8%

Source: Colliers Research

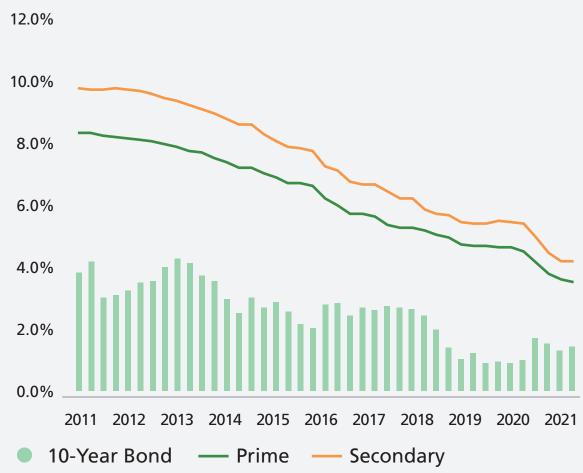
3.2 INVESTMENT MARKET

3.2.1 Volumes

Investment stock remains tightly held within Sydney as major institutional groups reweight and look to strengthen their position within the market. In Q4 2021, approximately A$1.1 billion transacted in Sydney and follows almost A$2.3 billion in Q3 2021. The strong result in Q4 2021 was led by the Qantas Portfolio in Mascot which LOGOS acquired for A$802 million. In 2021, A$4.8 billion traded within Sydney, which represents a new record year of demand and well above the previous record of A$3.1 billion in 2016.

Other major acquisitions in Sydney in Q4 2021 include 82-92 Rodeo Road, Gregory Hills which Centuria acquired from GMK Logistics for A$70 million (yield of 3.88%) and 149 Airds Road, Minto which Charter Hall acquired from Toyo Tyres (via sale and leaseback) for A$75.3 million (yield of 3.30%).

Sydney Industrial Yields



Source: Colliers Research

3.2.2 Yields

Yield compression has been strong across all Sydney submarkets given the weight of capital looking to enter and expand within the sector. In the 12 months to Q4 2021, 98 basis points of compression was recorded in the prime market and 121 basis points in the secondary market.

Average prime yields in Sydney currently average 3.53% (range of 3.25% - 3.75%) while secondary average 4.19% (range of 3.75% - 4.50%). Average prime yields are expected to fall below 3.5% by Q1 2022.

3.3 OUTLOOK

Macro drivers of demand will remain strong in 2022; however, we expect a large volume of deals will stem from pre-commitment and speculative deals given the lack of leasing options for existing product in most submarkets.

The development pipeline is forecast to increase substantially, particularly from late 2022 as new facilities within the recently rezoned Mamre Road Precinct come online. Despite the increase in new supply, rental growth is forecast to remain strong, with growth of 3.4% expected in the prime market over the next 12 months. Inner and middle ring markets are expected to be closer to 4.0% over the 12 month period.

From a pricing perspective, yields are forecast to compress further in 2021 and into 2022, albeit below the levels recorded over the past 12 months. Average prime yields are expected to fall to ~3.25% by early to mid-2022 before stabilising thereafter. Secondary yields are forecast to fall to ~4.00% by early 2022.

4. MELBOURNE INDUSTRIAL & LOGISTICS

The Melbourne industrial market comprises five major precincts; the North, South East, West, Outer East, and City Fringe. The City Fringe precinct primarily consists of smaller sites with higher rents, specifically appealing to tenants that need to be located close to the city. Many of these industrial sites are being slowly converted to residential sites due to high underlying land values and diminishing availability of land suitable for residential development. The South East and Outer East precincts comprise larger land holdings with industrial hubs including Moorabbin, Cheltenham, Clayton, and Dandenong. The largest industrial precinct in Australia is the West precinct which has the largest industrial and logistics sites. This precinct continues to have new pockets of land unlocked in areas including Truganina, Tarneit, and Ravenhall.

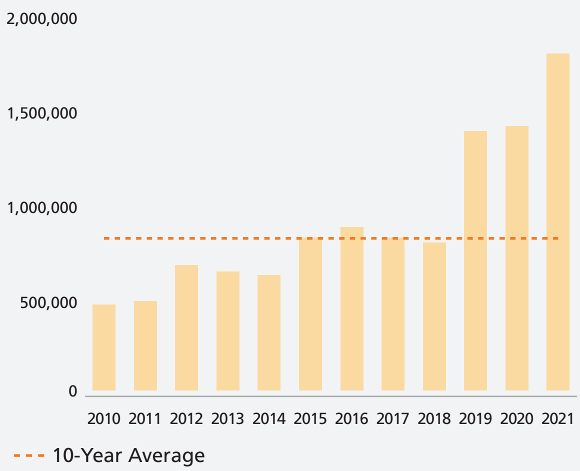
4.1 OCCUPIER MARKET

4.1.1 Leasing Activity

Demand for warehouse space remains elevated across Melbourne with approximately 330,000 sqm leased in Q4 2021. This level of demand is below the heights recorded in the first half of 2021, however, remains well above the 10-year average with a lack of available space being the catalyst behind the capping of take-up. Take-up for 2021 exceeded 1.8 million sqm which represents a new record, surpassing the 1.43 million sqm recorded in 2020.

Melbourne's West submarket continues to be the most active market in Australia, with almost 900,000 sqm leased in 2021. The South East submarkets remain active with 650,000 sqm leased in 2021 (both South East and Outer East submarkets), with a lack of stock capping the rate of take-up.

Melbourne Industrial Gross Take-up (sqm)



Source: Colliers Research

4.1.2 Vacancy Rates

In response to demand levels, vacancy rates remain below historical levels in all submarkets. As of Q4 2021, the vacancy rate for the Melbourne industrial market measures 2.7%, a modest increase from the 2.1% recorded in Q3 2021. The rise was attributable to a modest rise in speculative space entering the market. Across the market, there is just 670,000 sqm for lease and compares to over 800,000 sqm in Q4 2020. The vacancy rate is tightest for the South East and Outer East submarkets at 0.3% and 1.9%, respectively.

Melbourne Industrial Vacancy Rates by Submarket – Q4 2021

	South East	Outer East	West	North	Melbourne Average
Q4 2020	2.5%	1.8%	3.8%	6.7%	3.7%
Q4 2021	0.3%	1.9%	3.2%	5.8%	2.7%

Source: Colliers Research

4.1.3 Supply

Industrial completions across Melbourne totalled around 165,000 sqm in Q4 2021, meaning 920,000 sqm has been delivered to the market in 2021. This level of supply is well above the 10-year average of 430,000 sqm per annum.

Looking ahead, supply levels are forecast to remain strong in 2022, with approximately 915,000 sqm expected to enter the market. Of this total, almost 500,000 sqm stems from speculative developments

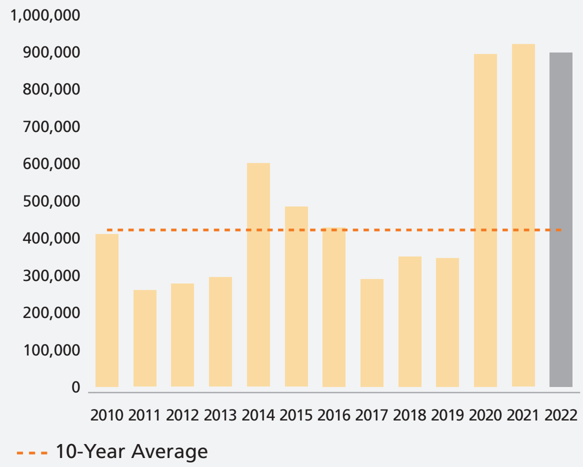
4.1.4 Rents & Incentives

Rental growth has begun to accelerate across the Melbourne market, with YoY growth of 6.6% recorded in the prime market and 11.2% was recorded in the secondary market (excl. City Fringe). This level of growth was the strongest since early 2016 and is the result of the low level of leasing options across the market.

As at Q4 2021, net face rents in Melbourne average A$97/sqm for prime and A$80/sqm for secondary (excl. City Fringe). Pre-commitment rents typically range between A$83-$90/sqm in the West and A$100-$115/sqm in the South East submarket.

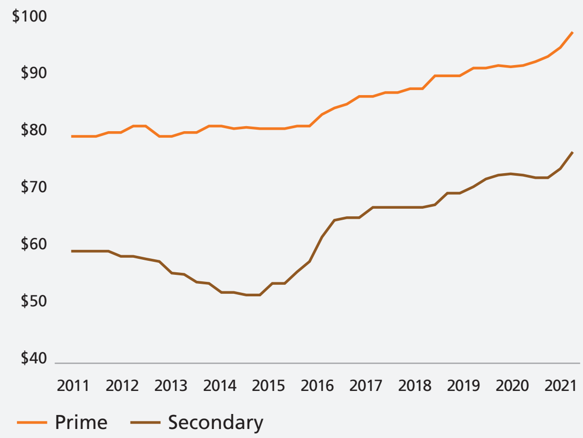
Average incentives have modestly declined over the quarter for prime space, while secondary incentives have remained steady. Incentives currently average 14.4% for prime (ranging from 10.0% to 24.0%) and 15.5% for secondary (ranging from 10.0% to 25.0%).

Melbourne Industrial Supply (sqm)



Source: Colliers Research

Melbourne Industrial Net Face Rents (A$/sqm)



Excludes City Fringe Precinct
Source: Colliers Research

Melbourne Prime Rents by Submarket, Q4 2021

	South East	Outer East	West	North	Melbourne Average*
A$/sqm p.a.	$103	$108	$89	$88	$97
12 month change	9.3%	5.6%	9.7%	1.8%	6.6%
Average Incentive	8.8%	13.8%	19.3%	17.5%	14.4%

* Excludes City Fringe
Source: Colliers Research

4.2 INVESTMENT MARKET

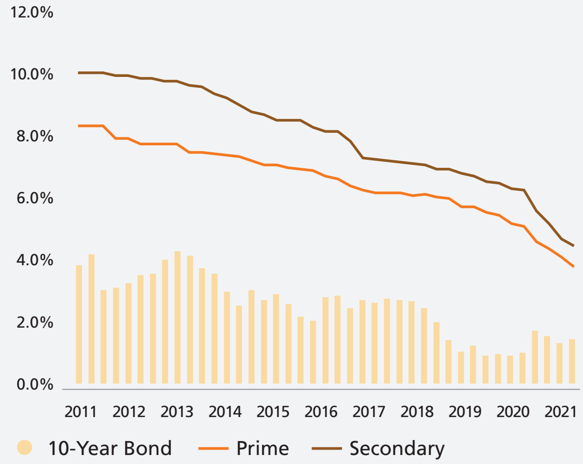
4.2.1 Volumes

Almost A$400 million traded within the Melbourne market in Q4 2021, taking the 2021 total to approximately A$4.3 billion. The actual investment figure for Melbourne would be higher than this, however, there are multiple portfolio transactions which have not yet been apportioned at an asset or state level.

The largest sale over the quarter was 15-33 Alfred Street, Blackburn which EG Funds acquired as part of a portfolio from Forza Capital for A$59.4 million. Other major sales include 525 Graham Street, Port Melbourne (A$38 million – acquired by Goodman) and 2-50 Glenelg Street, Coolaroo (A$33.1 million – acquired by ESR).

Institutional investors (both local and offshore) were the most active buyers in 2021, representing 97% of assets by volume to trade. ESR/GIC were the largest buyers, stemming from the Milestone Logistics Portfolio followed by Charter Hall, Centuria and Lendlease.

Melbourne Industrial Yields



Source: Colliers Research

4.2.2 Yields

From a pricing perspective, the weight of capital continues to place downward pressure on yields. In Q4 2021, yield compression of 30 basis points was recorded in the prime market while the rate of firming in the secondary market was 23 basis points.

Yields currently average 3.78% for prime warehouse space in Melbourne (range of 3.25% to 4.25%) while secondary are higher at 4.45% (range of 4.00% to 4.75%) and depends on the location, strength of covenant and WALE.

4.3 OUTLOOK

The strong level of take-up activity is expected to continue in 2022 with several large leasing briefs in the market. However, with vacancy rates low in all submarkets, the bulk of these briefs are likely to eventuate via pre-commitments and speculative developments. Leasing activity is expected to remain dominated by industrial operators within the transport and logistics, and retail trade sectors.

Supply levels are forecast to exceed 900,000 sqm in 2022, well above the 10-year average of 535,000 sqm per annum. Of the total supply in the pipeline for 2022, almost 500,000 sqm is for speculative developments and is spread across all submarkets.

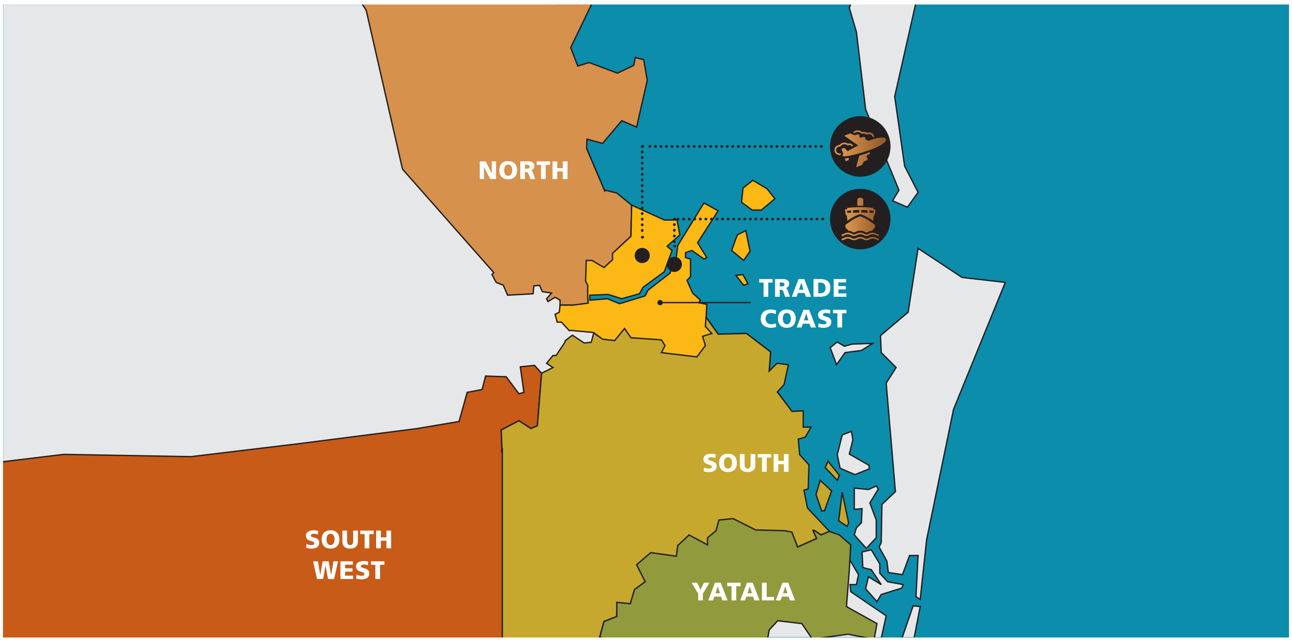
Rental growth of 2.7% is forecast for the prime market in 2022, with the South East and Outer East (3.3%) expected to outperform given the lack of leasing options. Rental growth is expected to also pick up for secondary space in 2022, with growth of 2.5% forecast across the Melbourne market.

While significant levels of yield compression have been recorded over the past 12 months, further tightening is forecast. Melbourne's prime industrial yields are forecast to fall to ~3.70% by Q1 2022. Secondary yields are expected to fall to under 4.50% by Q4 2022.

5. BRISBANE INDUSTRIAL & LOGISTICS

The Brisbane industrial market has five key precincts: Australia Trade Coast (ATC), Brisbane North, Brisbane South, Brisbane South West, and Yatala. The ATC has direct links to air, sea, road, and rail networks which supports its desirability from transport and logistics providers.

The Brisbane North benefits from overflow demand on the Trade Coast due to its proximity to the Brisbane Airport and the Port of Brisbane. The southern precincts (South, South West, and Yatala) have benefited from major transport infrastructure upgrades and high levels of population growth in recent years. As a result, the bulk of new supply and tenant demand has stemmed from the southern precincts in recent years.



5.1 OCCUPIER MARKET

5.1.1 Leasing Activity

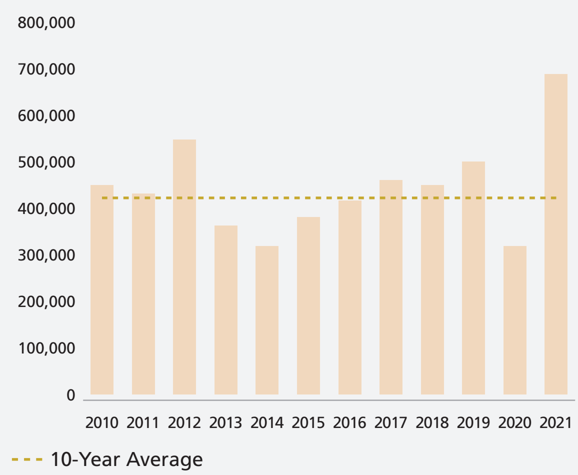
Occupier demand picked up significantly in 2021 with approximately 690,000 sqm being leased. This level of take-up represents a new record for the Brisbane market, surpassing the 550,000 sqm in 2012 and well above the 320,000 sqm recorded in 2020. In Q4 2021, take-up totalled 175,000 sqm.

Demand for warehouse space remains two-tiered, with a clear tenant preference for prime space. This is particularly the case for new construction. The southern submarkets represent the majority of occupier demand over the quarter, with 212,000 sqm leased over the period.

5.1.2 Vacancy Rates

As a result of heightened tenancy demand, the Brisbane vacancy rate is at historically low levels at 2.6%, down from 5.9% in Q4 2020. A large fall in the South and South West submarkets was the catalyst behind the large drop in vacancy during 2021. It is expected a rise in vacancy will occur in 2022 given the volume of speculative stock under construction or in the pipeline.

Brisbane Industrial Gross Take-up (sqm)



Source: Colliers Research

Brisbane Industrial Vacancy Rates by Submarket – Q4 2021

	ATC	North	South	South West	Brisbane Average
Q4 2020	4.9%	3.6%	8.7%	5.0%	5.9%
Q4 2021	2.5%	3.3%	2.2%	3.2%	2.6%

Source: Colliers Research

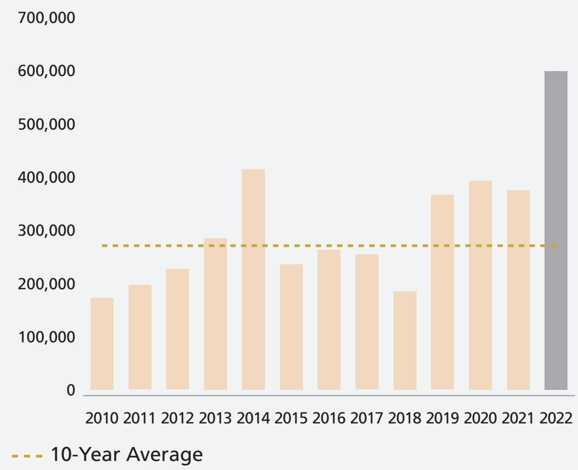
5.1.3 Supply

In 2021, approximately 375,000 sqm of new stock was added to the Brisbane market. This level of supply is under the ~420,000 sqm forecast in Q3 2021 given a select number of projects were pushed into 2022.

The growth of e-commerce and a focus on quality has underpinned the start of a new development cycle in Brisbane. There is potential for 600,000 sqm to enter the market in 2022, of which upwards of 190,000 sqm stems from speculative projects.

Pre-commitment supply will increase in 2022 off the back of recent lease deals with over 230,000 sqm due in 2022. Pre-commitment activity is expected to pick-up further in 2022 and will stem from the lack of A-grade leasing options.

Brisbane Industrial Supply (sqm)



Source: Colliers Research

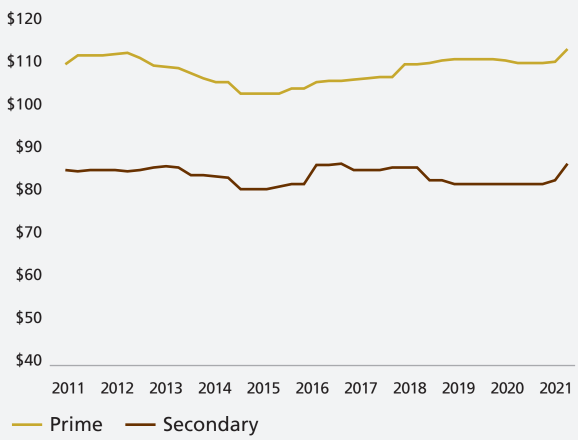
5.1.4 Rents & Incentives

Following an extended period of minimal rental growth, both prime and secondary rents increased sharply in Q4 2021 and stems from the lack of leasing options. Prime net face rents increased by 3.1% in Q4 2021 to A$113/sqm with the largest increase recorded in the ATC (+4.4%) and North (+4.5%) submarkets. On an annual basis, prime rents grew by 3.6% in Brisbane, with the ATC recording the largest increase in rents in 2021 (+6.8%).

Secondary grade rents recorded growth of 4.9% in Q4 2021 to A$86/sqm. The South and Yatala submarkets recorded the largest increase over the quarter at 5.9% and 6.5% respectively.

Incentive levels remain unchanged, averaging 19% for prime space and 20% for secondary space (range of 15.0% to 25.0%).

Brisbane Industrial Net Face Rents (A$/sqm)



Source: Colliers Research

Brisbane Prime Rents by Submarket, Q4 2021

	ATC	North	South	South West	Brisbane Average
A$/sqm p.a.	$118	$115	$115	$115	$113
12 month change	6.8%	4.5%	3.1%	3.1%	3.6%
Average Incentive	17.5%	17.5%	20.0%	20.0%	19.1%

Source: Colliers Research

5.2 INVESTMENT MARKET

5.2.1 Volumes

There has been over A$2.1 billion transacted within the Brisbane industrial market in 2021, A$330 million of which occurred in Q4 2021. This level of investment surpasses the A$1.3 billion recorded for the 2020 calendar year and the previous high of A$1.9 billion in 2019.

The location of assets traded in Q4 2021 was spread across the market, albeit the Southern submarkets represented almost 88% of assets by volume. Major asset sales in Q4 2021 included 175 Wacol Station Road, Wacol which ESR acquired for A$38.2 million and 509 Boundary Road, Darra which Fife Capital acquired for A$34.6 million.

Institutional groups remain the most active buyers in Q4 2021 and included Fife Capital, Centuria and Gateway Capital. Private investors were the dominant vendors in the quarter.

5.2.2 Yields

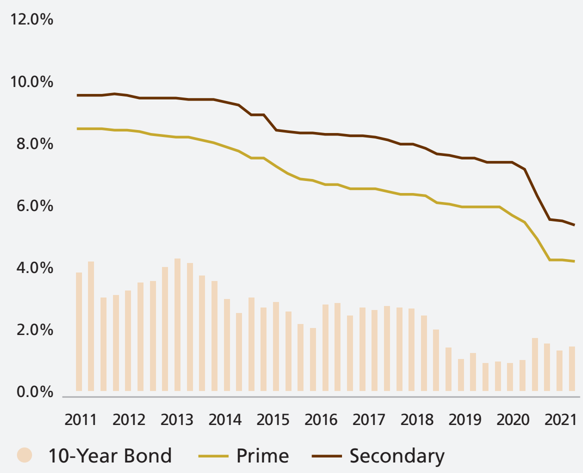
Yield compression has accelerated in 2021 and the downward trend continued in Q4 2021. At present, prime yields currently average 4.18% (range of 3.75% to 4.50%) and secondary are higher at 5.38% (range of 4.75% to 5.75%).

Yield compression has averaged 128 basis points in the prime market over the past 12 months and 178 basis points for secondary assets. The significant level of compression has been underpinned by several record-breaking acquisitions nationally which have re-rated yields in all markets. Further compression is expected and will stem from the significant weight of capital looking to enter the market.

5.3 OUTLOOK

Industrial take-up activity is currently at its highest level on record, driven in part by a buoyant pre-commitment market. Looking ahead, leasing activity is expected to remain elevated as various industrial operators continue to expand their business activities supported by the further growth of online retail and the increased demand from the growth in population off the back of higher levels of interstate migration.

Brisbane Industrial Yields



Source: Colliers Research

Despite the strong increase in rents in Q4 2021, we are forecasting more subdued rental growth in 2022 given the high volume of supply which will enter the market. Rental growth of ~1.5% is expected in 2022, however, selected markets where supply is more limited will likely see rental growth rates exceeding this.

The outlook of the investment market remains solid, supported by strong underlying fundamentals and a record level of capital looking to enter the market. Given this, further compression of yields is forecast with the average prime midpoint yield expected to fall below 4.0% by the end of Q1 2022. Secondary yields are forecast to fall to 5.0% as a midpoint by early 2022.

6. PERTH INDUSTRIAL & LOGISTICS

The Perth industrial market is divided into three regions North, East, and South. The main transport and logistics precincts are in Perth's East and South industrial regions.

The largest precinct in terms of major (>2,000 sqm) industrial space stock is Kewdale/Welshpool. Located approximately 6km east of the Perth CBD and sitting immediately south of the Perth International Airport, this precinct has traditionally been Perth's premier transport and logistics precinct. It is home to the Kewdale Freight Terminal which is linked by rail to Perth's seaports and all other intra and interstate rail freight lines; hence it has historically been the focus of Institutional and major industrial investors.

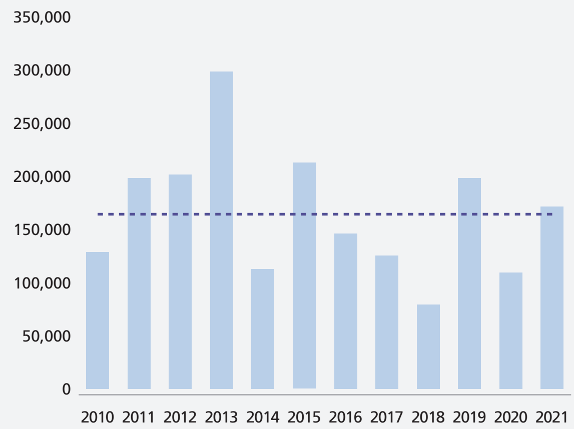
6.1 OCCUPIER MARKET

6.1.1 Leasing Activity

Reflective of the improvement in local economic conditions, occupier demand in Perth has increased substantially in 2021. In 2021, approximately 170,000 sqm has been leased across the Perth market (>5,000 sqm). By comparison, just 114,000 sqm was leased for the entire 2020 calendar year. Leasing volumes for 2021 are moderately above the 10-year annual average of 164,000 sqm.

By sector, demand has been led by the transport and logistics and manufacturing sector. Notable deals include Auspac Logistics leasing 18,100sqm at Welshpool in the East submarket and Amazon leasing 21,176 sqm at Jandakot within the South submarket.

Perth Industrial Gross Take-up (sqm)



Source: Colliers Research

6.1.2 Vacancy Rates

The Perth vacancy rate for >2,000 sqm facilities has fallen sharply in Q4 2021 to 4.1%, down from 5.5% in Q3 2021. At present, there is almost 430,000 sqm available for lease across the market and compares to 670,000 sqm in Q4 2020.

Perth Industrial Vacancy Rates – Q4 2021

	Perth Average
Q4 2020	6.5%
Q4 2021	4.1%

Source: Colliers Research

6.1.3 Supply

Industrial supply in 2021 was at its lowest level since 2018 with just 106,000 sqm added to the Perth market. By comparison, just over 160,000 sqm of new supply was completed in 2020.

For 2022, mooted projects with potential for completion amounts to 90,935 sqm, which is well below the 10-year average of approximately 180,000 sqm. Additional projects will likely be added in 2022 given the improvement in occupier demand over the past 12 months.

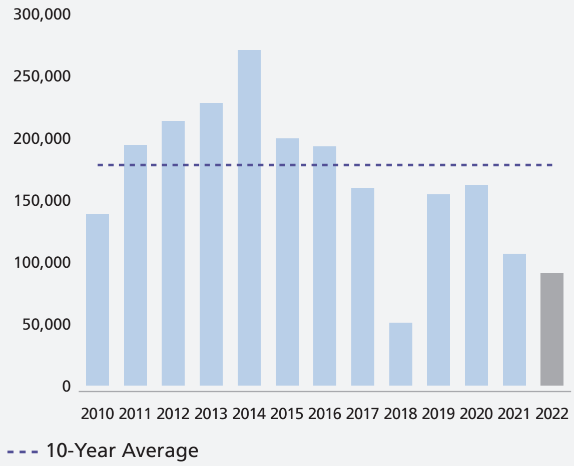
6.1.4 Rents & Incentives

Both prime and secondary rents have jumped substantially across the Perth market over the past 12 months. Prime rents have increased by 13.2% YoY to Q4 2021 and currently average A$93/sqm, while secondary rents have increased by 7.8% over the same period to average A$68/sqm.

