The Henry Fund
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Industrial Real Estate

February 7, 2024

Real Estate Sector

Industry Rating **Market Weight**

Investment Thesis

We recommend a **market weight** rating for the Industrial Real Estate industry over the course of 2024. While the real estate sector projects to underperform in 2024, industrial real estate has proven to be a performance leader over the past year and will continue to improve as market conditions harden towards the latter parts of 2024.

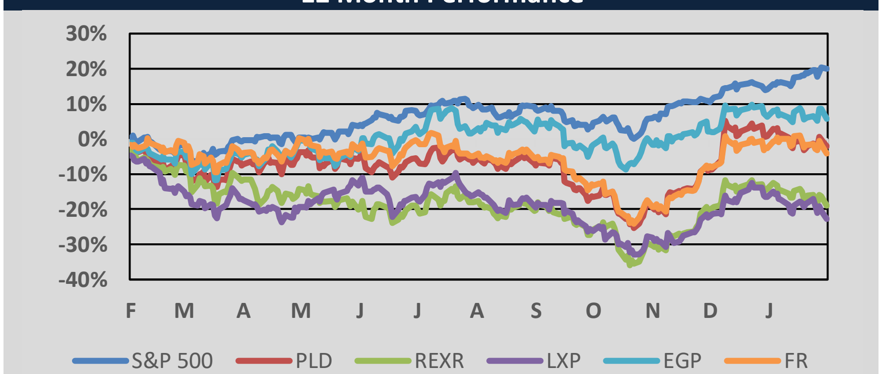
Drivers of Thesis

- An increase in manufacturing construction has slated industrial real estate companies to increase their total number of properties over the next decade with higher quality buildings in better locations.
- As E-commerce continues to grow YoY, the supply chain remains a top priority for successful companies and will continue to increase demand for manufacturing plants and distribution warehouses.
- The ongoing trade war between the U.S. and China has more and more companies moving their supply chain operations to the U.S. which ultimately drives up demand for industrial real estate investors.

Risks to Thesis

- Decreasing occupancy rates in Q4 of 2023 could extend into 2024. If occupancy rates were to drop at a higher rate than expected it could result in brands having to decrease rent and sell off unleased properties.
- In Q4 of 2023, the industrial real estate market experienced extreme deceleration in rental growth rates. If this trend were to persist into mid-2024 and later, smaller brands could be strapped for cash and experience significant revenue losses.
- If industrial REITs do become strapped for cash and generate low income in the event of a recession, dividend yields will decrease significantly rendering most industrial REITs detrimental to portfolios.

12 Month Performance



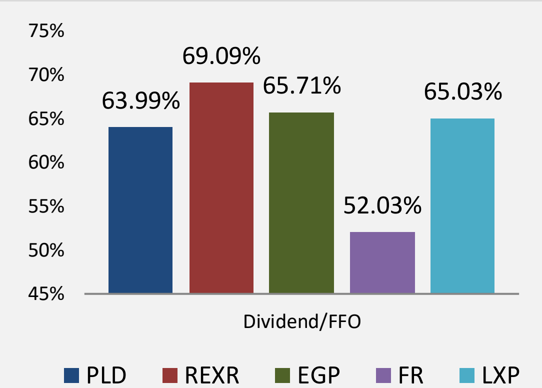
Key Industry Statistics

Main Competitors	Market Cap
Prologis	$122,439 M
Rexford Industrial Realty	$11,719 M
EastGroup Properties	$8,484 M
First Industrial Realty Trust	$7,110 M
LXP Industrial Trust	$2,690 M

Funds From Operations (FFO)	LTM
Prologis	$4,926.0 M
Rexford Industrial Realty	$420.9 M
EastGroup Properties	$336.8 M
First Industrial Realty Trust	$318.8 M
LXP Industrial Trust	$228.4 M

Dividend Yield	
Prologis	2.63%
Rexford Industrial Realty	2.70%
EastGroup Properties	2.74%
First Industrial Realty Trust	2.40%
LXP Industrial Trust	5.45%

