



— SIO — SNAPSHOT SENTIMENT REPORT

FOURTH QUARTER 2020

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SUMMARY

At the beginning of January 2021, SIOR distributed a newly revised Snapshot Sentiment Report combining previous sentiment survey questions (which commenced in Q2 2020 in response to the pandemic) with its longstanding Commercial Real Estate Index survey*. This new Snapshot Sentiment Report combines data from both surveys into a more in-depth look at both recent quarter sentiments and how they match up with historical reports. SIOs are the elite experts and top producers in their markets and their opinions stated in this report are an excellent benchmark for the industry.

- While overall **confidence** had been on the rise in the third quarter of 2020, SIOs reported a drop in market confidence in Q4 2020 to its lowest confidence since first reported in Q2 2020, noting a global confidence of 6.2 (out of 10) as opposed to 6.3 in the second quarter.

- » Overall, industrial has the most positive outlook by far right now. Office confidence continued to drop, reaching its lowest confidence level of 4.7, while industrial steadily rose to its highest confidence at 6.9.

- While overall confidence dropped, **transactions** across the board are moving forward at an improved rate, increasing 42% from Q3, to a reported 67% of on schedule transactions in Q4. On hold transactions dropped in Q4, while the number of cancelled transactions remained around the same.


- » Even office specialists reported an increased number of on-schedule transactions at 52%, as opposed to just 38% in Q3. However, there was an increased number of cancelled office transactions in Q4 at 20% versus nearly 17% in Q3.

- » Industrial specialists reported the largest gains in on-schedule transactions from 51% in Q3 to 74% in Q4, and a dip in cancelled transactions from 12% to 9%, aligning with their overall stronger confidence in the market.

- More SIOs (41%) reported that local **economic conditions** are having a more positive impact on their market in Q4, as opposed to 36% of national. Only 23% of SIOs said global economic conditions had a positive impact on their market.

- » Overall 72% of office brokers reported national economic conditions had a significant or moderate negative impact on their market performance vs 30% for industrial. Office saw greater moderate to significant positive impacts at the local level (21%) versus 10% at the national level and only 6% for global economic conditions. Industrial specialists also found greater positive impacts (52%) at the local level as opposed to only 32% at the global level.

- While **leasing activity** overall is improving, with about 51% reporting minimal leasing activity in Q4 versus 59% in Q3, levels are still nowhere near where they were pre-pandemic (13%). The difference between office and industrial leasing activity is extreme, with office specialists reporting 88% of lower leasing activity in Q4 versus only 34% for industrial. Many industrial specialists noted that there is little to no vacancy available as product is going fast and becoming harder to find.



- **Asking rents** are improving since the start of the pandemic, but still nowhere near pre-pandemic levels either. Overall, 25% of SIORs reported a decrease in asking rents in Q4 compared to a year ago, versus only 3% in Q4 2019. There was also a great variance in asking rents between industrial and office, with 49% of office brokers reporting lower asking rents last quarter, compared to only 14% of industrial brokers. Asking rents were highest in the Southeast and lowest in the West.

- Overall reported available **vacancy** began declining in Q4 with 42% claiming little-to-much lower current vacancy compared to 22% in the second quarter of 2020. Low vacancy in Q4 2019 was reported at 60% comparatively. Understandably, the office sector is where most of the vacancy appears, with 60% of office specialists claiming a higher vacancy compared to 22% of industrial specialists. The West is seeing the highest vacancy in office and the South is seeing the lowest vacancy in industrial.

- SIORs overall indicate a trending declining in low **subleasing space**, with 38% reporting limited to nearly any space in Q4 versus 35% in Q3, edging just slightly closer toward where it was at 70% in Q4 2019. Industrial specialists made up 51% of those reporting limited or little to no subleasing space vs just 10% of office.

- **Development conditions** decreased in Q4 2020, with 41% reporting above average or booming development conditions compared to 43% in Q3 2020. There's still a long way to go to get back to pre-pandemic levels (63%). Industrial has the most positive outlook on development conditions, with 55% reporting above average or booming conditions versus only 13% of office specialists.

- It still remains a seller's market in Q4 2020, with 49% of overall SIORs saying **site acquisition** prices are increasing rapidly or at a steady pace, compared to just 21% reporting lower prices and a buyer's market. Compared to Q4 2019 however, where only 6% reported a buyer's market, it does appear the pandemic = is certainly favoring buyers. Industrial specialists (63%) are predominantly reporting a stronger seller's market compared to 21% of office specialists. The buyer's market appears strongest in the Central region, whereas the South, Southeast, and West are seeing a higher seller's market.

- **Tenant concessions** were pretty evenly split in Q4 with a 40/40 % split between little to significant discounts. This is a big change compared to 14% saying there were moderate to extensive tenant discounts in Q4 2019 and 60% in Q4 2019 saying there were little to no concessions. Meanwhile when broken down by industrial and office in Q4 2020, 58% of industrial said there were little to no concessions to give with landlords having the bargaining power vs only 2% of office respondents feeling that way. The Mid-Atlantic region (primarily with industrial specialists) reported the fewest concessions available, whereas the West (primarily office respondents) favors the tenants.

- A larger portion of SIORs feel it is more profitable to build investment properties, with 44% reporting **investment pricing conditions** are somewhat or well above cost as opposed to 35% that felt pricing was below replacement cost. Industrial specialists, once again, felt more optimistic about investment pricing conditions, with 53% saying it is more profitable to build versus 24% of office specialists. Industrial specialists in the Mid-Atlantic and the South predominantly reported it more profitable to build. Office specialists reported the Central and West regions had the lower replacement costs.

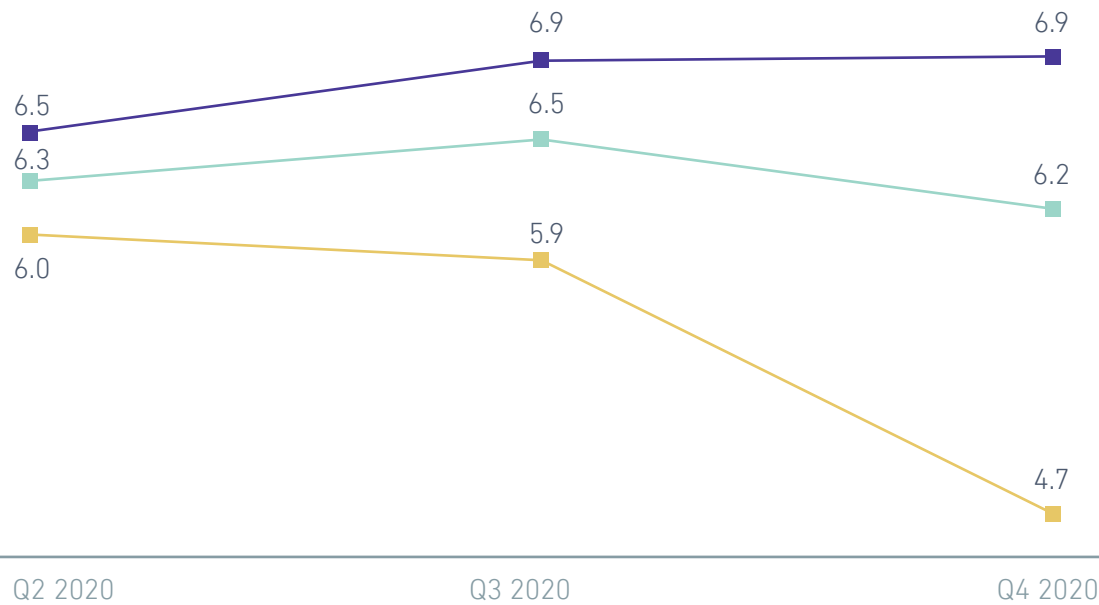
** Previous CREI survey data did not include global SIOR responses. SIOR began tracking global data beginning in Q4 2020 with this first report. In addition to combining the sentiment survey and CREI survey, several survey questions were also reformatted and streamlined to enhance the user experience,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



AVERAGE LEVEL OF CONFIDENCE

Average level of market confidence on a 10-point scale.

KEY ● Office Confidence ● Industrial Confidence ● Overall Confidence



**Confidence data reflects sentiment survey responses reported beginning in Q2 2020. No prior data exists for this metric.*

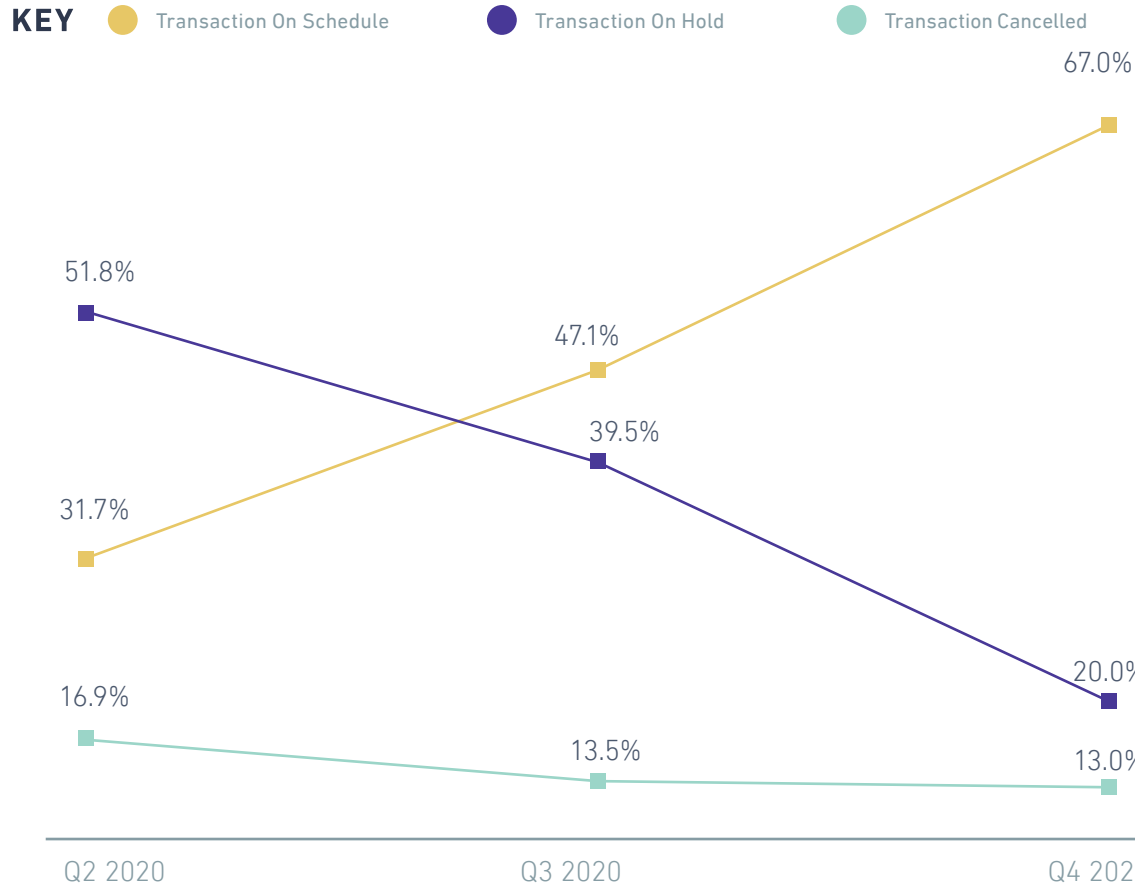
FROM THE EXPERTS

“Tenants are seeking short term extensions until they understand their future space needs.”

- Office Specialist
SIOR Western Missouri/
Kansas Chapter

IMPACT OF COVID-19 ON IN-PROGRESS TRANSACTIONS

Average percent of the status of all respondents' in-progress transactions.



Totals may not equal 100% due to rounding.

*Transaction data reflects sentiment survey responses reported beginning in Q2 2020. No prior data exists for this metric.