Rental growth has been strong across the board; however, the South and East submarkets have outperformed, increasing 17.4% and 11.5% respectively YoY within the prime market.

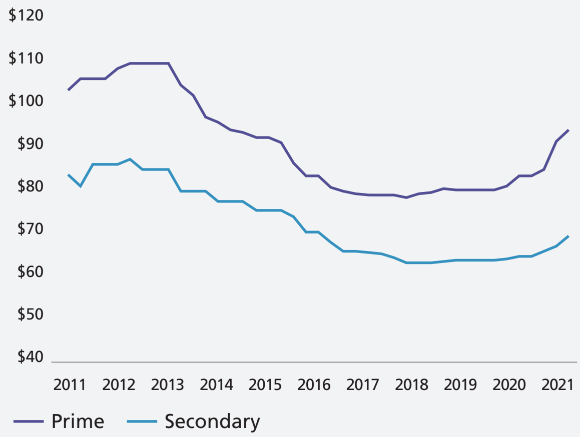
Incentive levels have fallen across both prime and secondary assets and currently average 8.3% for prime and 12.5% for secondary.

Perth Industrial Supply (sqm)



Source: Colliers Research

Perth Industrial Net Face Rents (A$/sqm)



Source: Colliers Research

Perth Prime Rents by Submarket, Q4 2021

	East	North	South	Perth Average
A$/sqm p.a.	$94	$94	$91	$93
12 month change	11.5%	11.3%	17.4%	13.2%
Average Incentive	8.3%	7.5%	10.0%	8.3%

Source: Colliers Research

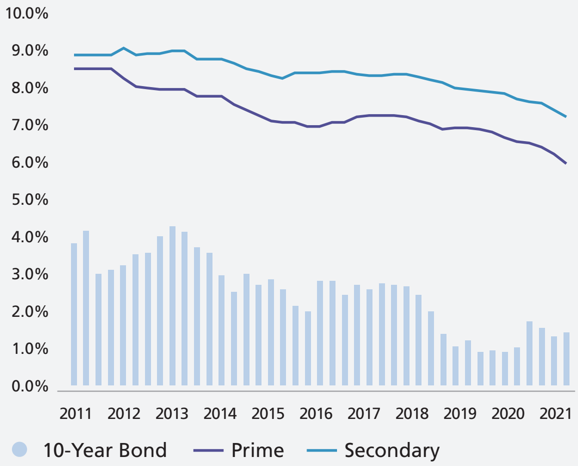
6.2 INVESTMENT MARKET

6.2.1 Volumes

2021 started relatively subdued on the investment front in Perth; however, volumes picked up substantially due to assets as part of portfolio transactions and several large single asset sales. In 2021, A$1.9 billion was traded across Perth, which was the highest annual volume on record.

Dexus' acquisition of the Jandakot Airport for A$1.3 billion represented the largest transaction in Perth during 2021. The sale included 49 industrial and logistics assets with a GLA of ~360,000 sqm and approximately 80 hectares of developable land. Other major transactions included nine assets as part of the Milestone Logistics Portfolio (A$385.95 million), 72 Hyne Road & 22 Hyne Road, South Guildford (A$50.75 million), and 48-54 Kewdale Road, Welshpool (A$35.1 million).

Perth Industrial Yields



Source: Colliers Research

6.2.2 Yields

Yields have further tightened off the back of low interest rates and the increasing weight of institutional capital chasing assets. As of Q4 2021, prime yields average 5.93%, and represents 58 basis points of tightening over the past 12 months. Secondary yields currently average 7.18% after firming 49 basis points over the year.

For major institutional grade assets, yields of sub 5.0% would be achieved, which means the yield spread between Perth and the major eastern states has continued to close.

6.3 OUTLOOK

The outlook for the Perth industrial market is positive as structural tailwinds such e-commerce continue to support occupier expansions. Continued expansion in key industries such as transport and logistics, mining, and manufacturing is expected to remain strong in the short to medium-term.

Vacancy rates have declined over the past 12 months and are expected to fall further in 2022 given the lack of supply due to enter the market. In 2022, there is just 90,935 sqm in the pipeline, well below the 10-year average of approximately 180,000 sqm. This environment will result in a further pick-up in rents in 2022 and beyond.

Yields are expected to fall further in 2022 and will represent a period of catch-up to the significant firming of rates in the East Coast markets. The current spread to the East Coast markets is around 220 basis points, which is more than triple the 10-year average of 71 basis points, suggesting scope for an acceleration in yield compression over the next 12 months.

7. SUBURBAN OFFICE MARKET OVERVIEW

Despite a challenging operating environment more broadly, suburban office markets have performed well throughout 2021, particularly in the second half of 2021 with net absorption of almost 60,000 sqm recorded. This level of demand was the strongest since the second half of 2012 and highlights the ongoing recovery of the suburban leasing market.

At the beginning of 2021, most of the discussion around suburban office markets was centered on the buzzwords of 'decentralisation' and 'hub-and-spoke strategies' as many thought there would be an influx of demand from CBD-based businesses seeking to be closer to where their workers live. However, while there have been select cases where this has occurred, this has not happened at scale. Instead, most of the demand in 2021 stemmed from tenant relocations within existing suburban markets.

The flight to quality thematic continued to play out in 2021 as businesses took advantage of the rise in incentive levels over the past two years. This trend has seen tenants trade up across suburban office markets in terms of building quality and location, enabled by a wave of new supply across Australia's non-CBD markets with almost 250,000 sqm of newly developed or refurbished stock entering the market over 2021. In addition, office markets that offer amenity and immediate access to transport have continued to record strong demand as businesses seek to attract and retain talent, which is now more important than ever given the declining unemployment rate.

Small to medium-sized businesses (SMEs) of sub 2,000 sqm have driven occupancy demand over the past year, with Government and Health and Community Services being particularly active over the period. SMEs have been financially backed by Government incentives in 2021, which included income support programs and payroll tax waivers. In turn, business insolvencies are at an all-time low which has capped the number of tenants exiting the market. At the same time, the largest jump in enquiries for suburban office space in 2021 stemmed from tenants seeking space above 3,000 sqm. This was particularly the case within the Sydney and Brisbane suburban office markets.

Flex-space within suburban locations is still very much being discussed by operators searching for suitable space and by businesses contemplating whether they can offer flex-space options closer to home for their employees. However, this trend remains in its infancy, and more time is needed to see if this is a trend that will occur at scale.

Locational strategies continue to be occupier specific with CBD, Fringe, Metro, work-from-home, and flex-space all options that can be interweaved to create the right real estate strategy for each business – there is no one size fits all. The pandemic has heightened the demand for alternative choices of where to live, work and play and the interconnection of these components of life. Australia's non-CBD office markets are in a unique position to capitalise on this demand as continued infrastructure and regeneration projects occur and new next generation office buildings leverage these transformations to create an 'experience' and not just a place to work.

As conditions in the suburban office leasing market have improved, so too has investment activity, with almost A$4.2 billion transacting in 2021 and compares to A$3.1 billion in 2020. Suburban markets have remained an attractive investment for investors with employment within metro locations recovering faster than in CBDs in many cases. As such, many investors bought into the occupancy story for suburban locations, and as a result, yields tightened further in 2021. Capital is also being re-directed to non-CBD locations due to the lack of lower price point options available within the CBD markets.

8. SYDNEY METRO OFFICE MARKET

8.1 MARKET OVERVIEW

The major office markets across Sydney Metro combined covers 3,333,870 sqm (NLA) of total office space (as at Jan-22). This is broken down by North Sydney (922,793 sqm), St Leonards (340,886 sqm), Chatswood (273,454 sqm), Parramatta (887,268 sqm) and Macquarie Park (909,469 sqm). However, there are also the markets of City Fringe, South Sydney and the business parks at Sydney Olympic Park, Rhodes and Norwest.

Sydney suburban office markets are quite diverse and fragmented with North Sydney, City Fringe and South Sydney being the largest markets amongst them. The City Fringe has around a million square metres of office space and is considered a commercial hub for IT, Technology, Digital, Media and Creative industries. Major tenants in the precinct include Google, IBM, Channel 7, Fairfax Media, Domain and Thompson Reuters, to name just a few. Recent years have witnessed the rapid rise of flex-space operators with the likes of WeWork and HUB Australia having a strong presence in the area. Tenants have been attracted to the City Fringe due to a wide range of amenities, public transport (Central Stations, Redfern and the new Light Rail Link to the CBD) and proximity to major universities such as the University of Sydney, University of Technology Sydney and the University of Notre Dame. This area will also benefit from the development of the Tech Central precinct which will house Atlassians HQ, as well as a further two towers developed by Dexus/Frasers named Central Place Sydney.

The South Sydney office market (including Mascot) comprises about half a million square metres of office space with a major portion of it being corporate parks and strata offices. Due to its location, South Sydney is dominated by airport-related industries, transportation, logistics and government agencies. The area is currently undergoing a significant urban regeneration program which also sees many office and industrial buildings be converted to residential uses. Tenant demand, however, has remained strong on the back of improving connectivity with the CBD and business amenities.

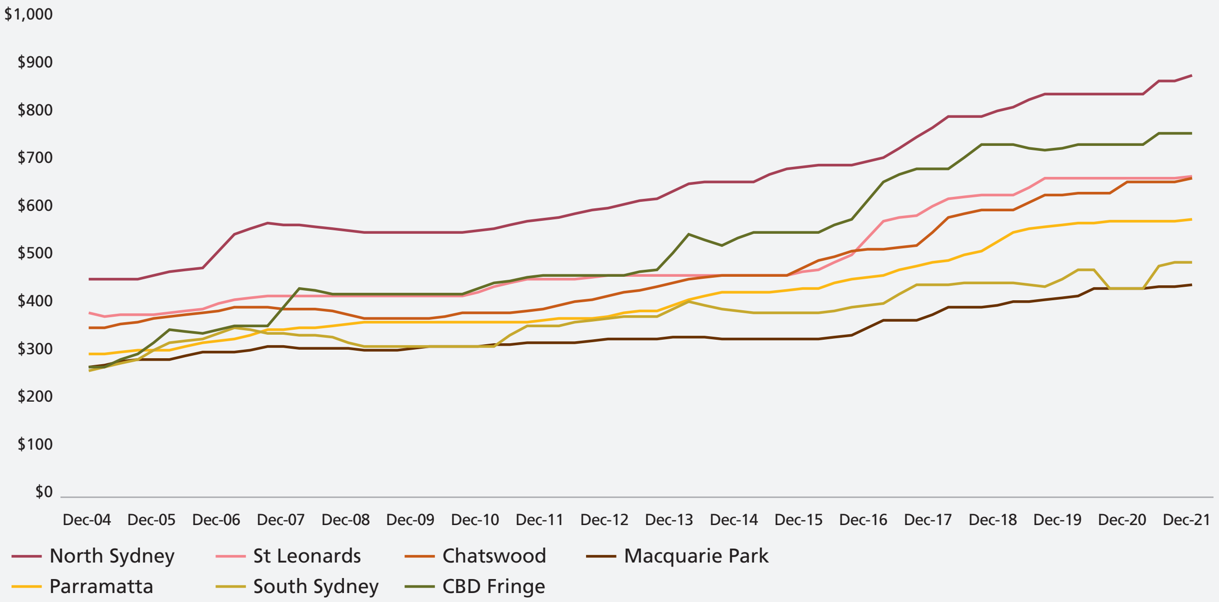
8.2 LEASING ACTIVITY, DEMAND AND SUPPLY DRIVERS

All markets recorded increases in vacancy over the second half of 2021 and stemmed from a combination of negative net absorption in selected markets as well as an increase in supply, particularly Parramatta where 51,242 sqm entered the market.

While there is currently a clear divergence between the vacancy rates in the North Shore markets versus Parramatta and Macquarie Park, we do not anticipate that this will remain the long-term dynamic. Vacancy in both Parramatta and Macquarie Park are forecast to increase as significant new supply reaches completion in those markets over the next two years. The Parramatta market will increase in size by almost 175,000sqm over the next two years, which is a 21% increase. Macquarie Park is expected to grow by 119,000sqm (13.2%) over the next two years, but also has the potential to add an additional 100,000sqm over the two years following (2022 to 2024). This could lead to higher vacancy in the long run, although we caution the outlook for the take-up of backfill space as the space left by occupiers relocating to new space is generally of lower grade and will typically take longer to lease, keeping vacancy at elevated levels. Macquarie Park continues to see demand from occupiers in the Information Technology and Pharmaceutical sectors with companies such as Fujitsu Australia, Pronto Software, Biogen Australia and Ramsay Healthcare committing to space over the last two years.

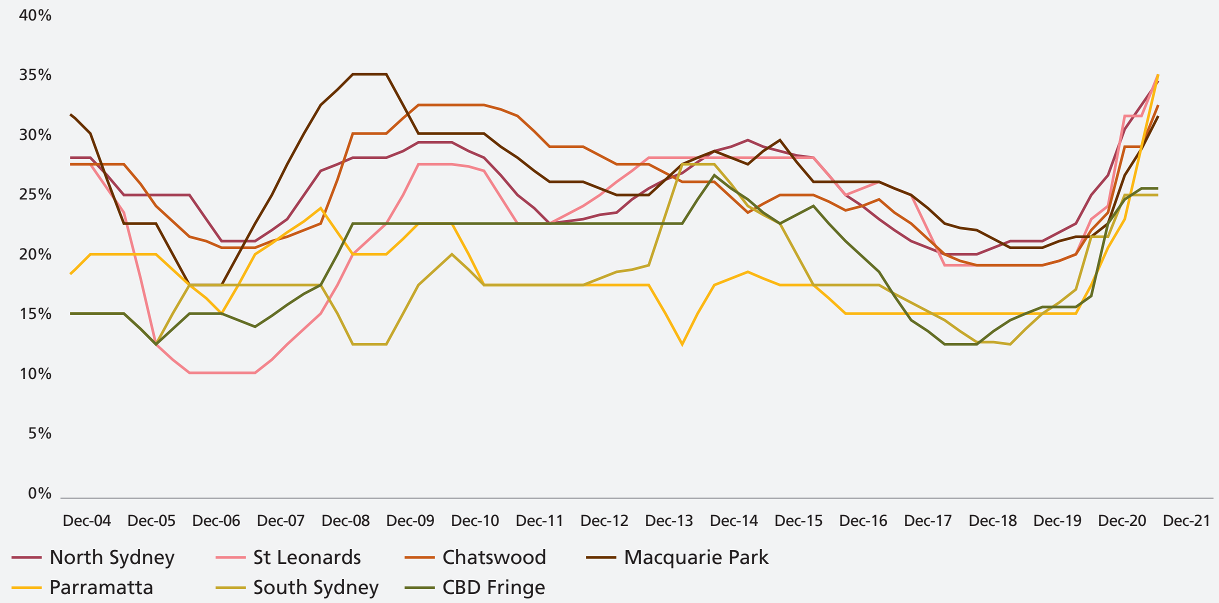
The North Sydney market has experienced an influx of demand from occupiers relocating from more suburban locations and consolidating from various markets. New supply such as 1 Denison in North Sydney, has lured tenants looking for a flight to quality and the location advantages that North Sydney has to offer. Vacancy is forecast to decline closer to 14.3% by the end of 2022 after peaking at 16.5% at the end of 2020.

Sydney Metro Markets – Average Prime Net Face Rents (A$/psm p.a.)



Source: Colliers Edge

Sydney Metro Markets – Average Prime Gross Incentives %



Source: Colliers Edge

Average Net Face Rents and Incentives by Market, Q4 2021

	Submarket	Avg. Net Face Rent (A$/m²/annum)			Avg. Gross Incentive (%)		
		Low	High	Average	Low	High	Average
A Grade	North Sydney	$820	$920	$870	32%	37%	35%
	CBD Fringe	$700	$800	$750	25%	30%	28%
	St Leonards	$610	$710	$660	32%	38%	35%
	Chatswood	$610	$700	$655	30%	35%	33%
	Macquarie Park	$410	$455	$433	28%	34%	31%
	Parramatta	$540	$600	$570	30%	40%	35%
	South Sydney	$460	$500	$480	20%	30%	28%
Secondary	North Sydney	$700	$775	$738	35%	38%	36%
	CBD Fringe	$485	$615	$550	20%	25%	23%
	St Leonards	$550	$650	$600	32%	37%	35%
	Chatswood	$460	$570	$515	30%	35%	33%
	Macquarie Park	$360	$390	$375	26%	32%	29%
	Parramatta	$440	$534	$490	27%	40%	34%
	South Sydney	$300	$380	$340	20%	26%	23%

Source: Colliers Research

8.3 RENTS AND INCENTIVES TREND

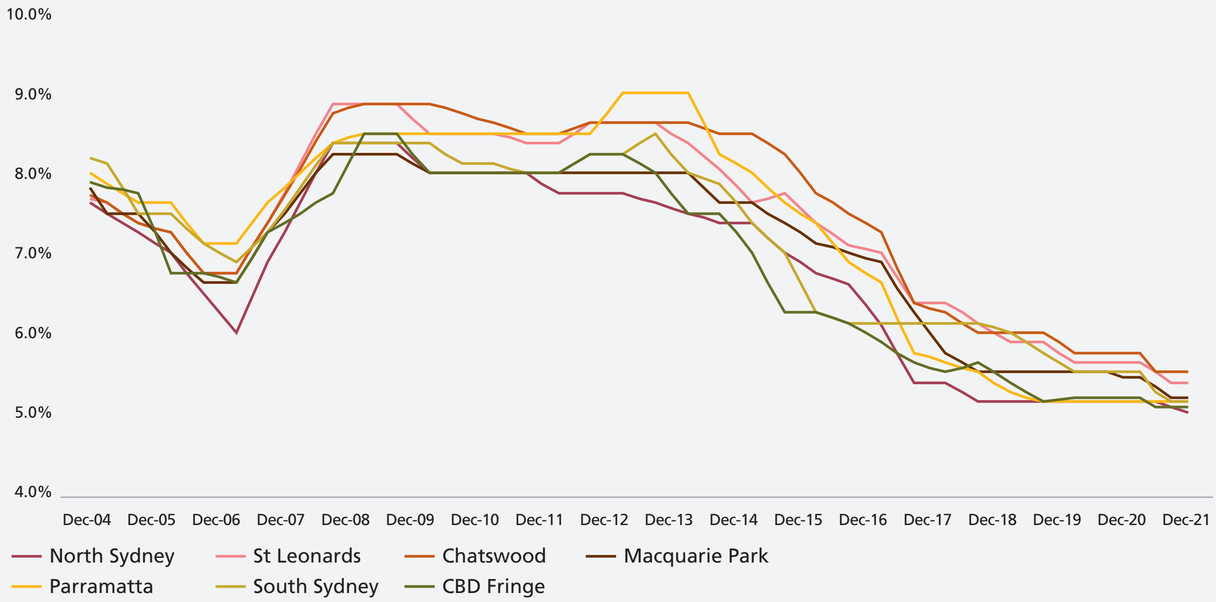
Average A-grade face rents are showing signs of recovery increasing by 0.5% over the fourth quarter of 2021, despite downward pressure from rising vacancy in some markets. Most markets recorded some level of growth over the quarter as landlords start to push up, albeit slight, face rents after two years of downward pressure and rising incentives. The strongest growth recorded over the quarter was from the rents recorded in North Sydney (1.2%) as robust demand has been experienced through the COVID period from tenants looking outside of the North Sydney market, as well as uplift in average rents from the newly stock completed over 2020/2021. Both the North and South Sydney office markets are going through a transformational period with government backed regeneration and infrastructure projects driving renewed demand and activity within these key economic hubs.

B-grade assets has also recorded growth over Q4 2021 of 0.5%. Pressure will remain on B-grade as occupiers continue to look for upgrading opportunities. However, in some markets such as the CBD Fringe and North Sydney, good quality A-grade assets are experiencing spillover demand for occupiers looking to upgrade to better quality accommodation in core fringe locations.

8.4 INVESTMENT VOLUMES AND YIELDS

There has been a total of 18 assets transacted across the major Sydney Metro markets over Q4 2021 totalling A$2,144.6 million, bringing the annual figure to A$4,268.9 million. The largest sale was The Locomotive Workshop, Eveleigh, located in the CBD Fringe. The 31,000sqm asset sold for A$231.0 million to SunSuper on an initial yield of 4.70%. The Locomotive Workshop forms part of the tech corridor that stretches from the Southern end of the CBD to Camperdown. The asset is 97 per cent occupied and tenants include the Australian National Institute of Management and Commerce, Uber and more recently Quantium who moved from the Sydney CBD.

Sydney Metro Average A-grade Yields, Q4 2021



Source: Colliers Edge

8.5 OUTLOOK

The metro markets have been somewhat resilient through the last two years as occupiers outside of core metro locations have looked to capitalise on the terms on offer to secure good quality office accommodation within core fringe and metro markets that have more superior amenity. As a result face rents have held broadly firm with minimal downward pressure. Over the next 12 months we expect a pick up in face rental growth of around 3.0%. Incentives are expected to remain sticky but should peak at around 30% before dropping to around 28% by the end of 2022.

The Colliers yield outlook continues to remain somewhat positive based on the continued flow of capital still searching for quality Sydney metro assets. We expect further yield compression for A-grade assets of around 10 basis points over 2022 and a further 10 basis points over 2023. The metro markets will benefit from the continued rise in values in the Sydney CBD forcing investors to fringe markets to be able to purchase at a more reasonable price point.

9. BRISBANE METRO OFFICE MARKET

9.1 MARKET OVERVIEW

The Brisbane Fringe Office market extends across five precincts. Urban Renewal is the largest growing area in the Brisbane Metro market, contributing 527,963 sqm of stock, or the equivalent to 43% of the office stock in the Fringe region. It extends from New Farm to Bowen Hills and includes Fortitude Valley.

Inner South is the second largest office precinct in Brisbane Fringe, contributing about 261,671 sqm of stock to the market. It extends from South Brisbane to Greenslopes, including also Woolloongabba and West End.

Milton is the oldest Brisbane Fringe precinct offering circa 238,716 sqm of NLA and is undergoing a continual transformation with some of the well-known buildings going through refurbishments (e.g. 339 Coronation Drive). Milton is home to a diversity of knowledge-based businesses in the fields of engineering, design, civil contracting, and the digital industries. Spring Hill is well-located, adjacent to the CBD area and generally offering strata offices and a net lettable area of circa 129,312 sqm. Toowong is the smallest fringe precinct in Brisbane offering circa 75,000 sqm of net lettable area.

9.2 LEASING ACTIVITY, DEMAND AND SUPPLY DRIVERS

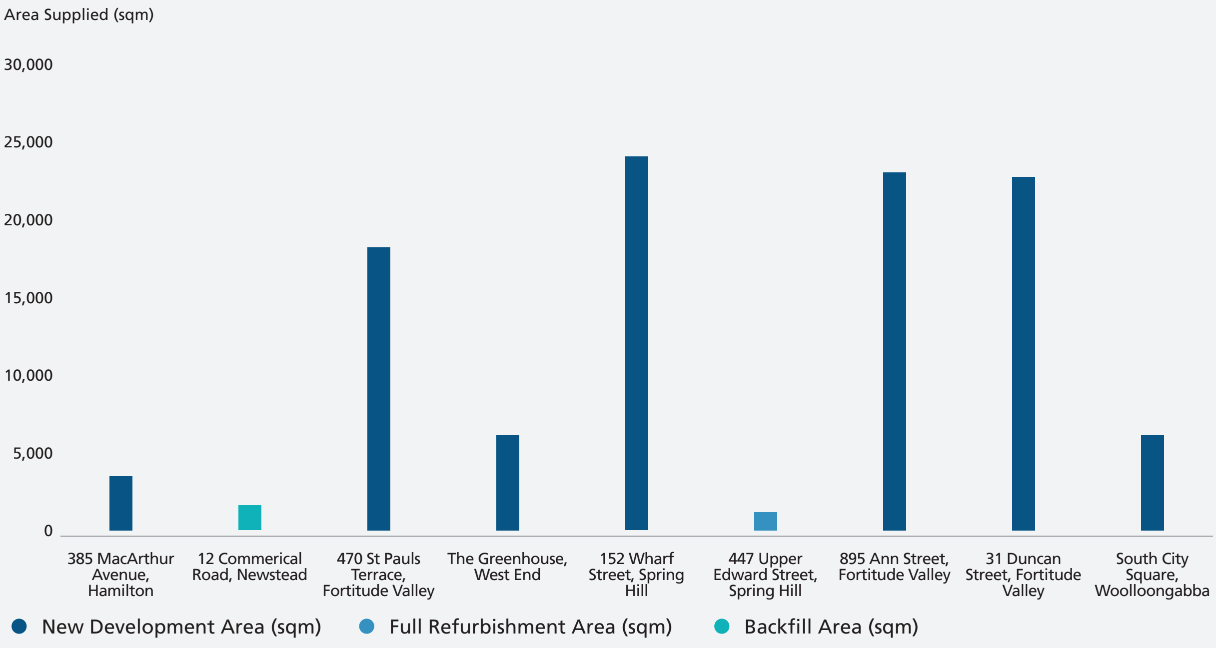
The recovery of leasing demand has consolidated particularly within the Urban Renewal and Toowong precincts, with the 12-month net absorption for 2021 reaching 21,340 sqm across the Brisbane metropolitan office market. The recovery has been supported by enhanced business confidence.

An analysis of Brisbane metro enquiry data has revealed an increase of enquiries for over 3,000 sqm signalling the return of corporates and large occupiers to the leasing market. Over the past six months, we have seen an increase of take-up from engineering and resources sector companies looking to upgrade and/or expand operations due to organic growth.

The long-term impact on leasing demand resulting from the current solid interstate migration to Queensland is still unquantifiable. If solid interstate migration continues beyond this year, we expect it will support an increase of Brisbane CBD and metropolitan base office demand, partially offsetting the effect of flexible workplace trends.

Over the medium-term, the successful bid to host the 2032 Olympic Games will be a catalytic event supporting economic growth and employment and this will be beneficial for the office market.

Brisbane Metro Office Supply Pipeline



Source: Colliers International

9.3 RENTS AND INCENTIVES TREND

Average gross face rents have started to record some green shoots with average A-grade rents rising by 1.4% over Q4 2021 and B grade 0.8% after a period of remaining generally steady since March 2020.

In response to the excess supply, we are seeing landlords showing more flexibility during the negotiation process, closing the expectations gap between landlords and tenants. As a result of this, landlords are currently more willing to offer higher incentives, with A-grade average incentives increasing to historical highs, from 36.7% in March 2020 to 39.8% in December 2021. A similar trend has been seen across B-grade average incentives, reporting an increase from 35.8% in March 2020 to 39.3% in December 2021. However, there is now some stability in incentives with more occupiers in the market and a reduction in vacancy as a result. In 2021, Colliers transacted 51,269 sqm of leases across the Brisbane Metro market, this is an increase of 73% on pre-pandemic levels (2019).

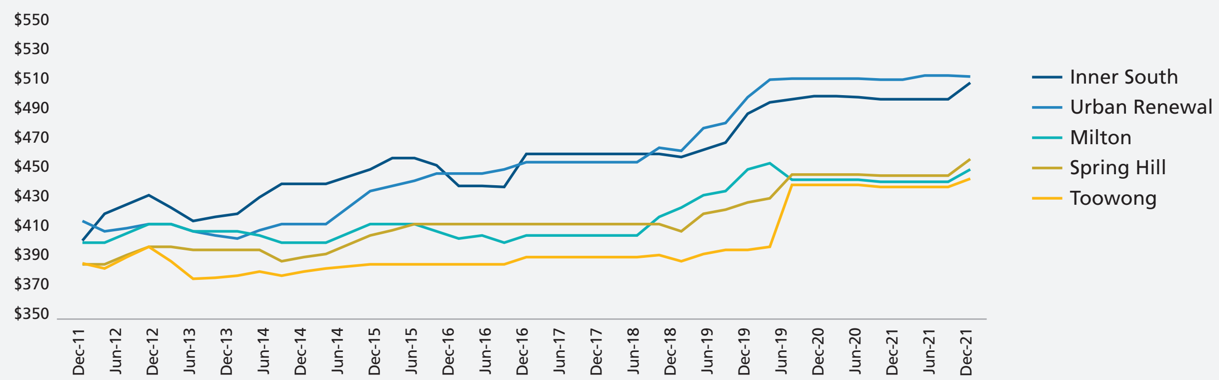
Since December 2019 to December 2021, the elevated incentives have caused net effective rents to decline by 5.6% for A-grade and 6.9% for B-grade. Average A-grade net effective rents are estimated at A$243/sqm p.a. while B grade effective rents are estimated at A$210/sqm p.a.

