



# — SIOR — SNAPSHOT SENTIMENT REPORT

## THIRD QUARTER 2021

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## SUMMARY

The third quarter of 2021 has seen a compilation of disruptions impacting the industry: from the Delta variant surge, to labor and inventory shortages, to the rise in construction prices and supply chain constraints. There is a struggle for larger tenants to commit long term, and the second quarter confidence of the office sector has been replaced by frustration and hesitancy. While the industrial sector is booming, there is a lack of developable land and a short supply of inventory, ultimately creating massive price hikes. In this most recent Society of Industrial and Office Realtors (SIOR) Snapshot Sentiment Report, many expect a tight market for the foreseeable future and the findings reflect a cautious outlook for what lies ahead.

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

- Overall **market confidence** remained mostly the same, going from 7.6 to 7.5 (out of 10), the first drop since the fourth quarter of 2020.
  - » The decrease comes from the office sector, which fell from 6.7 in Q2, to 6.2 this quarter.
  - » The industrial market confidence remained steady for a third quarter at 8.0.
- The status of **transactions** continues to improve, with SIORs reporting 82% of deals are on schedule, a 4% increase from last quarter, and 74% higher than Q3 2020.
  - » On-hold and cancelled transactions both dropped to their lowest reported numbers (since the start of the pandemic), with 12% delayed and only 6% cancelled outright.
  - » The improvement in transaction status is largely contributed to the industrial sector, with 85% of deals on schedule, 9% on hold, and 6% cancelled.
  - » The office sector, on the other hand, saw a dip in on-schedule and on-hold transactions this quarter, with 75% on schedule (down from 77% in Q2) and 17% on hold (up from 15% in Q2).
- **Economic conditions** have continued to positively impact market performance for industrial specialists, but not as much for the office sector.
  - » An overall 69% reported a positive impact from local conditions, up from 65% in Q2, which is also a 156% improvement from a year ago. The industrial sector saw the greatest positive impact at 79%, a 15% increase from Q2. The office sector, however, dipped from 56% in Q2 to 47% in the third quarter.
  - » There was little change in impact of national and global economic conditions in Q3, with 65% still noting national conditions' positive impact, and a slight increase in positive impacts at the global level from 46% in Q2 to 48% in Q3.
  - » Nationally, 77% of industrial specialists were more positive about conditions, and 61% were positive about global conditions.
  - » 36% of office specialists felt national conditions positively impacted the market (down from 49% in Q2), and only 20% felt global conditions had a positive impact (down from 26% in Q2).
- **Leasing activity** rose again to its highest level reported, with 76% of SIORs reporting more leasing (up from 72% in Q2).
  - » The increase was due to the rise in leasing activity in the industrial sector, with 85% of industrial specialists reporting higher leasing activity, a 15% increase from Q2.
  - » Only 57% of office specialists reported high leasing activity, a drop from 68% in Q2.
- Overall **asking rents** continued to rise, with 75% noting higher asking rents in Q3, up from 64% in Q2, and edging closer to levels seen two years prior (82% in Q3 2019). High asking rents are purely seen in the industrial sector.
  - » Nearly all industrial specialists, a staggering 94%, reported higher asking rents in Q3, up 12% from Q2.
  - » While only 31% of office specialists reported higher asking rents, a 94% increase from Q2 (16%).

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- Available **vacancy** is at its lowest in three years, with 68% noting low vacancy overall. This is up from 61% last quarter.
    - » Industrial continues to have the least amount of available space, with 84% noting low vacancy, a jump from 75% in Q2.
    - » Office vacancy slightly decreased this quarter with 31% reporting low vacancy, compared to 30% in Q2.
  - Available **subleasing space** also continues to decline, with 56% of SIORs reporting very limited or no subleasing space available.
    - » 77% of industrial specialists have limited subleasing space, an increase from 68% in Q2.
    - » Office subleasing space continues to increase as well, as 66% noted adequate or extensive amounts of subleasing space, up from 62% in Q2.
  - Despite price and supply issues, **development conditions** continued to increase in the third quarter across both sectors, with 59% of overall members reporting average or booming development conditions in their markets, up almost 5% from Q2 and nearly meeting pre-pandemic levels (63% in Q4 2019).
    - » Industrial is seeing the most development, with 74% reporting heavy development, up from 69% last quarter.
    - » Office brokers also saw a slight increase in development, with 27% reporting increased development compared to 26% in Q2.
  - It remains a strong seller's market, as 80% of industrial and office brokers reported **site acquisition** prices are rapidly increasing, causing sellers to have the upper hand.
    - » 91% of industrial specialists reported a strong seller's market, up from 87% reporting increased pricing last quarter.
    - » 56% of office specialists also report a seller's market, up from 52% last quarter.
  - Overall landlords continue to hold the bargaining power, as available **tenant concessions** declined more this quarter, with 23% of SIORs reported seeing extensive or moderate concessions and a favorable tenant market. This is down from the 41% noted in Q2.
    - » However, there is a large disparity between tenant concessions in the industrial and office sectors. Only 2% of industrial specialists thought the market favored tenants, whereas 71% of office specialists reported deep discounts and a favorable tenant market. This was an increase from 64% in Q2.
  - **Investment pricing conditions** bounced back a bit from Q2, with 55% percent of SIORs claiming it is profitable to build, as opposed to 41% in Q2. Despite high reported development costs, from an investment standpoint, this is the most profitable time to build on record.
    - » 64% of industrial specialists felt it was profitable to build, up from 48% in Q2.
    - » Nearly half that, or 32% of office specialists felt it was profitable to build, up from 26% last quarter.