FROM THE EXPERTS

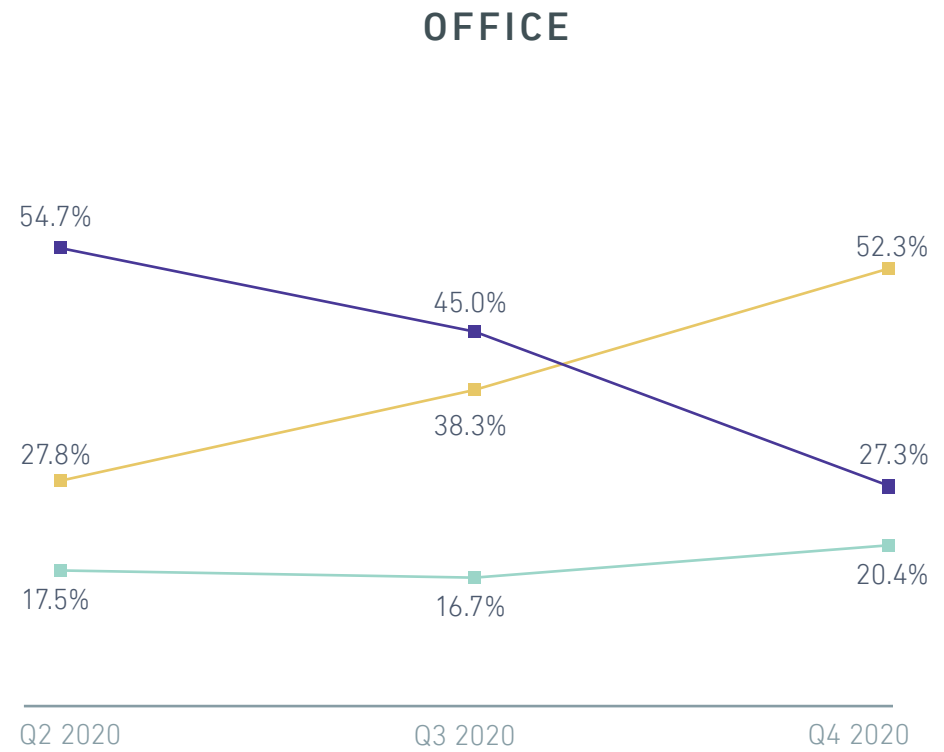
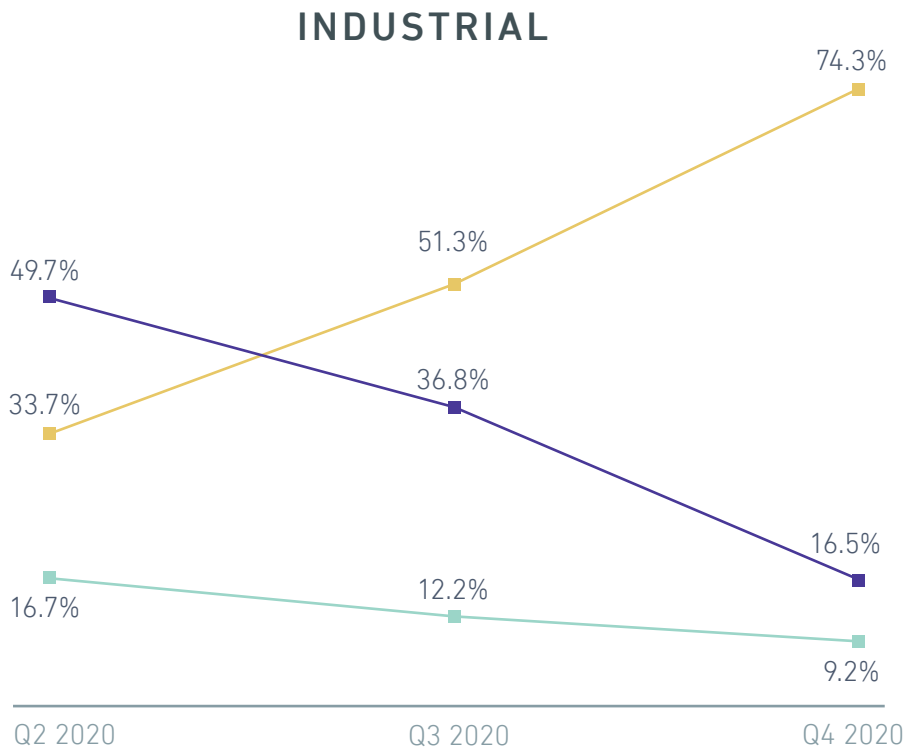
“The biggest challenge in the industrial market is that there is so little product.”

- Industrial Specialist
SIOR New Jersey Chapter

IMPACT OF COVID-19 ON IN-PROGRESS TRANSACTIONS - INDUSTRIAL VS. OFFICE

Average percentage of current transactions by specialization.

KEY ● Transaction On Schedule ● Transaction On Hold ● Transaction Cancelled



Totals may not equal 100% due to rounding.

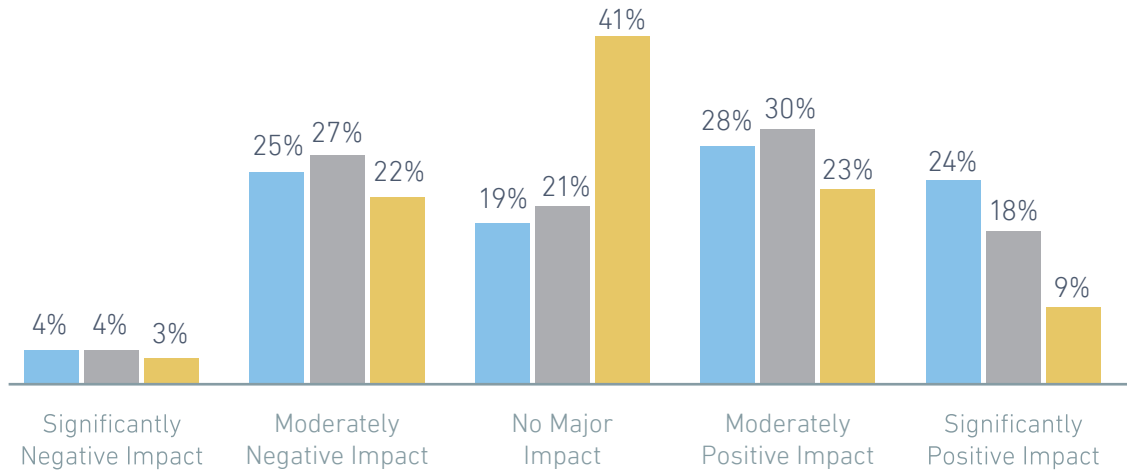
*Transaction data reflects sentiment survey responses reported beginning in Q2 2020. No prior data exists for this metric.

ECONOMIC IMPACTS ON MARKET CONDITIONS

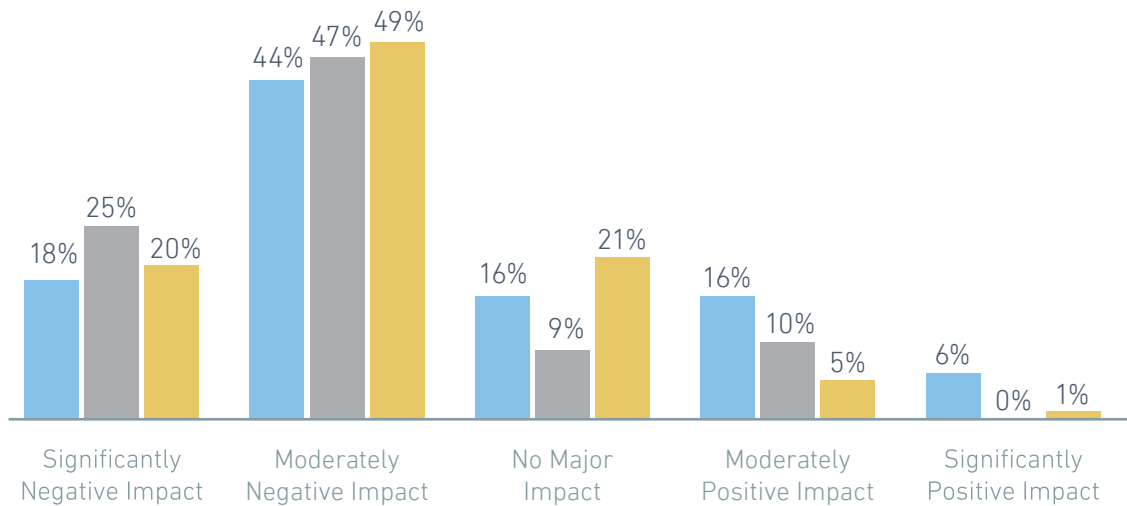
Average percent of economic conditions on all respondents' current market performance

KEY ● Local ● National ● Global

INDUSTRIAL



OFFICE



FROM THE EXPERTS



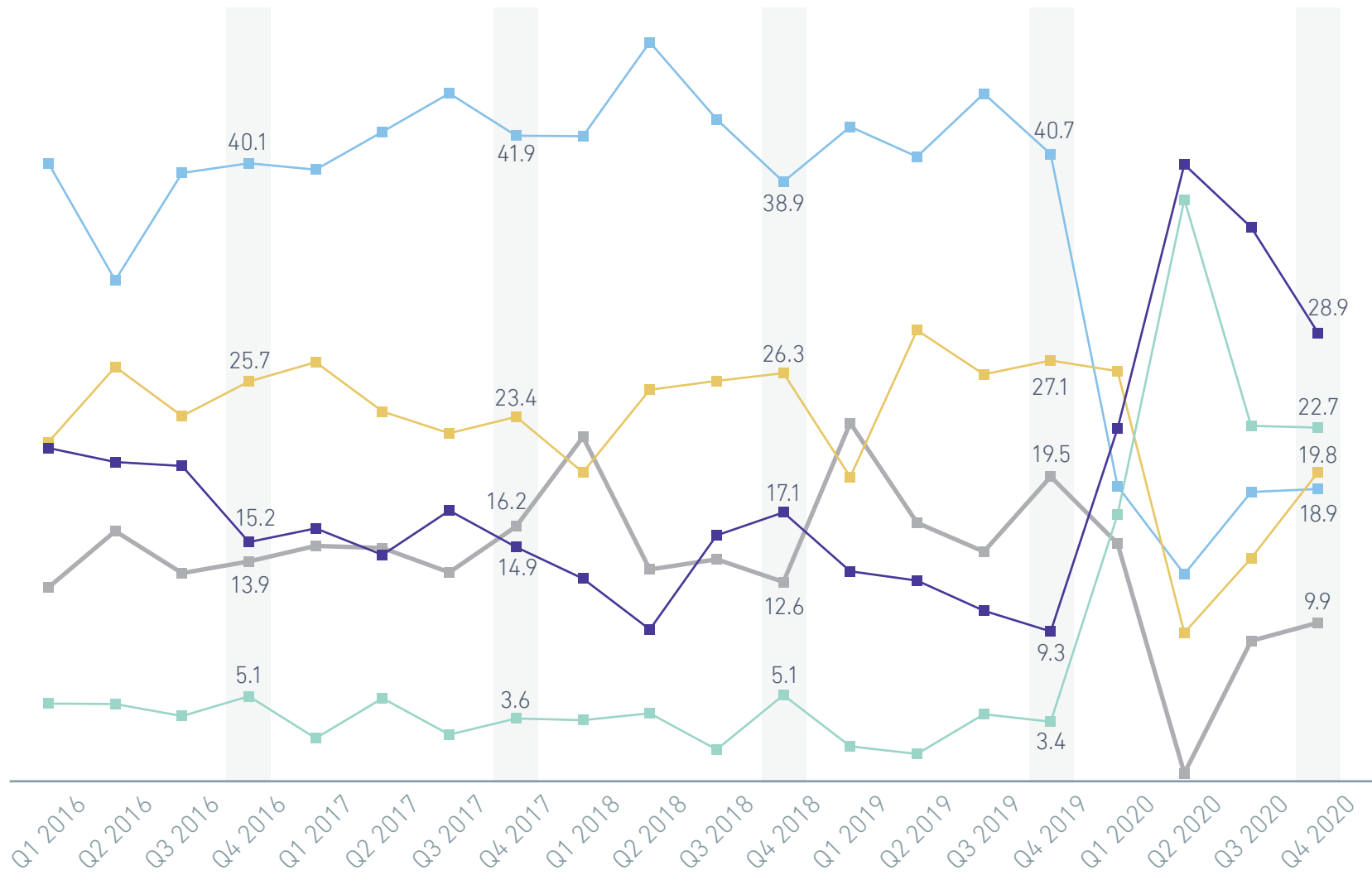
The pandemic continues to negatively affect almost all market sectors and property types and is expected to continue to do so for 6-12 months in 2021."

- Office Specialist
SIOR Northern California Chapter

QUARTERLY LEASING ACTIVITY

Data reflects percentage of ratings for leasing activity per quarter.