Average Net Face Rents by Market, Q4 2021

Net Face Rents	Inner South		Urban Renewal		Milton		Toowong	
Q4 2021	A Grade	B Grade	A Grade	B Grade	A Grade	B Grade	A Grade	B Grade
A$/sqm p.a.	$506	$440	$511	$415	$447	$396	$441	$407
6 month rental change	2.1%	1.1%	0.0%	0.0%	1.9%	1.5%	1.3%	2.0%
12 month rental change	2.1%	1.1%	0.5%	0.6%	1.9%	1.5%	1.3%	2.0%

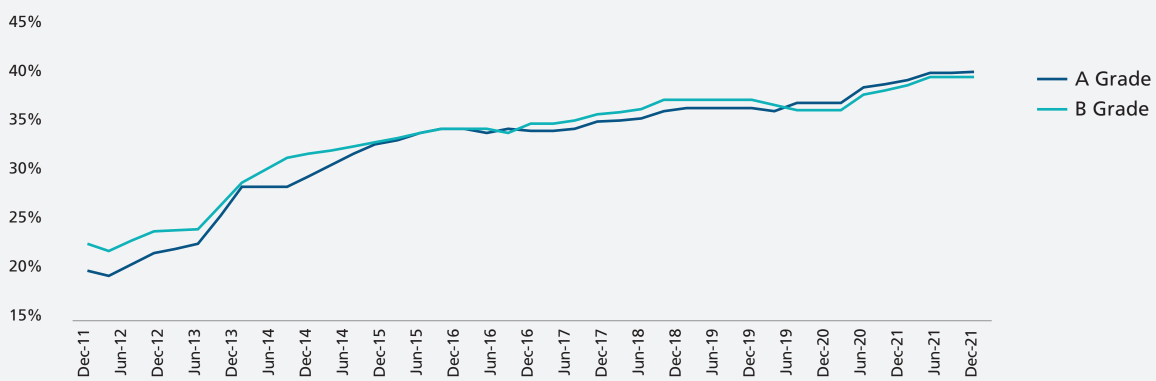
Source: Colliers Edge

Brisbane Metro Office Average Net Face Rents A-Grade



Source: Colliers Edge

Brisbane Metro Office Average Incentives



Source: Colliers Edge

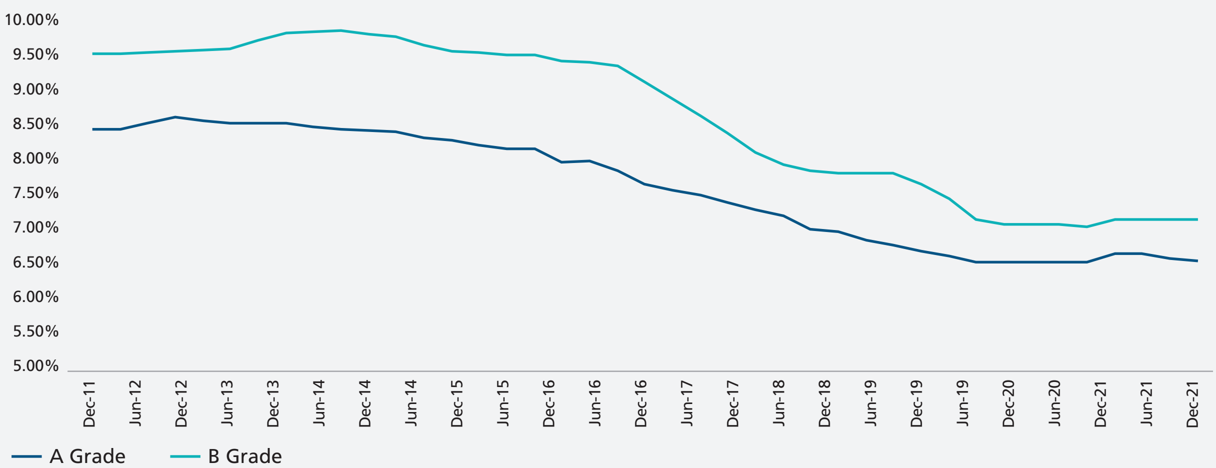
9.4 INVESTMENT VOLUMES AND YIELDS

Investment activity remains below the 10-year long-term average (pre-pandemic) of A$908.3 million. In 2021, A$796.7 million of assets transacted within the Brisbane Metro markets, which is an increase of 61% from the levels recorded in 2020. In the absence of alternative and attractive investment opportunities, landlords continue to tightly-hold onto their investments as Brisbane metropolitan office buildings offer a very attractive spread of at least 400-450bp compared to the 10-year bond rate.

Traditionally, the metro market has been dominated by domestic investors (an average of 75% from 2011 to 2020). This trend has intensified this year with 95% of sales acquired by domestic investors over 2021. Unlisted funds and syndicates have actively pursued the limited investment opportunities.

Average yields started to show some compression with more transactional activity through 2021 providing more market evidence. Average yields for A grade have tightened by 11 basis points since March 2021 currently sitting at 6.50%. Average B-grade yields have remained steady through 2021 at 7.11%.

Brisbane Metro Average Office Yields



Source: Colliers Edge

9.5 OUTLOOK

We forecast no face rental growth in 2022 across all precincts and building grades. However, incentives are expected to continue escalating in response to the forecast new supply of 116,000 sqm to be added to the office market over the next 2.5 years.

Overall, we forecast A-grade net effective rents will return to pre-pandemic levels by 2024, however the recovery of B-grade effective rents is expected to take much longer, potentially happening by late 2025.

The 10-year bond rate has commenced to increase in anticipation of the economic recovery expected to consolidate over a period of 2 to 3 years. Whilst significant weight of capital seeks for investment opportunities in the office market in the absence of attractive investment opportunities, we do not expect to see yields move significantly over the next three years, particularly for high quality assets offering long-term and secure revenue streams.

10. MELBOURNE METRO OFFICE MARKET

10.1 MARKET OVERVIEW

The Melbourne Metro office market comprises a total of around 4,678,122s sqm (NLA) of office space (as at Sep-21). This is broken down into the City Fringe (1,239,460 sqm), Inner East (581,790 sqm), Outer East (936,758 sqm), South East (432,690 sqm), North & West (383,586 sqm), St Kilda Road (652,657 sqm) and Southbank (451,181 sqm) precincts.

10.2 LEASING ACTIVITY, DEMAND AND SUPPLY DRIVERS

In terms of Colliers deals conducted during 2021, the number (228) has already exceeded those done in 2020 (103). The total for 2021 so far, is 50% higher than those done in pre-pandemic 2019, when 152 deals were inked. The amount of space committed (146,570 sqm) is 55% higher than the whole of 2020 and 44% higher than the total space leased in 2019.

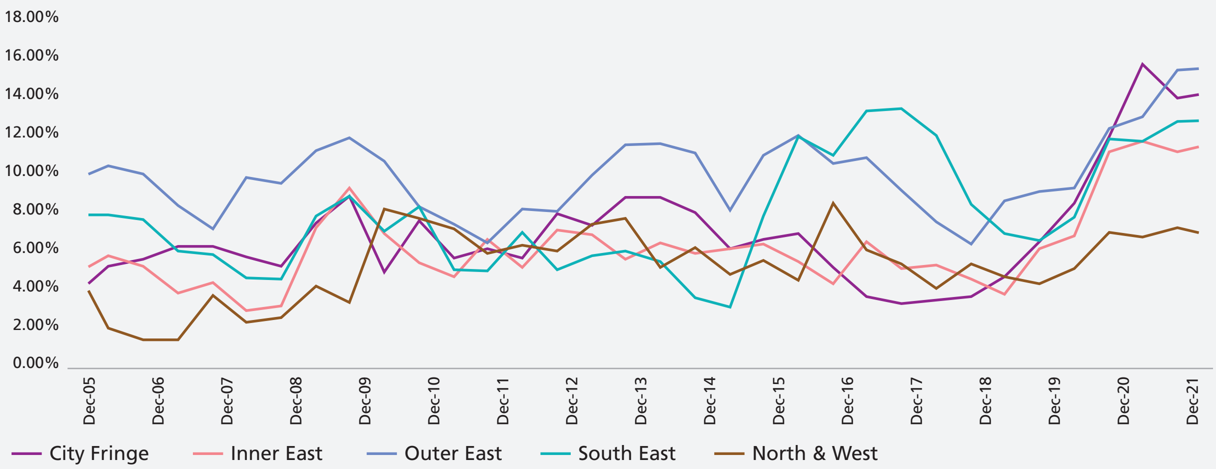
Enquiry has remained strong in the Melbourne Metro markets. In 2021, the number of enquiries is 30% higher than during the whole of 2020. In terms of volume of space, 539,000 sqm was enquired about in 2021, which is just 8% below the 2020 full year total, which remarkably was a record level for enquiry in the Melbourne Metro markets.

With business owners increasingly needing to provide a compelling reason for their employees to return to the office, workplaces which provide flexibility and have a health and sustainability offering, will be in high demand and these are more likely to be newly built or recently refurbished buildings. Therefore, we expect the current flight to quality will become increasingly more pronounced.

The overall Metro Melbourne vacancy rate at September 2021 was 12.9%, significantly above the long-term average of 7.3%. The metro market added a total of 78,300 sqm of new supply in the six months to September 2021, while vacant stock rose to 459,400 sqm across all regions.

The highest rate of vacancy is currently in the City Fringe at 13.8%, however this is an improvement on the 15.6% recorded in March 2021. With seven new developments already reaching completion so far in 2021 and an additional five projects under construction, a total of 147,000 sqm of space will be added during the whole of 2021. Consequently, vacancy in the City Fringe is expected to continue to rise over the next six months to reach a peak of 14.1% in March 2022. The Outer East also saw new supply delivered in 2021 with vacancy rising to 15.3% in Q3 2021 and should remain elevated over the following six months.

Melbourne Metro Vacancy by Market



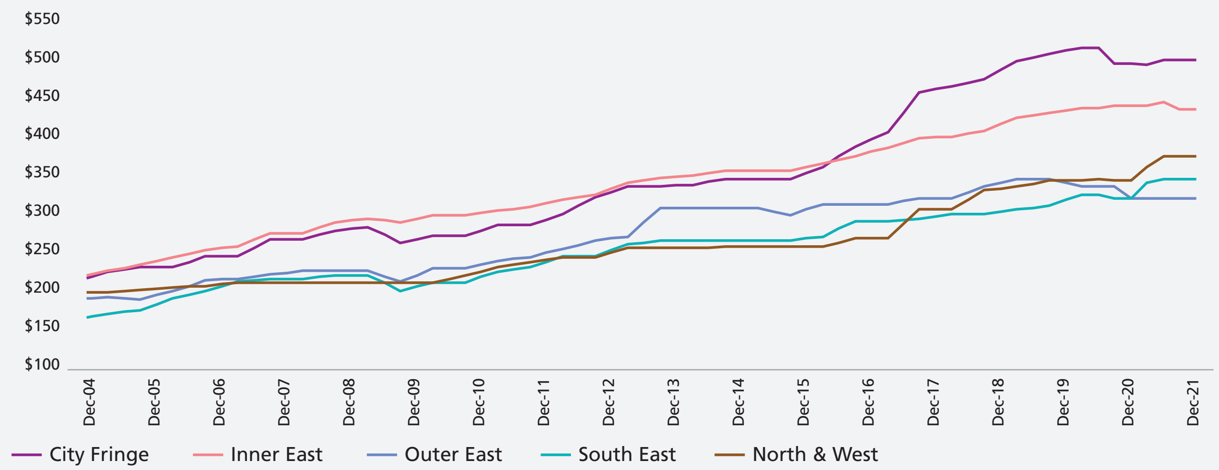
Source: Colliers Edge

10.3 RENTS AND INCENTIVES TREND

Average net face rents for prime grade buildings have begun to recover and now sit higher than a year ago. Rents have held steady over Q4 2021. However, new A-Grade buildings recorded a 3.6% rise in face rents over the year to December 2021 and existing A-Grade face rents are 2.2% higher. B-Grade rents recorded a 2.9% increase over the last 12 months. However, a substantial increase in incentives has resulted in new A-Grade net effective rents falling by 3.3% over this period. Existing A-Grade net effective rents showed an even greater fall over the year (-7.2%) and B-Grade also showed a reduction (-2.5%) over the year.

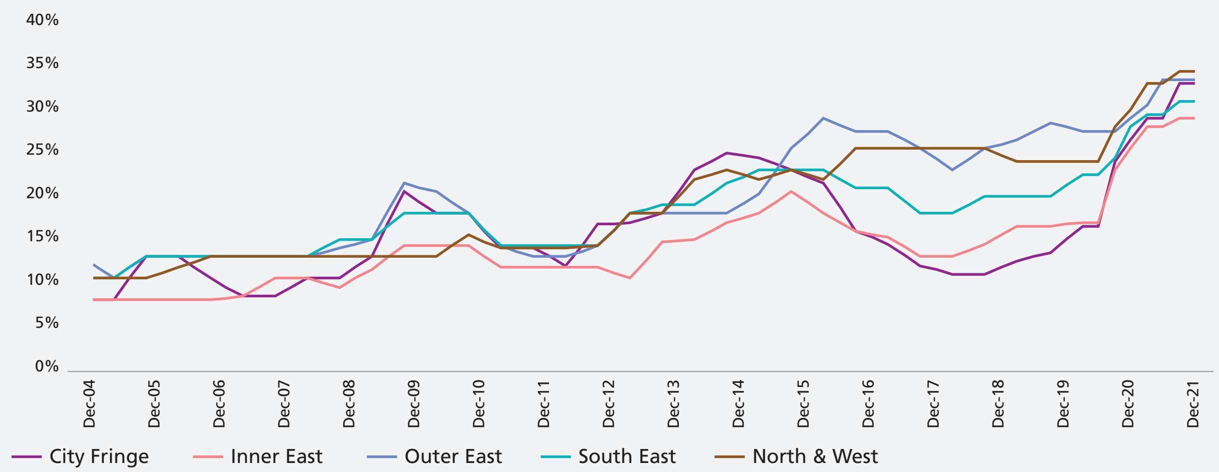
Incentives for new A-Grade space increased from 31% in Q4 2020 to 33% in Q4 2021. Similarly, existing A-Grade incentives have risen from 25% to 32% over the same period, and B-Grade from 27% to 31%. Secondary incentives have been somewhat constrained by landlords of these assets being limited in their ability to afford to push them much higher. Incentives have now started to show some stability with no change over the fourth quarter of 2021.

Melbourne Metro Average A-Grade Net Face Rents by Market, Q4 2021



Source: Colliers Edge

Melbourne Metro Average A-Grade Incentives by Market, Q4 2021



Source: Colliers Edge

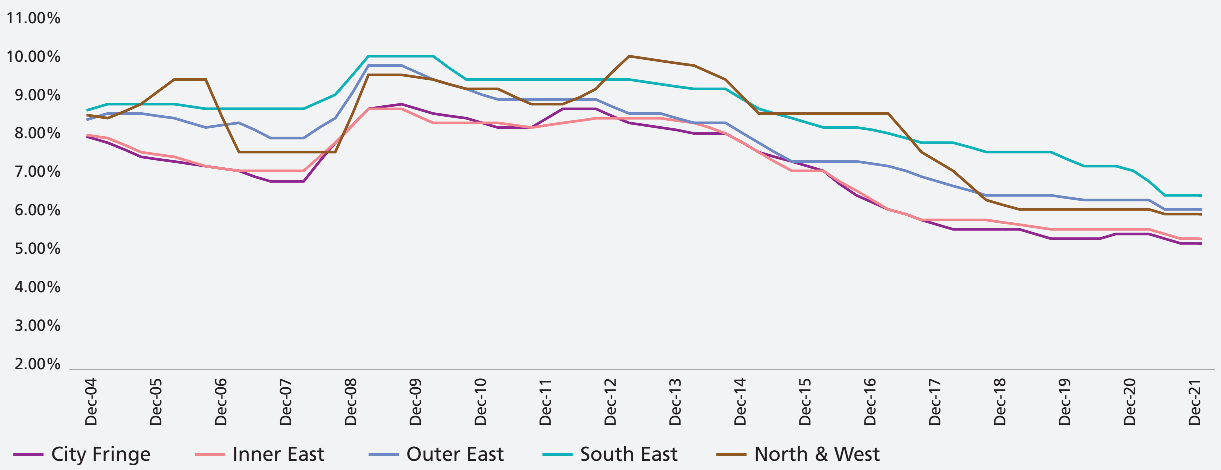
10.4 INVESTMENT VOLUMES AND YIELDS

Sales volumes in the Melbourne Metro markets remained healthy throughout 2020 and over 2021, in contrast to CBD markets. Transactions totaling A$870.1 million took place in 2021, which is 9.0% below the total transaction value of A$965.5 million in 2020.

The majority of activity in 2021 has been within the City Fringe sub-market, accounting for 77% of the value of all Metro sales. This was above the ten-year average of 55% of sales originating in this sub-market. The South-East also saw an above average level of activity, with 10% of all Metro sales in 2021, compared to its long-term average of 8%. In contrast, the other three sub-markets have shown lower levels of activity than their long-term averages.

Over recent years, yields have tightened considerably in the Metro markets, and in particular for A-Grade assets in the North & West with yields tightening by 263 basis points over the last five years. This region had the softest A-Grade yields of all the regions in early 2017 (8.5%), but have since compressed considerably to sit at 5.88%, below yields in the Outer East (6.00%) and South-East (6.38%). The City Fringe has the lowest yields of the Metro regions at Q4 2021 (5.23%), with the Inner East only slightly higher at 5.25%.

Melbourne Metro Average A-Grade Yields, Q4 2021



Source: Colliers Edge

10.5 OUTLOOK

Two new buildings were added to the market in Q4 2021 and as a consequence, vacancy in the Inner East is expected to rise from 11% at September 2021 to peak at 11.4% by March 2022. The South-East's vacancy rate of 12.6% at September 2021 is expected to level off over the next six months, while the North & West region recorded the tightest level of vacancy at 7.0% and, with limited supply, is expected to see vacancy reduce to 6.6% by March 2022. Overall, the Metro Melbourne vacancy rate is expected to remain above the long-term level, as demand only slowly absorbs the available vacancy space.

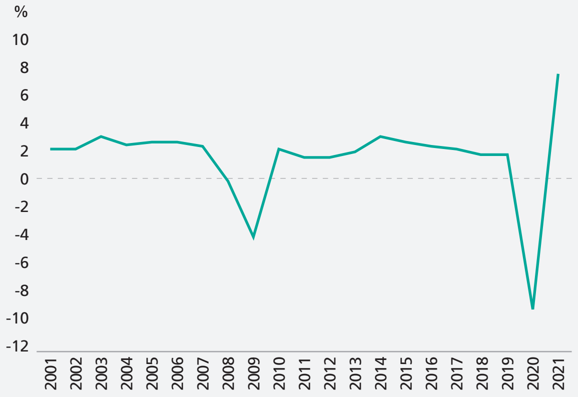
With incentives remaining elevated, and only a moderate improvement expected in incentives, net effective rental growth will remain subdued over the forecast period, with prime rental growth expected to recover in advance of secondary.

Assets which are in demand are long WALE newer buildings and tend to have a government tenant. Income is key at the moment, and quality tenant covenants are particularly attractive. Competition for this type of asset remains strong and we expect that this will lead to some further mild yield compression for assets that meet this criteria. We are expecting that secondary assets, particularly assets which have vacancy or require capital expenditure will see yields soften. This will result in a divergence of between A-Grade and B-Grade yields and is more reflective of the longer-term spread.

Independent Market Study Report

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

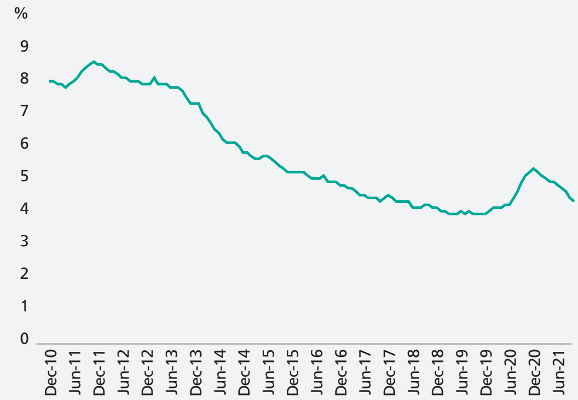
GDP at market prices (year-on-year growth, %)



GDP at market prices (year-on-year growth, %)

Source: Office for National Statistics

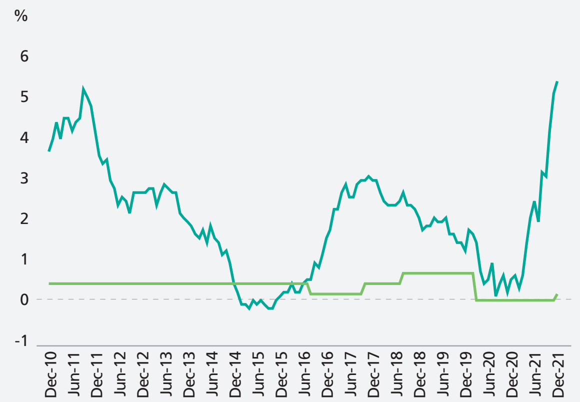
Unemployment rate



Unemployment rate (aged 16 and over, seasonally adjusted)

Source: Office for National Statistics

CPI and base rate



CPI (% change over 12 months) Bank of England base rate (%)

Source: Office for National Statistics, Bank of England

OVERVIEW OF THE UNITED KINGDOM (UK) ECONOMY IN 2021

The UK economy enjoyed a healthy recovery in 2021 following the unprecedented shocks suffered in 2020 due to the Covid-19 pandemic. Despite a muted start to the year, economic growth surged from Q2 onwards on the back of a consumer-led recovery, as nearly all Covid-19 restrictions were lifted. At Q4 2021, the UK economy was estimated to be just 0.4% below where it was pre-Covid-19. Despite economic growth slowing in the final quarter of 2021 due to supply and labour constraints as well as curtailed consumer activity following the spread of the Omicron Covid-19 variant, the Office for National Statistics estimates that the UK economy grew by 7.5% in 2021 compared with a fall of 9.4% in 2020.

The labour market has been a major factor in the UK economic performance in 2021: demand for appropriate labour has surged to support economic growth and so, despite the majority of Government employee and business support initiatives coming to an end by September 2021, unemployment continues to fall and at December 2021, was 4.1%. There are now significant constraints in supply of labour across the country. This is driving wage growth across many sectors. Indeed, to January 2022, the number of job vacancies being advertised reached a new record of 1.3 million, with labour shortages especially acute in sectors particularly affected by the pandemic.

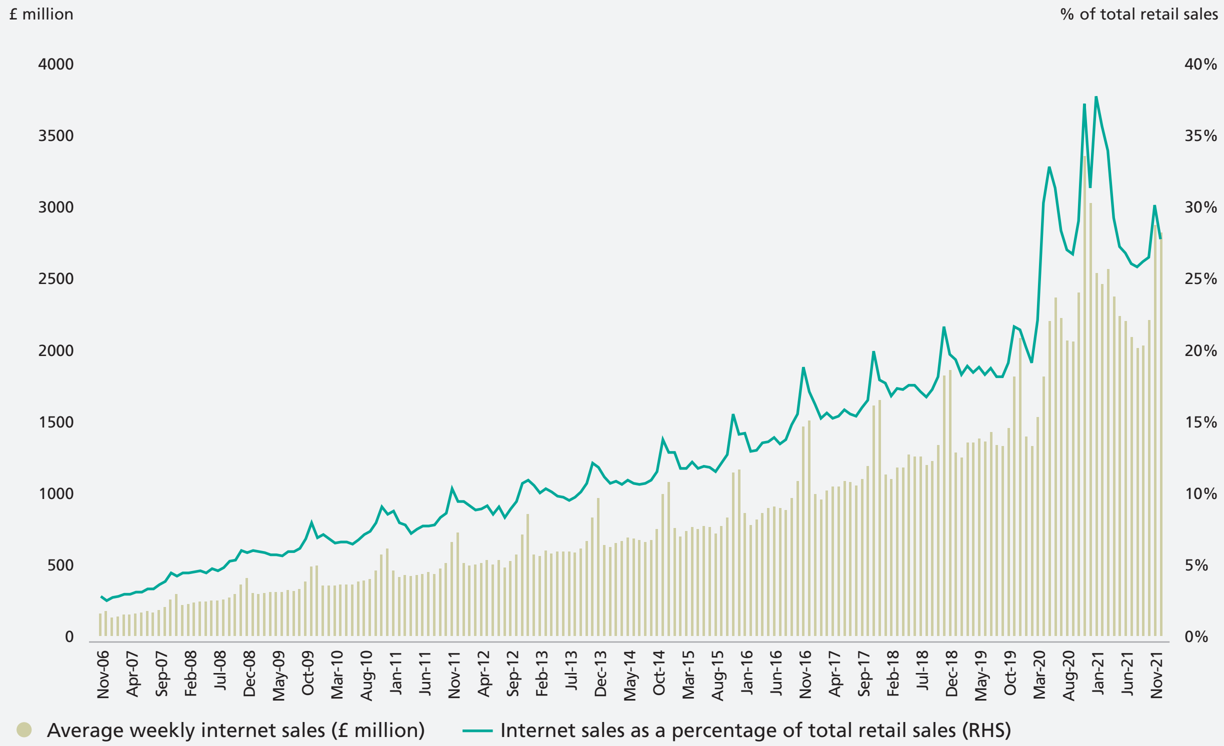
Alongside wage increases, consumer prices have also seen significant upward pressure. Prices started climbing from mid-2021 and annual inflation indicated by the Consumer Price Index (CPI) reached a near-30-year high of 5.4% in December 2021. This uplift has been particularly driven by increases in energy costs, notably electricity and gas, as well as transport costs, especially motor fuel. These cost increases have impacted businesses and consumers alike and will contribute to anticipated further price increases in the near term.

This uplift in prices has increased pressure on the Bank of England Monetary Policy Committee (MPC) to raise interest rates as a counter measure to rising inflation. Having reduced the central bank interest rate to 0.10% – its lowest level ever – in March 2020, the MPC raised the rate to 0.25% in December 2021 and again in February 2022 to 0.5%, citing its concern over the medium-term inflation expectations.

Independent Market Study Report

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

Internet retail sales



Source: Office for National Statistics

IMPACT OF COVID-19 AND BREXIT

The Covid-19 pandemic dramatically accelerated consumers' shift in spending to online retail as widespread lockdowns limited their ability to shop instore. Online retail spending reached a record high penetration rate of 37.7% of total retail spending in January 2021 and has remained at levels well above 25% throughout the year. The growth in online retail has fuelled an uplift in demand for warehousing space from both online-only and multichannel retailers as well as their logistics and parcel & post partners.

However, the Covid-19 pandemic has caused significant global supply chain challenges. Shutdowns in production locations and difficulties caused by transportation delays have meant that there have been some shortages of goods in the UK. This extends to consumer items – which has been particularly challenging for retailers in the latter part of the year and construction materials. The lack of products such as steel, concrete and cladding has been of particular concern for logistics and industrial property developers in 2021 and continues to create challenges for the pipeline in 2022. The shortage of products, along with the exceptional uplift in shipping costs, have led to cost increases, some of which are being absorbed by businesses, and therefore squeezing their margins, some of which are being passed on to customers.

In addition to the challenges the pandemic created, there remain impacts from the UK leaving the European Union (EU). Despite having formally left the EU in January 2020, there are existing challenges particularly in relation to the movement of goods and people. Much of the new legislation did not come into effect until the beginning of 2021 and has yet to be fully implemented. Consequently, some businesses across the UK have struggled to adjust to the new goods movement requirements which has led to supply-chain disruptions. For exporters, importers and logistics companies, 2022 is likely to remain challenging.

Brexit has also created challenges in labour supply: in addition to many EU nationals having left the UK in the lead up to and following Brexit, EU nationals seeking to work in the UK are now subject to a new

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

visa system implemented in 2021 which requires certain criteria to be met before being granted permission to work. This is creating challenges for businesses which have been historically reliant on migrant labour such as agriculture, hospitality, retail and leisure. In response to the immediate need for staff, the UK Government extended their emergency visa schemes to March 2022 to help abate labour shortages for those roles most affected.

OUTLOOK FOR THE UK ECONOMY

As the economic recovery continues, the UK is expected to continue to report elevated GDP growth in 2022 with 4.4% forecast[1] before moderating to pre-pandemic levels from 2023 onwards. Challenges in the labour market are forecast to persist with the unemployment rate expected to remain low (4.5% at year-end 2022)[1]. Consumer price inflation is expected to continue in the near to medium term with CPI forecast to remain elevated through to mid-2022 and start to moderate in the second half of the year; this could weigh on consumer confidence and therefore spending. The Bank of England has already signalled that it anticipates that there may be further tightening of monetary policy over the next several years in order to meet its 2% inflation target sustainably and the base rate is expected to see further uplift through 2022 to end the year higher than 1% for the first time since 2009.