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

## AVERAGE LEVEL OF CONFIDENCE

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

### KEY



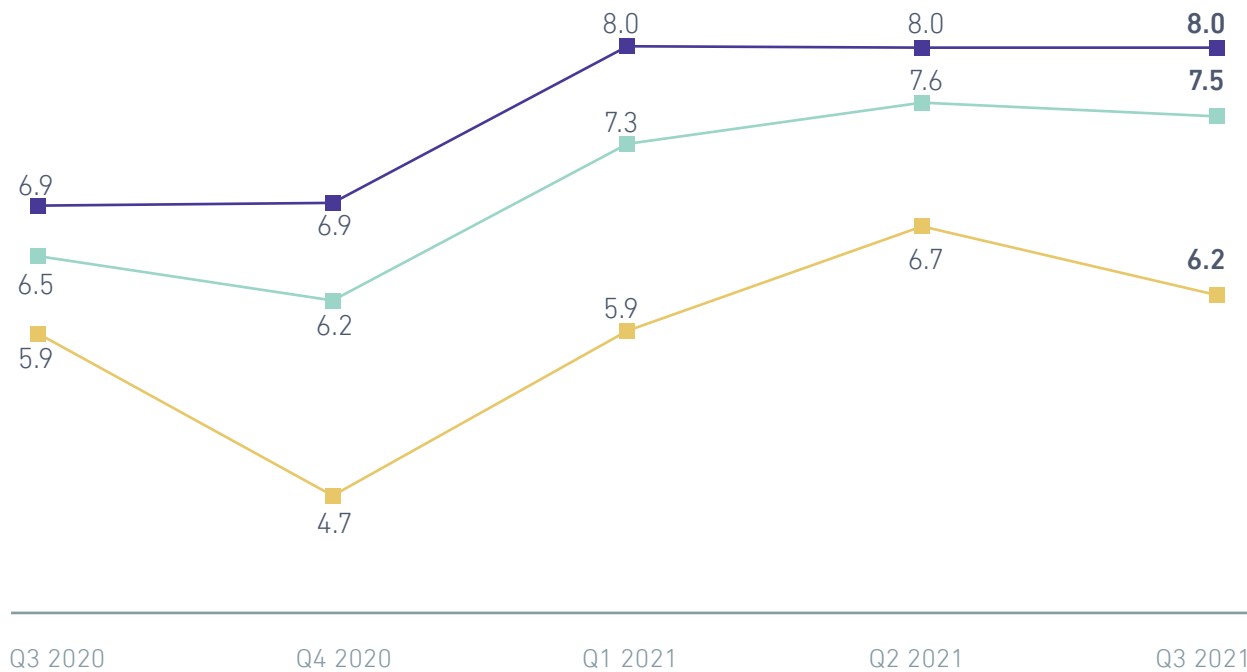
Office Confidence



Industrial Confidence



Overall Confidence



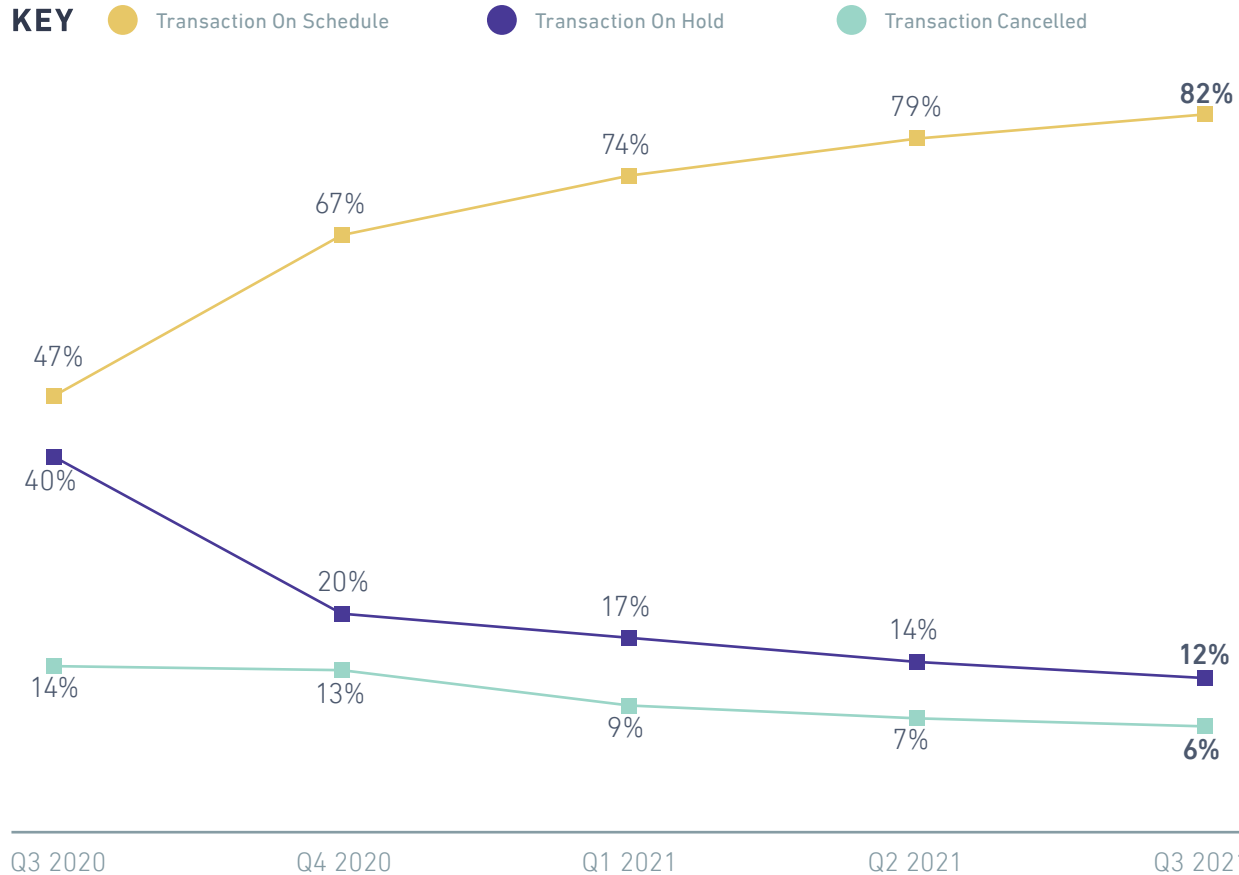
## FROM THE EXPERTS

“The market is on fire and burning white hot...how long can this sustain?”

- Industrial Specialist  
SIOR Greater Los Angeles Chapter

## STATUS OF IN-PROGRESS TRANSACTIONS

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



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

“FROM THE EXPERTS

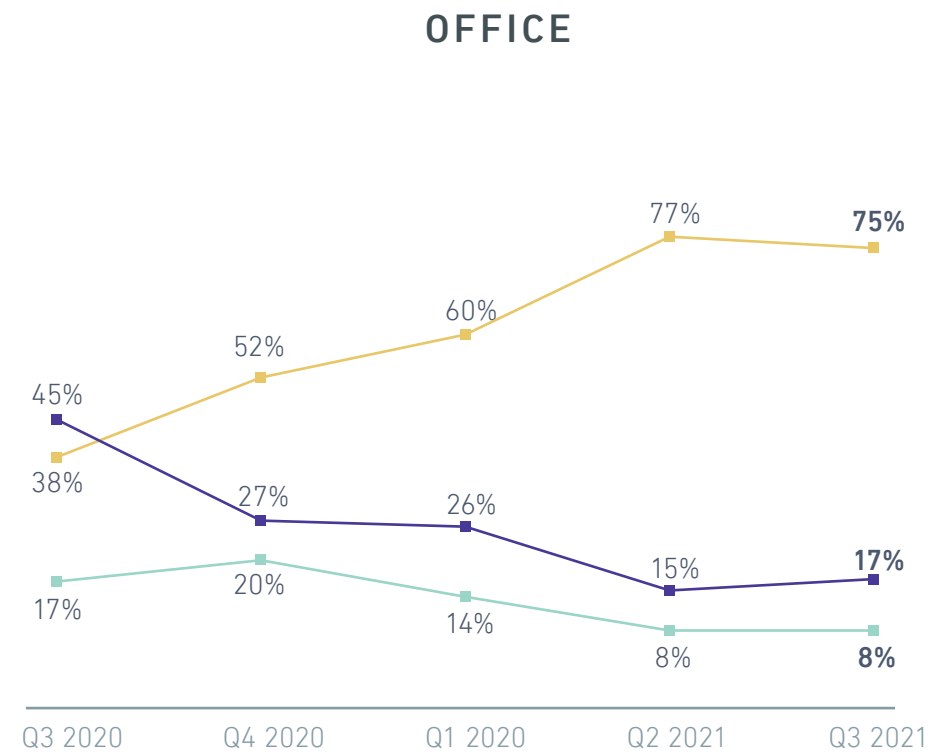
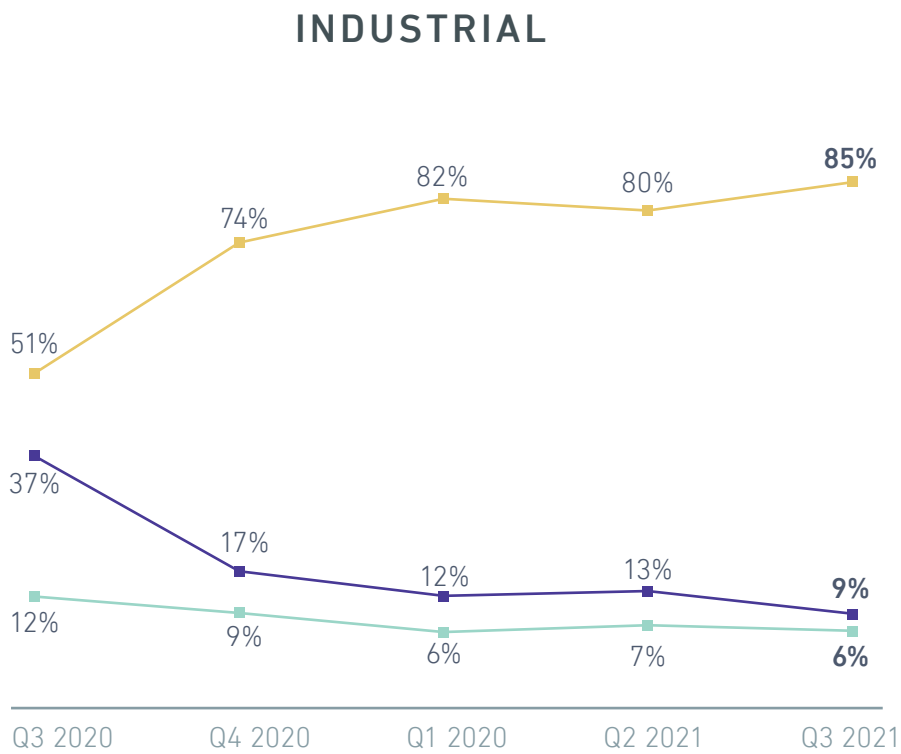
Construction material and labor costs are so high they have led to projects being deferred unless absolutely necessary.”

