WHAT'S AHEAD FOR
Commercial Real Estate In 2019?

THE OUTLOOK FOR THE INDUSTRIAL, RETAIL AND OFFICE SECTORS

Against a continued shift to online sales, demand for distribution warehouse space near consumers will remain strong in 2019, while brick-and-mortar neighborhood retail stores will still fill a need for food and service-related concepts. Employers who once drew workers to iconic office buildings will also look to locate in diverse, urban, amenity-rich markets where skilled employees want to live and work. In the year ahead, commercial real estate will be distinguished by both new concepts and the tried-and-true, creating compelling opportunities for forward-thinking investors.

Black Creek Group's commercial real estate experts discuss the current economic environment and our outlook for the three major commercial real estate sectors — industrial, retail, and office — in 2019.

A SOLID ECONOMIC BACKDROP

COMMERCIAL REAL ESTATE

Positioned for continued growth

As the U.S. economic expansion enters its tenth year, the second longest in post-war history, commercial real estate markets remain positioned for continued growth. Against a backdrop of full employment, robust consumer sentiment, healthy corporate balance sheets, and growing federal spending, GDP growth has been positive for eight straight quarters, suggesting the expansion still has room to run. The major commercial real estate sectors seem likely to remain in an expansionary phase, characterized by low vacancy rates (the number of available units), sustained demand due to balanced supply, and positive if moderating rent growth.[1] While commercial real estate has the potential to benefit from continued economic growth and modest inflation, we believe that stabilized core real estate assets, which are fully or nearly fully leased to creditworthy tenants under long-term leases, are durable enough to ride out any potential near-term downside pressures from increasingly volatile stock and bond markets.

Q&A continued on next page...

[1] Source: Costar Portfolio Strategy, Q3 2018.

Why Industrial Real Estate?

Q&A

Dwight Merriman
Head of Real Estate,
Black Creek Group

Q | WHAT ARE THE DIFFERENT TYPES OF INDUSTRIAL REAL ESTATE?

A | Industrial properties have the lowest capital requirements of all major real estate sectors and are also the best positioned to take advantage of burgeoning e-commerce demand. The two main types of industrial warehouses are bulk warehouse and light industrial.

BULK WAREHOUSES are major distribution centers, located on the outskirts of port cities and near major transit nodes, which provide storage, distribution and fulfillment services. The best bulk warehouses are located on the first major highway ring outside the urban core, with big truck-courts (exterior areas near loading docks where trucks maneuver), and ample onsite trailer storage. They are often leased to single tenants for five to 10 years with an annual inflation adjustment, and 3%-5% of the warehouse is used for office space.

LIGHT INDUSTRIAL captures the last mile between the distributor and the consumer and is located closer to the urban core. Light assembly is a common use of light industrial buildings, and ceilings can be lower and storage areas smaller because merchandise doesn't sit on the floor very long. These properties can accommodate multiple tenants, support higher rents, and carry shorter lease terms (three-five years), which allows for more frequent rate adjustments. 5%-10% of light industrial warehouse space is used as office space.

Q | WHAT ECONOMIC FACTORS OR TRENDS DO YOU THINK WILL AFFECT THE INDUSTRIAL SECTOR IN 2019?

A | Demand for industrial space will continue to be strong, driven by job and population growth, improved consumer confidence, and the continued shift to online sales. E-commerce is projected to account for 25% of all retail sales by 2025[2], increasing overall demand for industrial space, as more retailers realize the benefit of adding distribution centers to their mix of bricks-and-mortar storefronts.