KEY ● Much Lower ● A Little Lower ● About the Same as Previous Year ● A Little Higher ● Much Higher

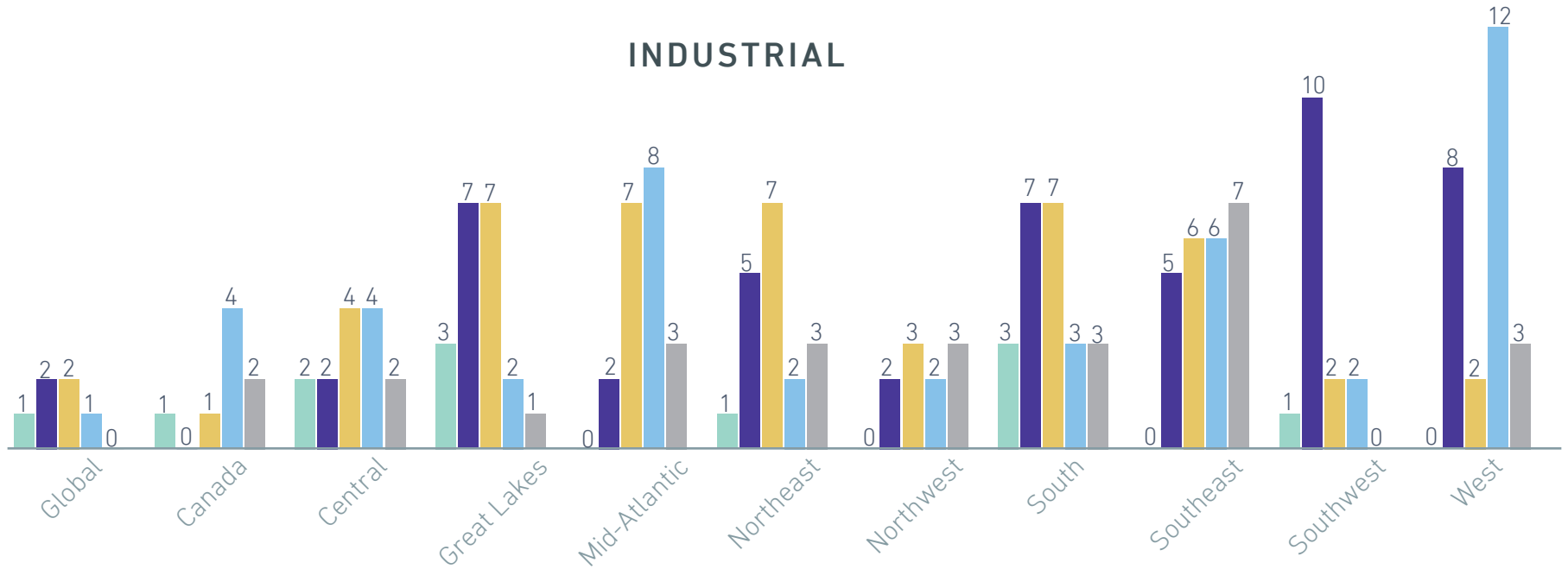


Q4 2020 CURRENT LEASING ACTIVITY BY REGION

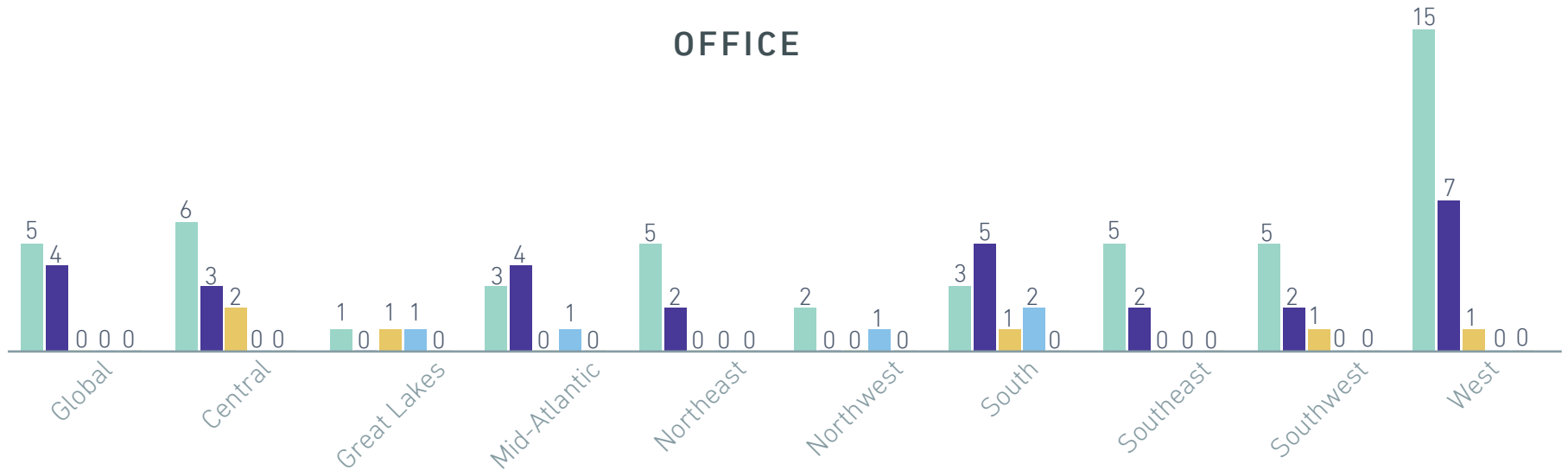
Data reflects number of responses per level of leasing activity in each region.

KEY ● Much Lower ● A Little Lower ● About the Same as Last Year ● A Little Higher ● Much Higher

INDUSTRIAL



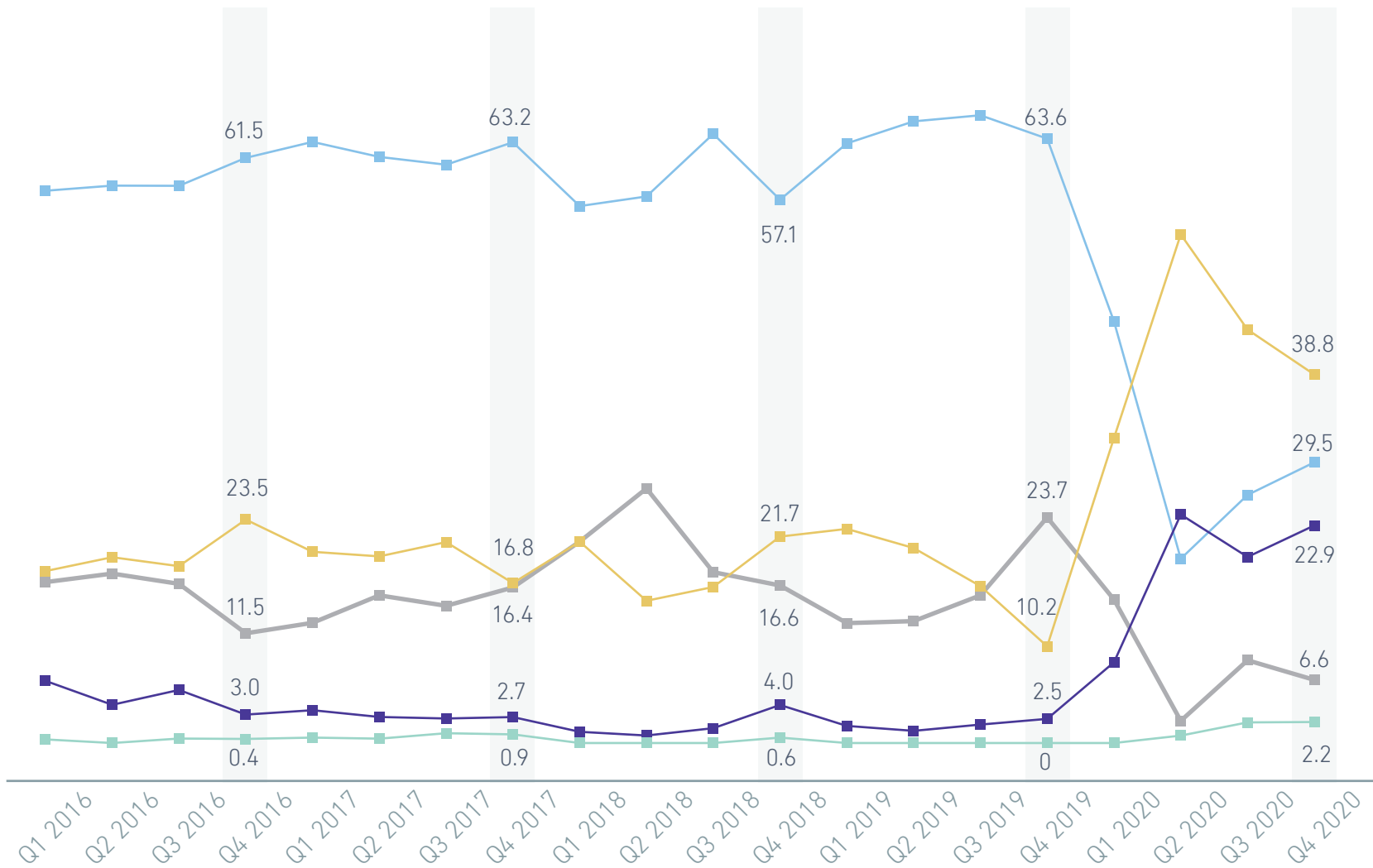
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QUARTERLY ASKING RENTS

Data reflects percentage of ratings for asking rents per quarter.

KEY ● Much Lower ● A Little Lower ● About the Same as Previous Year ● A Little Higher ● Much Higher

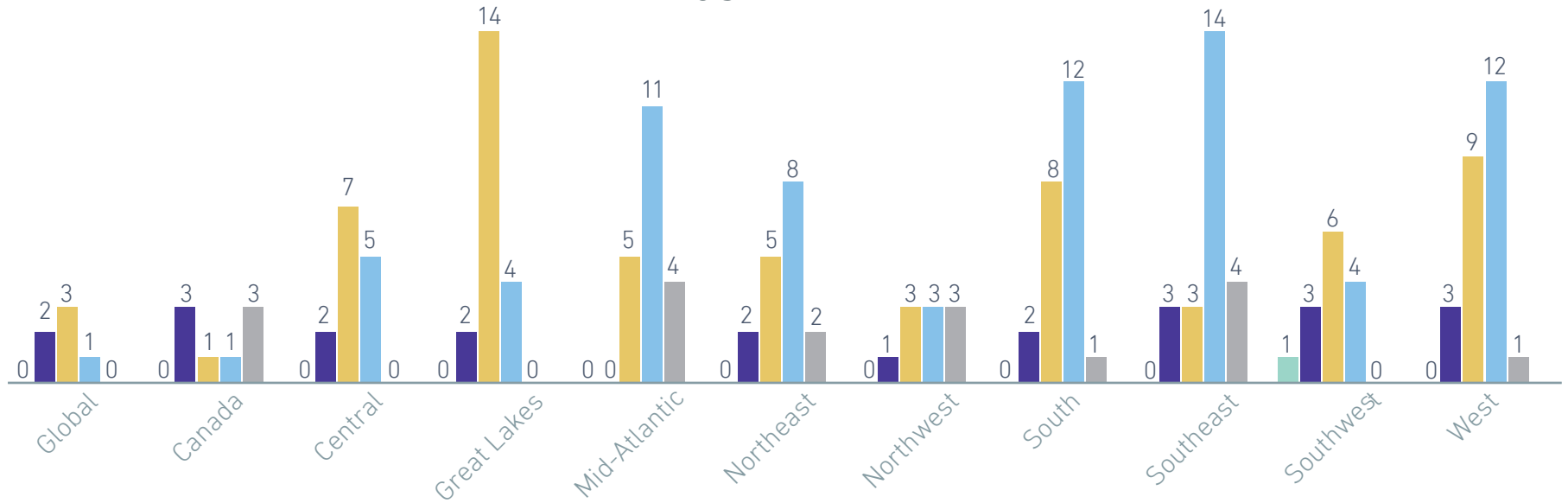


Q4 2020 CURRENT ASKING RENTS BY REGION

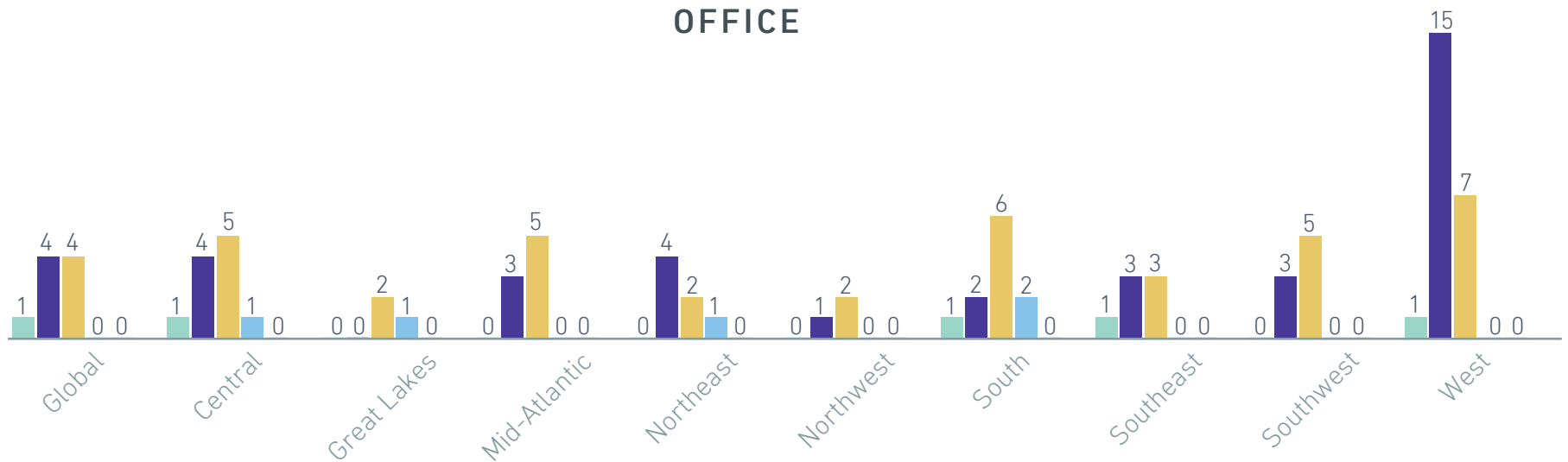
Data reflects number of responses per level of asking rents in each region.