- Office Specialist  
SIOR Indiana Chapter

## STATUS OF IN-PROGRESS TRANSACTIONS - INDUSTRIAL VS. OFFICE

Average percentage of current transactions by sector.

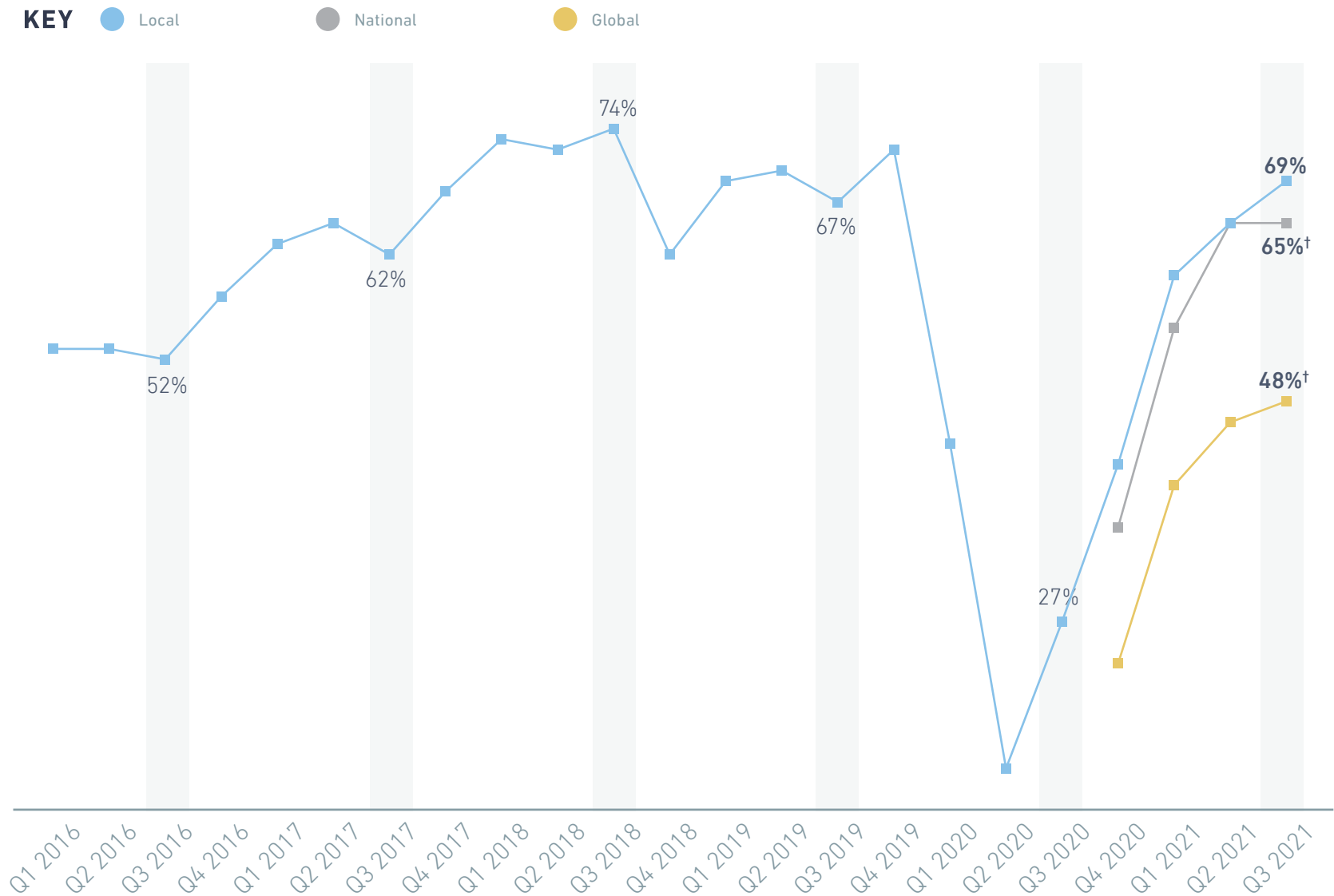
**KEY**   ● Transaction On Schedule   ● Transaction On Hold   ● Transaction Cancelled



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

## POSITIVE ECONOMIC IMPACTS ON MARKET CONDITIONS

Cumulative reporting of the positive economic conditions on all respondents' current market performance\*



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

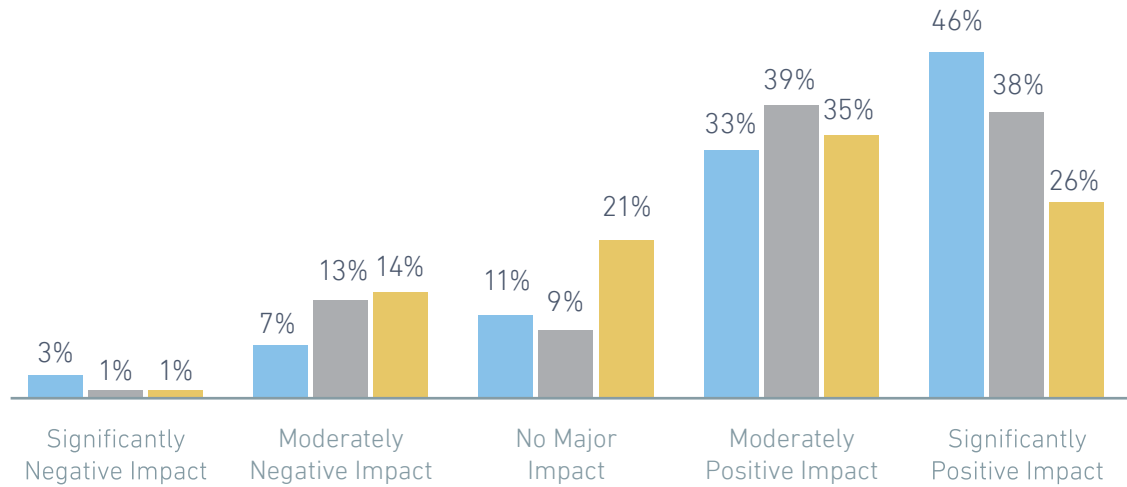
† Collection of National and Global data began Q4 2020. No prior data exists for these metrics.

## ECONOMIC IMPACTS ON MARKET CONDITIONS

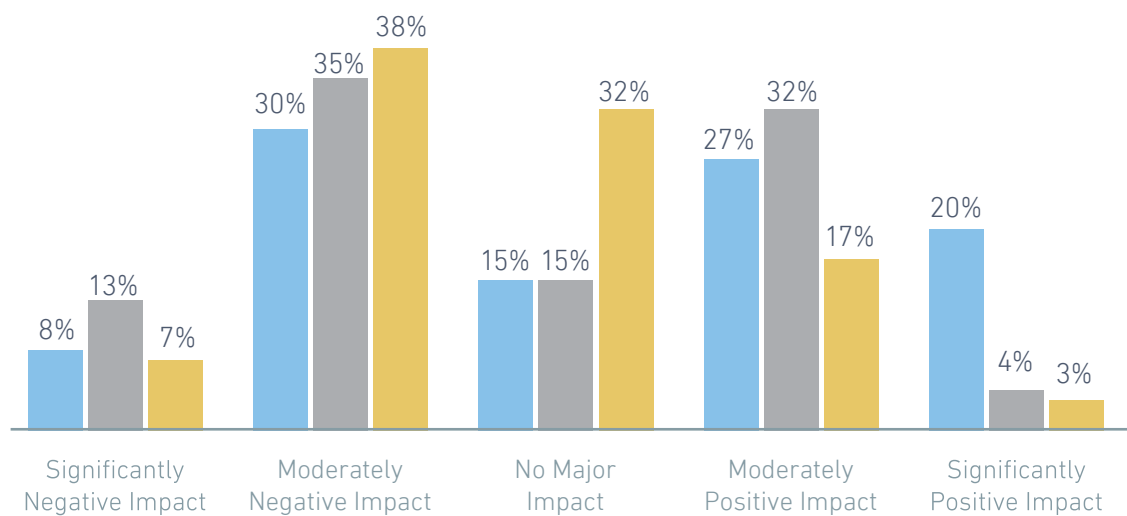
Average percent of economic conditions on all respondents' current market performance

**KEY** Local National Global

### INDUSTRIAL



### OFFICE



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

**FROM THE EXPERTS**

Properties at the right price are being picked up / leased easily. Occupiers want big discounts; these are not feasible at times."