Source: FactSet



Industry Description

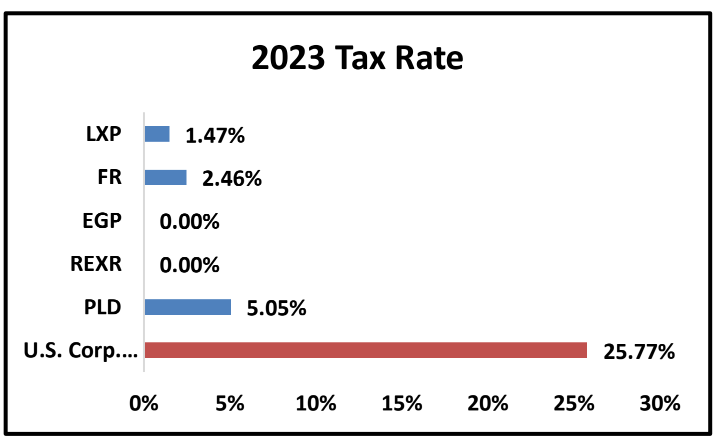
Industrial real estate is a sub-industry of real estate investment trusts (REITs). Companies that meet REIT qualifications and participate in the industrial field own and, typically operate real estate properties that are used for manufacturing, storage, and/or distribution of goods for another company. Industrial real estate properties are typically restricted to certain zones in each city making property supply limited. Industrial REITs own, develop, and renovate properties to attract tenants to lease from them.

Industry Overview

Real estate investment trusts (REITs) are companies that are in the business of owning income-producing real estate properties. There are 3 types of REITs: Equity REITs, Mortgage REITs, and Hybrid REITs. Most REITs are equity REITs which is when a company owns properties and generates most of their revenue through rent. Mortgage REITs lend money to property owners to finance their property and generate revenue through charging interest. Hybrid REITs are REITs that engage in both equity and mortgage activities to generate revenue.

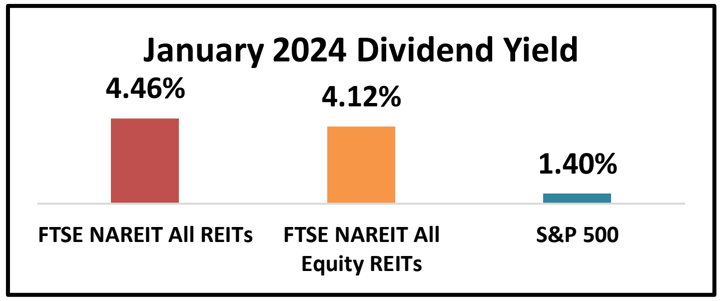
REITs also typically develop, renovate, and operate the properties they own to ensure they are attracting as many potential tenants as possible. REITs play a major role in the real estate market as investors can trade REITs on major stock exchanges (most listed on NYSE). This allows investors to invest in the real estate market without directly owning real estate properties.

For a company to qualify as a REIT, it must meet a few requirements. A REIT company must payout at least 90% of its annual taxable income to its shareholders in the form of dividends[1]. Many REITs use this to their advantage and payout over 100% of their annual taxable income to avoid paying corporate taxes. They are not exempt from international and state taxes, but the effective tax rates of REITs are significantly lower than the U.S. corporate tax rate in 2023. Effective tax rates for these industrial REITs are shown below: Prologis (PLD), Rexford Industrial Realty (REXR), EastGroup Properties (EGP), First Industrial Realty Trust (FR), and LXP Industrial Trust (LXP).

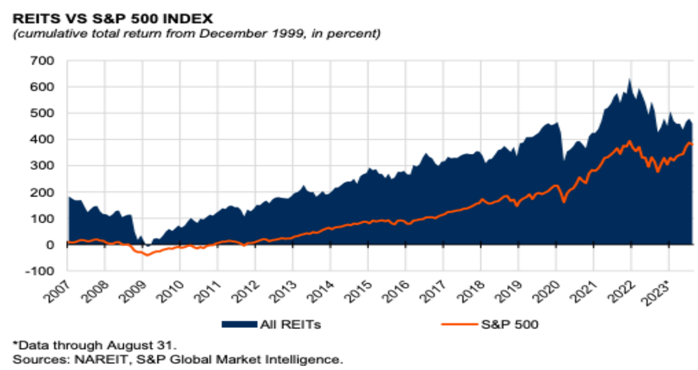


Source: FactSet and Tax Foundation[4, 13]

Investors are typically drawn to the high rates of dividends that are paid out by REITs which results in a stable annual cash flow that outpaces other industries. REITs can also be utilized in portfolios for diversification. Due to their high dividend yield, REITs do not highly correlate with other industries and experience less volatility[2]. The opportunity for long-term capital appreciation decreases, but the total return is offset by dividends resulting in REITs outperforming the S&P 500 over the past 2 decades.