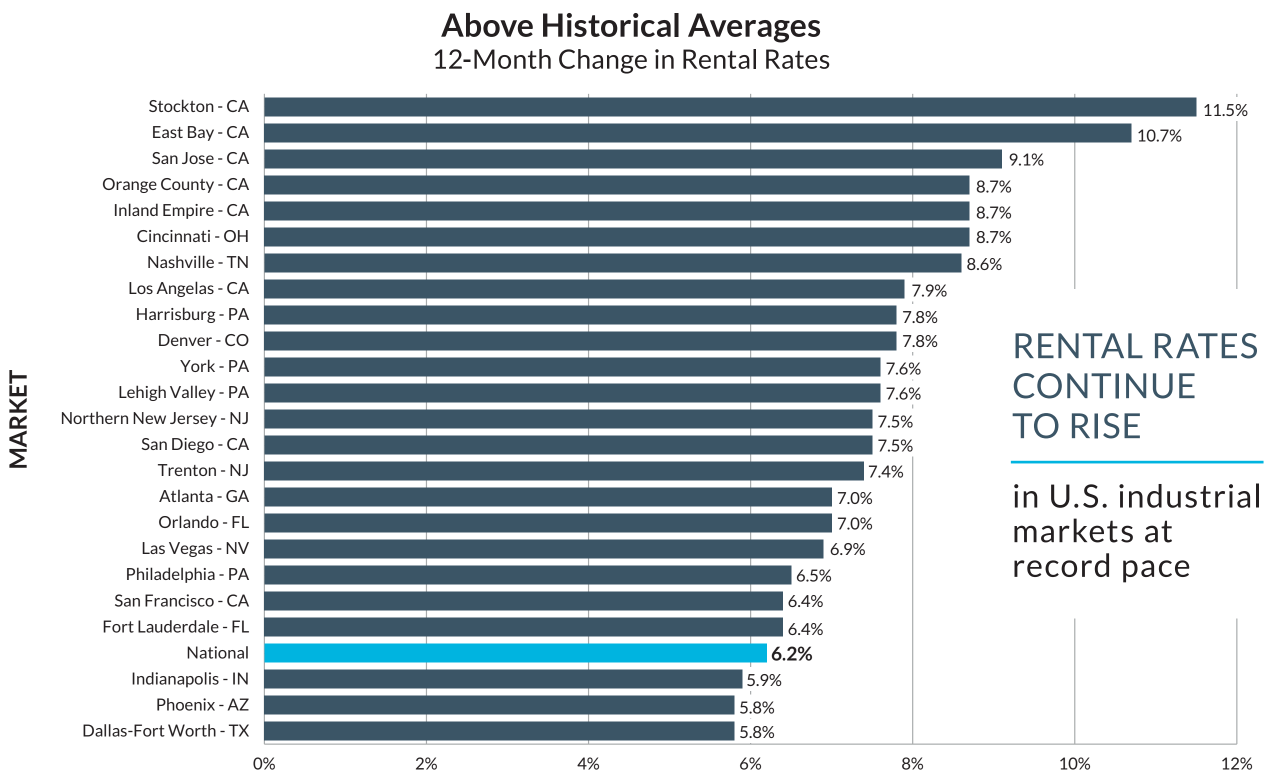
Vacancies are at historical lows[3] and rents have been increasing, trends we expect to continue in 2019. New warehouse supply accounts for just 1.9% of the total amount of industrial property overall, which tells us that, moving forward, supply and demand should be well balanced. Furthermore, we've enjoyed 34 straight quarters of positive net absorption — a measure of the change in leased versus vacant space — which should provide a strong tail wind this year. Average year-over-year rental rate growth was 6.2% across the industrial sector nationally in 2018, a still very healthy growth level that shows every sign of continuing in 2019.[3]

[2]Source: U.S. Census Bureau, Q3 2018, Bloomberg Q3 2018 and IMS Worldwide Inc. The percentages presented for future periods are projections and there is no guarantee that these projections will accurately reflect future performance. Total retail sales excludes, food, gas, and auto sales. E-commerce sales are sales of goods and services where the buyer places an order, or the price and terms of the sale are negotiated over the Internet, mobile device (m-commerce), extranet, Electronic Data Interchange (EDI) network, electronic mail, or other comparable online system. Payment may or may not be made online. Online travel services, financial brokers and dealers, and ticket sales agencies are not classified as retail and are not included in either the total retail or retail e-commerce sales estimates.

[3]Source: CoStar Portfolio Strategy, Q3 2018.