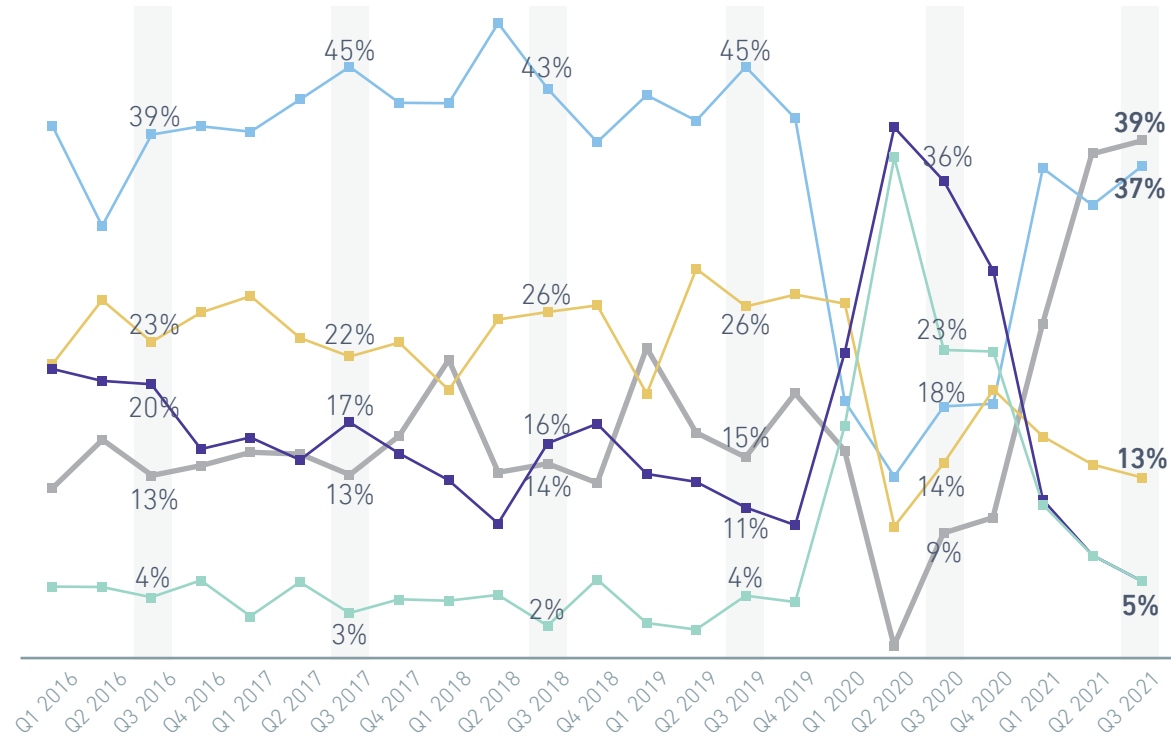
- Sales Management Specialist  
India

## 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



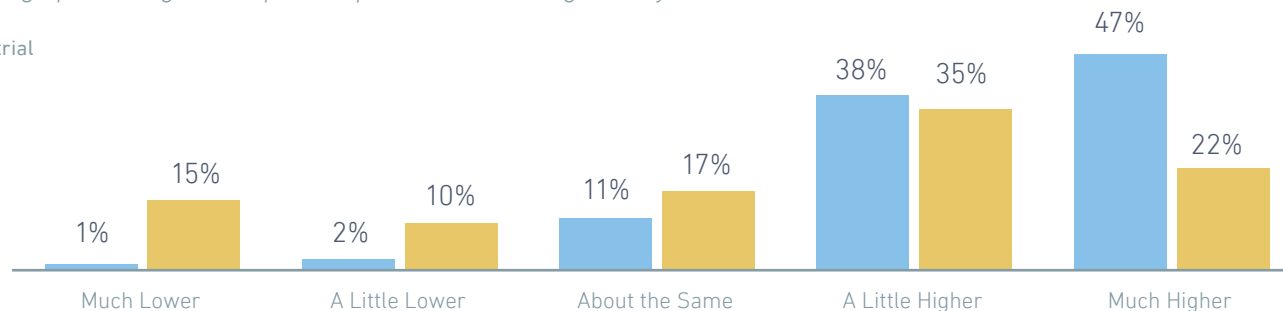
Totals may not equal 100% due to rounding or not applicable responses.

## Q3 2021 CURRENT LEASING ACTIVITY - INDUSTRIAL VS. OFFICE

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

### KEY

● Industrial   
 ● Office



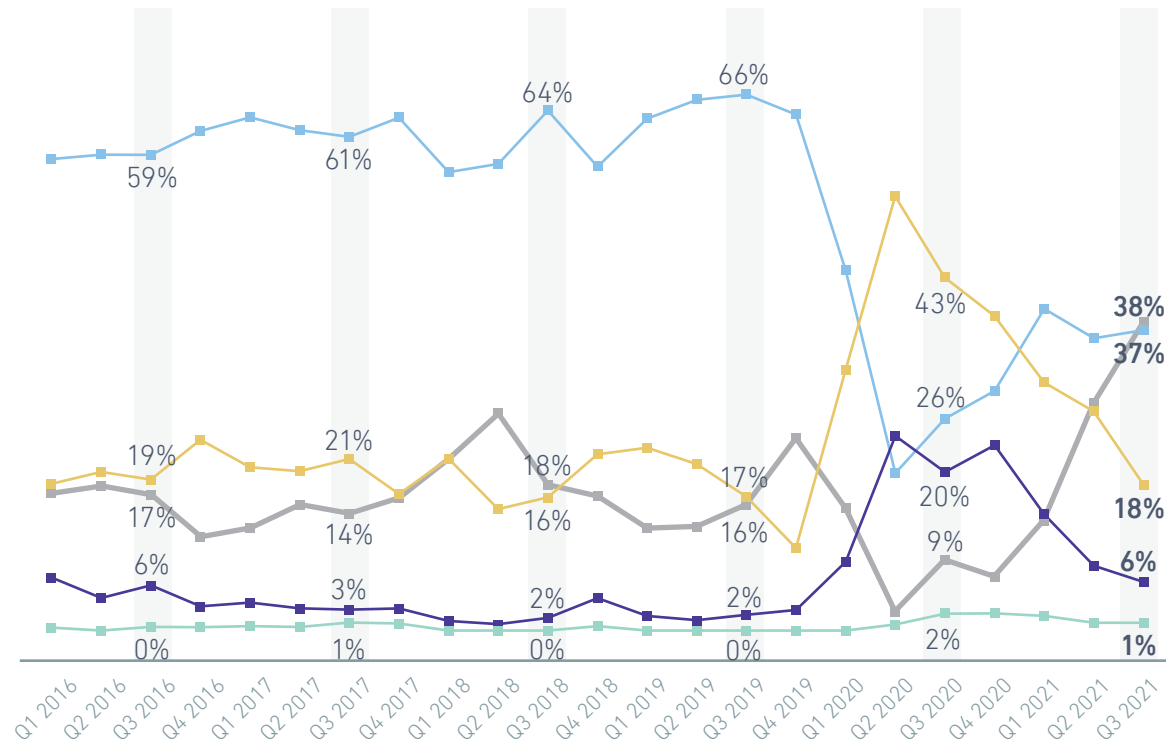
Totals may not equal 100% due to rounding or not applicable responses.

## QUARTERLY ASKING RENTS

Data reflects percentage of ratings for asking rents per quarter.