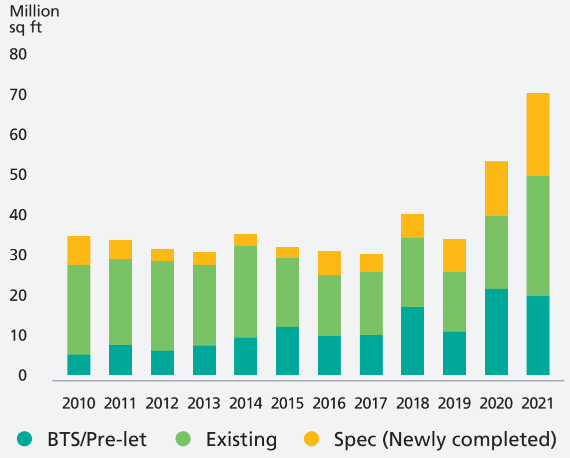
OVERVIEW OF THE UK LOGISTICS & INDUSTRIAL MARKET IN 2021

Occupational take-up for UK logistics and industrial space (units of 50,000 sq ft or more) reached a record high of 70.1 million sq ft in 2021, 32% more than the previous record of 53.0 million sq ft in 2020. Demand has particularly been fuelled by growth in online retail, dramatically propelled by the pandemic and consumers' inability to shop instore, which has translated to appetite for more warehousing space.

Ecommerce operators committed to 20.5 million sq ft in 2021, accounting for 29% of total take-up and many multichannel retailers also took space to serve both their online and store-based retail networks. Logistics providers also accounted for a large proportion of occupier demand in 2021, taking 13.7 million sq ft or 20% of 2021 total take-up.

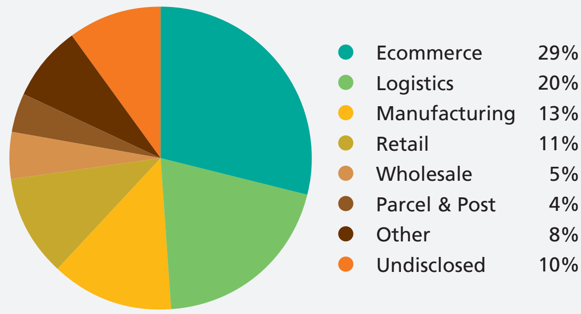
Occupier demand has been focused on good quality floorspace, in particular newly constructed buildings. 40.2 million sq ft of new space was taken

Occupier take-up (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Occupier take-up by occupier sector (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

by occupiers in 2021 and for the first time on record, more speculative space was taken than built-to-suit. Such has been the urgency of need for space, that demand for second-hand buildings reached its highest level in over a decade. Occupier appetite for smaller units of 50,000-200,000 sq ft – particularly as last mile/urban logistics facilities in and near cities and town, especially London – has been particularly strong in 2021.

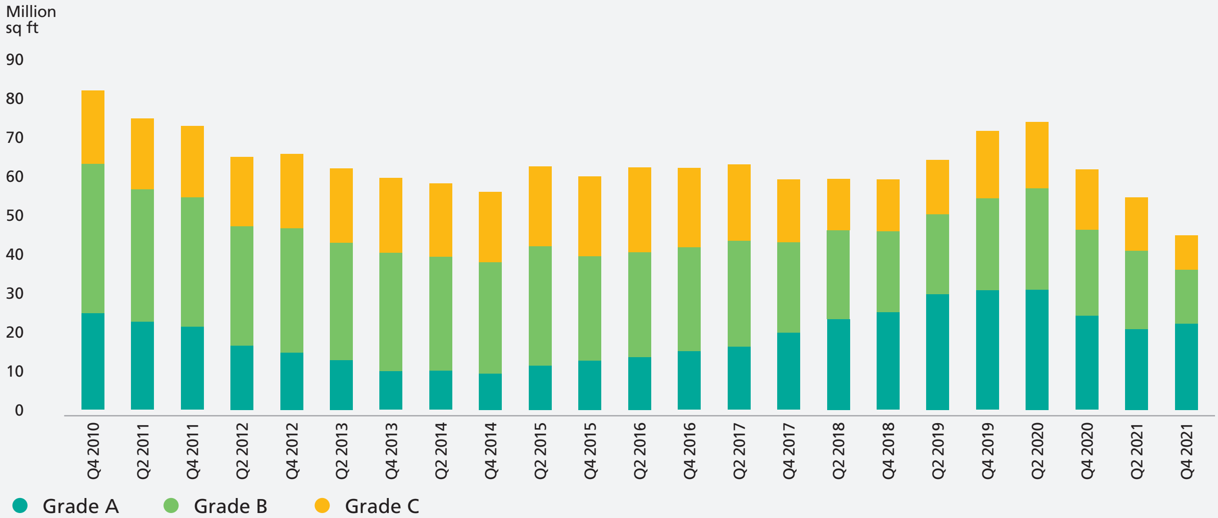
In response to this exceptional occupier demand, developers have delivered almost double the volume of speculative space compared to 2020. 13.7 million sq ft was completed in 2021, up from 7.3 million sq ft

1 Source: Moody's Analytics

in 2020. Moreover, developers have continued their trend to build units of 50,000-200,000 sq ft across the country, but such is their confidence in occupiers' appetite for new build stock, developers have also speculatively delivered larger units of 400,000 sq ft or more and have built schemes in locations that have seen little recent speculative development. The strength of occupier demand has meant that developers have seen leasing voids shorten for many speculative schemes. Of the buildings completed in 2020-2021 and let, 97% have been let within a year of practical completion.

Despite this new supply, logistics and industrial availability in the UK is currently at its lowest level ever recorded: 44.7 million sq ft of existing stock (either as newly-built speculative space or second-hand buildings) and as speculative space under construction is currently being marketed as available. This represents less than half the 95.0 million sq ft available at the market peak in March 2010. Grade A space, which has been most acutely in demand from occupiers, has fallen to 22.1 million sq ft. This translates to an availability rate of just 3.9%, down from 5.5% in Q4 2020 and the lowest recorded level.

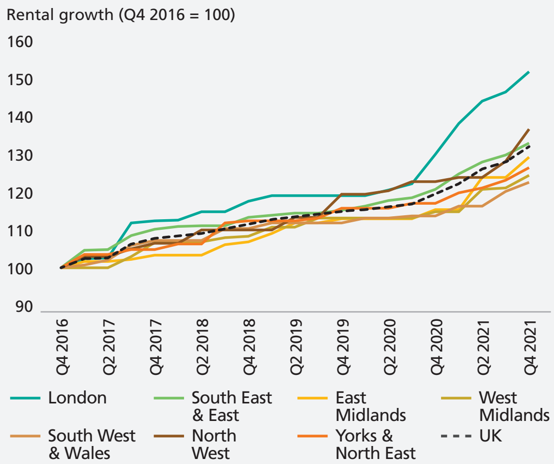
Availability (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

The ongoing strength of demand and availability constraint means upward pressure on rents is continuing. In 2021, the prime rental levels across the country grew by an average of 10.5%, well in excess of any previous year. Over the five-year period, rental levels are now on average 32% higher than they were in Q4 2016. In some locations, particularly in London and the South East, rents are 50-100% higher. Rental growth has been widespread with nearly every location tracked seeing rental uplift in 2021; the highest levels of growth have been seen in London, South East, North West, Yorkshire & Humber and East Midlands. Occupier incentives have remained broadly stable over 2021 but still remain at historically competitive levels. Landlords, however, are increasingly looking to harden incentives in the near term. Also, landlords have considerably tightened their positions on lease term and are more inclined to defer interest in favour for longer lease terms in comparison to shorter leases of less than 10 years.

Prime headline rental growth (units of 50,000-100,000 sq ft)

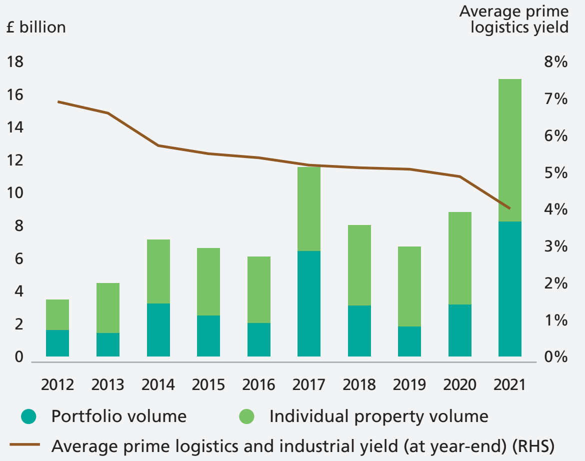


Source: Cushman & Wakefield Research

Independent Market Study Report

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

Investment volume and prime yields



Source: Cushman & Wakefield Research

As a result of the attractive market dynamics and in particular the potential for rental growth, investors' interest in the logistics and industrial sectors remains strong and continues to drive pricing. Investment volumes reached a record £16.9 billion in 2021, up 93% on the £8.8 billion transacted in 2020. This exceptional uplift in volume was particularly driven by an increase in portfolio transactions which reached £8.2 billion, including £1.7 billion sale-and-lease back of ASDA's portfolio to Blackstone, the second largest deal ever recorded. Overseas investors, led by North American private equity, have been dominant, accounting for 64% of acquisition volumes in 2021, compared to 54% in 2020. Across the market, investor pricing for assets has also continued to sharpen: most buyers have adjusted to the "new normal" for logistics and are prepared to accept lower returns and longer holding periods. The Cushman & Wakefield prime average yield fell by circa 87 bps during the year to reach a new record low of 4.0% with equivalent yields below 3.5%, now commonplace in London.

OUTLOOK FOR UK LOGISTICS & INDUSTRIAL MARKET

Occupier demand is set to remain strong into 2022. Retailers and logistics operators in particular are already signalling their commitment to more space in the year ahead. However, occupier take-up is unlikely to reach the levels recorded in 2021 as the level of availability remains constrained. Based on average annual occupier take-up levels from the past five years, there is currently less than one year's supply available. These demand-supply dynamics, coupled with rising build costs, means that rental growth is expected to continue into 2022 and beyond. In 2022, the average growth in rents across the market is expected to reach 8.6% followed by 5.9% in 2023 and an average annual growth rate of 3.1% per annum for the 2024-2026 period.

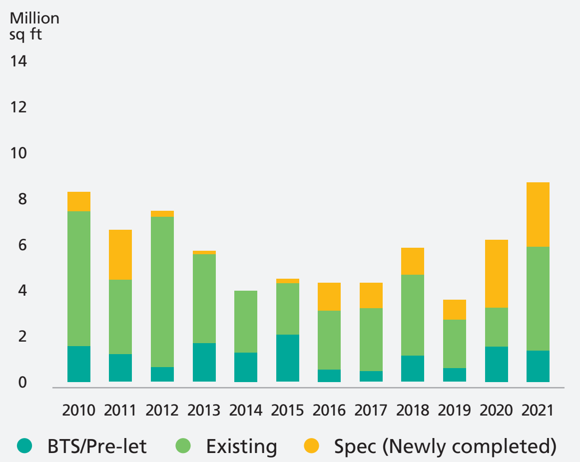
Rental growth expectations, underpinned by the structural shifts supporting the market dynamics, and attractive returns relative to other asset classes mean that investors' interest in the sector will remain strong. Despite being at their lowest levels on record across UK markets, prime logistics and industrial yields are expected to compress further in 2022, driven by the weight of capital targeting the sector and the limited supply of investment-appropriate product. This limited supply of product may result in fewer transactions and lower investment volume in 2022 than in 2021, although some fall in numbers may be mitigated in increased values and limit the impact on volumes. Beyond 2023, as UK interest rates are expected to be lifted further, logistics and industrial yields are expected to move out albeit relatively modestly and are expected to remain low in the longer-term context.

NORTH WEST ENGLAND

Occupier take-up

Occupier take-up in the North West reached a record high of 8.7 million sq ft in 2021. Take-up of standing buildings - both as newly-built speculative units and existing second-hand units– was particularly strong, reflecting the speed with which occupiers require operational space. As in many markets, ecommerce operators, particularly Amazon, were the most acquisitive occupiers in 2021 (representing 27% of total take-up) along with logistics operators (27%) and manufacturers (20%).

Occupier take-up (units of 50,000 sq ft or more)

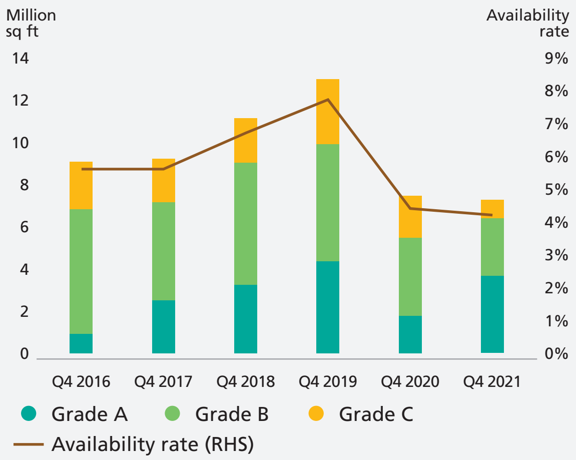


Source: Cushman & Wakefield Research

Development pipeline and availability

The strength of demand has meant that developers have continued to commit to speculative development in 2021. Developers delivered 2.2 million sq ft with 3.0 million sq ft currently under construction. Even with this additional space being built, availability in the North West remains constrained: total available space has held broadly flat but available Grade A space has increased. The availability rate has also held flat at 4.2% in Q4 2021, compared with 4.4% in Q4 2020, but this remains at historically very low levels.

Availability (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Rents and incentives

The acute lack of supply is pushing rents into new territory in the North West. Prime headline rents in excess of £8.00 per sq ft are now being achieved for 50,000-100,000 sq ft units in the Manchester metropolitan area, with other key locations also seeing uplifts. Overall, across the region, average rents have increased by 36% over the last five years and in 2021, reached its highest level on record at 11%. Occupier incentives have held relatively stable since end 2020 and remained at competitive levels but instead, landlords have continued to push headline rental level growth.

Prime headline logistics rents

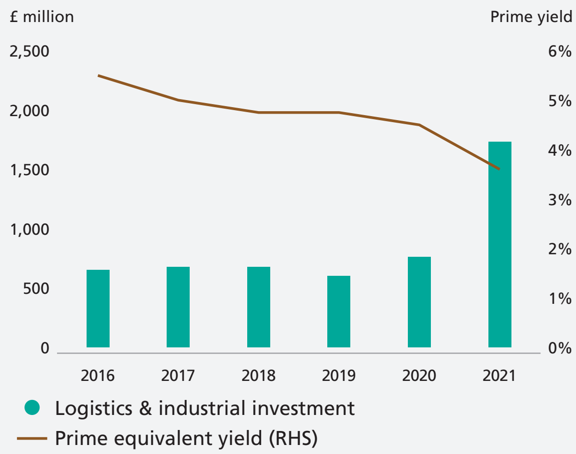
Units of 50,000-100,000 sq ft (£ per sq ft per annum)

Location	Dec-20	Dec-21
Liverpool	6.25	7.50
Manchester	7.25	8.25
Warrington	7.25	7.75
Crewe	6.40	6.50
North West average	**6.58**	**7.30**

Investment market and yields

Logistics and industrial investment volumes totalled £1.7 billion in 2021, up from £762 million in 2020. One of the largest deals in 2021 was the forward-sale of L'Oreal's new distribution centre at Heywood Distribution Park to LCN Capital for circa £109 million, reflecting an initial yield of 3.80%. Another notable deal was the acquisition by NFU Mutual of a 216,777 sq ft warehouse let by Amazon on a 10-year lease at Kingsway Business Park, Rochdale, for £32.5 million, reflecting an initial yield of 3.75%. On a net equivalent basis, Cushman & Wakefield prime benchmark yield for the region for 10-year income has fallen by 90 bps during 2021 to 3.40%, and by 190 bps over the last 5 years.

Investment volume & prime yield



Source: Cushman & Wakefield Research, RCA

Outlook

Occupier demand is expected to remain keen in the North West but with limited availability, opportunities for this demand to be realised may be constrained. Developers are committing to further speculative development and several large development schemes have recently been granted planning approval. The favourable demand-supply dynamics are expected to continue to drive above-average rental growth in the short to medium term. For prime North West logistics rents, Cushman & Wakefield forecasts cumulative rental growth of 12.0% for 2022 and 2023. Overall, over the five-year period 2022-2026, prime headline rents are forecast to grow by almost 4% per annum.

YORKSHIRE & HUMBER

Occupier take-up

Occupier take-up in Yorkshire & Humber reached a record high of 10.6 million sq ft in 2021. This was fuelled by demand for built-to-suit space and especially for very large units of more than 500,000 sq ft. Logistics operators have been highly acquisitive in the region, accounting for 30% of take-up, as have ecommerce operators (27%), nearly all of which was taken by Amazon.

Development pipeline and availability

This level of demand has meant developers have committed to more speculative development - 1.2 million sq ft – albeit this level would have arguably been higher had more land been available or ready for development. A further 1.4 million sq ft of speculative space is currently under construction. Despite this new supply, availability in the region has fallen further, particularly Grade A space which has almost halved. The availability rate in Q4 2021 was 1.9%, compared with 3.3% in Q4 2020, and is now at its lowest rate.

Rents and incentives

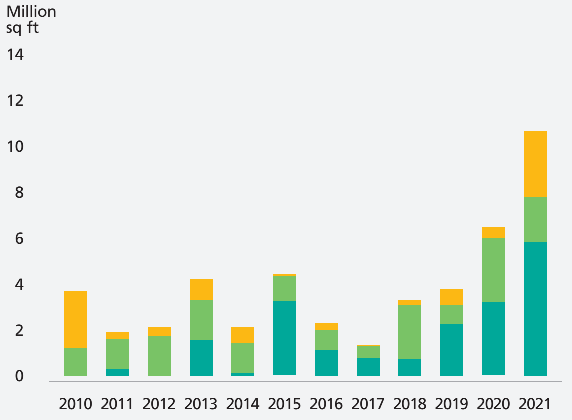
Prime headline rents for units of 50,000-100,000 sq ft in Yorkshire & Humber have reached new record levels of £6.75 per sq ft since the start of the pandemic. Across the region, average rents have increased by 28% over the last five years and growth was particularly strong in 2021, at 9% year-on-year. Occupier incentives have held relatively stable since end 2020 but landlords have sought to achieve higher rental levels. In an environment of limited supply, incentives are expected to remain under pressure in 2022.

Prime headline logistics rents

Units of 50,000-100,000 sq ft (£ per sq ft per annum)

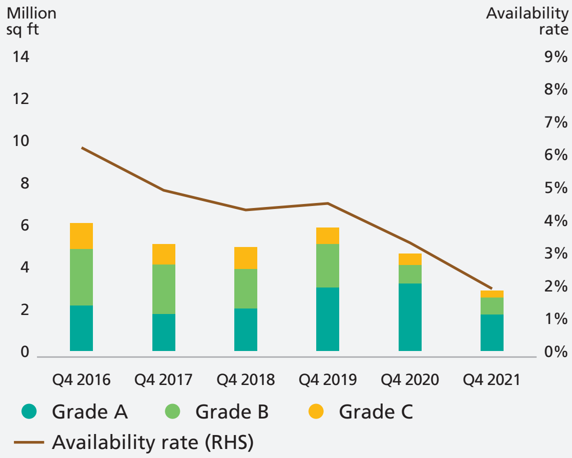
Location	Dec-20	Dec-21
Doncaster	6.00	6.50
Leeds	6.50	7.25
Sheffield	6.25	7.00
Wakefield	6.25	6.75
Yorkshire & Humber average	**6.20**	**6.75**

Occupier take-up (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Availability (units of 50,000 sq ft or more)

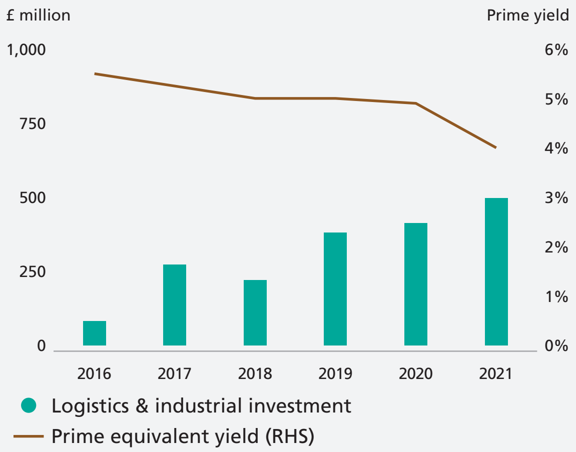


Source: Cushman & Wakefield Research

Investment market and yields

Logistics and industrial investment volumes totalled £499 million in 2021, 21% higher than the £414 million transacted in 2020. One of the largest single-asset deals completed in 2021 was the sale-and-lease-back of the 777,042 sq ft Next distribution centre in Elmsall, Wakefield, to Aberdeen for circa £110 million, reflecting an initial yield of 3.60%. The same yield was achieved on the sale of Building One and Units 5-7 at Logic Leeds, Leeds, (180,362 sq ft) for £29 million. On a net equivalent basis, Cushman & Wakefield prime benchmark yield for the region for 10-year income has fallen by 90 bps during 2021 to 4.00%, and by 150 bps over the last 5 years.

Investment volume & prime yield



Source: Cushman & Wakefield Research, RCA

Outlook

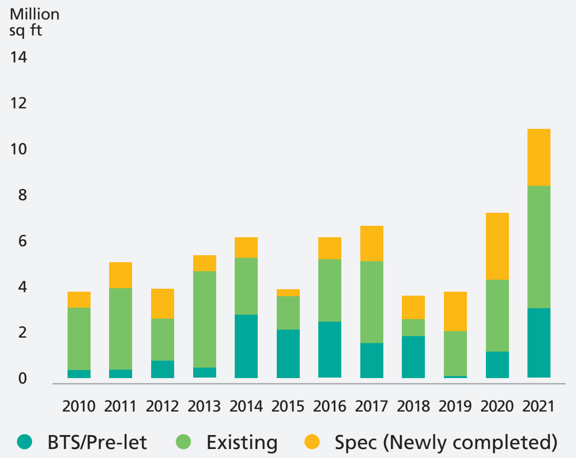
Whilst occupier demand continues to focus on Yorkshire & Humber, particularly for very large units, the lack of available space is likely to constrain the opportunities for occupier take-up. Developers are planning further development and actively bringing schemes through the planning system to provide more supply to the region. New speculative developments combined with pent-up demand for modern distribution space is expected to generate strong rental growth in 2022 and 2023. For prime Yorkshire & Humber logistics rents, Cushman & Wakefield forecasts cumulative rental growth of 17% in 2022 and 2023. Overall, over the five-year period 2022-2026, prime headline rents are forecast to grow by 5% per annum.

WEST MIDLANDS

Occupier take-up

Occupier take-up in the West Midlands reached a record high of 10.9 million sq ft in 2021, supported in particular by strong demand for built-to-suit space and occupiers' appetite for standing space – both new speculatively-built and existing space – reaching record levels in 2021. Ecommerce operators and logistics providers were both highly acquisitive in 2021 accounting for 32% and 23% of total take-up. Occupier activity in the region was predominantly in smaller units of 50,000-200,000 sq ft. Of the 68 transactions in the region in 2021, 60 were for units of this size range.

Occupier take-up (units of 50,000 sq ft or more)

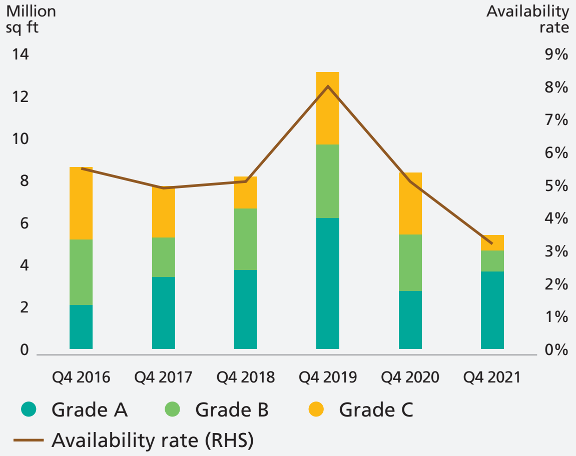


Source: Cushman & Wakefield Research

Development pipeline and availability

The volume of demand for built-to-suit space and the constraint of development-ready land has meant that speculative delivery has been limited in the West Midlands. In 2021, just 0.5 million sq ft was delivered, down from 1.9 million sq ft in 2020. The pipeline for 2022 is already strong with a total of 3.4 million sq ft under construction. However, such has been the level of demand in 2021 that availability in the region has fallen further. The availability rate in Q4 2021 was 3.2% compared with 5.1% in Q4 2020, and is now at its lowest rate.

Availability (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Rents and incentives

The acute demand supply imbalance seen in 2021 has fuelled rental growth, with rents around and above the £8.00 per sq ft threshold now being more routinely achieved for 50,000-100,000 sq ft units in the Birmingham and Coventry areas. Along the M6 corridor leading to Manchester, rents are typically lower, with rental levels in the Stoke market estimated to be in the mid-£6.00s per sq ft range. Across the region, average rents have increased by 24% over the last five years and 2021 saw above-average rental growth of 9%. Occupier incentives have remained relatively stable since end 2020 at competitive market levels but landlords are likely to pursue shorter rent-free periods in the near term, particularly for standing Grade A space.

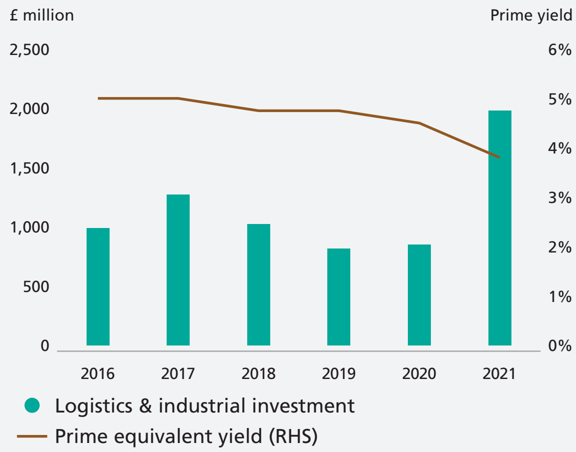
Prime headline logistics rents
Units of 50,000-100,000 sq ft (£ per sq ft per annum)

Location	Dec-20	Dec-21
Birmingham	7.00	8.00
Coventry	7.00	8.00
Rugby	7.25	7.75
Stoke	6.00	6.50
West Midlands average	**6.52**	**7.08**

Investment market and yields

Logistics and industrial investment volumes totalled £2.0 billion in 2021, more than double the volume achieved in 2020. One of the largest single-asset deals in 2021 was the sale of Jaguar Land Rover's 1.1 million sq ft campus in Solihull, Birmingham, to WP Carey for £141 million. Providing a good indicator on the level of current pricing is the sale in Q4 last year of Antar and Discovery Park (449,752 sq ft) in Wolverhampton, to 4th Group for £68 million, reflecting a net initial yield of 3.63%. On a net equivalent basis, Cushman & Wakefield prime benchmark yield for the region for 10-year income has fallen by 70 bps during 2021 to 3.80%, and by 120 bps over the last 5 years.

Investment volume & prime yield



Source: Cushman & Wakefield Research, RCA

Outlook

The West Midlands is home to the second largest city in the country as well as many major manufacturers and occupier demand is expected to continue to be strong in 2022, particularly for smaller units. Developers are actively developing speculative space to increase the immediate supply and several major development schemes for future supply are also being worked through planning and design. For prime West Midlands logistics rents, Cushman & Wakefield forecasts cumulative rental growth of 10% for 2022 and 2023. Overall, over the five-year time horizon of 2022-2026, prime headline rents are forecast to grow by over 3% per annum.

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

EAST MIDLANDS

Occupier take-up

At 13.6 million sq ft for 2021, the East Midlands set a new record for annual occupier take-up for any region. The region also saw the highest level of annual take-up of speculative space with 6.6 million sq ft transacted in the year. A large number of different ecommerce operators have been highly acquisitive in the region, taking 32% of space; as have been logistics operators (22%) and multichannel retailers (19%). Occupiers were particularly active in the larger unit sizes of over 400,000 sq ft, totalling 39% in 2021.

Development pipeline and availability

On the back of phenomenal occupier demand, developers have committed to exceptional levels of speculative development in the East Midlands: in 2021, developers delivered 4.2 million sq ft, the highest volume for any region in the country. Developers who were particularly active in the region include GLP, Prologis and Panattoni. However, despite this elevated level of speculative delivery, the volume of available space more than halved since the end of 2020, reflecting a fall in the availability rate from 7.5% to just 3.5% in Q4 2021. This is also despite new speculative developments totalling 2.8 million sq ft currently under construction.