KEY ● Much Lower ● A Little Lower ● About the Same as Last Year ● A Little Higher ● Much Higher

INDUSTRIAL



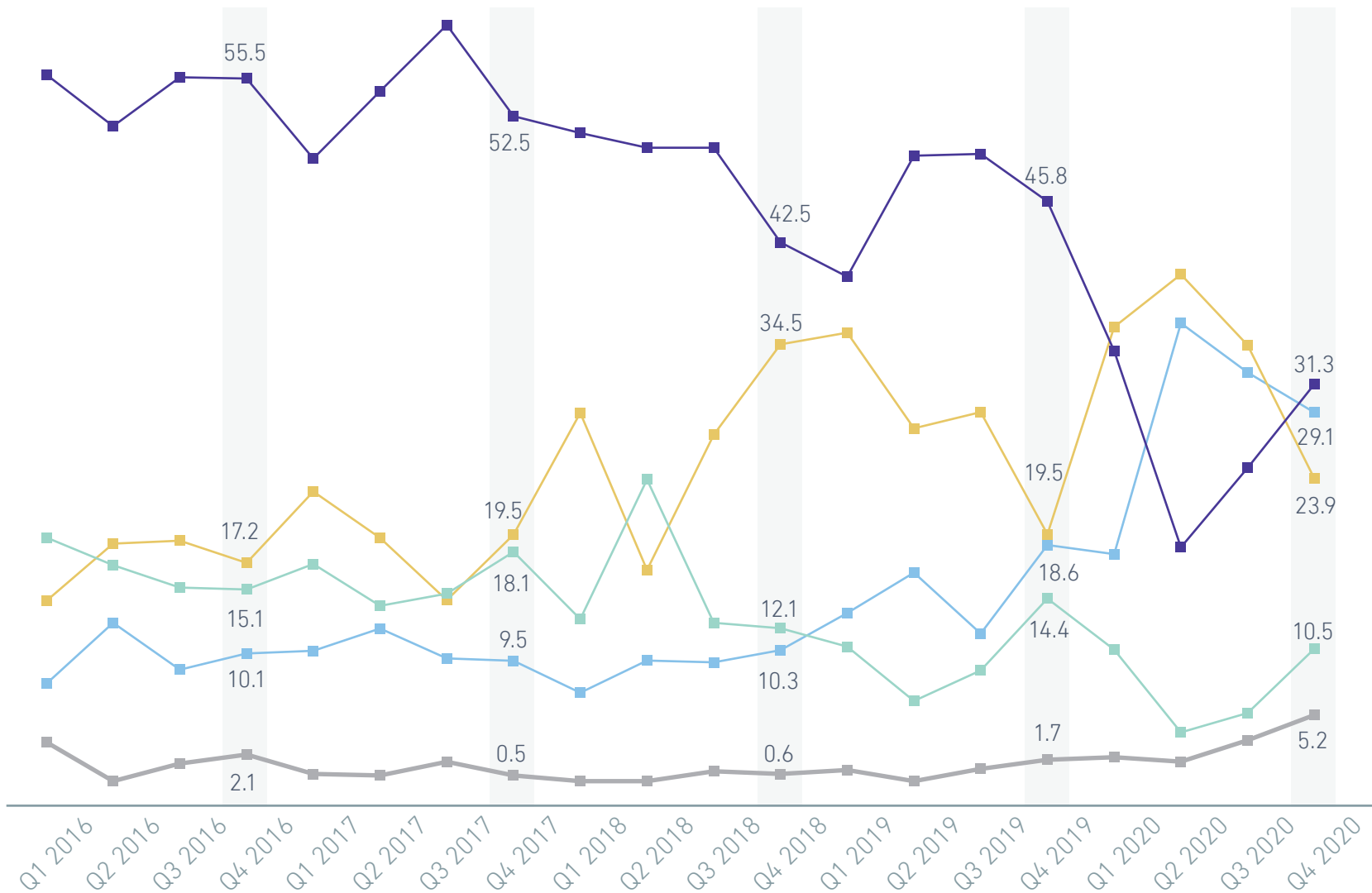
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QUARTERLY VACANCY

Data reflects percentage of ratings for current vacancy per quarter.

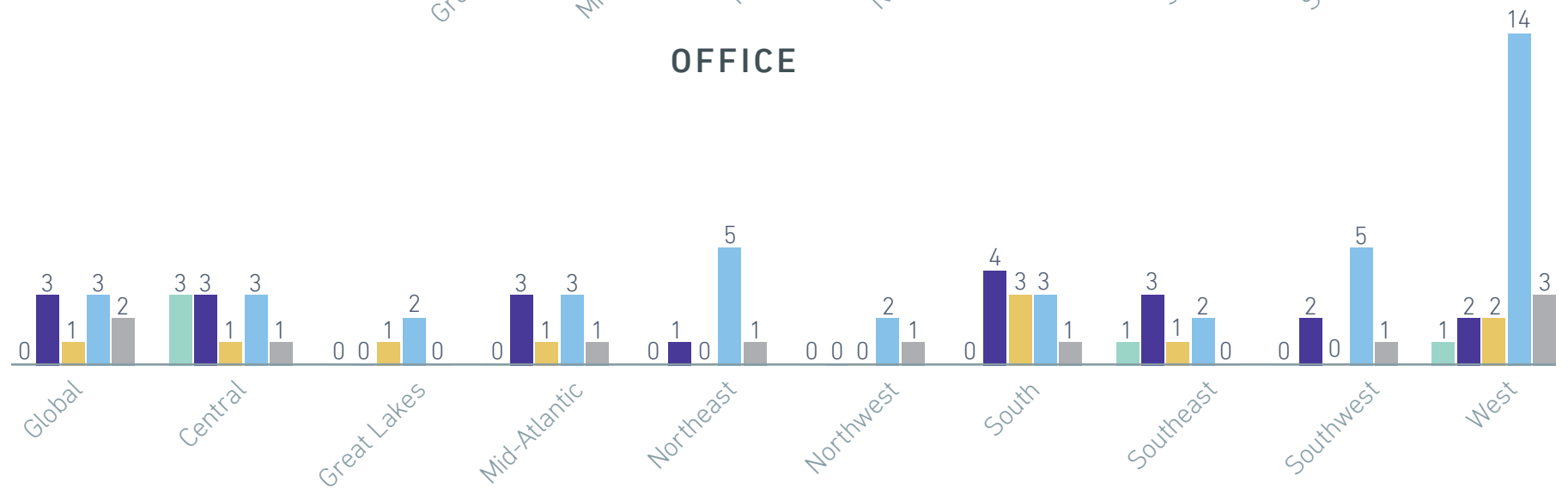
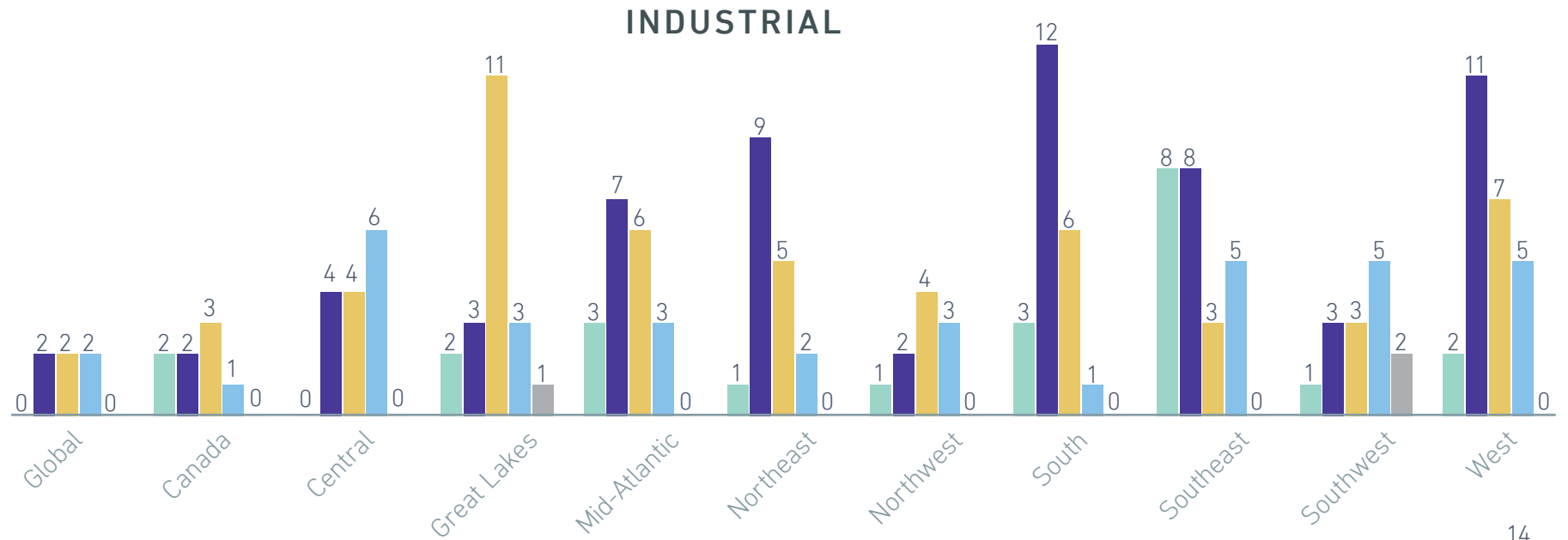
KEY ● Much Lower ● A Little Lower ● About the Same as Previous Year ● A Little Higher ● Much Higher



Q4 2020 CURRENT VACANCY RATES BY REGION

Data reflects number of responses per level of vacancy rates in each region.