### KEY

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



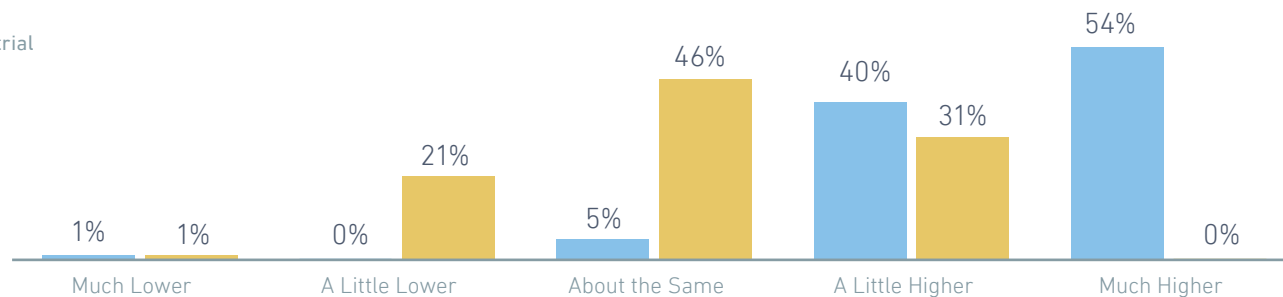
Totals may not equal 100% due to rounding or not applicable responses.

## Q3 2021 CURRENT ASKING RENTS - INDUSTRIAL VS. OFFICE

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

### KEY

● Industrial   
 ● Office



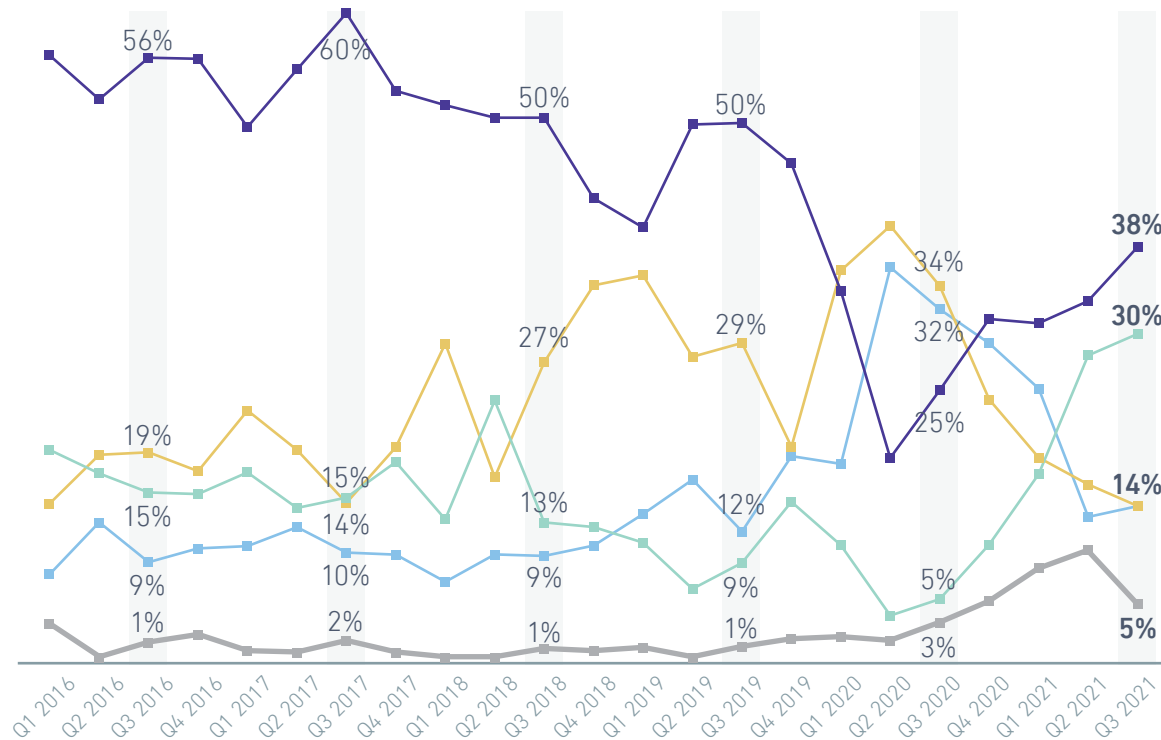
Totals may not equal 100% due to rounding or not applicable responses.

## QUARTERLY VACANCY CONDITIONS

Data reflects percentage of ratings for current vacancy per quarter.

### KEY

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



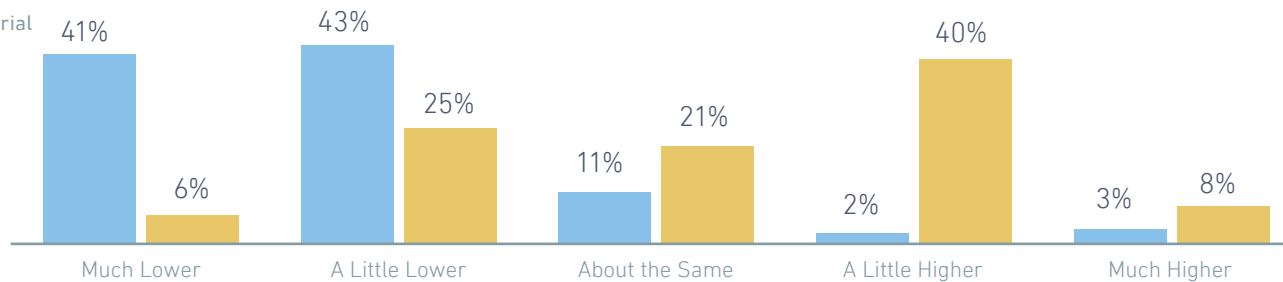
Totals may not equal 100% due to rounding or not applicable responses.

## Q3 2021 CURRENT VACANCY CONDITIONS - INDUSTRIAL VS. OFFICE

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

### KEY

● Industrial   
 ● Office

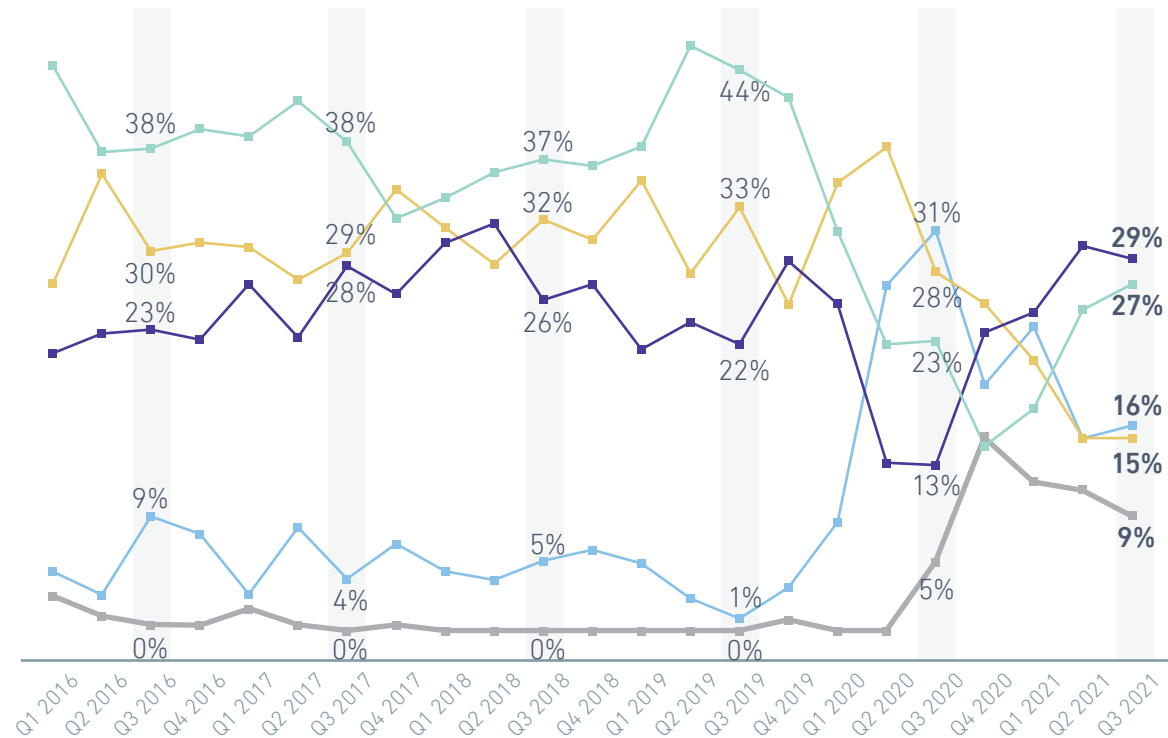


Totals may not equal 100% due to rounding or not applicable responses.

