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COVID-19 MEMO SENT TO INVESTORS DATED 4/21/2020

This letter was penned at the emergence of the COVID-19 Pandemic summarizing our high-level thoughts with regard to the positive impact the pandemic would have on the industrial and logistics real estate sector and what it would mean for our portfolio. In addition to our comments on capitalization rates, we believe there has been a secular shift by institutional investors away from investing in hospitality, office, retail, and senior housing as they look to deploy more capital into the industrial and logistics sector as a proxy for fixed income. Along with omnichannel sales accelerating the demand for industrial and logistics space, the trends described herein are anticipated to keep the industrial and logistics sector favored by both occupiers and investors for the foreseeable future.

To our Fellow Investors and Friends,

In light of the recent events surrounding COVID-19 and its implications for the global economy, we want to share our insights and high-level thoughts with regard to the institutional real estate investment market, as well as our beliefs on the impact this pandemic will likely have on our portfolio and the industrial and logistics sector in general.

Industrial and logistics real estate plays a vital role in the supply chain, as it exists to support the production, storage, and distribution of goods. The importance of the sector has been magnified in the current COVID-19 crisis environment. The industrial real estate sector is expected to be an outperformer during the current crisis and a long-term beneficiary of these lasting changes with anticipated adjustments in consumer shopping behavior and shifts in the global supply chain.

The industrial real estate sector came into this crisis with the strongest fundamentals the asset class had ever seen. In most markets vacancy rates were at historic lows, rental rates were at record highs, and reasonable levels of new construction kept a long streak of positive net absorption intact. Institutional ownership utilizing moderate debt levels also increased significantly in the past several years, which is expected to help blunt the impact felt on the industrial sector as well.

Our portfolio is geographically diversified across top-tier markets, and is comprised of highly functional, well-located industrial assets that are substantially leased to high quality tenants across a spectrum of industries, with most having limited near term or concentrated rollover exposure. Additionally, when we employ leverage, it is moderate ranging from 30%-55% on a loan to purchase price with a fixed rate and a term generally exceeding 5 years. While we can't predict the length or depth of the recession, we believe that for the aforementioned reasons, coupled with our cash-flow driven investment strategy from the onset, our portfolio is positioned to perform well when compared to other real estate asset classes like retail, student housing, office, seniors housing & care or hospitality in the current COVID-19 environment and will continue to be resilient in a recession.

That said, the commercial real estate industry is expected to remain under stress even after states begin to ease lockdowns and people return to work. While industrial is expected to perform better relative to other real estate asset classes, it is not infallible. We believe challenges for industrial in the near term will take the form of less overall demand resulting in rising vacancy rates and a slowing of space absorption. While higher quality industrial product with tenants that have strong balance sheets will generally fare significantly better than lower quality industrial product with tenants that are not well capitalized, by and large the next several months will be tough for nearly all tenants as they manage interruptions to their business and reduced income. However, over the long term we expect industrial and logistics real estate to be a beneficiary to this exogenous shock with a resultant boost in demand due to four main points described below:

E-COMMERCE: COVID-19 and its associated quarantine are creating new online consumers, which will continue to increase e-commerce's share of total retail sales. U.S. e-commerce sales reached \$601.7B in 2019, accounting for ~16% of retail sales and the impact of COVID-19 is likely to accelerate this expansion. As consumers reconsider in-person visits to retail stores in favor of online shopping given social distancing guidelines and the convenience of ordering in one's own home, a permanent behavior shift among consumers is expected moving forward. Increasing demand for goods bought online, especially food, will fuel the need for distribution facilities at a pace higher than in the last expansion cycle, which is likely to

create increased demand and drive further absorption in the industrial sector. As reported by CBRE, every \$1B increase in e-commerce revenue requires an additional 1-1.25 million square feet of industrial real estate. Similarly reported by CBRE, every 1 square foot of retail space that is converted to e-commerce requires 3 square feet of industrial real estate.

SUPPLY CHAIN DIVERSIFICATION AND “RE-SHORING”: Supply chains that rely on China have been severely disrupted by two major events in the past 12-months: U. S. imposed trade tariffs and the COVID-19 pandemic. Other factors like rising labor costs, political uncertainties and intellectual property concerns have also been undercurrents causing companies to pull away from China in recent years, opting instead to relocate into other parts of Asia, Mexico and the U. S.

While the trade war may have been a fissure in the supply chain, the COVID-19 pandemic has officially created a structural shift that will have permanent ramifications on the supply chain given that many components of products, if not whole finished products altogether, originate in places like China. The inability to access these components or products is already having a negative impact on companies’ balance sheets and the economy as the implications of those disruptions trickle down the supply chain.

The inability to access these components and goods in a timely manner has temporarily resulted in less imports coming into the U.S, less full shelves in warehouses and some dampened demand for certain industrial products. As companies reflect on these challenges, they will reorganize their operations to prevent a similar situation from occurring in the future.

As a result, we expect large companies that primarily manufacture, assemble, or store goods internationally to “re-shore” activities to North America, or expand operations domestically as to have a more diversified supply chain with more controls in the United States. This is already being discussed and will have a positive impact on the demand in North America for manufacturing space, which will positively impact the industrial sector. In addition to inland-port locations, we believe both Phoenix and Dallas with their ability to access most of the U.S. within 24 hours by truck, their abundant and inexpensive labor force, high quality of life and low cost of housing are primed to take advantage of the expanded domestic supply chain and manufacturing base that is expected to emerge from this pandemic.

INVENTORY CONTROL & SAFETY STOCK: Just-in-time delivery, which attempts to optimize inventory levels to meet production demands, works when production is predictable and inventory including components thereof can be delivered just in time. However, the current crisis has highlighted the problem with this approach, since an unexpected surge in demand for certain products has exposed on-hand supply shortages or the inability to access such supply in a timely fashion, revealing needed inventory significantly lagging demand. Larger manufacturers in North America that adopted a “just-in-time” strategy, such as those that assemble automobiles, were punished this past year when goods needed to assemble their products were not readily available. Similarly, 3M’s difficulty obtaining non-woven polypropylene fiber to make the now famous “N-95” mask in an expedited manner has exposed this issue and how crucial it can be. Moving forward, firms are likely to pursue some combination of more local supply chains and higher levels of inventory on hand (“safety stock”); both of which will benefit the demand for industrial space (“safety stock”).

CAP RATES: In the last two months the 10-Year Treasury hit a shockingly low yield of 0.398%, and it has now consistently hovered below 1.00% since mid-March. It is our belief that this low yield environment if extended in the future will keep a lid on cap rates, with the possibility that we may witness further cap rate compression for the highest quality assets in the best locations, leased to high credit tenants on a long-term basis in primary markets.

In summary, the COVID-19 Pandemic has ended the longest period of economic growth on record, and while the impacts of the virus are still rapidly evolving, there are already glimpses of how the virus may alter the U.S. industrial real estate market. We anticipate the lasting impacts of the crisis will be a net positive for the industrial and logistics sector, and we remain optimistic on our investment strategy as we exercise prudence while continuing to pursue compelling investment opportunities.

Cohen Asset Management is committed to supporting your investment needs with the highest level of dedication and service, and I want to ensure you that we are navigating these waters with the utmost forethought in order to keep your investments performing in line with expectations and without disruption. On behalf of our entire team, I want to extend our gratitude for your continued support and thank you for the honor of being a trusted custodian of your capital. We hope that you and your families are safe and healthy throughout these challenging times and as always, please do not hesitate to reach out to us should you wish to discuss the thoughts contained herein or your investments in more detail.

Best Regards,

Bradley Cohen
President & Chief Executive Officer