Why Industrial Real Estate?

INDUSTRIAL RENTAL RATES HAVE DEMONSTRATED SOLID AND SUSTAINABLE GROWTH[4]



Q | WHAT ARE TENANT TRENDS?

A | Bulk tenants are more location-savvy today than ever before. Because their logistics models are so specific, they're less flexible about location. In terms of site features, for bulk industrial, truck-trailer storage capacity will become more important, as tenants increasingly need to deliver goods faster. Additional on-site trailer storage allows a tenant to securely store and stage containers until they can be immediately moved to the next available dock-high doors for loading or unloading. Light industrial tenants are looking for last mile locations that can accommodate loading areas at street level. This feature facilitates the growing trend of one-off Uber pickups being able to load quickly inside the building.

Q | WHERE DO YOU SEE THE BEST OPPORTUNITIES IN 2019?

A | We will continue to follow three strategies — core, value-add, and ground-up development or opportunistic. We expect our best opportunities will come — like they did in 2018 — from having a strong local presence that enables us to acquire well-located assets where we can work with tenants to maintain the highest levels of occupancy, and rent growth, and be able to execute a viable exit strategy at any point.

- In **CORE,** we continue to look for properties in supply constrained locations where rents are below market, and the balances of the lease terms are short. When we either renew the tenant or place new tenants, we can capture higher rents
- For **VALUE-ADD**, we will look for existing or near-term vacancy in supply-constrained markets which could allow us to reposition the properties to make them more attractive to tenants
- Our **GROUND-UP DEVELOPMENT** activity will be focused mainly on building new bulk warehouses near port cities with key interstate highway access, where tenants need access to the national supply chain

[4]Source: CoStar Portfolio Strategy, Q3 2018.

BLACK CREEK GROUP

Why Industrial Real Estate?

Q | WHAT ARE THE POTENTIAL HEADWINDS IN 2019?

A | A potential trade war with China and rising interest rates, which increase financing costs, are two notable potential headwinds. However, wherever possible, we are extending the duration of leases, capturing embedded rent growth, and diversifying our tenant mix to mitigate these risks. To a lesser extent, construction costs — both labor and materials — have raised some concerns, rising 6.2% between September 2017 and September 2018.[5] But because supply is mostly in check, demand is healthy, and there hasn't been over-building, most tenants have been willing to pay higher rents to cover those cost increases.

Q | WHAT ARE YOU DOING TO POSITION YOUR PORTFOLIOS FOR SHAREHOLDER VALUE FOR 2019?

A | We want to find the best available industrial properties and anticipate and serve tenant needs. We're focused on keeping our building occupancies high and growing rents consistent with market fundamentals. With six offices in local markets, we can roll up our sleeves and push for the very best outcomes.

Why Retail Real Estate?

Q&A

Greg Moran
Head of Retail,
Black Creek Group

Q | WHAT ARE THE DIFFERENT TYPES OF RETAIL REAL ESTATE?

A | Retail runs the gamut from fortress regional malls, to main street retail, to suburban power centers (anchored by Walmart, Target, or Costco), to grocery-anchored neighborhood centers, to the type of ultra-high-end boutiques found on Magnificent Mile in Chicago or Rodeo Drive in Beverly Hills. The dynamics of each are very different, which is why painting all sectors with one brush is difficult. That's why we dig deep into the economic conditions at the metropolitan and neighborhood levels to understand what tenants and consumers need, and what makes sense from a real estate, logistics, and financial perspective.

Q | WHAT ECONOMIC FACTORS OR TRENDS DO YOU THINK WILL AFFECT THE RETAIL SECTOR IN 2019?

A | Low unemployment and positive wage growth is a double-edged sword for retail. Both factors drive retail sales and revenue as consumer spending grows, but also make it difficult for retailers to attract and keep labor. In addition, online shopping is taking a growing share of total retail sales. Successful retailers are finding ways to leverage both online and physical stores; finding a healthy balance between the two is the key to survival today. In fact, we're seeing retailers who started out online open physical locations, which then see an increase in sales, often driven by impulse purchases associated with returns of merchandise purchased online.