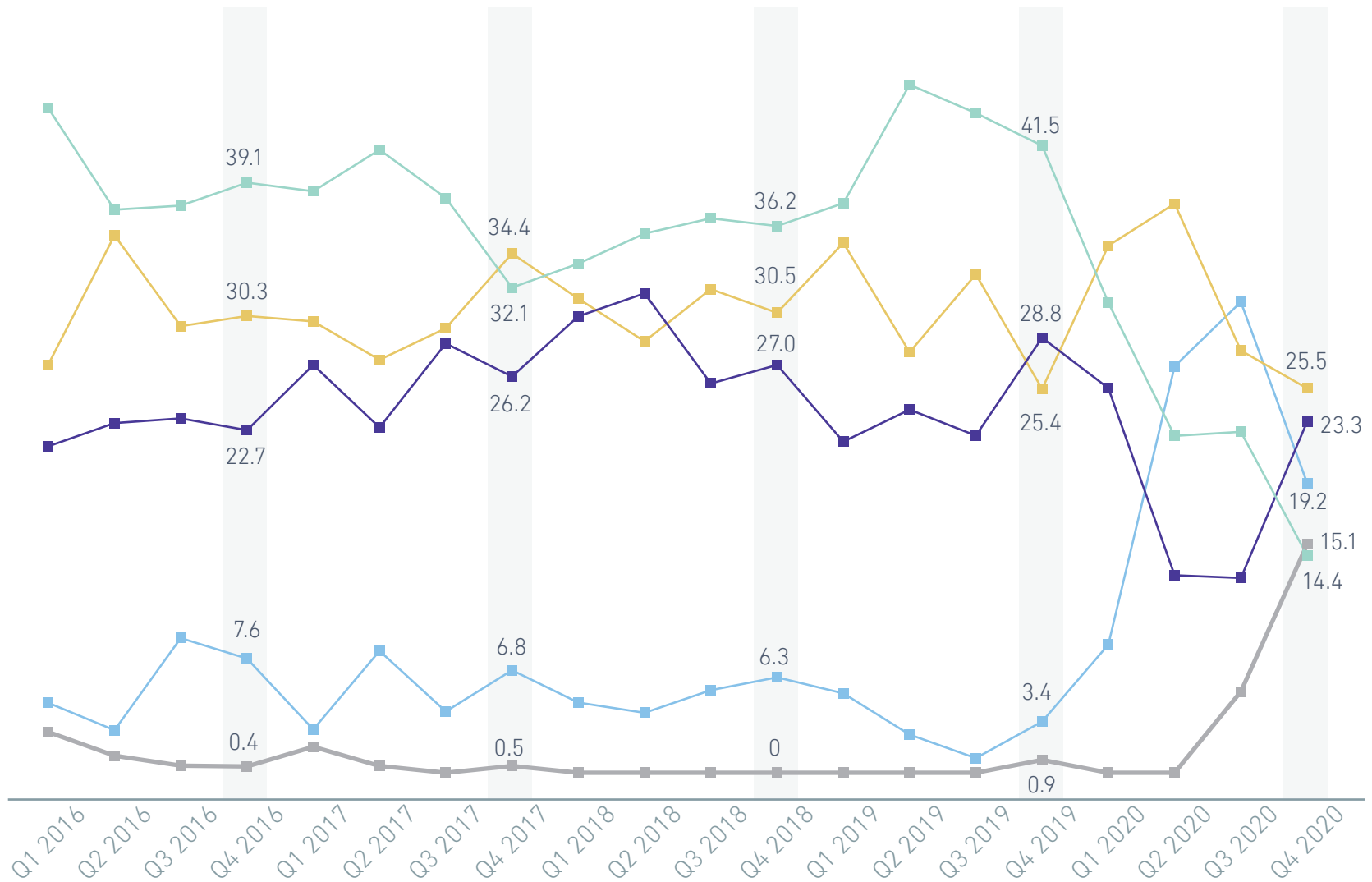
KEY ● Much Lower ● A Little Lower ● About the Same as Last Year ● A Little Higher ● Much Higher



QUARTERLY SUBLEASING

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

KEY ● Little to no subleasing space ● Limited amount of subleasing space ● Average amount of subleasing space ● Adequate amount of subleasing space ● Extensive amount of subleasing space

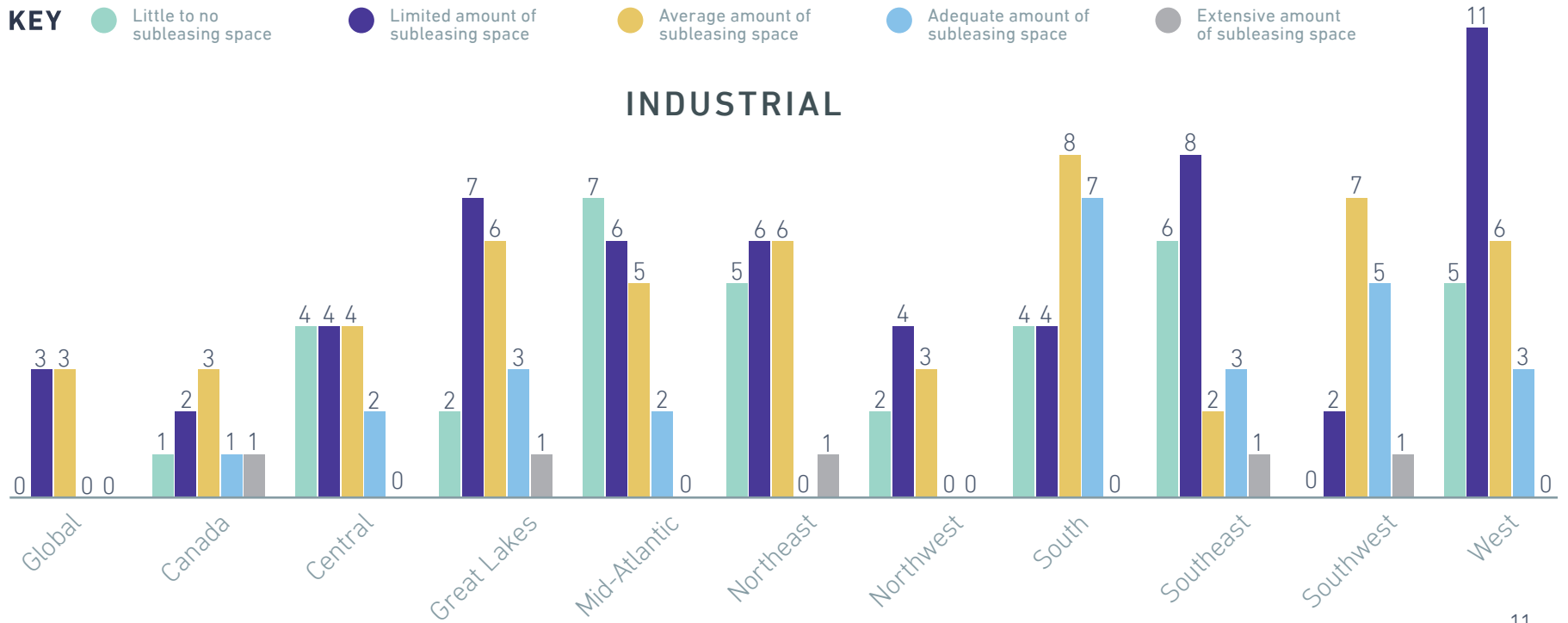


Q4 2020 SUBLEASING BY REGION

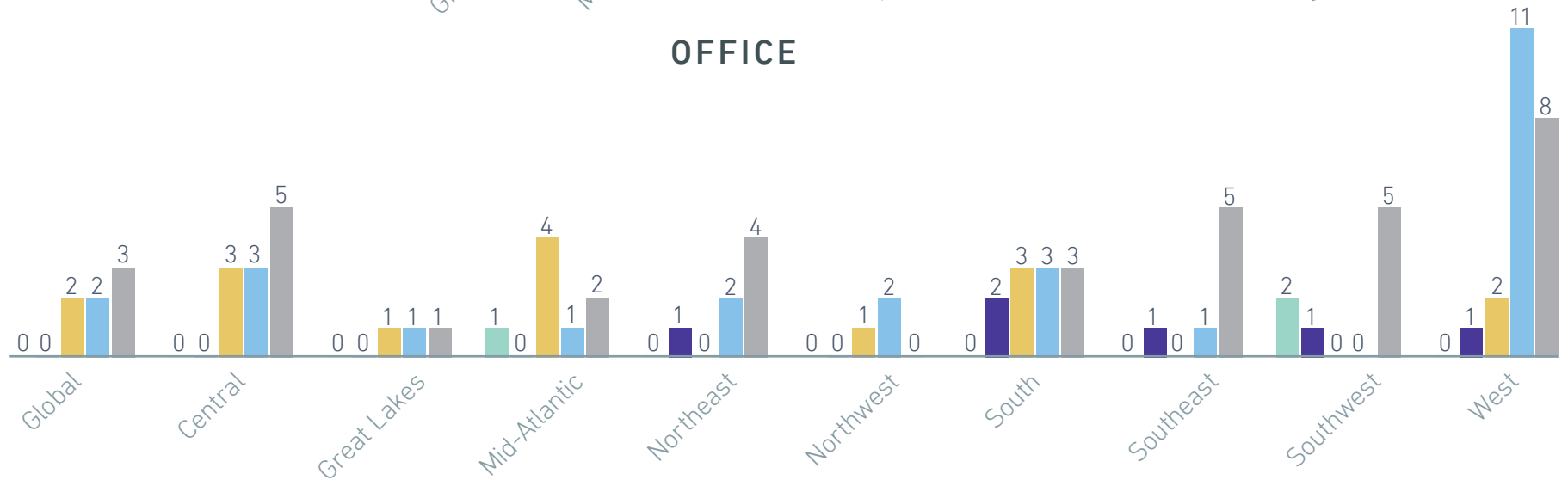
Data reflects number of responses per level of subleasing space in each region.

KEY ● Little to no subleasing space ● Limited amount of subleasing space ● Average amount of subleasing space ● Adequate amount of subleasing space ● Extensive amount of subleasing space

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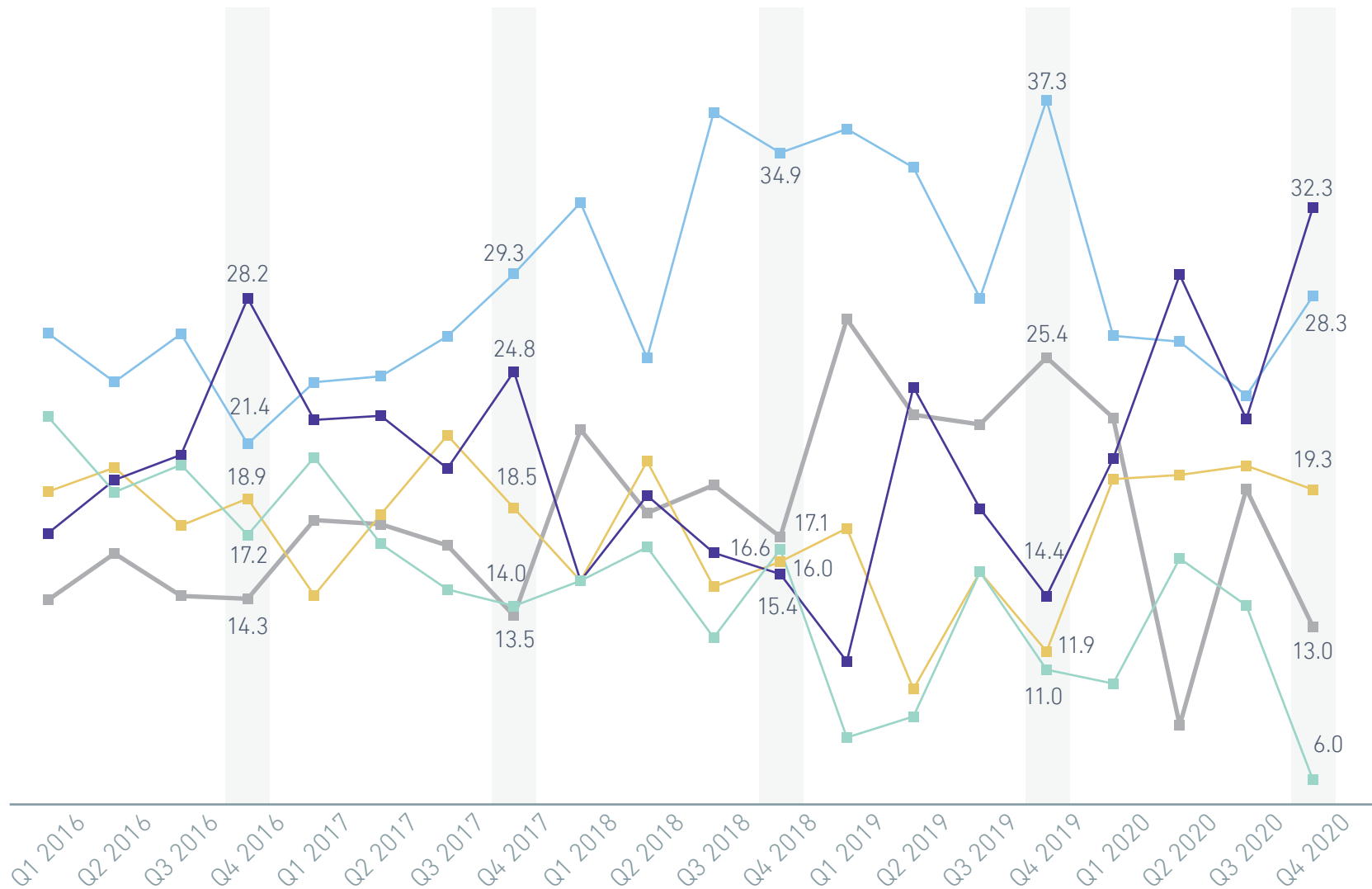
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QUARTERLY DEVELOPMENT CONDITIONS

Data reflects percentage of ratings for development conditions per quarter.