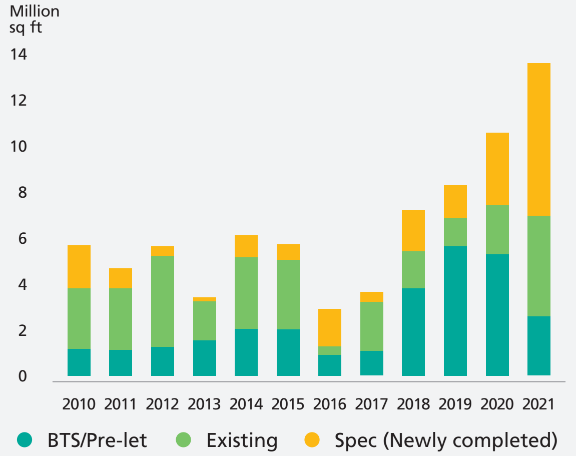
Rents and incentives

Amid an acute lack of supply, new speculative developments continue to set new record rents in the East Midlands. Prime headline rents for units in the 50,000-100,000 sq ft size band have already reached (and are close to surpassing) £8.00 per sq ft in the key submarket of Northampton, and trending towards that level in other areas. Lutterworth particularly has seen record uplifts in 2021, driven by the latest phase of development at Magna Park. Across the region, average rents have increased by 30% over the last five years and was particularly strong in 2021 at 11%. Occupier incentives have remained relatively stable since end 2020 at competitive market levels but landlords are likely to pursue shorter rent-free periods in the near term, particularly for standing Grade A space.

Prime headline logistics rents
Units of 50,000-100,000 sq ft (£ per sq ft per annum)

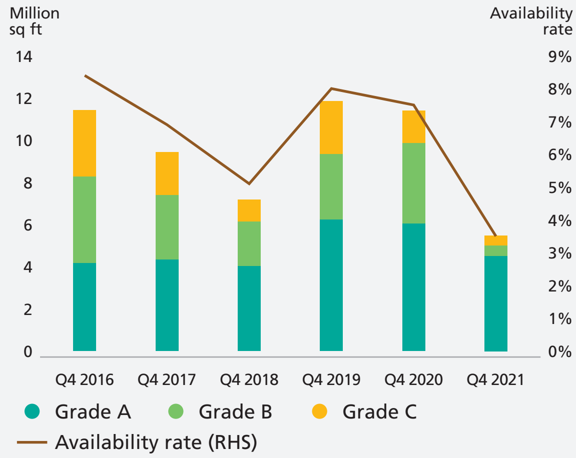
Location	Dec-20	Dec-21
Leicester	6.75	7.25
Lutterworth	6.25	7.95
Northampton	7.50	8.00
Derby	6.50	7.25
East Midlands Average	**6.44**	**7.15**

Occupier take-up (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Availability (units of 50,000 sq ft or more)



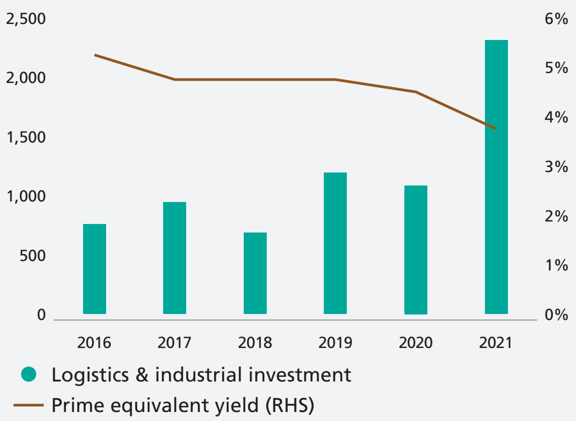
Source: Cushman & Wakefield Research

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

Investment market and yields

Logistics and industrial investment volumes totalled £2.3 billion in 2021, more than double the volume transacted in 2020. 2021 has seen many portfolios and large single assets traded in the region, including Amazon's 1.1 million sq ft distribution centre in Bardon, Coalville, to a consortium of Korean investors for £164 million in Q2, reflecting an initial yield of 3.8% (the asset previously sold in 2016 for £127 million) and a newly built 532,000 sq ft unit in Hinckley also let to Amazon on a 20-year term was acquired by Abrdn for circa £90 million, reflecting an initial yield of 3.10%. On a net equivalent basis, Cushman & Wakefield prime benchmark yield for the region for 10-year income has fallen by 75 bps during 2021 to 3.75%, and by 150 bps over the last 5 years.

Investment volume & prime yield



Source: Cushman & Wakefield Research, RCA

Outlook

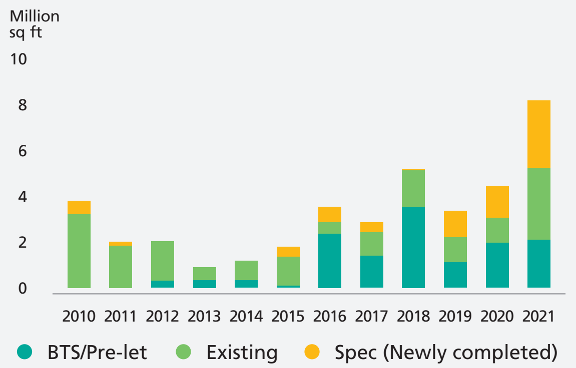
Occupier demand is expected to remain strong in the East Midlands, particularly for units of more than 100,000 sq ft. Developers continue to bring further supply forward and more are expected to be started through 2022 although the current demand-supply imbalance is likely to persist in the medium term and expected to drive further rental growth. For prime East Midlands logistics rents, Cushman & Wakefield forecasts cumulative rental growth of 13% for 2022 and 2023. Overall, over the five-year time horizon of 2022-2026, prime headline rents are forecast to grow by 4% per annum.

EAST ENGLAND

Occupier take-up

Take-up in the East of England has historically been modest in comparison to nearby regions such as the East Midlands. However, in 2021, take-up reached a new record level of 8.2 million sq ft, fuelled in particular by exceptional demand for speculatively-built space. Exceeding take-up of both built-to-suit and existing space, take-up of speculative space in the region reached a new high of 2.9 million sq ft, with occupier activity focused on schemes in Peterborough, Bedford, Luton/Dunstable and Basildon. Ecommerce was a key driver of demand with Amazon and specialist ecommerce services provider MH Star taking multiple units during the year. Occupier take-up has typically been focused at the smaller end of the market in this region with occasional larger-unit transactions, but in 2021, 43% of take-up was for units of 200,000-400,000 sq ft.

Occupier take-up (units of 50,000 sq ft or more)



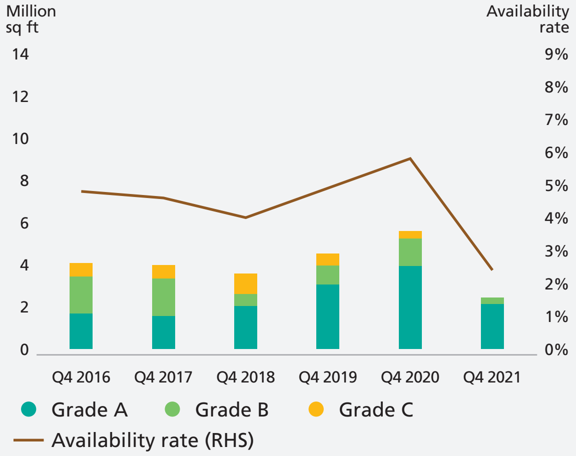
Source: Cushman & Wakefield Research

Development pipeline and availability

On the back of the exceptional occupier demand across the market, developers have committed to more speculative developments in the East than ever before: in 2021, developers delivered 12 speculative units, mostly centred around Bedford and locations to the north of London, with another nine buildings totalling 1.3 million sq ft under construction. However, despite this elevated level of speculative delivery, availability fell from 5.6 million sq ft at Q4 2020 to just 2.4 million sq ft at Q4 2021; this reflects a fall in the availability rate from 5.8% to just 2.4% in Q4 2021.

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

Availability (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Rents and incentives

Rents in East of England has registered rental growth of 11% in 2021 driven by an increase in speculative developments in response to a growing squeeze on supply. Prime headline rents for units of 50,000-100,000 sq ft have reached £11.00 per sq ft in Harlow, and moving further away from London, £8.75 per sq ft and £6.75 per sq ft respectively in Bedford and Peterborough. Across the region, average rents have increased by 36% over the last five years. Occupier incentives have remained relatively stable since end 2020 at competitive market levels but landlords are hardening their positions and are likely to offer shorter rent-free periods in near term, particularly for standing Grade A space.

Prime headline logistics rents

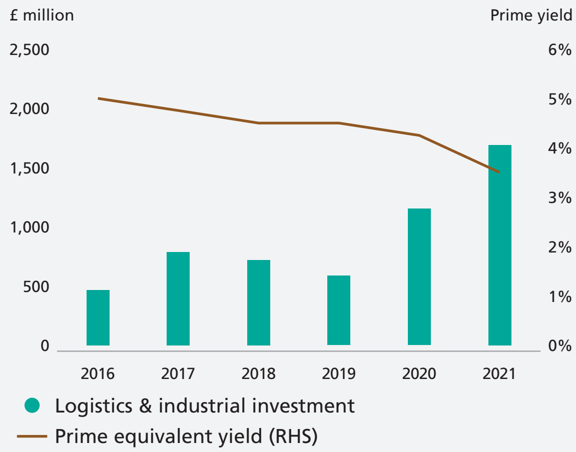
Units of 50,000 -100,000 sq ft (£ per sq ft per annum)

Location	Dec-20	Dec-21
Peterborough	6.00	6.75
Bedford	8.00	8.75
Harlow	9.75	11.00
East average	**8.78**	**9.72**

Investment market and yields

Logistics and industrial investment volumes totalled £1.7 billion in 2021, up by 47% on 2020. Recent noteworthy deals include the sale in Q4 of the former Debenhams' 736,000 sq ft distribution centre in Peterborough, recently let to Amazon, to M&G Real Estate for £120 million, reflecting a 3.2% initial yield; and the sale, also in Q4, of a 346,000 sq ft speculative development in Luton let to Ocado on a 20-year lease for circa £100 million, reflecting an estimated 3.0% initial yield. On a net equivalent basis, Cushman & Wakefield prime benchmark yield for the region for 10-year income has fallen by 50 bps during 2021 to 3.50%, and by 90 bps over the last 5 years.

Investment volume & prime yield



Source: Cushman & Wakefield Research, RCA

Outlook

The East of England market remains undersupplied for good quality space and this imbalance is unlikely to be resolved in the short to medium term, with further rental growth expected as a result. While Cushman & Wakefield forecasts presently do not extend to the East region, the rental growth profile can be expected to align with that of the East Midlands and South East, for which Cushman & Wakefield expect annual rental growth of circa 4% per annum over the five-year forecasting period (2022-2026).

LONDON & SOUTH EAST ENGLAND

Occupier take-up

Occupier take-up in London & the South East reached 6.6 million sq ft in 2021, marginally ahead of the previous record high of 6.5 million sq ft in 2020. The majority of space transacted in the region was existing second-hand stock but take-up of speculative space reached a new record high for the region. Occupier demand was spread across a wide number of sectors but, as in many other regions, ecommerce operators represented the largest source of demand, accounting for 24% of total take-up in 2021. Occupier activity in the region is predominantly in smaller units of 50,000-200,000 sq ft and this was again the focus of demand in 2021: of the 61 transactions in the region in 2021, 58 were for units of this size.

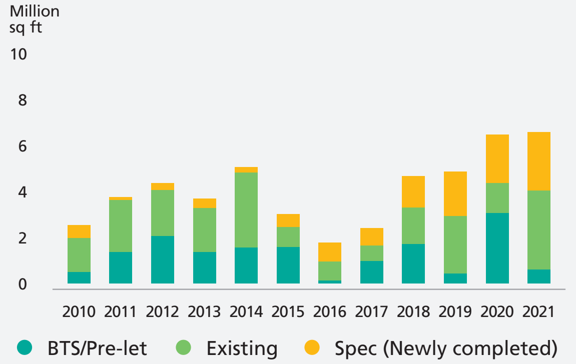
Development pipeline and availability

The appeal of the London & South East market in terms of high value retention, low void risk and high rental growth potential has spurred developers to deliver more speculative space with 2.3 million sq ft completed in 2021 with the overwhelming majority sized between 50,000 sq ft and 200,000 sq ft. However, despite this level of speculative delivery, availability fell to just 6.4 million sq ft at Q4 2021, reflecting a fall in the availability rate from 5.8% to just 4.8% in Q4 2021. This is also despite a further nine units totalling 0.9 million sq ft currently under construction and more is anticipated to be brought forward during the year.

Rents and incentives

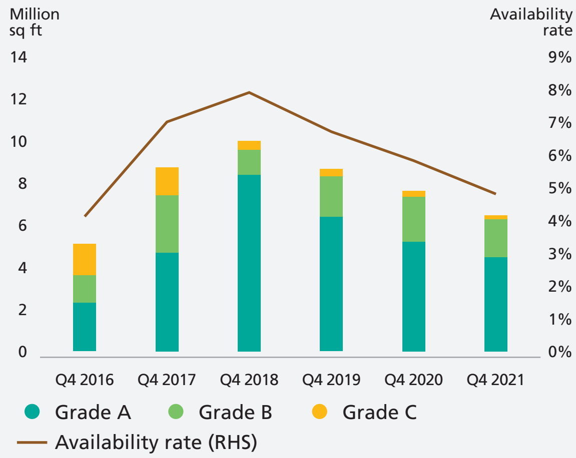
Greater London and the South East regions have both experienced robust rental growth over the last five years. The continuing shift to online retail, which accelerated during the pandemic, combined with London's constrained industrial stock in particular, have seen average rents across the capital grow by 51% over the last five years. Average rents in London locations have risen by 17% in 2021. In the South East, rents have increased by 30% since 2016 and by 9% in 2021. Occupier incentives have remained relatively stable since end 2020. However, in London, incentives have hardened as demand has substantially outstripped supply.

Occupier take-up (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Availability (units of 50,000 sq ft or more)



Source: Cushman & Wakefield Research

Independent Market Study Report

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

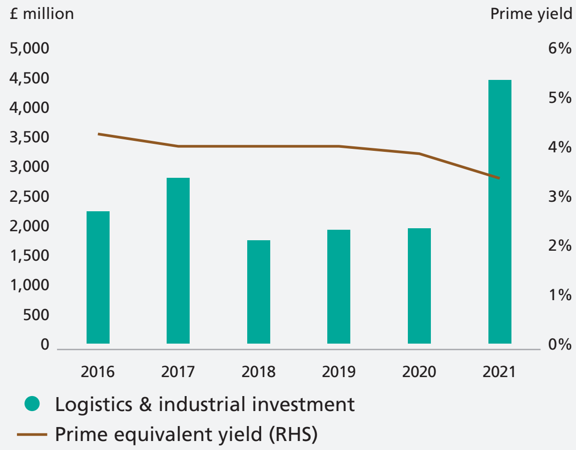
Prime headline logistics rents
Units of 50,000-100,000 sq ft (£ per sq ft per annum)

Location	Dec-20	Dec-21
Dagenham	13.00	16.50
Enfield	14.00	17.50
Park Royal	18.00	25.00
London average	**13.83**	**16.20**
Crawley	14.00	15.50
Milton Keynes	8.50	9.75
Slough	15.50	16.25
South East average	**10.50**	**11.44**

Investment market and yields

Logistics and industrial investment volumes in the London & South East region totalled £4.5 billion in 2021, more than double that of 2020. Investors have been particularly active in London accounting for 65% of volume. From a pricing perspective, new deals continue to set new benchmarks for yields. Reflecting strong rental growth expectations, initial yields below 3.00% are now being seen in London as illustrated by the sale in Q2 of Heritage House, with 216,808 sq ft fully let to Waitrose and Crown Records Management in Enfield for £87.2 million to British Land (2.17% initial yield) and the acquisition by M&G Real Estate of Asda's 320,000 sq ft Belvedere depot for circa £90 million in Q2 (2.50% initial yield). As a result, capital values in excess of £600 per sq ft are now increasingly commonplace in the capital. Outside London, notable recent deals include the sale of John Lewis's 617,000 sq ft distribution centre in Milton Keynes to CBRE IM for circa £140 million in Q4 last year and the sale of Waitrose's 396,000 sq ft distribution centre in Milton Keynes to BentallGreenOak for £71.8 million in Q2 last year, reflecting an initial yield of 3.40%. The property was last sold in 2011 for just under £39 million. On a net equivalent basis, Cushman & Wakefield prime benchmark yield for the region for 10-year income profile has fallen by 50 bps during 2021 to 3.35%, and by 90 bps over the last five years. The South East and particularly London tend to be leading changes in pricing and have experienced yield compression earlier in the cycle.

Investment volume & prime yield



Source: Cushman & Wakefield Research, RCA

Outlook

London and the South East market are expected to continue to enjoy strong rental growth in 2022 and 2023. London is expected to continue to outperform, with rental values (for units in the 50,000-100,000 sq ft size band) in West London expected to reach £30.00 per sq ft within this timeframe, and push into £20.00 per sq ft territory in East London. For the five years between 2022 and 2026, rents are expected to increase by an average of 7% per annum in West London and almost 10% per annum in East London. For the South East markets, Cushman & Wakefield forecasts that rents will grow by an average annual rate of over 4% per annum for the five-year period 2022-2026.

BY CUSHMAN & WAKEFIELD, FEBRUARY 2022

EUROPEAN DATA CENTER MARKET

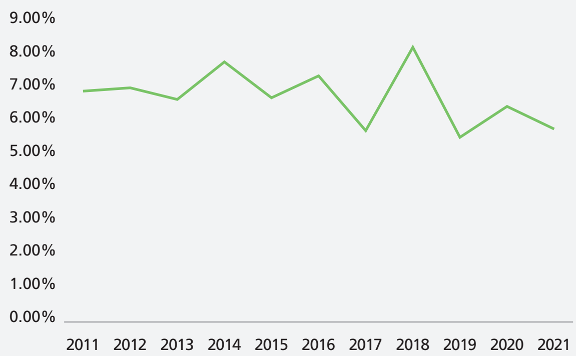
The European data center market has continued to grow from four core markets to a maturing and multifaceted continental asset class across primary, secondary, and tertiary locations. For much of the past decade, most of the action was focused on the so-called FLAP markets (Frankfurt, London, Amsterdam, and Paris) with the business capitals of each of four of the largest European economies underpinning a data center sector that served financial and multinational corporations. As cloud computing began to be of interest, Dublin became a target market for the largest services, attributed to available land and power at lower cost along with select tax benefits for locating in Ireland. Dublin rapidly grew to primary-market size, with continued interest in further development despite increasing power constraints. The onset of the pandemic led to an acceleration of cloud adoption across Europe as it did in other global markets; large companies and government agencies alike pursued their migrations more quickly as staff have been forced to work from home and still require access to all standard applications.

As the largest cloud services require ever-greater capacity to serve their local clients, data center operators have scaled their developments ever-larger to accommodate these growing deployments. In turn, secondary markets across the continent have been the growth story over the past two years, with Milan, Madrid, Warsaw, Zurich, and a swathe of markets across the Nordics rapidly growing as key cloud services have launched regions and a variety of secondary cloud services have followed to gain fast access. Further tertiary markets have shown growth potential of late, with secondary markets within countries (i.e. Madrid expansion leading to Barcelona interest or Frankfurt expansion leading to Berlin interest) causing primary and secondary deployments for cloud services in the same country.

As the major cloud services have spurred interest in new markets, several mergers and acquisitions (M&A) have occurred involving European data center operators of late, with capital provided by new backers leading to further platform development in new and current markets. Digital Realty closed their acquisition of Interxion early in 2020, paying €7.6 billion to expand into several secondary markets across the continent and setting off a wave of expansions by other groups.

The Nordics have been a particular target of late, with the renewable energy and available land of particular interest for investors. Israeli real estate firm Azrieli Group more recently acquired Norwegian data center firm Green Mountain for €750 million, IPI Partners has purchased DigiPlex, and Partners Group has agreed to acquire atNorth, with closing expected later in 2022. Other more US-focused acquisitions have European components, with Blackstone purchasing QTS and KKR and GI Partners agreeing to buy CyrusOne, with both suspected of further European expansion in coming years. Many recent M&A deals have featured multiples of 25-30 times revenue, suggesting expectations of sizable future growth.

European Data Center Cap Rates- Single Assets



Source: C&W Research

Chart: Cap rates on individual data center sales across the continent have yet to stabilize as the market has yet to reach maturity. Wide swings thanks to the small number of individual assets on offer (older vs. newer, hyperscale vs. colocation) will likely continue for some time.[1]

1 Source: C&W Research

UNITED KINGDOM DATA CENTER MARKET – LONDON

Absorption

London has experienced several strong quarters of absorption, with the second quarter of 2021 the highest on record in the last two years. Take-up has been led per usual by the largest cloud services, with mid-size cloud and finance also taking sizable capacity.[2]

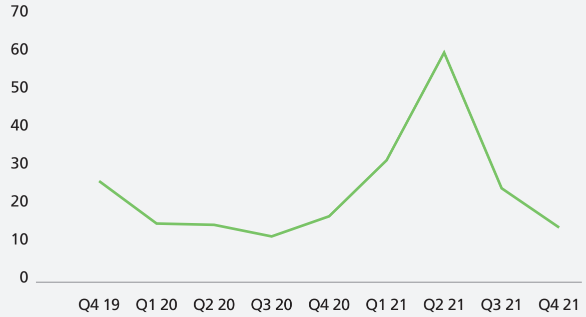
Market Vacancy

London has continued to tighten slowly but steadily, with vacancy dropping below the 10% market in the second quarter of 2021 and likely staying there for the foreseeable future. Although 9% vacancy is higher than certain other primary markets, much of this is in small amounts across several buildings rather than available in large vacancies in one location.[3]

Rental Rates

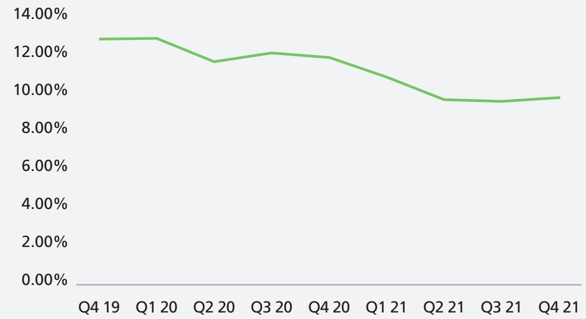
Wholesale and retail rates[4] have remained flat throughout London over the last two years, with consistent demand for larger deployments and little compression on smaller deals. Wholesale pricing averages £85-95 kWh/month, higher than many of the largest primary markets globally thanks to hyperscale and institutional demand. Retail rates remain in the £190-200 kWh/month range.[5]

Absorption (MW)



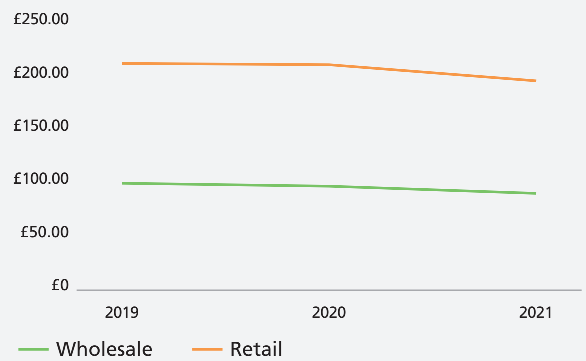
Source: C&W Research, datacenterHawk

Market Vacancy



Source: C&W Research, datacenterHawk

London Rental Rates-£/kWh/month



Source: C&W Research, datacenterHawk

2 Source: C&W Research, datacenterHawk
3 Source: C&W Research, datacenterHawk
4 Wholesale deals are roughly considered those above 250 kW in size, with retail colocation deals sized below this. There is no standard industry definition for this term.
5 Source: C&W Research, datacenterHawk

London Construction Table[6]

London has the highest data center under-construction by power in the global market, attributed to robust client demand, strong pricing, and continued land and power availability. Further construction is expected to start in the coming year as hyperscalers demand further capacity.[7]

Operator	Location	Size (sqm)	Power (MW)	Stage / Est. Delivery
Echelon Data Centres	LCY 10	12,000	20	Under Construction / Q1 2022
	LCY 20	9,000	30	Under Construction / Q4 2022
NTT	Hemel Hempstead 4	9,600	24	Under Construction / Q1 2022
Equinix	LD8 Phase 4	1,533	3	Under Construction / Q1 2022
	LD7 Phase 2	6,341	9.1	Under Construction / Q2 2022
	LD11x Phase 2	4,955	9	Under Construction / Q3 2022
Virtus	London 8	19,000	18	Under Construction / Q1 2022
	London 11	5,500	13	Under Construction / Q4 2022
Telehouse	Docklands	31,000	30	Under Construction / Q1 2022
Custodian Data Centres	DA2	2,500	10	Under Construction / Q2 2022
CyrusOne	London IV	17,280	6	Under Construction / Q2 2022
	London V	12,077	16.5	Under Construction / Q3 2023
Iron Mountain	LON-2	25,000	9	Under Construction / Q4 2022
Ark Data Centres	Union Park	56,000	75	Under Construction / Q4 2022
	Longcross Park	35,768	30	Under Construction / Q4 2023
	Alliance Park	27,871	45	Under Construction / Q4 2023
Global Technical Realty	Slough	16,125	40.5	Under Construction / Q4 2022
Yondr	Slough	41,312	30	Under Construction / Q1 2023
Columbia Threadneedle	Langley	93,000	100 (est)	In Planning
Stratus Cromwell	London	90,000 (est)	100	In Planning
EdgeCore	Bracknell	8,692	20	In Planning

London Data Center Sales[8]

Property	Size (sqm)	Sale Date	Sale Price	Cap Rate	Buyer	Seller
Vodafone- Longshot Ln, Bracknell	8,813	Dec-21 (in contract)	£57,000,000	N/A	Keppel DC REIT	Fiera Real Estate, SEDCO Capital
Equinix- 6 Harbour Exchange Sq, London	25,845	Nov-21 (in contract)	£196,500,000	3.99%	Blackstone European Property Income Fund	Land Securities
Datum- Old Ively Rd, Farnborough	3,716	Sep-21	£20,000,000 (est)	N/A	UBS	Darwin Private Equity
Bank of America- Stanhope Rd, Camberley	13,500	Nov-20	£35,000,000 (est)	N/A	Lincoln Rackhouse, Sprott	Bank of America
142 Beddington Ln, Croydon	16,414	Aug-19	£44,840,000	3.8%	Segro	Aviva Investors

United Kingdom Data Center Market- Manchester

Manchester is a tertiary data center market, with a total market size of less than 20 megawatts and home to a handful of major data center operators including Equinix (due to their takeover of Telecity), Pulsant, and iomart. As the United Kingdom has yet to develop a true secondary data center market, the city has considerable potential, thanks to its urban population of nearly three million, making it the second largest such area in the country, and large professional employment sector across the financial and distribution industries. Equinix is particularly bullish on Manchester, having launched construction of the 2,000 cabinet MA5 late in 2021, with several phases expected in coming years.

6 Source: C&W Research
7 Source: C&W Research
8 Source: C&W Research

FRANCE DATA CENTER MARKET – PARIS

Absorption

Paris enjoyed fantastic take-up early in 2020, with further major take-downs difficult due to the smaller size of the market in comparison to other primary European peers. The large-scale projects currently moving through the planning process will allow for easier take-up by hyperscalers in coming years.[9]

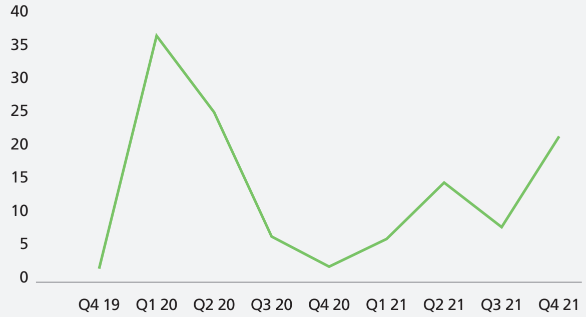
Market Vacancy

Market vacancy across Paris has continued to tighten over the last two years, with smaller phased construction falling behind demand. The result is one of the tightest markets globally, falling below 4% by the third quarter of 2021.[10]

Rental Rates

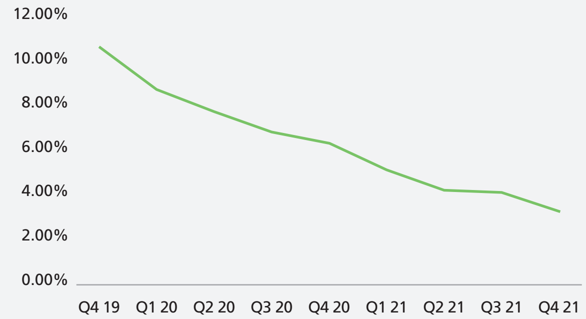
Rental rates have stayed strong in Paris, with little compression thanks to consistent demand and lack of large-scale supply. Wholesale rates have stayed around €205/kWh/month on average.[11]

Absorption (MW)



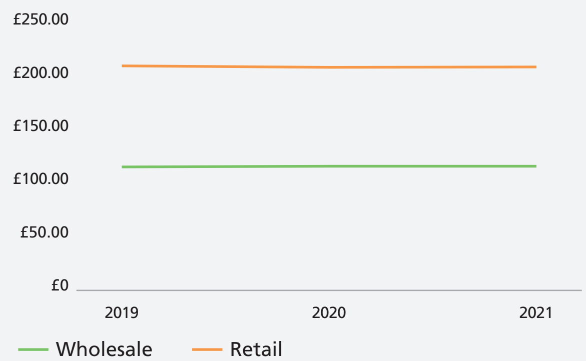
Source: C&W Research, datacenterHawk

Market Vacancy



Source: C&W Research, datacenterHawk

Paris Rental Rates-€/kWh/month



Source: C&W Research, datacenterHawk

9 Source: C&W Research, datacenterHawk
10 Source: C&W Research, datacenterHawk
11 Source: C&W Research, datacenterHawk

Paris Construction Table[12]

Further construction by major operators is underway across Paris, but the bigger story is the nearly 400 megawatts in planning among Digital Realty, DATA4, and new market entrant CloudHQ. This is far greater than the 250 megawatts currently operational throughout the market and should lead to further major deployments.