## QUARTERLY SUBLEASING CONDITIONS

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

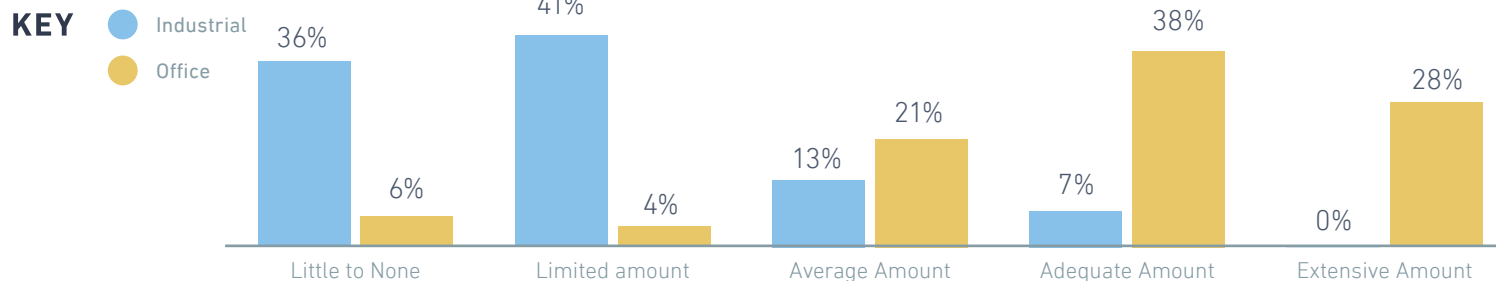
**KEY** ● Little to no subleasing space ● Limited amount of subleasing space ● Average amount of subleasing space ● Adequate amount of subleasing space ● Extensive amount of subleasing space



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

## Q3 2021 SUBLEASING CONDITIONS - INDUSTRIAL VS. OFFICE

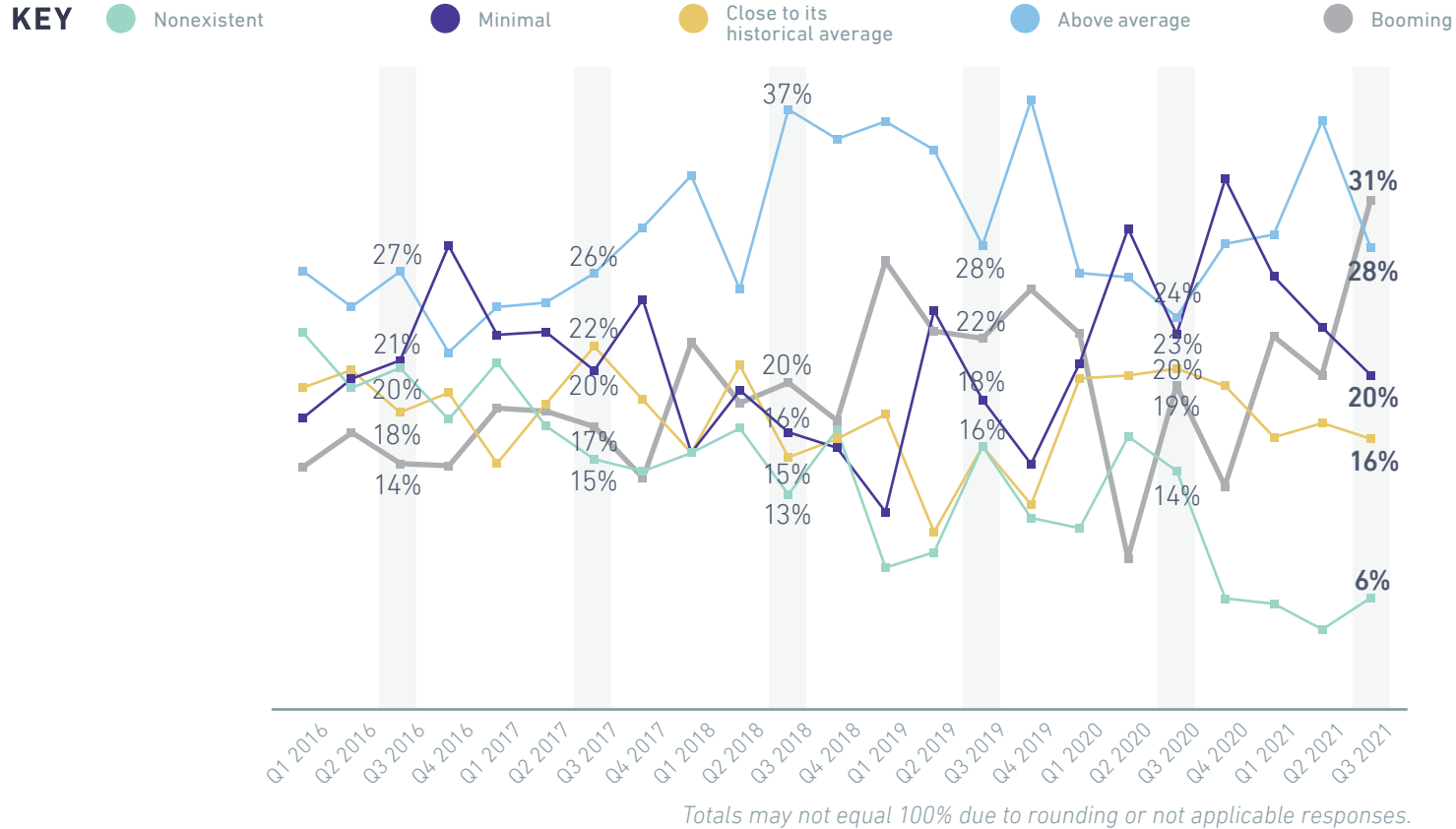
Data reflects average percentage of responses per level of subleasing space in each sector.



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

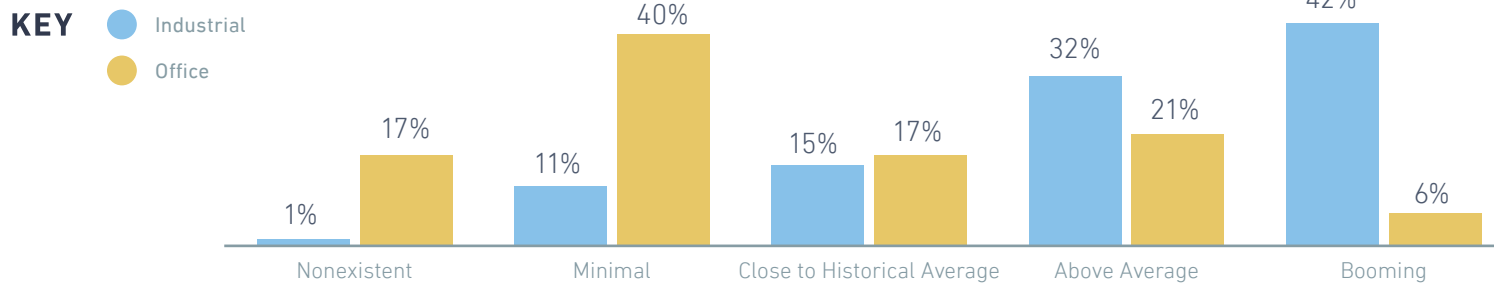
## QUARTERLY DEVELOPMENT CONDITIONS

Data reflects percentage of ratings for development conditions per quarter.