KEY ● Nonexistent ● Minimal ● Close to its historical average ● Above average ● Booming

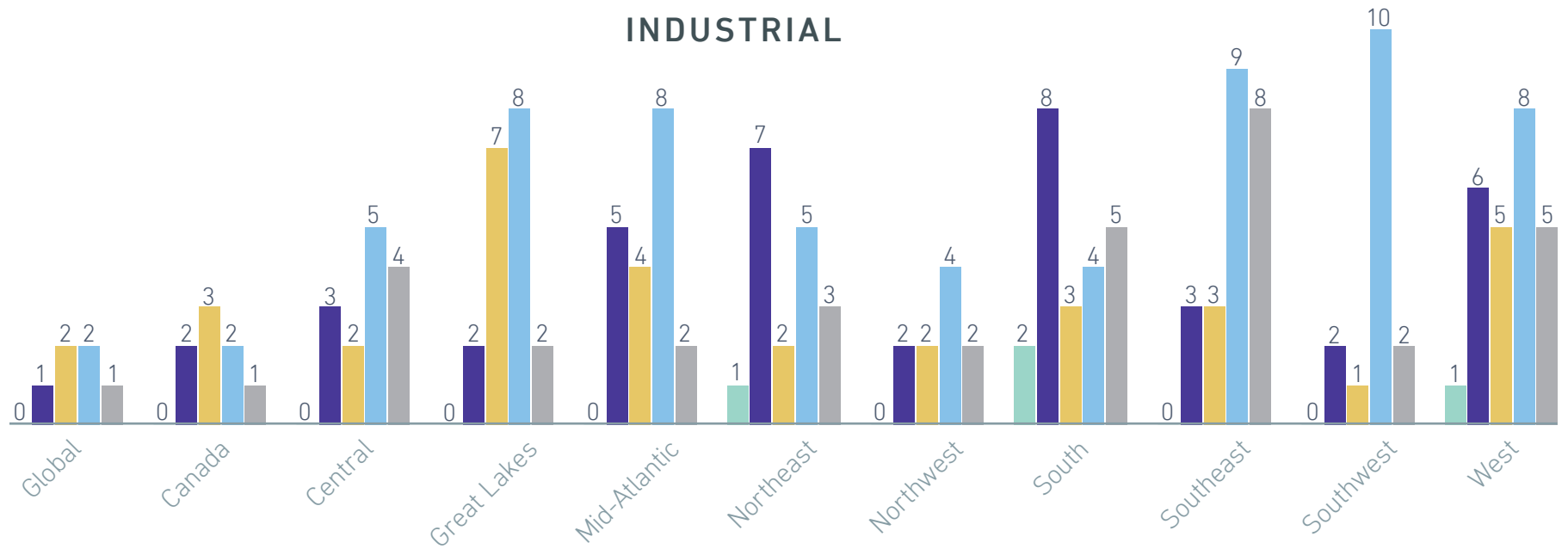


Q4 2020 DEVELOPMENT CONDITIONS BY REGION

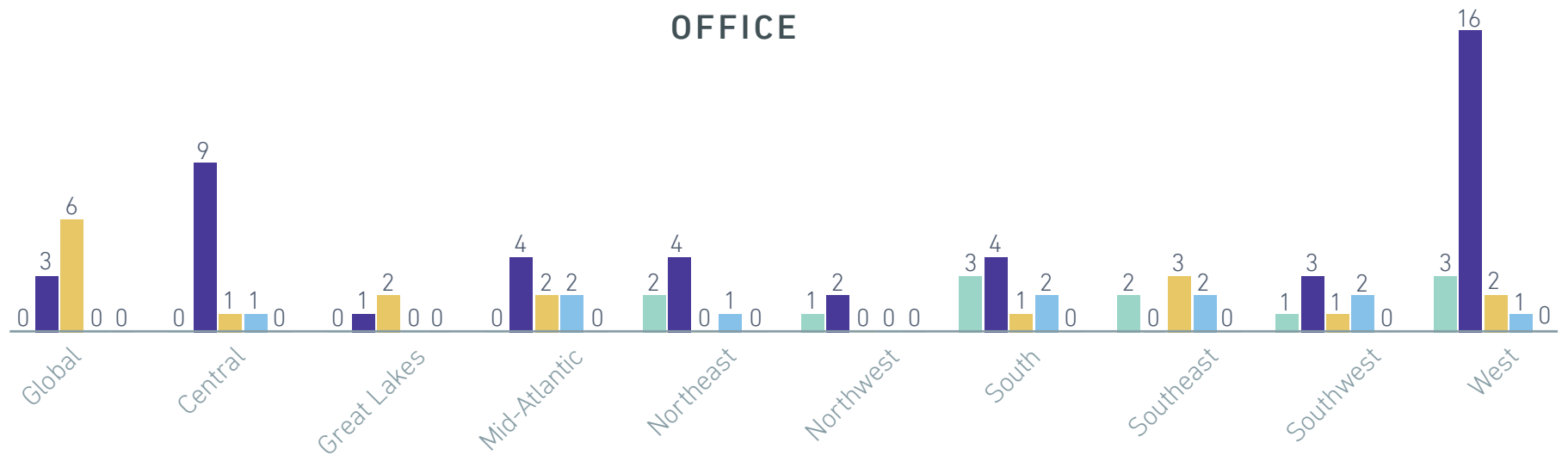
Data reflects number of responses per level of development condition in each region.

KEY ● Nonexistent ● Minimal ● Close to its historical average ● Above average ● Booming

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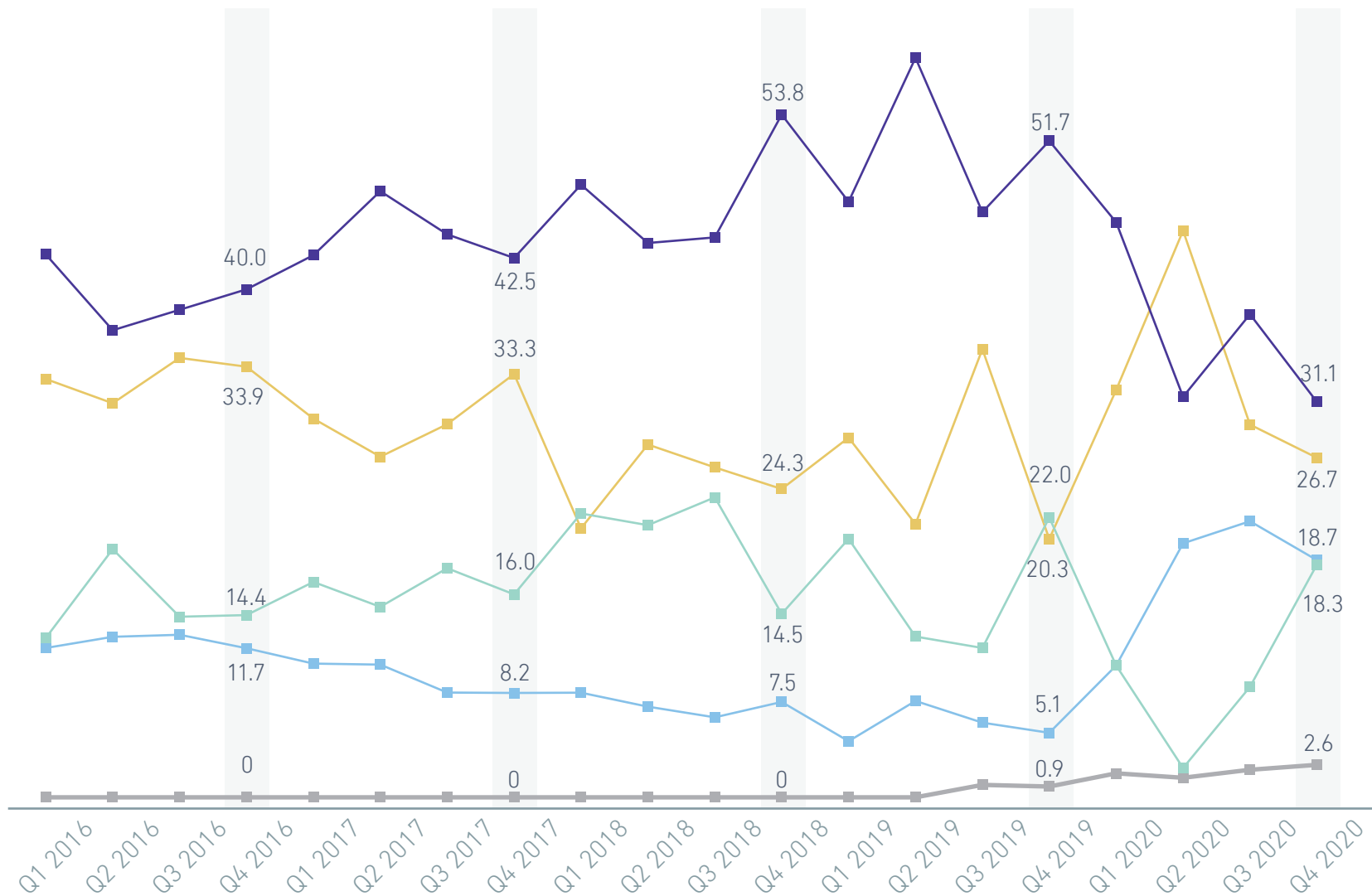




QUARTERLY SITE ACQUISITION CONDITIONS

Data reflects percentage of ratings for site acquisition per quarter.

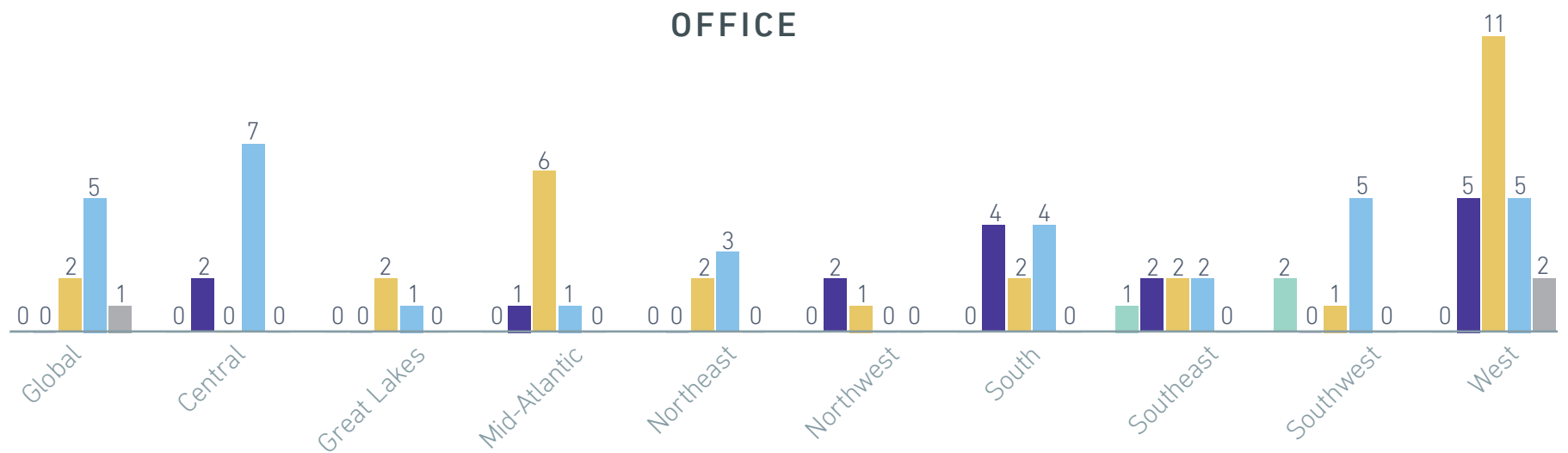
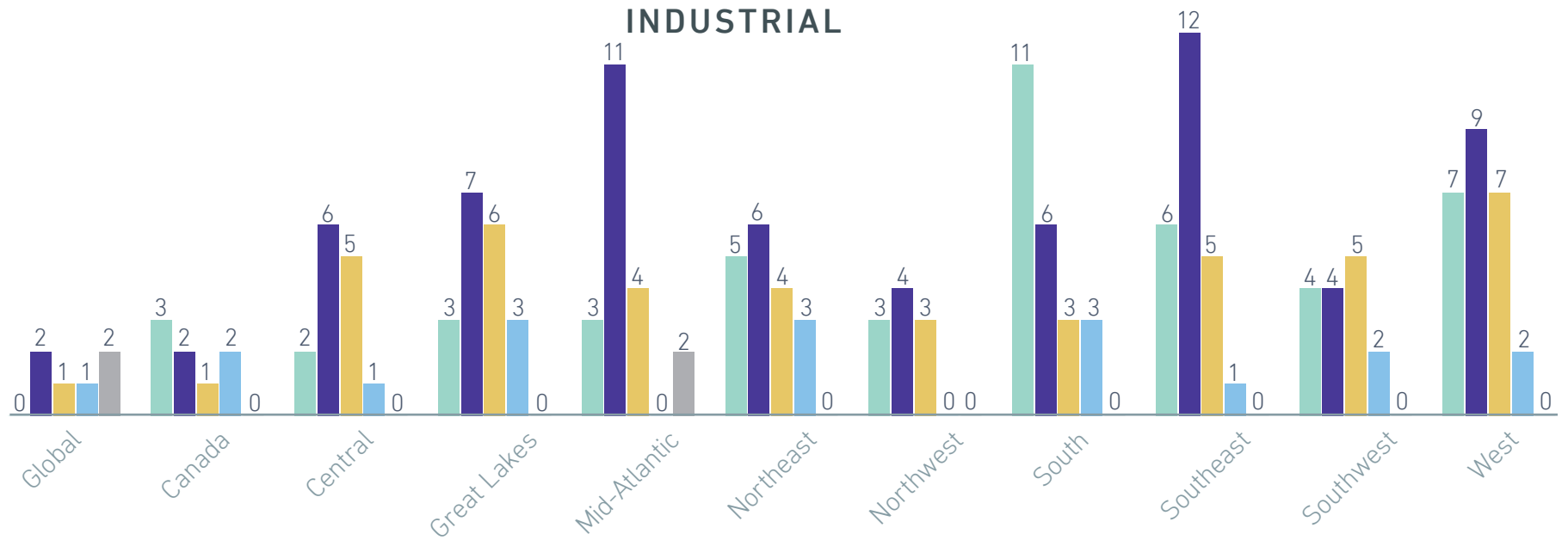
KEY ● Strong seller's market, prices increasing rapidly. ● Seller's market, prices rising at a steady pace. ● Market is balanced, with prices stable to slightly rising. ● Buyer's market, but prices are stable at present. ● Strong buyer's market and prices are low and falling.