Operator	Location	Size (sqm)	Power (MW)	Stage / Est. Delivery
Equinix	PA10 Phase 1	3,969	5 (est)	Under Construction / Q2 2022
Digital Realty	Paris (3 buildings) Les Ulis	39,882 100,000 (est)	42.9 130	Under Construction / Q4 2022 In Planning
Telehouse	Magny-les-Hameaux	7,000 (est)	7	Under Construction / Q3 2023
DATA4	Marcoussis	100,000 (est)	100	In Planning
CloudHQ	Lisses	106,000	148.8	In Planning

Paris Data Center Sales[13]

Property	Size (sqm)	Sale Date	Sale Price	Cap Rate	Buyer	Seller
30 Rue du Chateau des Rentiers (Paris)	13,600	Jan-21	€81,700,000	N/A	Batipart, Assurance Credit Mutuel, Covea	EQT
3 mail Barthelemy Thimonnier (Lognes)	5,500	Jan-20	€10,000,000 (est)	N/A	Euclyde	HSBC
34 Rue Mozart (Clichy)	8,243	Dec-19	€20,000,000 (est)	N/A	Groupe Bertrand	Celes Real Estate, Meadows Partners
110 Ave General Leclerc (Pantin)	5,050	Oct-19	€20,000,000 (est); 80% interest	N/A	GIC Real Estate	Equinix
34 Rue Mozart (Clichy)	8,243	Dec-18	€12,600,000	N/A	Celes Real Estate, Meadows Partners	Perial

12 Source: C&W Research
13 Source: C&W Research

NETHERLANDS DATA CENTER MARKET – AMSTERDAM

Absorption

Much of the remaining large-scale capacity throughout Amsterdam was absorbed at the end of 2020 as prospective tenants realized that the local moratorium on new development was going to continue and jumped on remaining large-scale vacancies. Tepid absorption is expected until larger and newer spaces become available.[14]

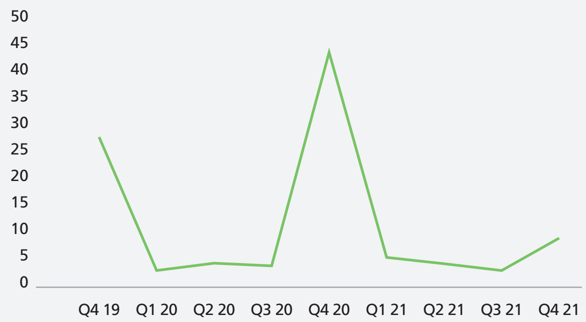
Market Vacancy

Vacancy across Amsterdam is largely found in older facilities and in smaller amounts, though this has now compressed to nearly 12% from 16% two years ago. Some of this may continue to tighten in coming years, particularly as local government has yet to provide outright guidance for the moratorium to lift.[15]

Rental Rates

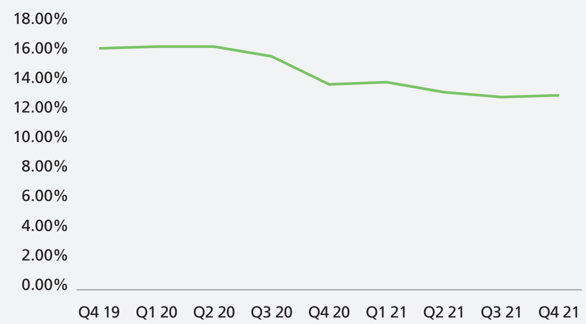
Rental rates have seen very slight compression over the last two years, with clients shopping the market yet not often finding the capacity required. Wholesale rates are moving toward €100/kWh/month, though this is likely dependent on any takedown of remaining small-scale space.[16]

Absorption (MW)



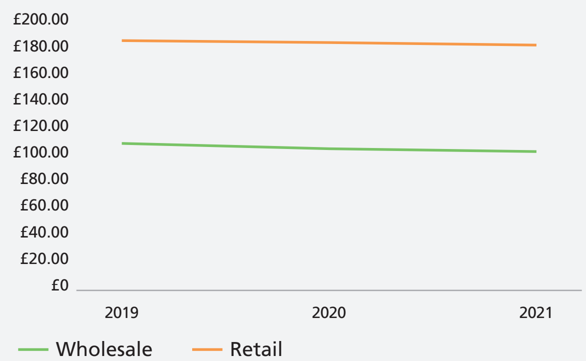
Source: C&W Research, datacenterHawk

Market Vacancy



Source: C&W Research, datacenterHawk

Amsterdam Rental Rates-€/kWh/month



Source: C&W Research, datacenterHawk

14 Source: C&W Research, datacenterHawk
15 Source: C&W Research, datacenterHawk
16 Source: C&W Research, datacenterHawk

Amsterdam Construction Table[17]

Despite the overall moratorium on large builds, previously approved phased construction has been allowed to continue in select cases. Just over 11 megawatts are readying for completion by year-end, with locally based Switch Datacenters looking to move forward on an 18 megawatt phase scheduled for completion at the same time.

Operator	Location	Size (sqm)	Power (MW)	Stage / Est. Delivery
Digital Realty	Amsterdam (2 buildings)	8,800	6.4	Under Construction / Q4 2022
Iron Mountain	AMS-1 Phase 4	6,271	5	Under Construction / Q4 2022
Switch Datacenters	AMS4 Phase 2	15,000 (est)	18	In Planning / Q4 2022

Amsterdam Data Center Sales[18]

Property	Size (sqm)	Sale Date	Sale Price	Cap Rate	Buyer	Seller
Naritaweg 52 (Amsterdam)	5,853	Dec-20	€5,500,000	Vacant	Egeria	Digital Realty
Gyroscoopweg 148 (Amsterdam)	7,450	Mar-20	€11,600,000	5.94%	Avignon Capital	Somerset Capital Partners
Dynamostraat 50 (Amsterdam)	4,794	May-18	€6,900,000	N/A	Dijkhuis Vastgoed	Ernst Russ
JW Lucasweg 35 (Haarlem)	13,935	May-18	€198,000,000	N/A	Iron Mountain	EvoSwitch
Schepenbergweg 42 (Amsterdam)	13,120	May-17	€25,100,000	5.5%	Equinix	Evans Randall

Switzerland Data Center Market – Geneva

Geneva has a total market size of less than 20 megawatts. Global operators, Equinix and GTT, are present in Geneva with one facility each, and local Swiss operator, SafeHost, has announced the impending construction of their SH2 data center in nearby Gland, with four megawatt phases to eventually total 18 megawatts across the entire facility. This building will join the already-constructed SH1, located in the suburb of Plan-les-Ouates. The city does have a sizable financial sector and could be used to serve clients in regional France and Italy, thanks to its convenient location close to the national borders of those countries. For all these reasons, the local data center market will likely expand in continued phases in coming years, potentially growing into a continental secondary-sized locale.

17 Source: C&W Research
18 Source: C&W Research

BY CBRE STRATEGIC INVESTMENT CONSULTING, FEBRUARY 2022

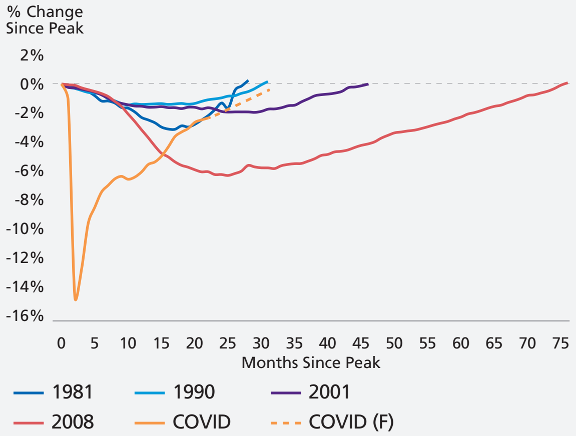
SECTION 1: UNITED STATES (U.S.) ECONOMIC OVERVIEW

Employment and Unemployment

After the steepest drop in employment on record in early 2020, the job recovery has been swift relative to the previous two recessions. While total employment has yet to rebound to the pre-recession peak, CBRE Econometric Advisors (CBRE-EA) forecasts that it will surpass that point in Q4 2022. This would make the recovery time for the COVID-19 recession 44 months shorter than the Global Financial Crisis (2007-2009) and 14 months shorter than the Dot-Com recession (2001). Office-using employment was much less impacted than the overall economy in 2020 and had fewer jobs to recover. That recovery was well underway in 2021 and office-using jobs are expected to surpass the pre-pandemic peak by mid-2022, ahead of the overall job market.

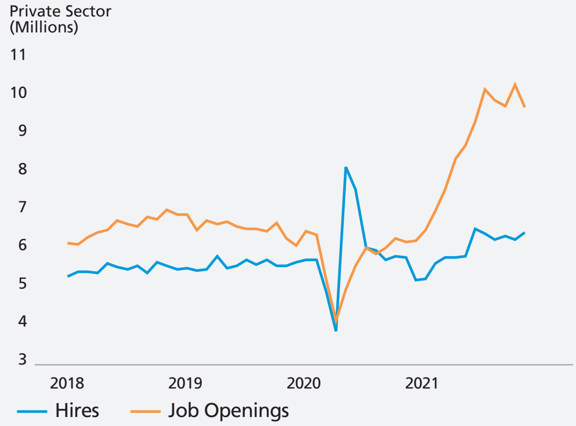
The labor market has been challenged though, with all-time high job openings amid all-time high quits and a still recovering labor force. Among those in the labor force, the unemployment rate ended 2021 at 3.9%, just 40 bps above the pre-recession figure. Job openings and turnover are impacting the office-using sector especially, with separation and job opening rates in professional and business services exceeding that of the overall private sector. Though the labor force is expected to grow in 2022, barring a significant rise in participation, the unemployment rate is expected to trend downward and remain in the 3%-4% range for the next several years.

Job Recovery On Pace to Reach Pre-Pandemic Peak by End of 2022



Source: U.S. Bureau of Labor Statistics, Oxford Economics

Record High Job Openings Underscore Tight Labor Market



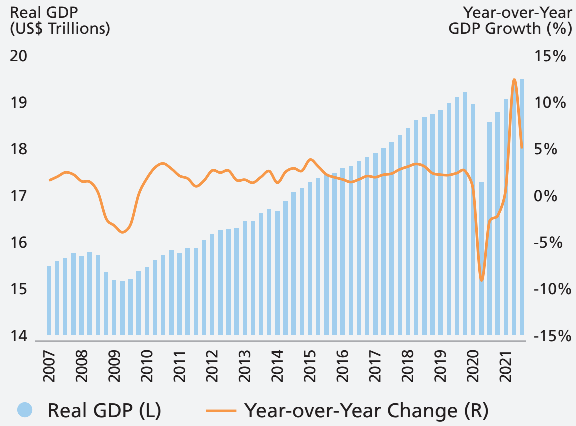
Source: Bureau of Labor Statistics

GDP

After a sharp decline in early 2020, GDP was quick to rebound, with real GDP returning to the pre-COVID-19 peak in Q2 2021. CBRE-EA estimates real GDP increased by 5.8% year over year in 2021 and will increase by another 4.7% in 2022. Beyond next year, Real GDP is expected to grow but at a progressively slower pace through 2024 as the recovery settles.

Though aggressive fiscal stimulus including government spending supported GDP growth in 2021, Gross Private Domestic Investment (GPDI) rebounded to the pre-pandemic peak in Q4 2020 after a significant dip in Q2 2020. GPDI growth accelerated to a new all-time high in Q3 2021, indicating private domestic businesses are making significant fixed investments coming out of the recession.

Real GDP Exceeded Pre-Pandemic Peak in Q3 2021



Source: U.S. Bureau of Economic Analysis; U.S. Federal Reserve Bank

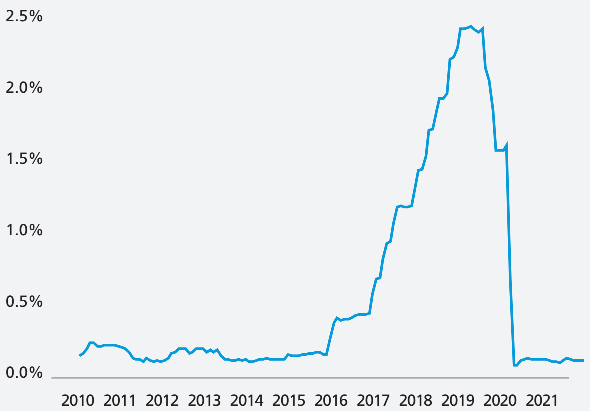
BY CBRE STRATEGIC INVESTMENT CONSULTING, FEBRUARY 2022

Inflation, Interest Rates, and the Fed

After a sustained period of very low inflation, the consumer price index (CPI) soared in the latter half of 2021, with the year-over-year change reaching a 40-year high in November. CBRE-EA estimates that the annual average CPI growth rate finished four times higher in 2021 than the 2020 rate, but CBRE-EA and the Federal Reserve both expect CPI to settle to 2%-2.5% by the end of 2022.

In response to COVID-19, the Federal Reserve cut the federal funds rate to 0%-0.25% in 2020 to spur lending and investment. As inflation took hold and labor market conditions generally improved in 2021, the Fed has indicated plans for steady hikes to the federal funds rate through 2022, but the target is still expected to remain below one percent. Despite the impending rise in the federal funds target, actual interest rates in the commercial lending markets will likely be slow to rise, due to the ample liquidity in the marketplace from the sustained period of lending by banks and other capital sources in recent years.

Federal Funds Rate Low but Expected to Rise Steadily



Source: U.S. Federal Reserve Bank

Population

Population growth slowed in 2020 and 2021 due to direct and indirect factors related to COVID-19. Aside from the direct health impacts on the population, net migration to the U.S. was at a historically low level in 2020 and only improved slightly in 2021. Net migration had already been slowing due to policy factors, and it is expected to remain low relative to historical norms until 2030. Slow population growth and low immigration are compounding labor force issues that are already hindering the recovery, but both are expected to accelerate in 2022 and 2023.

Government Stimulus

The U.S. Federal Government and Federal Reserve took extensive action in 2020 to address the economic consequences of the pandemic. Some of the stimulus activity, such as the Paycheck Protection Program, tapered to a close in 2021 as the economy showed signs of recovering. Two major fiscal policies came to the forefront in 2021, one of which was signed in the law, and the other which was still being debated as the year closed.

The bipartisan Infrastructure Investment and Jobs Act was signed into law in November 2021, which authorized US$1.2 trillion in spending to support federal highway and transit initiatives, including US$550 billion for hard infrastructure spending. Aside from the influx of money into the economy, the act will positively affect the challenged supply chain infrastructure and support warehouse and logistics growth over the next decade.

The Build Back Better bill was still being negotiated at the end of 2021, but if enacted would result in an estimated US$1.75 trillion over 10 years to support tax credit and health care subsidies that support spending among lower- and middle-income workers. The bill could also result in major tax code changes, which would include tax incentives for clean energy infrastructure and building retrofits that could impact commercial investors.

Drivers of Job Growth

Job growth in tech and life sciences remained relatively strong throughout the pandemic and is expected to accelerate in 2022. For example, scientific R&D services sector growth slowed but remained positive in 2020, and then grew by 3.8% in 2021 and is expected to grow by 3.5% in 2022—well above averages in the last cycle. The pharmaceutical and tech sectors performed similarly, with flat-to-slow growth in 2020, followed by more significant growth in 2021. Both sectors are expected to be growth drivers in 2022 with a growth rate above 3.5%. Healthcare jobs took a hit in 2020 after many outpatient services were put on hold, but bounced back in 2021 as medical offices began reopening. In 2022, the healthcare sector is expected to grow by 3.2% and be a major driver of job growth.

Outlook

Despite lingering challenges stemming from COVID-19 and the Omicron variant, CBRE expects a strong and growing economy in 2022 that will fuel demand for commercial real estate investment across all property types. Pandemic-induced labor force and supply chain disruptions have hindered the global economic recovery, but disruptions are expected to ease as the public health situation improves and more people return to work. Strong consumer demand, low interest rates and ample liquidity have driven inflation concerns in the market, which will require action from the Federal Reserve on interest rates, but tighter monetary policy is not expected to be enough to curb investor demand for commercial real estate. CBRE-EA expects the 10-year Treasury yield to return to above 2% in 2022, but still below the level in the years leading up to the pandemic. Low-cost debt availability and attractive risk-adjusted returns should drive rising asset values and spur a record year for commercial real estate investment in the U.S.

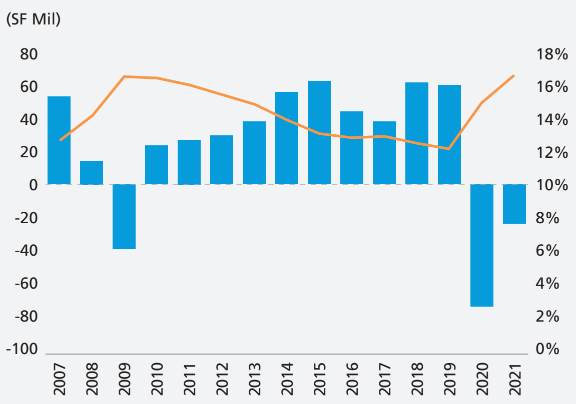
SECTION 2: U.S. OFFICE OVERVIEW

Market Fundamentals

After a historically challenging 2020 for the U.S. office market, signs of stability emerged in 2021. The vaccine rollout enabled office occupiers to begin reopening the workplace, though re-occupancy was tepid as public health challenges persisted. The late emergence and rapid spread of the Omicron variant brought a setback to re-occupancy plans for many tenants, but also hope that the relative mildness of this variant could mean the severity of the pandemic is waning.

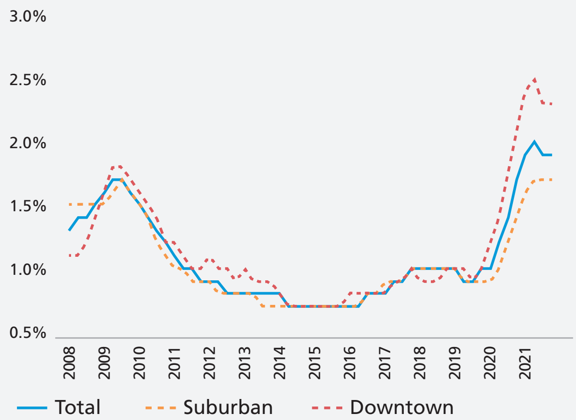
The total vacancy rate in 2021 matched the annual peak in the previous recession of 16.6% posted in 2009, and was 440 bps higher than the cycle-low in 2019. The downtown market has historically fared better than the suburban market in terms of vacancy, but the trend may be flipping. While total vacancy in the suburban market was higher at 16.8% to close 2021, the spread between Downtown and Suburban office vacancy fell to 40 bps—the lowest since 1998.

Net Absorption and Vacancy Rate



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

Sublease Vacancy Rate (%)



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

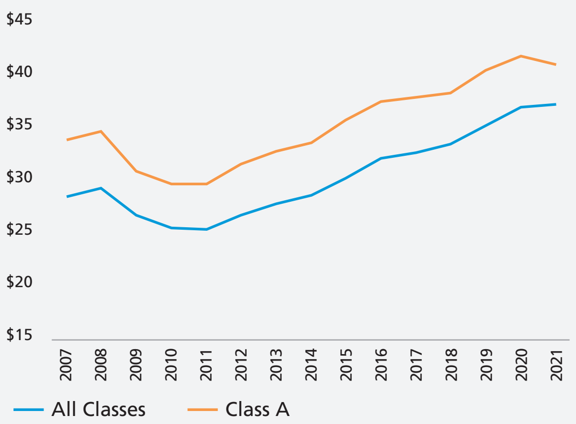
Sublease availability and vacancy showed signs of plateauing in 2021 and are expected to decline progressively in 2022. Sublease figures in suburban compared to downtown office were similar before the pandemic, but downtown markets have been hit harder by the rise in sublease listings, with sublease vacancy hitting 2.3% of net rentable area in downtowns by the end of 2021 compared to 1.7% in the suburbs. Class A assets were also more vulnerable to the rise in sublease listings, with some downsizing tenants opting to list their highest cost spaces, but this is consistent with previous downturns. The Class A sublease vacancy rate of 2.2% was 30 bps above all classes at the end of 2021, but Class A sublease vacancy was 40 bps higher than all classes at the previous recession peak in 2009.

CBRE's Leasing Activity Index, which tracks new, expansion and renewal leases of 10,000 sq. ft. and greater, indicates that leasing volume in Q4 2021 recovered to the average quarterly leasing in 2018 and 2019. New and expansion leasing activity especially rebounded in 2021 after renewals dominated 2020, which helped curb negative net absorption to 24.7 million sq. ft., a third of the space lost in 2020. The suburban market has fared better during the pandemic, with only -0.1% of inventory net absorbed in 2021, compared to -1.6% for Downtown markets. Class A suburban office demand grew in 2021 at 0.2% or 2.6 million sq. ft. of net absorption, but new construction accounted for 2.0% of inventory, meaning demand was still behind the new supply additions.

BY CBRE STRATEGIC INVESTMENT CONSULTING, FEBRUARY 2022

The average gross rental rate for U.S. office space was virtually flat in 2021, up 0.5% to US$36.82 per sq. ft. per year. The average suburban office rent grew similarly by 0.9% to US$28.02 per sq. ft. per year, while the average downtown rent fell by -2.3% to US$51.25 per sq. ft. per year amid continued soft fundamentals. CBRE-EA expects average rents to fall further in both downtown and suburban markets in 2022 before rebounding in 2023.

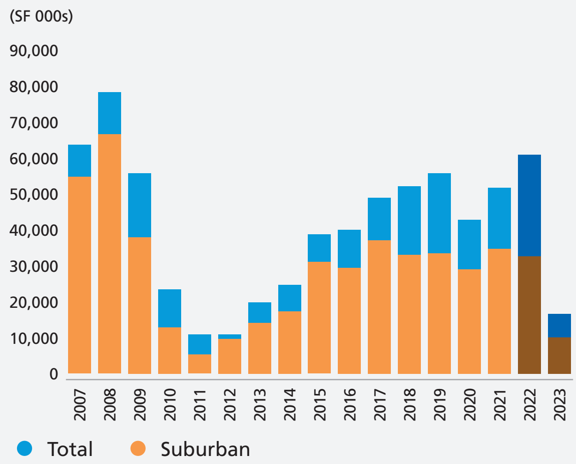
Average Gross Asking Rent (US$/SF/Yr)



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

More new office supply is expected to hit in 2022 in both suburban and downtown markets, but with suburban development slowing from its recent pace, downtown development is expected to outpace suburban development. From 2015-2021, 1.1% of the downtown office market was delivered per year on average and is expected to accelerate to 1.2% per year in 2022-2023. Conversely, the suburban office market delivered 1.3% per year from 2015-2021, but that figure is expected to slow to 0.8% in 2022-2023. Completions are expected to slow sharply in both downtown and suburban markets beginning in 2023 as developers halt plans amid the uncertainty in demand, resulting in limited competition for existing high-quality buildings from new product. Preleasing has been steady for new construction, with approximately half of the space under construction as of 2021 pre-leased, which should further limit the volume of new vacant space hitting the market in the next two years.

Construction Deliveries



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

Emerging Trends

COVID-19 accelerated remote-work adoption and is driving a shift to hybrid work models that will become common in the coming years. This trend will prompt owners and occupiers to reconfigure assets and redesign spaces to enhance collaboration and employee well-being. CBRE expects the average U.S. office worker to spend 24% less time in the office, and the 2021 Occupier Sentiment Survey showed that 87% of large companies plan to adopt a hybrid work approach.

Activity-based and amenity-rich workplaces will become the new standard as occupiers shift the focus to enhancing employee productivity and satisfaction in and out of the physical workplace. With the role of the office changing, flight to quality is expected to accelerate, and buildings with the most technology, flexibility and amenities will capture a growing share of demand.

SECTION 3.1: SAN DIEGO OFFICE MARKET[1]

Market Overview

Though San Diego's office market was hit hard by office closures and the effects of COVID-19 on the local economy in 2020 and the beginning of 2021, market conditions improved significantly by year end. One positive factor was an uptick in completions of office construction that had begun in the late 2010s—with demand for office space in the market consistently outpacing supply, deliveries of these pre-leased

1 Unless otherwise noted, stats refer to suburban office only

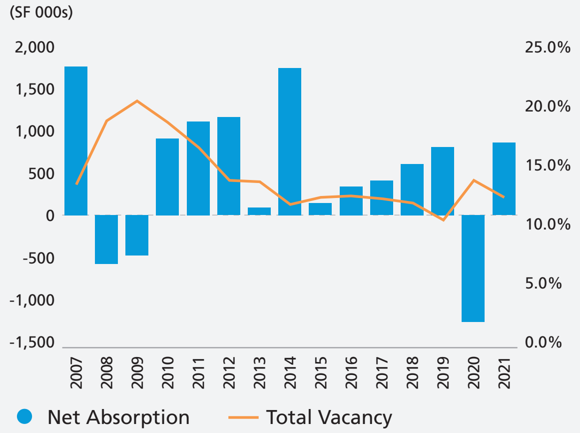
properties boosted both absorption and rental rates. Another key driver has been robust venture capital investment and startup growth fueling demand for life science conversions and premium office space in high-demand submarkets.

Leasing activity rebounded quickly in 2021, and by Q4 reached 2.3 million sq. ft., the most activity since Q3 2019. While all assets struggled to lease in 2020, most of 2021's leasing activity was driven by Class A absorption and smaller tenants re-entering the market after remote work for the past 18 months. The top transactions were dominated by new leases for life sciences and tech companies, followed by professional and financial services. The major leases were a roughly even split of Class A and Class B assets.

Strong leasing allowed net absorption to rebound to 862,000 sq. ft. in 2021 after historic lows in 2020 (-1.2 million sq. ft.). Much of the positive net absorption was driven by The Boardwalk in Torrey Pines (316,200 sq. ft.) delivering preleased to a legal firm, as well as professional services companies in tech and insurance leasing large blocks of space in Central San Diego. Net absorption in Class A assets remained steadier in 2020 and recovered more quickly in 2021. The segment benefited from sizable influxes of new supply in 2020 and 2021, which added much needed office space to a traditionally tight Class A office market where there had been very little space available for absorption pre-pandemic.

Total vacancy fell in the San Diego suburbs by 90 bps year over year in 2021, finishing the year at 11.5%, well-below the 22.4% Downtown vacancy rate. As employees across industries shifted into work-from-home schedules at the start of the pandemic, many tenants across the U.S. chose to list their unoccupied space for sublease, but suburban San Diego was largely spared from this trend, with sublease vacancy peaking in 2019 at 1.4%. The sublease vacancy rate fell 70 bps to 0.7% in 2021. Class A sublease vacancy totals only 169,000 sq. ft., but as a share of Net Rentable Area (NRA) was slightly elevated at 0.8% in 2021. Total vacancy for Class A in suburban San Diego was also slightly higher than all classes, but fell 200 bps from the previous year to close 2021 at 12.3%. The Class A vacancy rate is slightly elevated from the relatively large share of NRA completed in recent years, with 6.6% of the 2021 NRA built in the previous five year period, compared to 3.5% for all classes.