## Q3 2021 DEVELOPMENT CONDITIONS - INDUSTRIAL VS. OFFICE

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

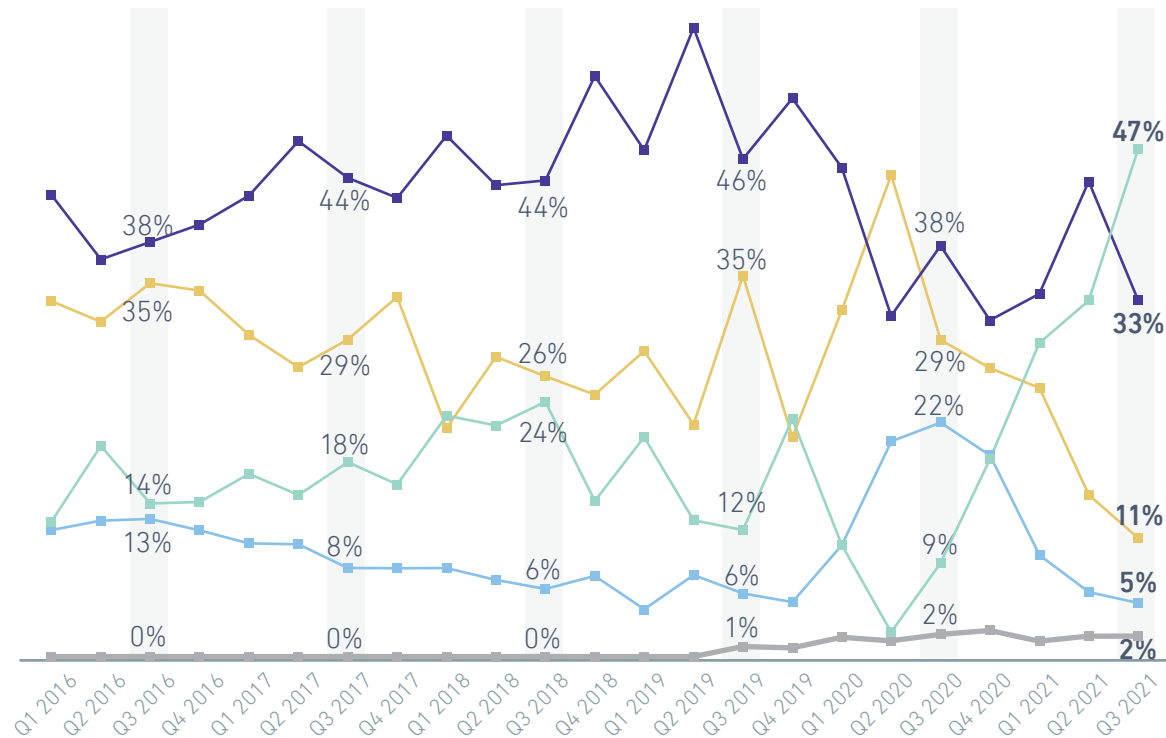


## QUARTERLY SITE ACQUISITION CONDITIONS

Data reflects percentage of ratings for site acquisition per quarter.

**KEY**

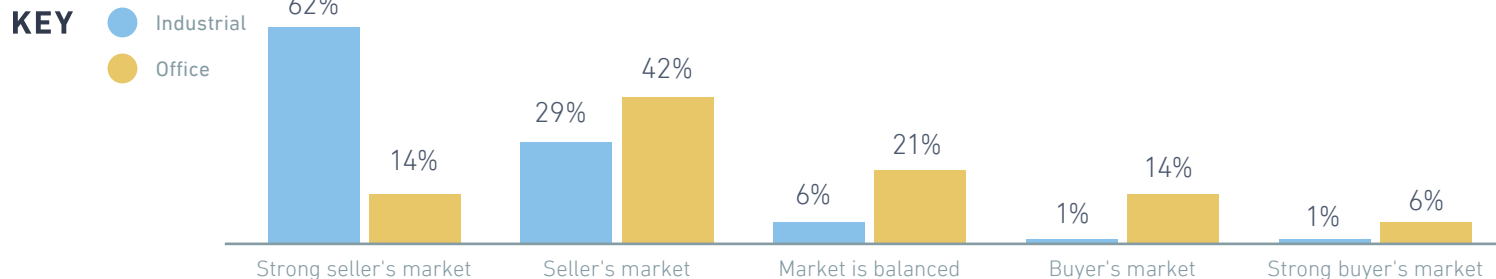
- Strong seller's market, prices increasing rapidly.
- Seller's market, prices rising at a steady pace.
- Market is balanced, with prices stable to slightly rising.
- Buyer's market, but prices are stable at present.
- Strong buyer's market and prices are low and falling.



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

## Q3 2021 SITE ACQUISITION CONDITIONS - INDUSTRIAL VS. OFFICE

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



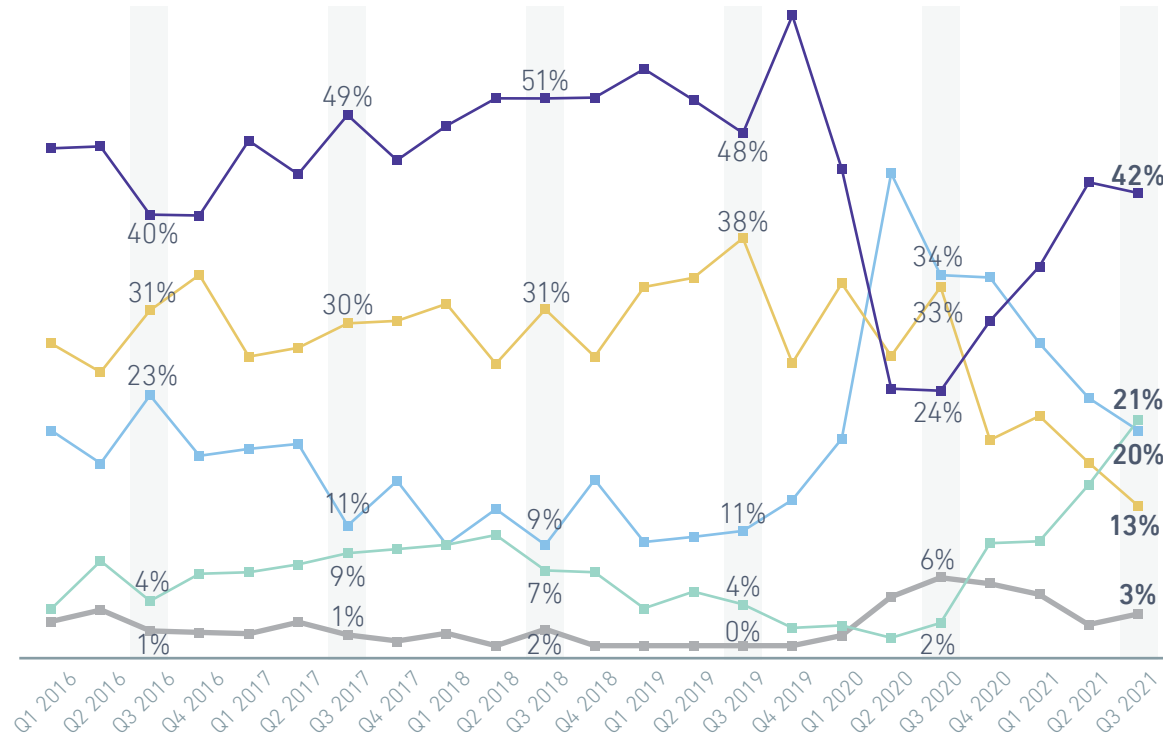
Totals may not equal 100% due to rounding or not applicable responses.

## QUARTERLY TENANT CONCESSIONS

Data reflects percentage of ratings for tenant concessions per quarter.