[5]Source: Associated General Contractors of America analysis of Bureau of Labor Statistics data, October 10, 2018. https://www.agc.org/news/2018/10/10/construction-material-costs-increase-74-percent-contractors-continue-be-squeezed

Why Retail Real Estate?

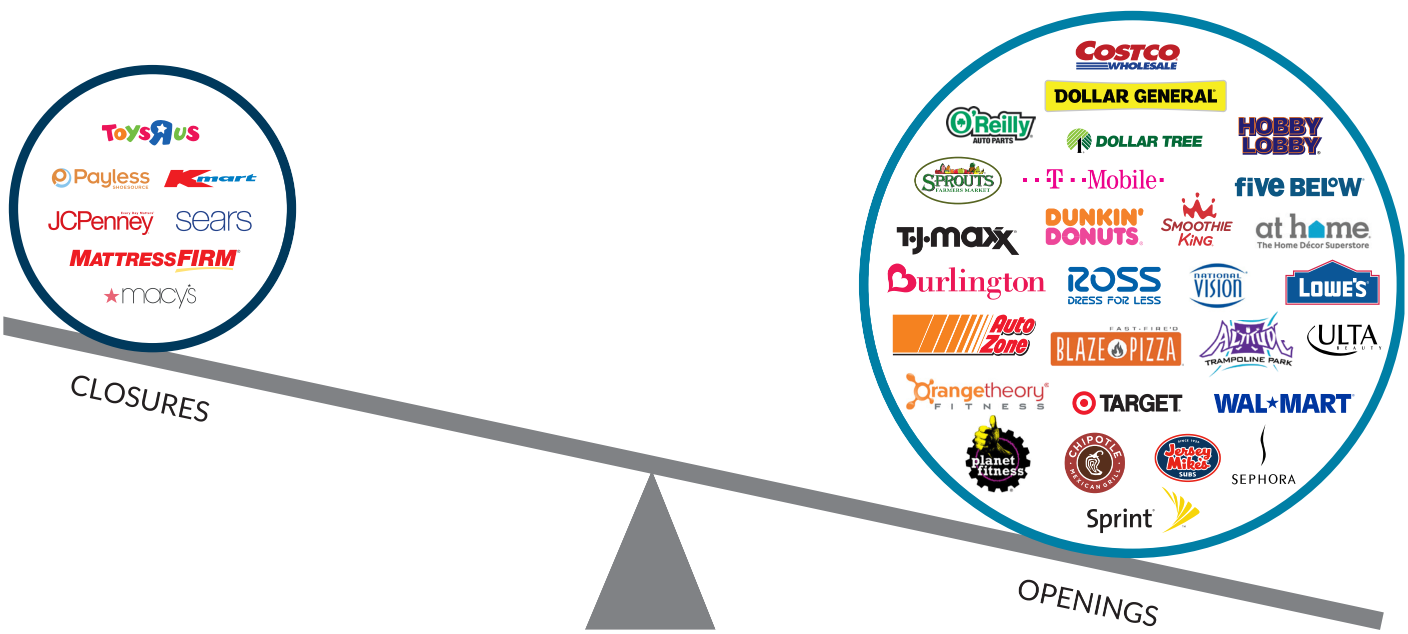
Q | THE MEDIA-FUELED PERCEPTION IS THAT TRADITIONAL RETAIL IS DECLINING, PARTICULARLY WHEN IT COMES TO MALLS AND BIG-BOX STORES. IS THIS CORRECT?

A | Yes, it's accurate, but the impact is being felt differently depending on the retail format. Retail is tough to categorize since there are so many different formats. The negative headlines about failing regional malls and store closures have caused a lot of institutional investors to retreat to the best of the best trophy assets, bulletproof properties in the largest markets. Yet we believe there are still some other very functional, very high-quality assets in secondary markets that fly under the radar and present attractive risk-return dynamics. These properties serve continued demand for neighborhood food-and service-related retail that the larger traditional malls can't address.