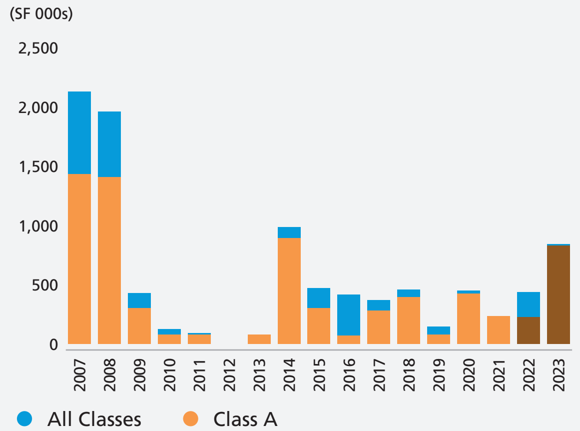
Net Absorption and Vacancy Rate



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

In total, 447,000 sq. ft came online in 2020 and 234,000 sq. ft. in 2021, with all but 13,000 sq. ft. Class A properties. Completions were concentrated in the University City (UTC), Del Mar Heights, and Downtown submarkets, and most assets were partially or fully pre-leased on delivery. The construction pipeline has been growing since 2019 and remains robust with 1.2 million sq. ft. under development as of Q4 2021. 624,000 sq. ft. of new office construction broke ground in Q4, primarily at Torrey View in Del Mar Heights (520,000 sq. ft.) and La Jolla Commons III in UTC (213,000 sq. ft.), which is pre-leased to the University of California, San Diego.

Construction Deliveries

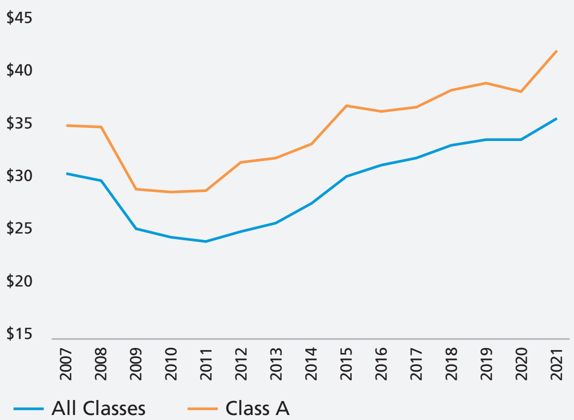


Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

BY CBRE STRATEGIC INVESTMENT CONSULTING, FEBRUARY 2022

The average gross rent in San Diego increased 6.1% year-over-year to US$35.46 per sq. ft. per year in 2021, the highest asking rate on record. Increased rates have mainly been driven by life sciences users competing for premium space in submarkets like Del Mar Heights, Torrey Pines, and Sorrento Mesa/ Valley; a decreasing supply of office buildings due to life science conversions; and large tech tenants absorbing space as they have expanding quickly in the market in recent years.

Average Gross Asking Rent (US$/SF/Yr)



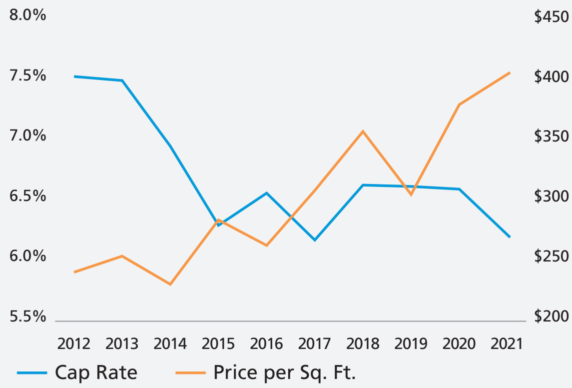
Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

San Diego had a significant increase in sales activity in 2021, with volume more than doubling to US$3.4 billion after a slowdown in 2020 (US$1.4 billion). Total sales volume for 2021 was 66% higher than the 10-year average and the highest annual figure since 2007. The trailing 12-month price per sq. ft. rose to US$402 by the end of 2021, up 38% from the 10-year average of US$291 per sq. ft. and 7% from 2020.

The largest sale in 2021 was Longfellow's acquisition of the Lusk Business Park portfolio in Sorrento Mesa for US$315 million. Longfellow plans on redeveloping the 20.6 million sq. ft. business park into a life sciences campus, with construction slated to begin in 2023. The second largest transaction was John Hancock Real Estate's sale of its 481,000 sq. ft. Lusk Mira Mesa Business Park portfolio to Alexandria Real Estate (ARE) for US$298.5 million, with potential plans to redevelop the campus once current leases expire. REITs like ARE, Longfellow and IQHQ have spent the past several years in the market investing in office and conversions to life science space, a trend that is likely to continue as venture capital continues to flow into local tech and life science companies. ARE alone has invested over US$1.3 billion in San Diego, with US$1.2 billion in Torrey Pines and Sorrento Mesa.

Rising values and increased interest in suburban life-science conversions drove the trailing-12-month average cap rate down to 6.2% at the end of 2021, a 30 bps decrease year over year. CBRE-EA estimates that the average institutional-grade cap rate for San Diego fell 40 bps to 4.5% in 2021 and expects the average cap rate to remain at that level over the next five years.

San Diego Suburban Cap Rate and US$/SF



Source: Real Capital Analytics; CBRE Strategic Investment Consulting
Cap rates and PPU displayed as a 12 Month Average.
Includes property or portfolio sales $2.5 million or greater.

The market has been a venture capital hub in recent years, with local companies like Qualcomm, General Atomics, and Teradata driving innovation and the development of startup hubs and communities in the 2010s. Proximity to high-ranking universities like University of California, San Diego (UCSD), San Diego State University (SDSU) and University of San Diego provide a pipeline of science, technology, engineering and mathematics (STEM) talent.

While life science venture capital has flowed steadily into the region since 2016, funding accelerated rapidly beginning in 2018. Venture capital funding raised by local companies surged from a then-historic high of US$1.1 billion in Q3 2018 to US$2.5 billion by Q4 2021, with one-quarter going into life sciences and half into tech companies. The venture capital surge led to many local companies expanding rapidly into the market and several companies reaching unicorn status in the past four years. In addition to growth of local companies, larger tech companies like Google and Apple have aggressively expanded footprints in the past few years in submarkets like UTC and Sorrento Mesa.

Submarket Commentary

Sorrento Mesa
Sorrento Mesa is one of the most in-demand submarkets for life sciences and tech in the region, including well-known names like Qualcomm, Raytheon and Dexcom. The submarket is characterized by traditional office, as well as lab facilities and R&D/Flex space. The submarket is near the region's top accelerators and incubators, organizations supporting startups, and venture capital/pledge firms, as well as important STEM talent pipelines like UCSD and venture-backed firms. The submarket has seen increased conversion activity from traditional office to life science, which has helped tighten the office leasing market and increased lease rates.

Class A assets saw an uptick of activity in the second half of 2021, but Class B activity was stronger over the year. Leasing activity was dominated by a mix of extensions, renewals and new leases from tech and life science companies. Total vacancy rose to a pandemic high of 18.4% by the end of 2020 for all classes, but fell to 8.9% in 2021, the lowest total vacancy rate in Sorrento since 2007. The submarket's resiliency and fast recovery is supported in part by the nature of life sciences, which often necessitates in-person presence to access facility equipment and a sterile environment to conduct the work. Sublease vacancy ballooned during the pandemic to 4.6% by the end of 2020, impacted by the sizable number of firms occupying traditional offices moving to remote work. The trend was short however, as the sublease vacancy rate dropped 450 bps to 0.1% in 2021.

Rancho Bernardo
Rancho Bernardo is characterized by traditional office and R&D/Flex space. The submarket is located along the freeway Interstate 15 corridor, which has seen a significant influx of tenants who have been displaced by life science conversions in Sorrento Mesa. The decreasing office supply in nearby submarkets could lead to increased office demand in Rancho Bernardo over the next 12-36 months. In addition to constrained overall office supply from life science conversions in surrounding submarkets, there is limited Class A availability, particularly following tech companies like Apple expanding their footprints over the past two quarters in Rancho Bernardo.

The vacancy rate in Rancho Bernardo closed the year slightly higher than the nearby suburban submarkets, but space is still relatively scarce, with only 455,000 sq. ft. or 12.7% of NRA vacant. With increasing demand outpacing supply, the average gross asking rent for Class A rent grew by 9.5% year over year in 2021 to US$41.93 per sq. ft. per year.

Market Outlook

After a dip in 2020, base and effective rents are now back above 2019 levels, on average. New leases and expansions accounted for roughly three quarters of all leases (10K+) in 2021 compared to less than half in 2020. After lease terms fell by a full year to 5 years on average in 2020, they are now back up to 5.8 years on average in 2021, an indication that tenants are comfortable committing to longer leases again. Renewals were especially short in 2020 (four years on average) but rose above five years again in 2021.

A large amount of new speculative product will be delivered in UTC and Del Mar Heights in 2022-2023, with little pre-leasing in some of the large multi-tenant assets, which could test the suburban market including the Sorrento Mesa and Rancho Bernardo submarkets.

For the San Diego suburban market, the potential of strong organic growth via venture capital and the expansion of legacy companies like Qualcomm and defense tech like Raytheon, plus growth from relocations and indirect impacts like Apple's presence in the market, inspire confidence in the market over the next several years.

SECTION 3.2: RALEIGH-DURHAM OFFICE MARKET[2]

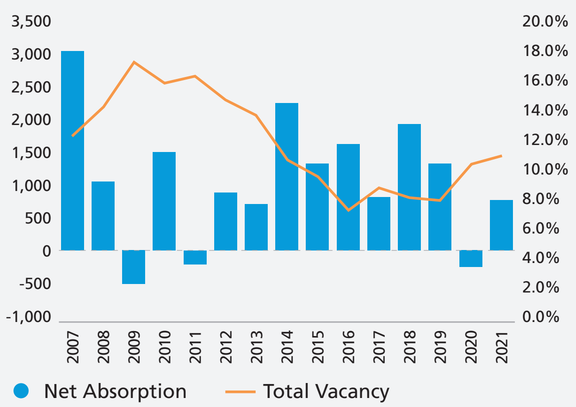
Market Overview

Significant space givebacks from 2020 were quickly reabsorbed by the beginning of 2021, with net absorption of 298,000 sq. ft. in Q1 2021 alone and 768,000 sq. ft. in total for the year. Other positive trends in the market include the continued growth of office-using services employment in the past two years, with 7,800 jobs added in 2020 and another 6,300 jobs added in 2021.

Leasing activity in the past two years was concentrated in the life sciences and tech industries, with companies like IQVIA Inc. and Biogen signing deals to renew and expand space in the market. Although total leasing activity fell slightly in 2021 from the prior year, 2021 saw a shift toward more new leases (vs. 2020 when shorter term renewals made up half of all leasing activity) and increased leasing of Class A product.

2 Unless otherwise noted, stats refer to suburban office only

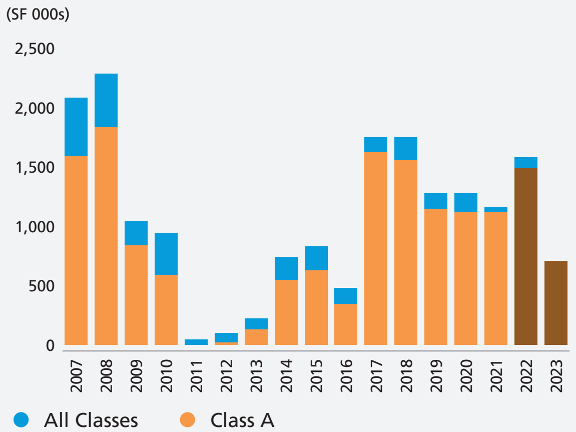
Net Absorption and Vacancy Rate



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

Despite strong demand, elevated construction deliveries caused the vacancy rate to rise another 50 bps over 2020 levels to reach 10.8%, the highest rate since 2013. However, the vacancy rate remains well below the 17.2% peak from the prior recession. The Class A vacancy rate increased by 360 bps to 10.2% in 2020 then further in 2021 to reach a historic peak of 11.8%.

Construction Deliveries



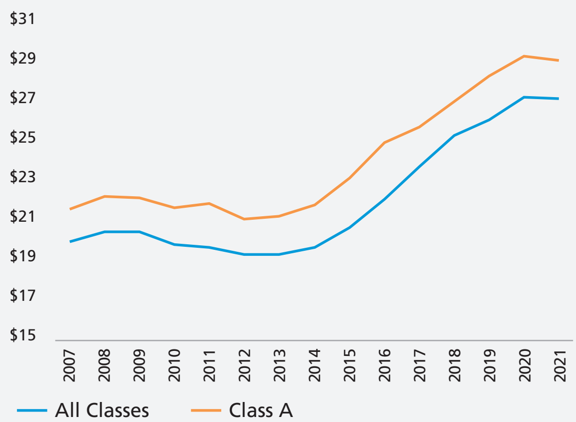
Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

Upcoming Class A deliveries in the next two years could maintain upward pressure on Class A vacancy rates, with 2.2 million sq. ft. of new office space expected to deliver by 2023. This represents 6.7% of total inventory. The largest project is software company Bandwidth's new global headquarters in West Raleigh, which will bring 440,500 sq. ft. online in 2023.

Sublease vacancy rose 30 bps year-over-year to 1.1% in 2020, before improving slightly to 1.0% in 2021. Larger occupiers like IQVIA and Trial Card are responsible for significant portions of available sublease space. Class A sublease vacancies rose to a historic high of 458,000 sq. ft. or 1.5% of total NRA in 2021, exceeding the ratio for the overall market.

Average asking rates increased dramatically during the decade prior to the pandemic, growing 27% from 2009 to 2019. Rent growth remained strong in 2020, increasing 4.5% year-over-year 2020 but declined by 0.3% in 2021. Class A average asking rates increased at a similar pace prior to the pandemic, reaching a high of US$29.09 per sq. ft. per year in 2020 before declining by 0.9% to US$28.83 per sq. ft. per year in 2021.

Average Gross Asking Rent (US$/SF/Yr)



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

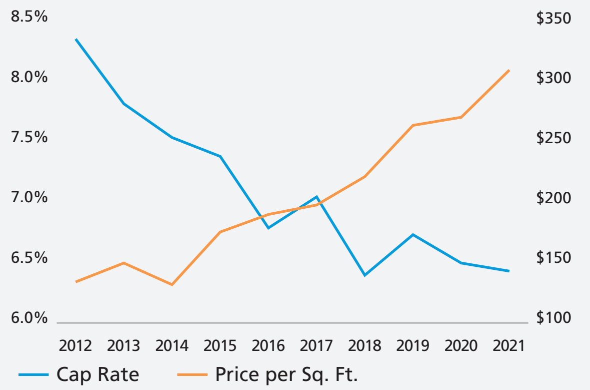
Total sales volume for Raleigh-Durham suburban office roughly doubled from US$985.2 million to US$1.8 billion from 2019 to 2020, a reflection of the significant growth in investor attention in the market in recent years and a stark contrast to how most U.S. office markets fared in 2020. Total volume in 2021 increased by a more modest 5.2% to US$1.9 billion and remained 71.7% above the 10-year average volume of US$1.2 billion. The trailing-12-month price per sq. ft. average exceeded pre-pandemic levels, increasing 2.3% to US$265 in 2020 and another 14.8% to US$304 in 2021.

The largest sale in 2021 was City Office REIT's acquisition of the Bloc83 Office Portfolio for US$330 million from Heritage Properties, totaling 513,500 sq. ft. across two properties. City Office REIT was very active in 2021, with total acquisitions reaching

US$657 million, making up over one-third of total sales volume in the market. Other sales over US$100 million include Related Companies' purchase of The Stitch, a 248,000 sq. ft. property from Equator Capital Management for US$181 million and Highwood Properties' US$175 million purchase of Forum Office Park (635,400 sq. ft.) from Dreilander-Fords.

With value at a historic high and sound underlying fundamentals, the cap rate for suburban office in Raleigh-Durham fell 10 bps year over year to 6.4%, which was tied for the lowest on record going back to 2002. CBRE-EA expects institutional grade cap rates will continue to compress from an average of 4.4% in 2021 to 4.0% over the next five years as values continue to rise.

Raleigh-Durham Suburban Cap Rate and US$/SF



Source: Real Capital Analytics; CBRE Strategic Investment Consulting
Cap rates and PPU displayed as a 12 Month Average.
Includes property or portfolio sales $2.5 million or greater.

Submarket Commentary – Research Triangle Park/I-40

The submarket benefits from proximity to amenities in the market—such as research institutions, universities, and Raleigh-Durham international airport—and a significant portion of the region's growing concentration of highly skilled workers. It is also home to Research Triangle Park (RTP), the largest research park in the country at 7,000 acres. The submarket is characterized by a wide variety of industries, including science and technology firms, educational institutions, and startups. In the first half of 2021, Apple announced plans to build a new campus and engineering hub in RTP, investing US$1.0 billion and creating three thousand specialized jobs, part of a continuing trend of large tech occupiers setting up campuses in the submarket.

The RTP/I-40 submarket contains 9.2 million sq. ft. of Class A space (out of 16.0 million sq ft. of total office space), which represents roughly one-third of total Class A space in the Raleigh-Durham market. The Class A stock within RTP/I-40 outperformed Raleigh-Durham's overall Class A segment throughout the pandemic, a continuation of the trend over the past several years. From 2011 to 2021, average net absorption in RTP/I-40 amount to 3.4% Class A stock per year, compared to 2.8% on average for the overall Class A market. However, given the high concentration of Class A assets in RTP/I-40 compared to the overall market, the submarket had a higher Class A sublease vacancy rate at 2.6% in 2021, up 60 bps from 2020.

New space is being added in the submarket in response to strong demand. Three properties totaling 439,000 sq. ft. of Class A space are set to deliver in 2022, making up nearly 20% of total sq. ft. under construction in the overall market.

Market Outlook

Elevated deliveries of mostly Class A space in the market could lead to a temporary slowdown in rent appreciation and higher vacancy in the short-term followed by a strong rebound as demand responds to increased supply. If the trend of tenants consolidating or downsizing their requirements continues or accelerates, the slowing of demand could hinder the speed of the recovery. CBRE-EA forecasts the vacancy rate to peak at 12.3% in 2022 before falling below 10% in the next five years.

The market benefits from a beneficial mix of a highly educated workforce, fast-growing population and proximity to major research universities and higher education institutions, as well as a lower cost of doing business when compared to coastal cities. This unique mix makes Raleigh-Durham an attractive market for knowledge-based and high value-add firms looking to grow in the region, especially as established tech, life sciences and health care companies either already have a presence or are planning to set up headquarters in the area.

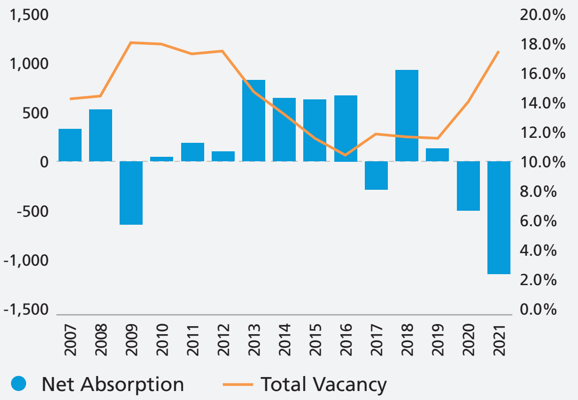
SECTION 3.3: PORTLAND OFFICE MARKET[3]

Market Trends

The Portland office market was relatively slow to experience the worst of the impacts of COVID-19 in 2020, but challenges accelerated substantially in 2021, most notably in the urban core. The Portland suburban office market finished 2021 with 1.1 million sq. ft. of negative net absorption, accounting for 3.4% of the NRA. The downtown net absorption was much worse, however, with negative net absorption accounting for 7.2% of the downtown NRA in 2021.

Class A inventory represents 40% of the suburban Portland office market and attracted demand at a similar rate as the overall market in 2021, with negative net absorption reaching 472,000 or 3.4% of the NRA—the same as Class B/C. However, total vacancy was higher for Class A product (19.2%) and had been climbing well before the pandemic, due to significant new development. From 2016 to 2021, 11.6% of the suburban Class A NRA was delivered.

Net Absorption and Vacancy Rate



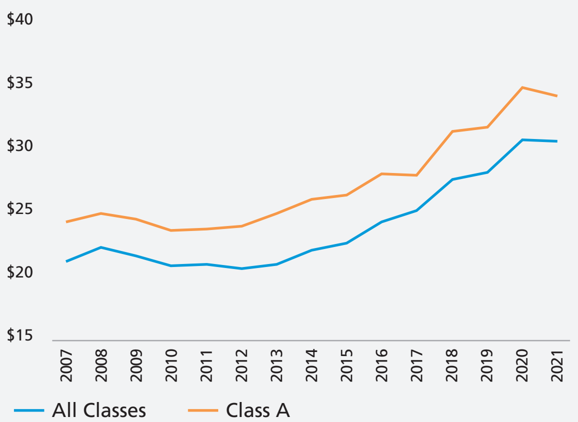
Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

Leasing activity in Portland was driven largely by athletic apparel, software and biotech companies, which continued to expand in 2021. Meanwhile, reassessment of office footprints among traditional occupier industries, like finance and legal services, drove much of the contraction. Class A assets accounted for two-thirds of all leasing in the Portland suburbs in 2021 and over 70% of new leases, despite only accounting for 40% of the NRA, indicating expansion or migration to quality Class A suburban assets.

Despite the generally weak fundamentals in 2021, the average gross asking rate held firm in suburban Portland, dropping only US$0.11 to US$30.30 per sq. ft. per year. The pandemic has had virtually no impact on average asking rents, which are up 8.9% from the pre-pandemic peak in 2019. Class A rents followed a similar pattern, growing significantly in 2020 before declining slightly in 2021, for a total increase of 8.1% in 2021 vs. 2019. In contrast, the average downtown rent decreased 3.5% from 2019 to 2021, indicating shifting preferences among Portland tenants toward suburban submarkets. This trend is also a result of the ample new construction that came online in the suburban market over the last six years, which is both boosting rents and offering additional options to occupiers seeking highest-quality buildings. Moreover, though the gap between downtown and suburban rents is closing, suburban office still offers a discount on rent, which appeals to occupiers in uncertain times. As of 2021, downtown office space commanded a 20% premium over the suburbs, with the premium slightly more pronounced (27%) for Class A.

Though asking rents for suburban office have increased through the pandemic, actual base rents have fallen 8-10% since 2019. Compared to 2019, free rent is more likely to be offered by landlords and for more months, while sub-3% escalations are more common, meaning effective rent has fallen as much as 20%-30% depending on the class and submarket. Additionally, the average lease term has fallen by approximately one year, indicating more flexibility from landlords.

Average Gross Asking Rent (US$/SF/Yr)



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

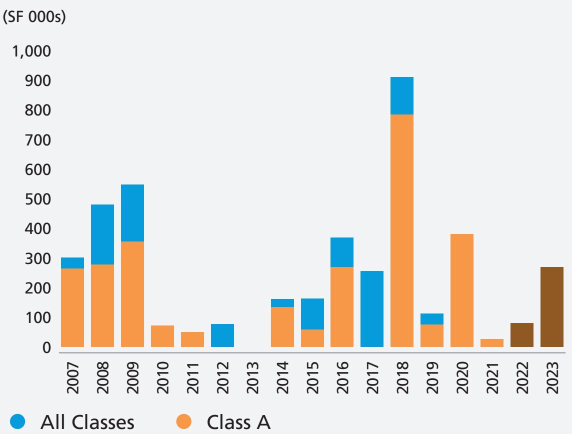
3 Unless otherwise noted, stats refer to suburban office only

BY CBRE STRATEGIC INVESTMENT CONSULTING, FEBRUARY 2022

Suburban sublease listings increased during the pandemic but not as dramatically as in previous downturns, especially for Class A product. In the 2007-2009 recession, sublease vacancy peaked at 2.2%. In 2021, sublease vacancy closed the year at 2.1%, but there still may be more sublease space coming online in 2022. Sublease figures for Class A product indicate that tenants may be less willing to exit sought-after spaces in the suburbs. While sublease vacancy reached 2.0% in 2021 for Class A assets, this was 160 bps below the 2007 peak. Sublease availability is also low for Class A product at 2.2%, which is 230 bps below the 2009 peak. This also indicates that a significant uptick in sublease vacancy in 2022 is unlikely, with little available product left to vacate.

After seven years of significant suburban office construction, the office pipeline slowed in 2021 with just one 28,000-sq.-ft. build-to-suit property delivered. There was significant owner-occupied construction, however, including the 1 million sq. ft. expansion to the Nike World Campus and 227,000 sq. ft. expansion at the Adidas Village. In terms of leasable product in the pipeline, the 80,000-sq.-ft. Block 10 development is underway in Vancouver, which is set to deliver in 2022 and already 61% pre-leased. The 270,000-sq.-ft. 503 on Tenth project is also underway in Central Eastside Portland and expected to deliver in early 2023. An additional 270,000 sq. ft. of office space is expected to deliver Downtown in 2022-2023.

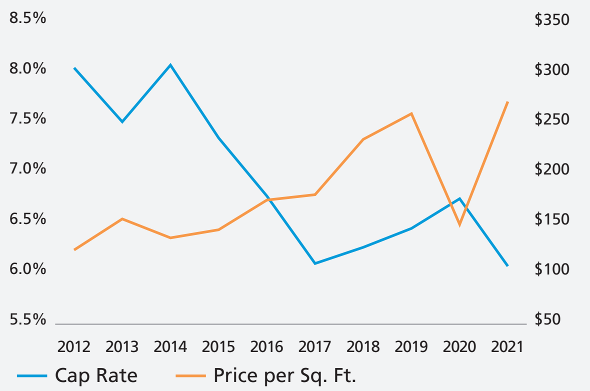
Construction Deliveries



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

Sales volume of suburban office assets accelerated dramatically in 2021, more than doubling from 2020 to US$846 million. This was the third highest volume on record (since 2001) and 57.1% above the 10-year historic average. Strong demand pushed the trailing-12 month price per sq. ft. to US$266, the second highest on record, narrowly behind 2007. There were no mega deals (US$100 million+) in 2021, but two of the three largest deals commanded prices per sq. ft. over US$300, with other mid-size deals over US$500. Increasing value and steady rents pushed the trailing-12-month average cap rate for suburban office down 70 bps to 6.0%, the lowest rate since 2017. CBRE-EA estimates that the average institutional-grade cap rate for Portland metro area hit an all-time low of 4.2% in 2021 and expects the average cap rate to hover within 10 bps over the next five years.

Portland Suburban Cap Rate and US$/SF



Source: Real Capital Analytics; CBRE Strategic Investment Consulting
Cap rates and PPU displayed as a 12 Month Average.
Includes property or portfolio sales $2.5 million or greater.

Submarket Commentary

Beaverton/Sylvan

The Beaverton submarket remains one of the most consistent in the Portland metro and has weathered the pandemic far better than the market overall. A 50,000-sq.-ft. Class A new lease by Apple in Q2 propelled the submarket to positive net absorption of 9,000 sq. ft., driving the vacancy rate down 40 bps to 12.0%. The Class A market is extremely tight in Beaverton. After 35,000 sq. ft. of net absorption in 2021, the total Class A vacancy rate decreased by 330 bps to 4.5%, the lowest rate since 2000 (when the submarket was a fraction of its current size). Sublease vacancy fell in Beaverton by 20 bps to 2.1% and sublease availability fell 110 bps to 2.3%, both of which are lower than the peaks in the previous recession. All sublease vacancy was in Class B/C product, and only 2,000 sq. ft. of Class A space was available for sublease but not yet vacated.

While Nike expanded its Nike World Campus in Beaverton by more than 1 million sq. ft. in 2021, the tenant vacated two buildings totaling 280,000 sq. ft. at the Tektronix campus after the leases expired. The influx of the two large blocks has weighed on Beaverton and nearby submarkets, especially among Class B assets for which the total vacancy rate ended the year at 16.7%.

The average gross asking rent continued to climb in the submarket as conditions tightened, especially for Class A, which is up 10% in 2021 relative to 2019. Rents in Beaverton remain at a discount relative to the overall suburban market, with the average suburban rent 20% higher in 2021. There has been no new development in the submarket since 2006, and no projects are in the pipeline through 2023.

Sunset Corridor

The Sunset Corridor/Hillsboro submarket was initially unimpacted by the pandemic in 2020, as net absorption remained positive and the vacancy rate fell to 15.1%. In 2021, major tenants began allowing leases to expire and vacating spaces as they consolidated and downsized, and the vacancy rate increased 380 bps to 16.4%. As a result, negative net absorption reached 63,000 sq. ft. Despite the setback in vacancy, the average gross asking rent climbed 6.6% to US$24.98 per sq. ft. per year, the highest on record.