Q4 2020 SITE ACQUISITION CONDITIONS BY REGION

Data reflects number of responses per level of acquisition condition in each region.

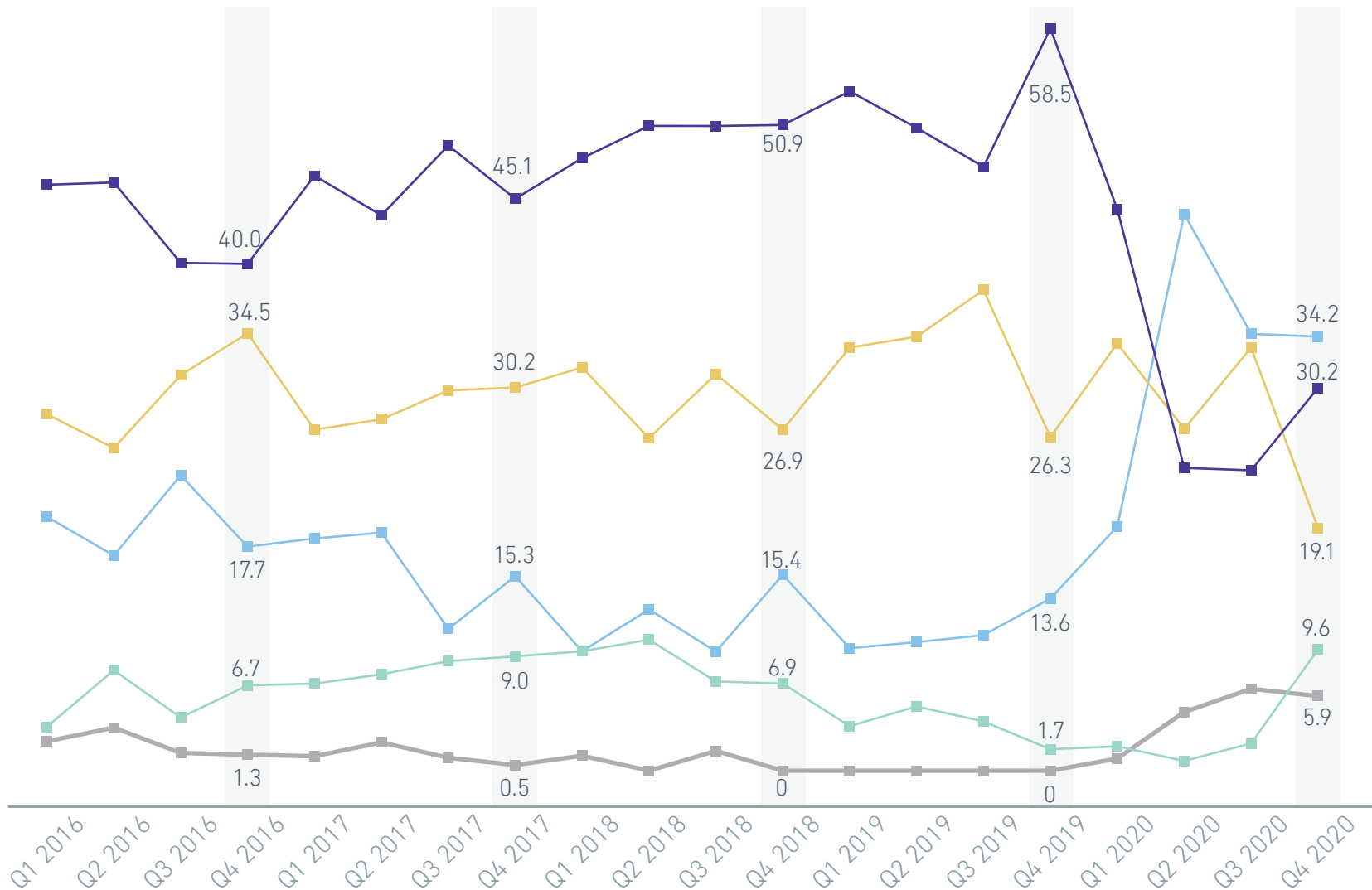
KEY ● Strong seller's market, prices increasing rapidly. ● Seller's market, prices rising at a steady pace. ● Market is balanced, with prices stable to slightly rising. ● Buyer's market, but prices are stable at present. ● Strong buyer's market and prices are low and falling.



QUARTERLY TENANT CONCESSIONS

Data reflects percentage of ratings for tenant concessions per quarter.

KEY ● No concessions are available as the landlords have strong bargaining power. ● Limited levels of concessions, with the market slightly favoring the landlord ● Balanced level of concessions, with no bargaining advantage for landlord or tenant ● Moderate levels of concessions, and the market favors tenants ● Extensive concessions, with deep discounts on asking rents, substantially favoring tenants

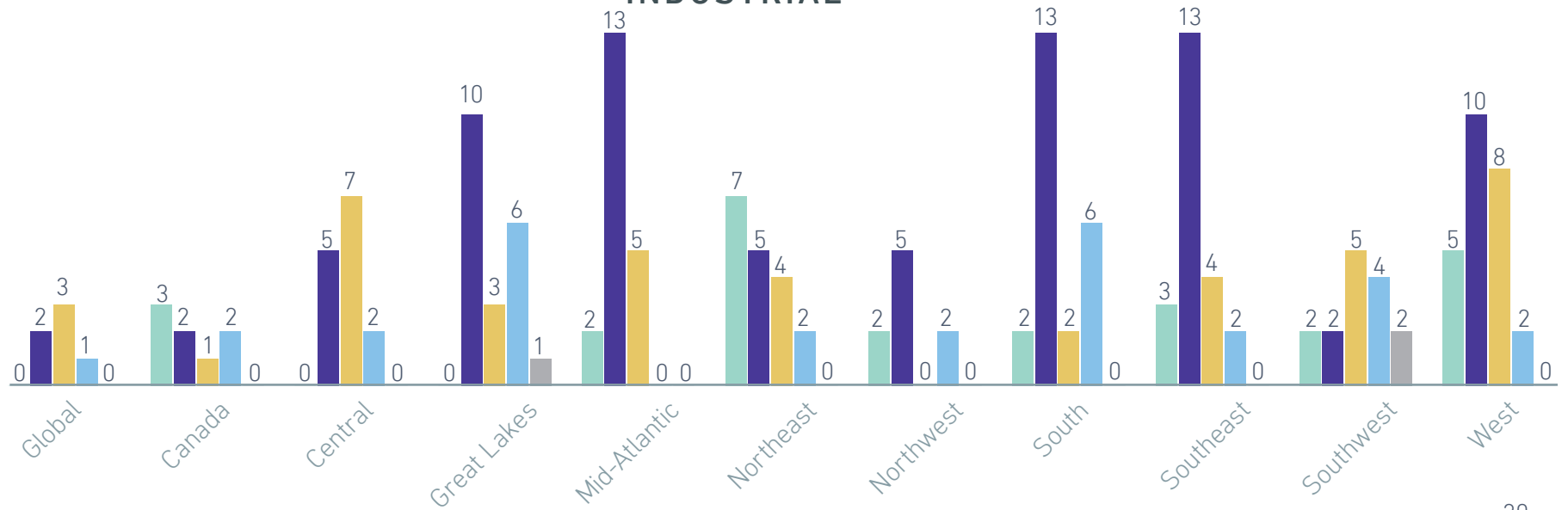


Q4 2020 TENANT CONCESSIONS BY REGION

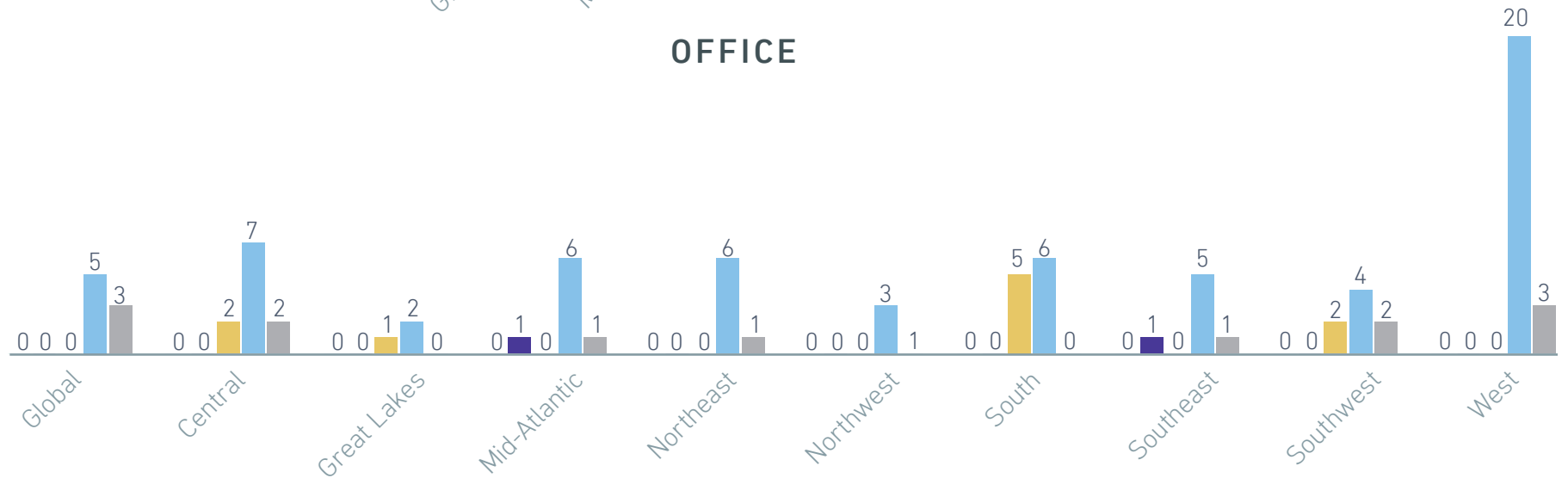
Data reflects number of responses per level of concessions in each region.

KEY ● No concessions are available as the landlords have strong bargaining power. ● Limited levels of concessions, with the market slightly favoring the landlord. ● Balanced level of concessions, with no bargaining advantage for landlord or tenant. ● Moderate levels of concessions, and the market favors tenants. ● Extensive concessions, with deep discounts on asking rents, substantially favoring tenants.