Q | WHAT CATEGORIES HAVE BEEN ABLE TO HOLD THEIR OWN AGAINST THE ONSLAUGHT OF E-COMMERCE?

A | There is strong evidence that the number of net new store openings in 2018 vastly outpaced the number of closings.[6] Retailers are a creative and resourceful group, constantly experimenting with their concepts. Dollar stores, fast food, and restaurants have been doing well. Off-price apparel concepts from TJ Maxx and Burlington along with home improvement—Lowe's and Home Depot especially—continue to post tremendous numbers, Costco and grocery similarly. So a number of retail categories are expanding their footprint, reporting strong same-store sales growth and improving margins.

OVER 3,000 NET NEW STORE OPENINGS IN 2018[6]



[6]Source: Evercore ISI report, May 2018.

These businesses are shown for informational purposes only and should not be considered an endorsement of Black Creek Group or a REIT sponsored by Black Creek Group.

Why Retail Real Estate?

Q | WHERE DO YOU SEE THE BEST OPPORTUNITIES IN RETAIL REAL ESTATE FOR 2019?

A | We continue to see opportunities to acquire functional, high-quality, neighborhood centers with compelling demographics that demonstrate strong same-store sales growth. Also referred to as necessity-based retail, these centers often include grocery stores, restaurants, and recurring service uses such as banks, hair salons, and dry cleaners. Even in smaller markets, there is typically at least one neighborhood center in the higher-income trade area, that has a high-quality national grocer, that is on the going-home side of the road, and that generates very strong tenant sales. Grocery stores are still the most efficient way to distribute fresh produce to consumers, and service retail and walk-in health clinics cannot be replicated online. As capital has generally shied away from the retail sector due to broad headlines, we see some mispricing on quality assets in secondary markets.

Q | WHAT ARE THE POTENTIAL HEADWINDS IN 2019?

A | The increasing share of total retail sales moving online is having an impact across the board. While online penetration in the grocery space remains the lowest of all the major categories, it's still something we watch carefully. Amazon's acquisition of Whole Foods is leading to lower prices and faster and cheaper home delivery. That's putting pressure on all grocers, a business that already has razor-thin margins. That being said, I don't think home delivery is going to eliminate the need for physical stores by any means.

Q | WHAT ARE YOU DOING TO POSITION YOUR PORTFOLIO FOR SHAREHOLDER VALUE IN 2019?

A | We're focused on building and nurturing our relationships with the large national retailers. We want to stay close to our customers, and understand what they're doing from operational and e-commerce perspectives, and whether they're making changes to their plans in terms of home delivery, store footprint, etc. Retail is constantly evolving, and we want to make sure we are adding assets to our portfolio that are functional and re-leasable, and have the right sizes and formats to meet tenants' needs going forward.

Why Office Real Estate?

Q&A

Scott Recknor

Head of Asset Management,
Black Creek Group

Q | WHAT TYPES OF OFFICE FORMATS ARE ATTRACTIVE TO TENANTS?

A | In our view, an increasing number of tenants are looking for boutique, multi-tenant office space in urban cores, with flexible rentable floor areas and access to amenities both within the building and in the surrounding areas. These can include outdoor gathering spaces, nearby transportation options, restaurants, shops, and other conveniences. And these assets often stagger the schedule of expiring leases to smooth out cash flows, lessening the risk of losing a major tenant.

Why Office Real Estate?

Q | WHAT ECONOMIC FACTORS OR TRENDS DO YOU THINK WILL AFFECT THE OFFICE SECTOR IN 2019?

A | A stable economy and new job creation across technology, financial services, and education will continue to help the sector. Occupancy levels were 90.2% nationwide as of Q3 2018, the highest since Q4 of 2007.[7] Net absorption has been running at about 22 million square feet across the U.S.[7] Looking ahead, both supply and demand appear to be in check and running at about average; those dynamics are likely to remain in good balance.