As part of their consolidation into the Nike World Campus in Beaverton, Nike vacated more than 200,000 sq. ft. of office and flex space in the Hillsboro submarket as their leases expired. The company also has several large R&D/Flex leases set to expire in 2022 and 2023, which if vacated could indirectly impact the office market in the Sunset Corridor.

Market Outlook

Underlying positive economic fundamentals in Portland point to an office market recovery on the horizon, pending public health outcomes related to Omicron or potential new variants that could stall the recovery. The Portland metro area has recovered 56% of the jobs lost since the onset of the pandemic and is projected to outpace U.S. job growth over the next five years. The suburban markets, especially those centrally located near the CBD, are poised to attract tenants looking for hybrid options that appeal to evolving workforce demands. The lower costs and newer inventory in these submarkets (relative to downtown) are an additional factor that should drive growth in the coming years. CBRE-EA projects another challenging year in 2022 for the Portland suburbs, with rents finally softening with the excess supply in the market. Development is expected to boom through 2022-2023, which will keep vacancy elevated, but strong demand for new suburban office should drive a turnaround in fundamentals in 2023 and through the medium term.

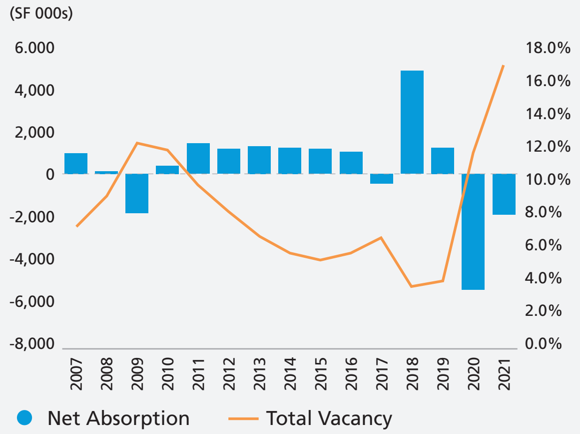
SECTION 3.4: SAN FRANCISCO OFFICE MARKET[4]

Market Trends

San Francisco—one of the markets hit hardest by the COVID-19 pandemic—continues to face challenges, but market conditions slowly improved throughout 2021 as the public health situation stabilized. Other indicators bode well for the future of the San Francisco office sector. Tech and office-using employment rebounded fully in 2021, and the pace of employment growth in San Francisco is expected to be nearly twice the national average in 2022 and 2023. Additionally, venture capital-backed companies in the Bay Area raised a record-shattering US$120 billion in 2021, nearly doubling the 2020 figure. Venture capital activity has historically been a leading indicator of office expansion.

After falling to roughly one-third of pre-pandemic levels by early 2021, leasing activity began to rebound in the second half of 2021, driven primarily by technology companies, though legal and financial services were also active. Despite ongoing flexible work policies, many tech companies continue to indicate a commitment to retaining and even expanding physical office space, with several signing six-figure sq. ft. deals in 2021 to renew and grow their footprints. Overall, net absorption improved significantly in 2021 from a record-low figure in 2020 but remained negative (-2 million sq. ft.).

Net Absorption and Vacancy Rate



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

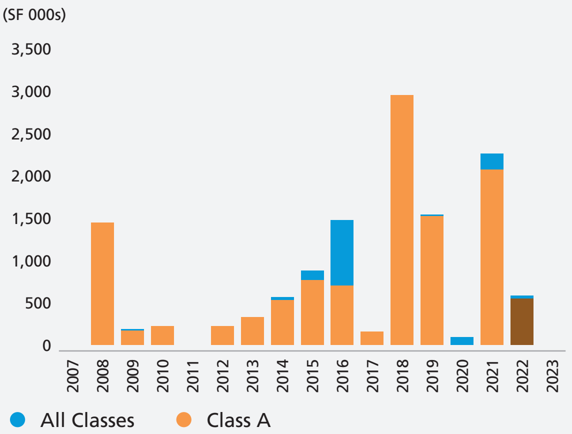
4 Unless otherwise noted, stats refer to San Francisco City office only

BY CBRE STRATEGIC INVESTMENT CONSULTING, FEBRUARY 2022

Construction projects previously set to deliver in 2020 were delayed due to COVID-19, which pushed 2.3 million sq. ft. of completions into 2021. Uber's new campus in Mission Bay accounted for nearly half of this total. The 5M project in Yerba Buena made up 690,215 sq. ft. of the remaining square footage, delivering 100% vacant in Q4.

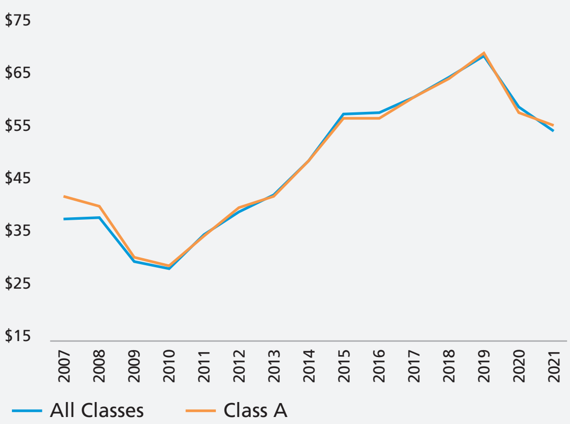
bottom out in 2022. Aside from sliding base rents, landlords have also been offering more favorable deal terms during the pandemic, including increased free rent, higher tenant improvement allowances, and shorter lease terms. For Class A assets, both asking and base rents climbed quarter over quarter in Q4, indicating the market may be turning a corner.

Construction Deliveries



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

Average Gross Asking Rent (US$/SF/Yr)



Source: CBRE Econometric Advisors; CBRE Strategic Investment Consulting

The uptick in new construction in 2021 drove higher vacancy, with the vacancy rate rising 540 bps year over year to 17.0%—the highest rate since 2002 and 13.6 percentage points (pps) higher than the cycle low in 2018. Sublease vacancy also remained elevated at 3.2 million sq. ft. in 2021, essentially unchanged from 2020 levels. New sublease listings slowed, and by late in the year, began to come down from the peak for the first time since the onset of the pandemic.

Nearly all major leases in 2021 were in Class A buildings, highlighting a growing preference for high-quality assets. Class A product has fared better than Class B/C assets in 2021. Since the trough in 2018, the Class A vacancy rate rose 11.7 percentage points to 14.4%—a smaller increase and lower rate than for the overall office market. Class A net absorption was negative in 2021 for the second straight year, but at 932,000 sq. ft. represented only 1.7% of the net rentable area, compared to 2.6% for the overall market.

The excess slack and sluggish demand in the market drove the average gross asking rent down to US$53.65 per sq. ft. per year, the lowest since 2014. However, the rate of decline in asking rents slowed as 2021 progressed, prompting optimism that rents will

After reaching a cyclical high in 2019, sales activity slowed significantly in 2020 and then remained virtually flat in 2021, but high-quality assets remained attractive to investors as prices continue to rise. Total office sales volume in San Francisco City totaled US$3.0 billion in 2021, down by 6% from 2020 and 32% from the 10-year average. Despite the relatively low volume, the trailing-12-month price per sq. ft. average jumped 12.8% to a record-high US$1,094 per sq. ft. in 2021, 54% above the 10-year average. Similarly, the average price for Class A assets reached a new high at US$1,425 per sq. ft., which aligns with trends in leasing activity and demonstrates investor appetite for quality. As leasing activity continues to rebound across other asset types, core and value-add product should begin to command even higher prices in the year ahead.

The largest sale in 2021 was KKR's purchase of The Exchange on 16th from Kilroy Realty Corp for US$1.1 billion, accounting for a third of office sales volume on the year. The 750,000-sq.-ft. property at 1800 Owens St. commanded a US$1,441 per sq. ft. price tag at a 4.6% cap rate. The other mega-deal in 2021 was Hines' acquisition of two PG&E properties, totaling 1.4 million sq. ft. at US$575 per sq. ft. The US$800-million sale included a short-term leaseback to PG&E who will occupy the space until their new headquarters in Oakland is ready in 2022. Hines plans to redevelop the block into a massive mixed-use project renamed 200 Mission Street that will include a 75-story apartment building.

The average cap rate across all office assets in the city fell 20 bps year over year to 4.8% in 2021, matching the level in 2019, due in large part to rising property values. CBRE-EA forecasts continued strength for institutional-grade assets, including rising values and tighter cap rates through 2023.

San Francisco City Cap Rate and US$/SF

Source: Real Capital Analytics; CBRE Strategic Investment Consulting
Cap rates and PPU displayed as a 12 Month Average.
Includes property or portfolio sales $2.5 million or greater.

Submarket Commentary – South of Market (SoMa)

The South of Market (SoMa) submarket is home to some of the technology sector's biggest names, including Twitter, Uber, Square and Dolby. The submarket is characterized by low-to-mid-rise mixed-use and industrial conversions, offering unique configurations compared to the nearby Financial District. The area also has a large presence of incubator, coworking and flexible space operators who cater to the needs of startup and high-growth businesses.

Submarket fundamentals have been mixed throughout the pandemic, with Class A buildings performing significantly better than Class B/C assets, indicating a preference from tenants to lease quality assets. Leasing was modestly slow in SoMa in 2021, with tech companies and renewals dominating activity, including a 100,000-sq.-ft.-plus renewal from Pinterest. Some large new leases over 20,000 sq. ft. did take place, however, including deals by Aurora, Tonal, Osaro and Quizlet.

A new 268,000-sq.-ft. building at 633 Folsom delivered 100% leased to Asana and helped offset some of the negative net absorption, which hit -108,000 sq. ft. or 2.0% of the NRA in 2021. Total vacancy nearly doubled to 15.2% in 2021, 12.9 pps higher than the low point in 2018. Conversely, net absorption was positive for Class A assets, reaching 212,000 sq. ft. or 7.5% of the NRA, due largely to the Asana delivery.

Sublease vacancy hit the SoMa submarket especially hard, due to the large presence of firms able to quickly pivot to remote work. Though the velocity of new sublease listings slowed in 2021, the overall vacant sq. ft. rose 73,000 sq. ft. to 290,000 sq. ft. or 5.4% of the NRA. Sublease vacancy in Class A assets fell to 65,000 sq. ft. or 2.3% of the NRA, but this remains well-above the historic norm around 1.0%.

Average rent had grown substantially in the submarket prior to the pandemic, more than doubling from 2010 to 2019, but declined similarly to the rest of the market in 2020 and 2021. As the year progressed, the pace of negative rent growth slowed to nearly flat, indicating rents may be leveling off for the near term.

Market Outlook

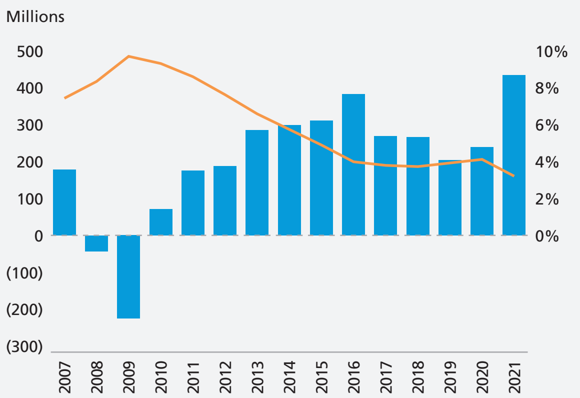
Limited construction in the pipeline should allow San Francisco and SoMa to rebound over the next few years. Only 572,000 sq. ft. is expected to deliver market-wide through 2023, which is only 0.8% of the NRA, and none of that space will come online in SoMa. CBRE forecasts consistent positive net absorption over the next five years, but it is unlikely the vacancy rate returns to low single-digits during that period, as it was before the pandemic. Rent is also unlikely to rebound to pre-pandemic levels until at least 2024, as excess space limits rent escalation. Demand is expected to be driven by the robust tech, legal and financial sectors in San Francisco, which have historically flocked to the market for its culture and agglomeration of top global talent and companies. The concentration of high-tech companies and young workers will keep the market more vulnerable to remote-work trends, but buildings that offer space for collaboration and flexibility for hybrid work will thrive in the new office environment.

SECTION 4: U.S. INDUSTRIAL OVERVIEW

Market Fundamentals

Industrial and logistics real estate fundamentals hit new records in 2021 in terms of demand, rent growth and investment activity. Net absorption reached 432 million sq. ft., nearly doubling the 2020 figure and 50% higher than the 10-year average. New construction, which began accelerating in 2017 in response to demand from e-commerce and logistics tenants, remained above the historic average with 268 million sq. ft. delivered, but was not enough to keep up with the explosion in demand. The availability rate fell 120 bps to a historic low of 5.2%, going back to 1989. The vacancy rate also hit a low of 3.2%, falling 90 bps. Construction was partially curbed due to supply chain volatility and scarcity of construction materials, and is expected to accelerate in the coming years if volatility subsides and prices stabilize.

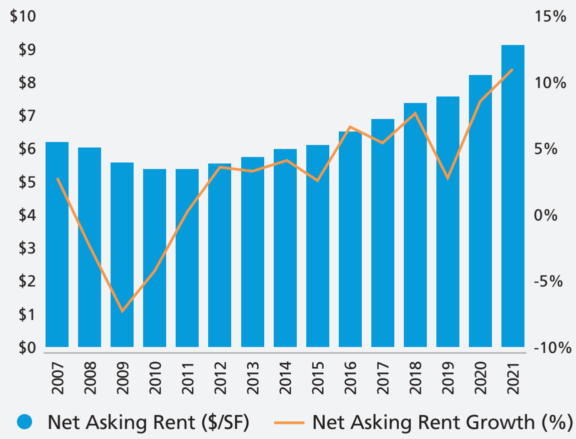
U.S. Industrial Net Absorption (SF) & Vacancy (%)



Source: CBRE Econometric Advisors

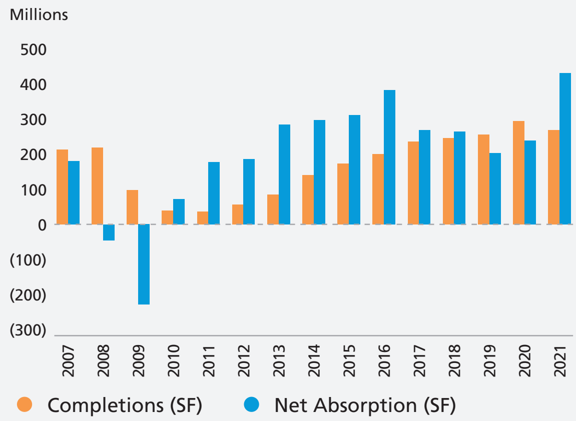
Strong demand and limited supply caused the average net asking rent to soar 11.0% to US$9.10 per sq. ft. per year, the highest rent and the second highest year-over-year growth rate on record going back to 1989. Rent growth is expected to cool slightly with larger increases in new supply through 2025, but is expected to remain elevated above historic averages due to forecasted demand keeping up with supply. As of Q4 2021, 34% of the 514 million sq. ft. under construction is already pre-leased.

Net Asking Rent (US$/SF) & Growth (% YoY)



Source: CBRE Econometric Advisors

U.S. Industrial Completions (SF) & Net Absorption (SF)



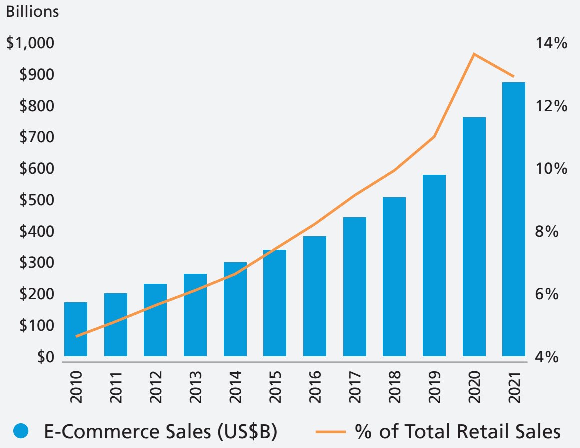
Source: CBRE Econometric Advisors

Emerging Trends

Record figures in 2021 were fueled by a rebounding economy, robust e-commerce sales and changes to supply chain strategies that required additional warehouse and distribution space. By nearly every measure, supply chain and logistics challenges are impacting both service and manufacturing businesses, with backlogs of orders at record highs and inventories at record lows in late 2021. Delays at the nation's largest shipping ports are easing at the end of 2021, but still well-above historic norms as demand from U.S. businesses and consumers exceeds the ports' abilities to move goods, an issue exacerbated by labor shortages. Domestic freight transportation is also still recovering due to a major driver and warehouse shortage, making it challenging to move goods.

The role of e-commerce in retail and distribution expanded rapidly in the decade leading up to the pandemic, with annual e-commerce sales more than tripling from US$169 billion in 2010 to US$577 billion 2019. The share of all retail sales during that period climbed from 4.6% to 11.0%, driving online and omnichannel retailers to expand and rethink their industrial and logistics footprint. The pandemic further accelerated growth of e-commerce as brick-and-mortar stores were limited and more consumers opted to online shopping for a wider array of goods. From 2019-2021, annual e-commerce sales grew 51% to US$871 billion, accounting for 12.9% of all retail sales by the end of the year. E-commerce sales are projected to continue to grow, reaching 33% of all non-auto related retail sales by 2032. As online retailers compete for market share and race from two-day to two-hour shipping, the competition for distribution space is expected to grow rapidly. The ongoing expansion in e-commerce is expected to fuel distribution growth in 2022, while economic growth and supply chain volatility will push both e-commerce and other industrial occupiers to increase their footprints to offset import and inventory challenges.

E-Commerce Sales Growth



Source: U.S. Census Bureau

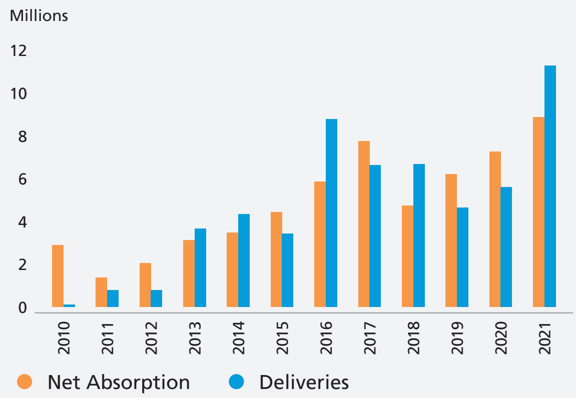
Retailers and manufacturers alike are reporting record-low inventories and are seeking "safety stock" to ensure their ability to fill future orders, which should continue to drive ample demand for industrial and logistics real estate in the U.S. Onshoring of manufacturing is also expected to increase, improving manufacturing fundamentals in traditional markets in the Midwest and Southeast and emerging manufacturing markets in Arizona, Texas, and Florida.

SECTION 5: KANSAS CITY INDUSTRIAL MARKET

Market Trends

Demand for industrial space in Kansas City accelerated in 2021 after a very strong 2020. Net absorption reached 8.9 million sq. ft, a record figure for the market. A record of more than 11 million sq. ft. of new industrial product hit the market in 2021, a 3.8% increase in inventory. As of year-end 2021, 7.2 million sq. ft. is under construction, with an additional 8 million expected to break ground and deliver by the end of 2023.

Kansas City Industrial Completions (SF) & Net Absorption (SF)



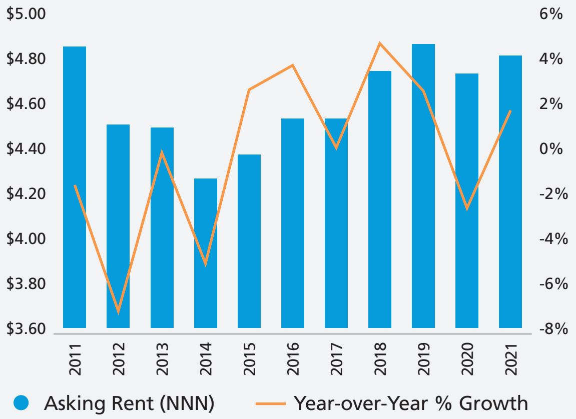
Source: CBRE Research, CBRE Strategic Investment Consulting, CBRE Econometric Advisors

The average asking lease rate in 2021 finished US$0.08, or 1.7%, higher at US$4.81 triple-net (NNN) per sq. ft. per year. Rent inflation has been consistent, but lower than some other U.S. industrial markets, due in part to excess supply additions maintaining slack in the market. Nearly all of the new supply additions were bulk distribution facilities (100,000 sq. ft. or larger), which has not directly impacted last-mile infill distribution to the same degree. The total vacancy rate increased by 60 bps to 4.8%, which was low by historic standards despite the large amount of new supply in the market. Given the general tightness of the market, some additional vacancy and availability should help tenants expand more easily and potentially attract more relocations.

Independent Market Study Report

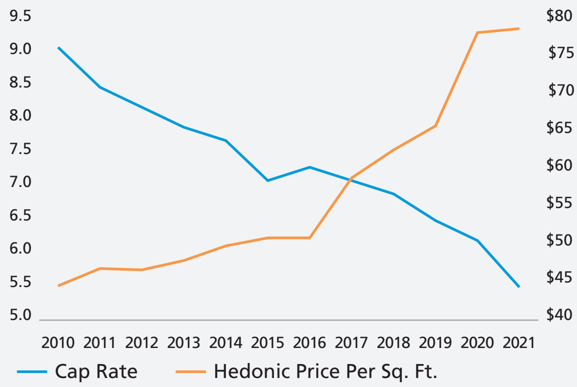
BY CBRE STRATEGIC INVESTMENT CONSULTING, FEBRUARY 2022

Net Asking Rent (US$/SF) & Growth (% YoY)



Source: CBRE Research, CBRE Strategic Investment Consulting, CBRE Econometric Advisors

Kansas City Cap Rate and Price Per Sq. Ft.



Source: CBRE Econometric Advisors, Real Capital Analytics
Cap rates and PPU displayed as a 12 Month Average.
Includes property or portfolio sales US$2.5 million or greater.

E-commerce, distribution and logistics companies were the dominant drivers of demand in 2021, but some large deals exceeding 100,000 sq. ft. were signed by aerospace, energy and healthcare-related companies like Collins, Invenergy Solar and Medline Industries. While the average asking rent showed little movement, an analysis of leases over 10,000 sq. ft. shows that the average base rent in 2021 was 7.4% higher than the average asking rent, and climbed 7.8% from previous year, indicating true lease rents are rising more rapidly and tenants are motivated to pay well-above asking rent. Tenants also signed longer leases, averaging around six years, or one year longer than 2020. Fewer deals included free rent, and the number of months on deals that do include free rent fell by about one month.

Buyers were active in Kansas City, with sales volume reaching a record US$1.4 billion in 2021, nearly double the 2020 figure and four times the 10-year average. Owner-user as well as investor demand drove up the value of industrial real estate in Kansas City, pushing cap rates to new lows. The CBRE-EA average institutional-grade cap rate fell by 70 bps to 5.4% in 2021- the lowest on record. Real Capital Analytics' hedonic price per sq. ft. series estimates that Kansas City industrial pricing was at an all-time high of US$78.06 in 2021, going back to 2001. The largest sale of the year was a 11-property portfolio acquisition by Ascendas REIT, totaling US$156 million and US$72 per sq. ft. on average. Pricing is expected to remain elevated, as tenants are willing to pay increased rents amid sustained tight market conditions.

Submarket Commentary

East Jackson County

Jackson County is the largest submarket in Kansas City, accounting for about 1/3 of the inventory. Activity was slow for much of 2021 until Q4, when deal activity picked up. Net absorption reached 1.4 million sq. ft. in Q4, bringing the total for the year to just over one million sq. ft. Three of the five largest new leases in the market in Q4 were signed in Jackson County, including PepsiCo's 587,840-sq.-ft. new deal at the recently-delivered Blue Springs Logistics Center and Murphy Logistics' 313,773-sq.-ft. new lease at 1650-1690 North Topping Ave.

Three other properties delivered in 2021, all in East Jackson County. The 243,353-sq.-ft. Blue River Commerce Center delivered fully vacant in Q2, but deals by AJ Manufacturing and Nautical brought the facility to fully leased by the end of the year. Two buildings delivered at Executive Park Logistics Center totaling 397,639 sq. ft., the first of which delivered in Q2 before deals by Owens and Minor brought the building to fully leased by end of year. The second building delivered vacant in Q2 and remained vacant through the end of 2021.

At the end of 2021, 802,721 sq. ft. was under construction in Jackson County, including a second building at Blue River Commerce Center that will be a build-to-suit manufacturing facility for Austria-based manufacturer ALPLA Inc. Building 6 at I-49 Logistics is also underway, and three more buildings totaling 900,000 sq. ft. are set for development at the Blue River Commerce Center which are expected to complete late 2022 or early 2023.

As new product has hit the market and demand stayed high, the average rent in Jackson County climbed to an all-time high of US$4.66 NNN per sq. ft. per year, a 13% increase over Q4 2020. The vacancy rate climbed to 4.6% due to the new vacant deliveries, but that figure remained in line with the market overall and was low historically. Large blocks of space (100,000 sq. ft. or higher) were few and far between throughout the county at the close of 2021, and most large blocks were in Class B/C assets built before 1990.

North and South Johnson County

Johnson County is the second largest submarket in Kansas City at 81 million sq. ft.—24 million sq. ft. fewer than Jackson. Tenant demand was steady throughout 2021 and picked up in Q4 to hit 1.9 million sq. ft. of net absorption for the year, but ample new construction exceeding 3.6 million sq. ft. pushed the vacancy rate up 200 bps year-over-year to 6.5%, which was the highest for all of the counties in the metro. More than 70% of the 3 million sq. ft. of speculative development delivered in 2021 remained vacant at the end of the year. All but two of the large blocks on the market were built 2015 or later, which should bode well for the submarket as tenants are seeking more modern state-of-the-art warehouses. With excess supply on the market, the average lease rate fell during 2021 to US$5.30 NNN per sq. ft. per year, US$1.13 less than Q4 2020. However, the average rent in Johnson County remained the highest in the metro and was US$0.49 higher than the metro average.

Separated by I-435/KS-10, South Johnson County accounts for about two-thirds of the competitive industrial set and nearly all of new supply that delivered or broke ground in Johnson County in 2021. Developers delivered 3.1 million sq. ft. in 2021 in North Johnson County, which was 86% of the new construction in the county overall. All of the 1.2 million sq. ft. under construction in the county at the end of 2021 was in the southern portion, which was all speculative development that was 100% available at year-end. As a result of the ample new supply, the vacancy rate was higher at 7.1% in South Johnson County, compared to 5.3% in North Johnson County. The tighter North Johnson County submarket also commanded higher rents at US$6.71 NNN on average—a 45% premium over the South. The relatively new stock and larger available blocks in South Johnson County should position it well to capture some of the large tenants in the market looking to expand or relocate to modern warehouse space. Johnson County as a whole has nearly half of Kansas City's modern bulk distribution inventory (defined as built 1990 or later with 28'+ clear height) in the metro area, the majority of which sits in South Johnson County.

Northland

The Northland region comprise Platte and Clay Counties, which combined had 65 million sq. ft. of industrial space at the end of 2021. Platte County is much smaller, representing only 25% of the Northland region, but has grown substantially in recent years, with about half of the inventory in the submarket built after 2010. While Clay County has been a generally established submarket, development has been active there in recent years, with nearly one million sq. ft. added in 2021. The Northland region is expected to be a major target for development in 2022 and 2023, with 5 million sq. ft. in the pipeline, which accounts for about a third of all of the development expected in the metro area.

The Northland region posted very positive fundamentals in 2021. Net absorption exceeded 2.0 million sq. ft. and was roughly in line with the 2.2 million sq. ft. of new construction. As a result, the vacancy rate increased by 20 bps but remained tight, at 4.2%. Strong demand and tight conditions drove the average asking lease rate up 16% year-over-year to US$4.42 NNN per sq. ft. per year. Platte County closed 2021 with the lower vacancy rate and higher average lease rate of the two at 3.2% and US$4.85 NNN, respectively. Vacancy also declined by 240 bps in Platte County, another indication of the attractiveness of the smaller Northland submarket. Vacancy in Clay County rose 10 bps year over year to 4.5%, but remained tighter than the overall metro, and the average asking lease rate closed at US$4.24 NNN, which was US$0.79 higher than the previous year.

Market Outlook

With an ample base of modern bulk distribution facilities and more supply on the way, the Kansas City market is well-positioned to capture growth as national industrial and logistics tenants look to expand in the Midwest. The metro's central location, with access to rail and major interstate highways, make it a highly attractive location for warehousing, distribution, logistics and e-commerce companies with a national footprint. Relative affordability and availability of developable industrial land also make it a ripe location for expansion. CBRE-EA forecasts asking rent growth to accelerate to the 2.5%-3.0% range in the coming three years, with last-mile infill rent likely to exceed that due to the low availability and limited new supply of the product type.

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