**KEY**

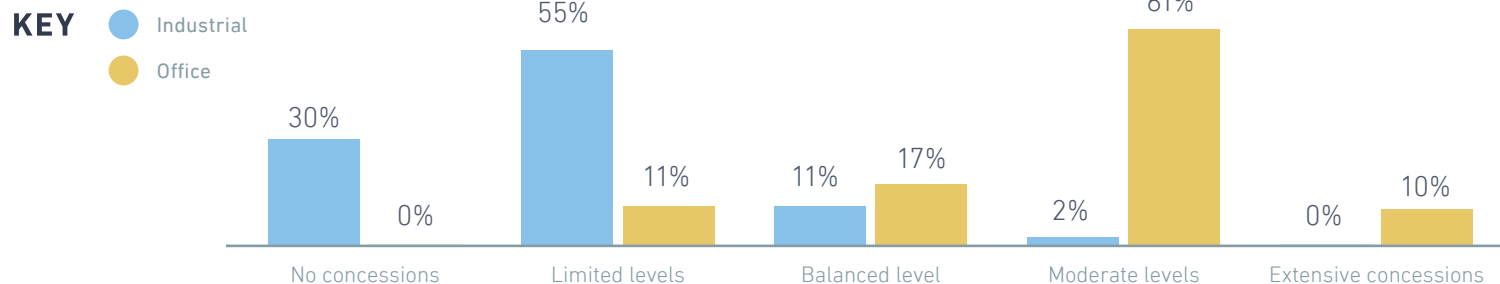
- No concessions are available as the landlords have strong bargaining power.
- Limited levels of concessions, with the market slightly favoring the landlord
- Balanced level of concessions, with no bargaining advantage for landlord or tenant
- Moderate levels of concessions, and the market favors tenants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



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

## Q3 2021 TENANT CONCESSIONS - INDUSTRIAL VS. OFFICE

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



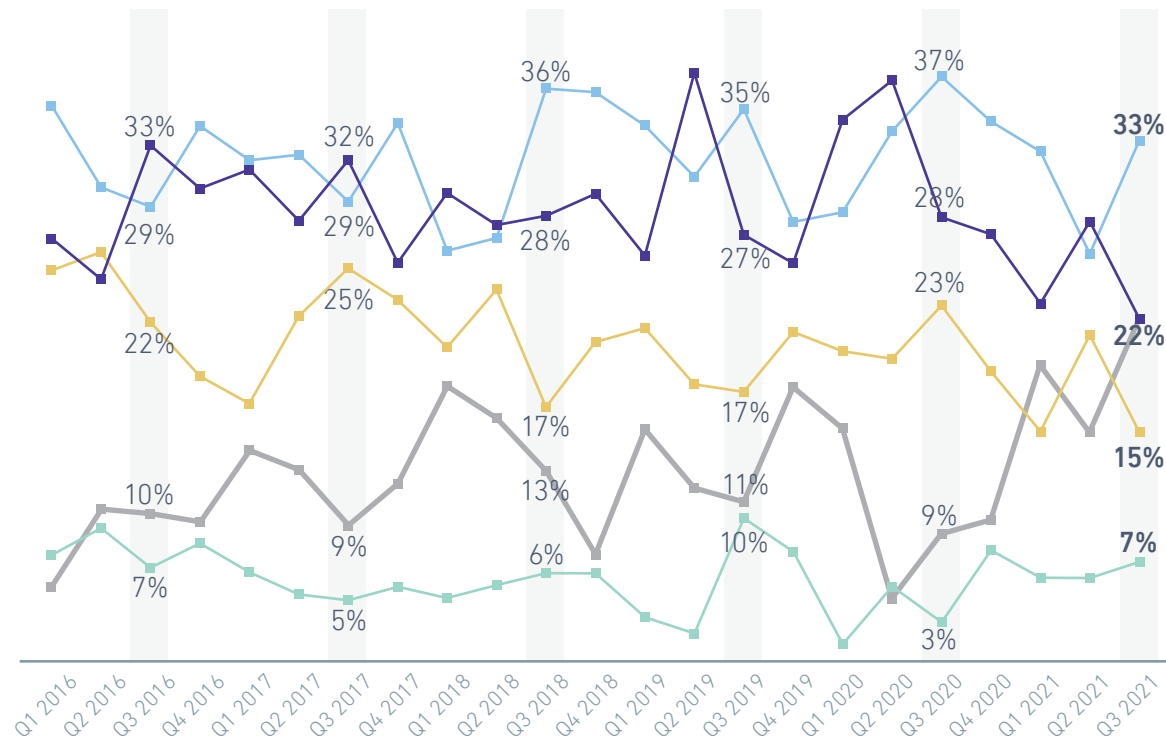
Totals may not equal 100% due to rounding or not applicable responses.

## QUARTERLY INVESTMENT PRICING CONDITIONS

Data reflects percentage of ratings for investment pricings per quarter.

**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.



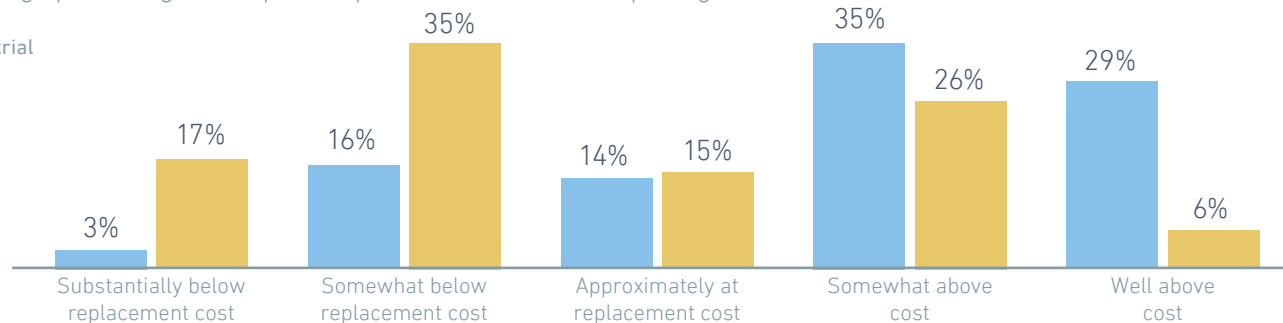
Totals may not equal 100% due to rounding or not applicable responses.

## Q3 2021 INVESTMENT PRICING CONDITIONS - INDUSTRIAL VS. OFFICE

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

**KEY**

- Industrial
- Office



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



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## REPRESENTATIVE COMMENTS FROM RESPONDENTS

“Listings are key. If you have them they are leasing and selling fast.”

- Industrial Specialist, SIOR Inland Empire & Orange County Chapter

“Landlords are agreeing to shorter term deals at premium rents and are aggressively pursuing longer-term tenants with generous concessions.”

- Office Specialist, SIOR Florida Chapter

“Leasing activity is slowly improving. Sales activity is ridiculous with more demand than supply.”

- Office Specialist, SIOR Idaho Chapter

“We have very little product available in our market and next to no new product being built due to high costs of construction and land, and long lead times for development.”

- Industrial Specialist, SIOR Northern California Chapter

“The market is extremely tight and tenants are feeling squeezed.”

- Industrial Specialist, SIOR Florida Chapter

“Land that has infrastructure is getting hard to locate in major submarkets.”

- Industrial Specialist, SIOR Carolinas Chapter

“My industrial sector in our market is experiencing historically low vacancy rates. Limited inventory with steady demand is resulting in escalating sales prices and lease rates with diminishing concessions.”

- Industrial Specialist, SIOR Greater Los Angeles Chapter

“Warehouse rents are at an all time high. Older Industrial buildings are disappearing in favor of office/flex and Big Box logistics centers.”

- Industrial Specialist, SIOR Northern California Chapter

## REPRESENTATIVE COMMENTS FROM RESPONDENTS

"We have a landlord dominated market which makes it very difficult to create value for a tenant or buyer."

- *Industrial Specialist, SIOR New Jersey Chapter*

"The repurposing of older office properties is picking up speed - alternative uses are multi-family, education, and healthcare."

- *Office Specialist, SIOR Connecticut Chapter*

"With 0.7% vacancy, it is very difficult to get any new leasing done. Lease rates are escalating at an unprecedented rate. The only thing that works is creating our own supply through the redevelopment of land which is also very hard to find and expensive."

- *Industrial Specialist, SIOR Canada West Chapter*

"Activity is so strong that deals all come down to tenant credit."

- *Industrial Specialist, SIOR Chicago Chapter*

"Spaces that are move-in ready are leasing. Tenants have delayed decisions such that when they do have a need it's nearly immediate."

- *Office Specialist, SIOR Minnesota Chapter*

"It's an almost non-existent office market. All deals are in the 1-3,000 sf range, with very few larger transactions. Most tenants have not returned to the office."

- *Office Specialist, SIOR Northern California Chapter*

"There is a shortage of inventory. Regulations for building a new project make it tough for numbers to pencil out."

- *Industrial Specialist, SIOR New Mexico*

"Many local companies will be pushed out of the market. Larger companies will have to invest in technology to better utilize their space."

- *Industrial Specialist, SIOR Canada West 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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