We've seen a fundamental change in demand patterns. Employees used to go where the employers were. Now employers want access to talent and that's driving their location decisions. The fact that Amazon, Apple, and now Google are diversifying their workforces away from the West Coast is a trend to watch. One of the most interesting by-products of Amazon's HQ2 search was that, by nature of the list created, they singlehandedly re-energized secondary markets such as Newark, Indianapolis, and Columbus — and other companies are starting to take a look at those cities.

We think co-working will continue to be a growing trend in 2019 and beyond, evidenced by the rapid build-out of WeWork and other co-working platforms. Today's employers are finding success by attracting workers to amenity-rich, urban locations like San Francisco, or Chelsea Piers in Manhattan. Co-working formats also feed the retail base, so that's also a key demand driver.

Q | WHAT ARE TENANTS LOOKING FOR?

A | Most tenants have their own unique requirements. We have a process for readying these spaces for quick build-outs. The biggest challenges are increasing construction costs and longer timelines for municipality review and approval of plans and permits. This is mostly due to the robust economy, limited municipality resources and demand within the construction industry as a whole. The bigger tenants, based on their business needs, generally want longer-term leases while smaller tenants seek shorter terms if possible. Most tenants are trying to build in some form of leasing flexibility, whether it's expansion, contraction, or termination rights.

Q | WHERE DO YOU SEE THE BEST OPPORTUNITIES IN 2019?

A | The focus in our core strategy is retaining tenants, growing rents, reducing vacancy, and upgrading tenant rosters. We're not interested in acquiring the newest trophy assets, where there is already a lot of competition among institutional buyers. Instead, our value-add strategy focuses on boutique multi-tenanted buildings that offer great locations and tenant experiences, but still enable us to add value by repositioning the property.

"Our value-add strategy focuses on boutique multi-tenanted buildings that offer great locations and tenant experiences, but still enable us to add value by repositioning the property".

We look for markets with significant barriers to entry, typically due to scarcity of land or zoning complexities, and then quantifiable demand drivers, such as population growth or sector density — whether that sector be tech, financial, education, or healthcare. We like multi-tenant buildings that provide us with flexible and functional floor plates, generally up to 30,000 square feet, that we can expand or contract as necessary.

[7]Source: CoStar Portfolio Strategy, Q3 2018.

Why Office Real Estate?

Q | WHAT ARE THE POTENTIAL HEADWINDS IN 2019?

A | Interest rates are the most notable headwind, since rising rates can add to financing costs and erode total returns. But rates have been mostly stable, and they're still below historical averages. The risk to office investors is that their tenants, in order to attract and retain talent, are looking for more bells and whistles. So prudent landlords who want to attract and retain tenants have to balance the capital they have to invest against the market they're in. One of the ways we mitigate this risk is to make sure that our amenity packages match those of competitors in the markets.

Q | WHAT MARKETS ARE YOU MOST INTERESTED IN?

A | We like newer office buildings with access to urban lifestyle amenities that cater to a young, well-educated workforce. You see that in Denver, Austin, and Charlotte to some degree, as well as in Manhattan, San Francisco, downtown L.A., and Seattle. Denver is certainly a compelling market that we'll continue to monitor. We're focused mostly on Sun Belt and Western cities.

Q | WHAT ARE YOU DOING TO POSITION YOUR PORTFOLIO FOR SHAREHOLDER VALUE IN 2019?

A | While the economy remains strong, we continue to prudently spend capital that competitively positions our assets; maximizing retention, vacancy lease-up, rental growth under longer-term leases; and strengthening the credit of our tenant base.

ABOUT BLACK CREEK GROUP

Black Creek Group is an experienced real estate investment management and development firm that has bought or built over $18 billion of investments over its 25-year history.[8] The firm manages diverse investment offerings across the spectrum of commercial real estate — including office, industrial, retail and multifamily providing a range of investment solutions for both institutional and wealth management channels. Black Creek Group has nine offices across North America with more than 300 professionals.

Black Creek Group, your source for commercial real estate knowledge. BlackCreekGroup.com.

[8]As of December 31, 2018.

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