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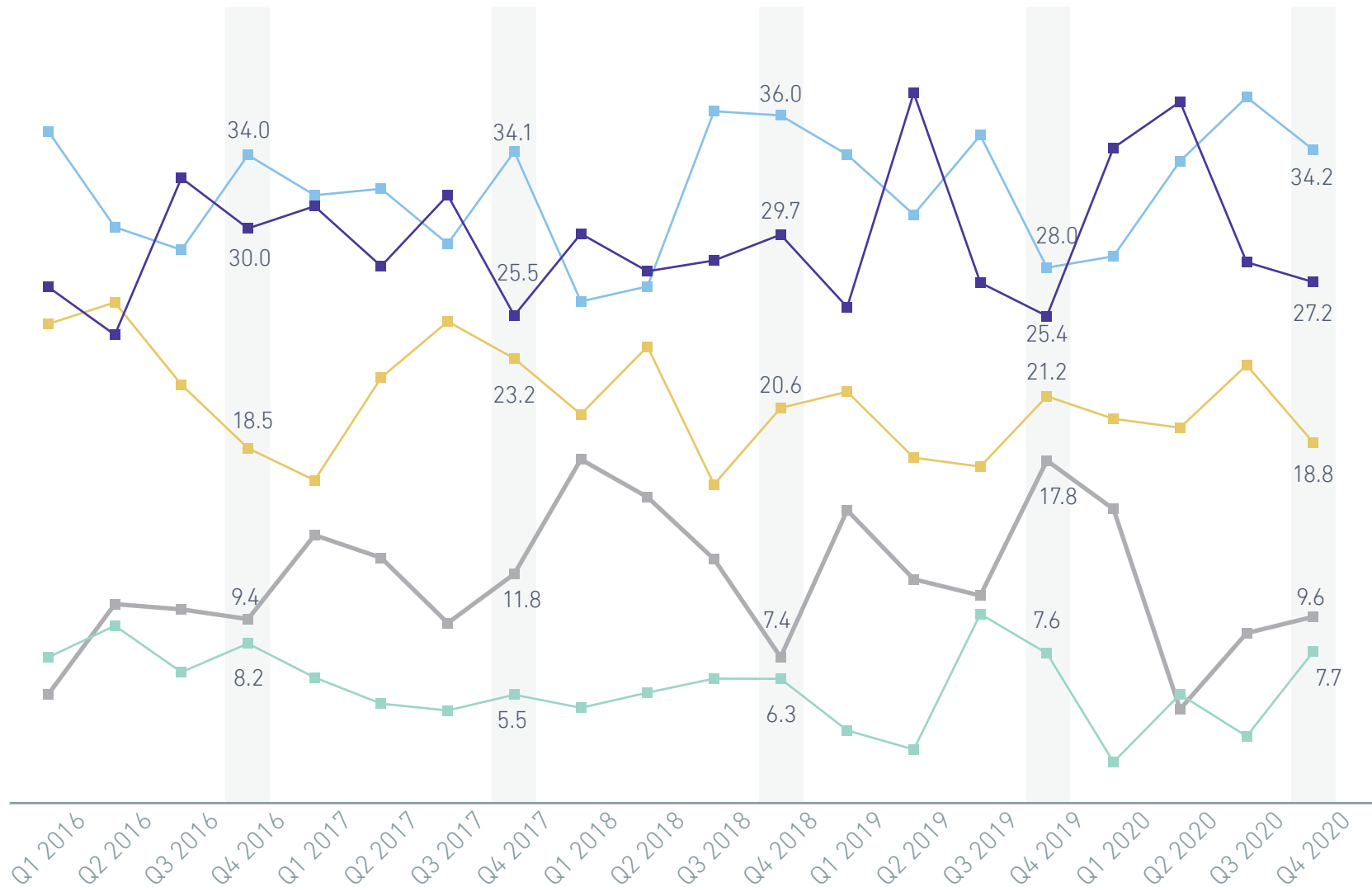
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QUARTERLY INVESTMENT PRICING CONDITIONS

Data reflects percentage of ratings for investment pricings per quarter.

KEY ● Substantially below replacement cost. ● Somewhat below replacement cost. ● Approximately at replacement cost. ● Somewhat above cost and it is profitable to build. ● Well above cost and it is extremely profitable to build.

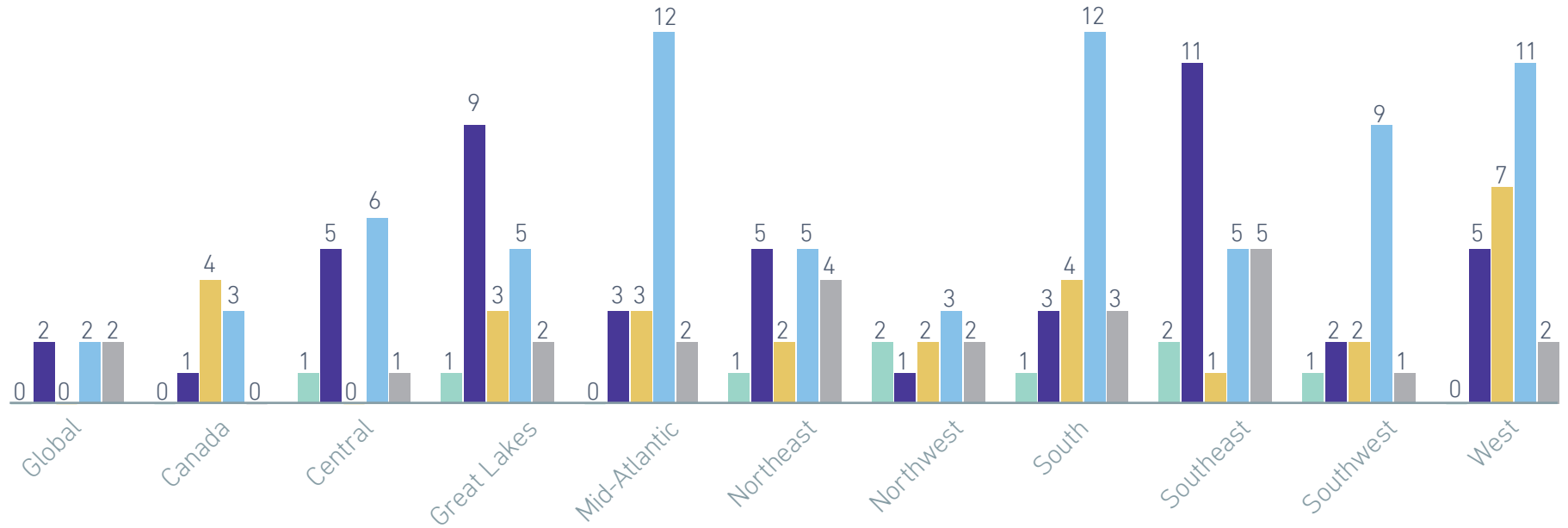


Q4 2020 INVESTMENT PRICING CONDITIONS BY REGION

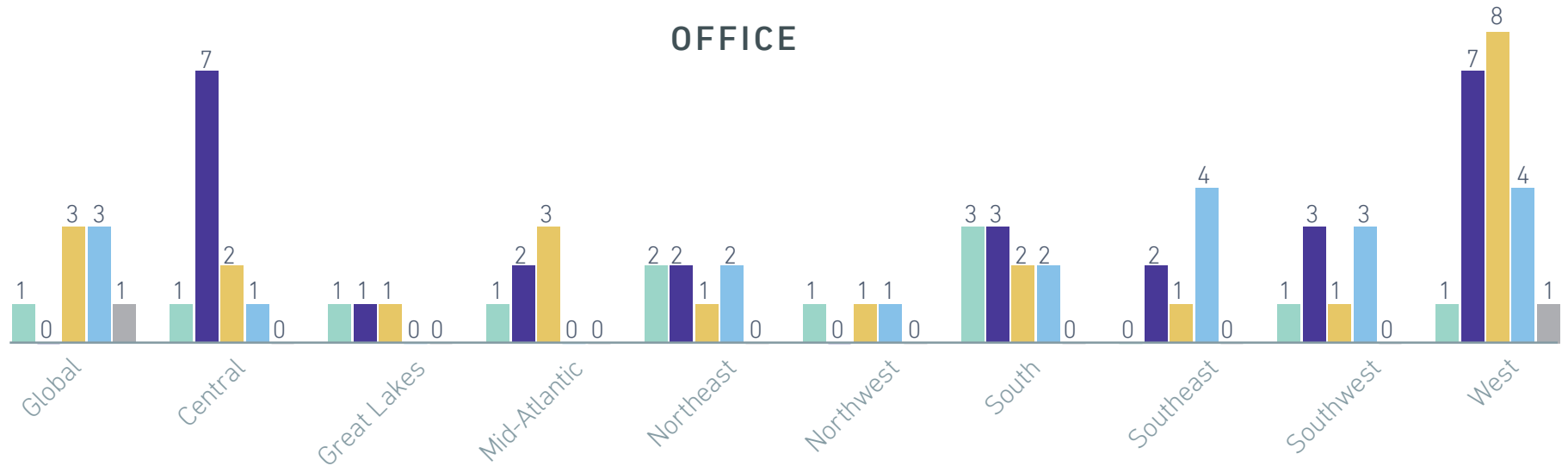
Data reflects number of responses per level of investment pricing condition in each region.

KEY ● Substantially below replacement cost. ● Somewhat below replacement cost. ● Approximately at replacement cost. ● Somewhat above cost and it is profitable to build. ● Well above cost and it is extremely profitable to build.

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REPRESENTATIVE COMMENTS FROM RESPONDENTS

“There is a general lack of transactions as tenants seek short-term extensions with current market uncertainty.”

- Office Specialist, SIOR Inland Empire Chapter

“Leasing activity is strong while availability of buildings is low, keeping lease rates high.”

- Industrial Specialist, SIOR Mexico Chapter

“The vacancy rate is ZERO! We have no product available!”

- Industrial Specialist, SIOR Georgia Chapter

“Continuing ongoing contact with clients and principals has helped carry me through.”

- Office Specialist, SIOR LA/MS/AL/NW FL Chapter

“Rising land costs, sitework costs, and construction costs are causing people to look for second generation locations, but the inventory is very low.”

- Industrial Specialist, SIOR Carolinas Chapter

“Small Flex and big box warehouse is hot.”

- Industrial Specialist, SIOR Ohio Chapter

“There is more sublease space but it is going fast. More tenants are preferring to sublease space as opposed to a direct deal with a landlord.”

- Office Specialist, SIOR North Texas Chapter

“Class B industrial is roaring. It's possible it will ALL get absorbed and we'll have nothing left to work on.”

- Industrial Specialist, SIOR Western Missouri/Kansas Chapter

REPRESENTATIVE COMMENTS FROM RESPONDENTS

“2021 and into 2022 will be a time to absorb space. Rents will fall and TI, free rent and other concessions will grow.”

- Office Specialist, SIOR Iowa/Nebraska Chapter

“If the vaccine rolls out quickly, rebound for second half of 2021 could be strong.”

- Industrial Specialist, SIOR Ohio Chapter

“The life science vertical is developing within the market, providing another avenue for economic development.”

- Industrial Specialist, SIOR Western Pennsylvania Chapter

“Very interesting times. I think prices are high and will remain that way as long as interest rates are historically low.”

- Industrial Specialist, SIOR Northern California Chapter

“Every day it is getting to be a better market for tenants. Tenants are currently looking for flexible options with shorter lease terms, therefore sublease deals getting completed have significantly increased.”

- Office Specialist, SIOR DFW/North Texas Chapter


“The present environment of supply and demand, low interest rates, limited pipeline for new development, cheap debt and willing equity would suggest a promising short term.”

- Industrial Specialist, SIOR Greater Los Angeles Chapter

APPENDIX

Survey Questions:

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

- 
7. What are acquisition conditions for development in your market?
 - Strong buyer's market - prices are low and falling.
 - Buyer's market, but prices are stable at present
 - Market is balanced, with prices stable to slightly rising
 - Seller's market, prices rising at a steady pace
 - Strong seller's market, prices increasing rapidly
 8. In negotiations between landlords and tenants, what level of tenant concessions characterize your market?
 - Extensive concessions, with deep discounts on asking rents, substantially favoring tenants
 - Moderate level of concessions, and the market favors tenants
 - Balanced level of concessions, with no bargaining advantage for landlord or tenant
 - Limited levels of concessions, with the market slightly favoring the landlord
 - No concessions are available as the landlords have strong bargaining power
 9. What are investment pricing conditions for a good building in your market?
 - Substantially below replacement cost
 - Somewhat below replacement cost
 - Approximately at replacement cost
 - Somewhat above cost and it is profitable to build
 - Well above cost and it is extremely profitable to build
 10. What is your level of confidence in your local market conditions (what will conditions be like) for the next quarter?
 - (1) Lowest confidence: activity is much worse and down more than 10%
 - (2) Low confidence: activity is worse and down by 6-10%
 - (3-4) Moderately low confidence: there is slight decline in activity by 1-5%
 - (5-6) No change from last quarter
 - (7-8) Moderately high confidence: activity has slightly improved by 1-5%
 - (9) Higher confidence: activity has improved by 6-10%
 - (10) Highest confidence: market activity is much better and improved by more than 10%
 11. Please share what is working well or what challenges you see in your market.
 - Opportunity for open-ended responses.
 12. Please share any additional comments related to your forecast for the future, such as trends, market conditions, etc.
 - Opportunity for open-ended responses.

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