Source: REIT[3]



Source: CFRA Real Estate Investment Trusts[6]

Other requirements for a company to qualify as a REIT include:

- Investing at least 75% of the company's total assets into real estate and cash
- Generating at least 75% of its gross revenue from real estate-related revenues
- Being managed by a board of directors
- Have at least 100 shareholders after year 1 of being a REIT
- Have fully transferable shares
- Be an entity that is taxable as a corporation
- The company cannot have more than 50% of its shares owned by 5 or less individuals during the last half of the taxable year[1].

Industrial REITs

Industrial REITs are companies that participate in the industrial real estate market and specialize in owning income-generating properties that are used for manufacturing, storage, and/or distribution of goods. Industrial properties include warehouses, truck terminals, storage spaces, data centers, research and development centers, and showrooms. Industrial REITs own and operate these properties and rely on rental income for the majority of their revenue. Demand for industrial properties has remained consistent following the COVID-19 pandemic as companies have fully reopened their supply chains. Not only has demand continued to be prominent for industrial properties, but supply is also limited due to properties being restricted to certain city zones and needing various permits before developing new industrial properties. This increased demand and lack of readily available supply have enabled top industrial REITs to maintain a firm grasp on the sector and grow at a steady rate. This growth is especially impressive due to REITs having limited capital that can be reinvested into the company. 90% of taxable income is required to be paid out to investors resulting in a maximum of 10% of taxable income that can be reinvested into the REIT to buy and manage more properties[2]. REITs will often raise extra capital to offset the lack of retained earnings to continue growing at an organic rate.

The leaders in the industrial REITs industry consist of 5 public corporations: Prologis (PLD), Rexford Industrial Realty (REXR), EastGroup Properties (EGP), First Industrial Realty Trust (FR), and LXP Industrial Trust (LXP).

Company	Market Cap	Revenue	Operating Margin	Net Margin
PLD	$122,439	$7,886	37.4%	38.2%
REXR	$11,719	$768	36.3%	28.1%
EGP	$8,484	$553	39.4%	31.8%
FP	$7,110	$601	39.9%	44.5%
LXP	$2,690	$338	17.9%	16.0%

Source: FactSet[4]

Market Cap and Revenue displayed in millions; 2023 Q3 LTM Financials used.

Prologis is the largest player in the industrial REITs industry by a wide margin. Further analysis of these 5 companies and how they are positioned in the market will be detailed in the market and competition section.

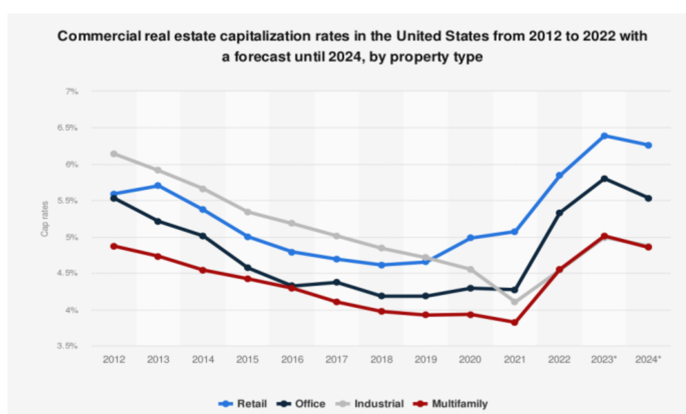
A few key metrics/factors to consider in the industrial REIT sector include capitalization rates, occupancy rates, rental growth, and property locations.

Capitalization Rates

Capitalization rates, often referred to as cap rates are calculated by dividing a property's annual net operating income (NOI) by the property's market value. Cap rates are influenced by various economic factors including interest rates, competition, real estate zoning and regulations, and monetary policy. What is determined as a good cap rate is very subjective from investor to investor. Typically, a higher cap rate correlates to a higher risk/return relationship and vice versa[14].

Cap rates are an important factor when analyzing an industrial REIT as they help determine the value of the REIT's properties. A lower cap rate would typically mean investors can expect a higher expected return but of course, that comes with higher risk exposure. A higher cap rate lowers the expected return of an investor but is not subject to as much risk.

The graph below shows how cap rates have fluctuated from 2012 to 2022. It must be noted that the values for 2023 and 2024 are projected values from 2022. While the values are not exact, it does accurately depict the trend that has occurred over the last 13 months so far. As interest rates continued to rise, cap rates increased as well throughout 2023. Now that the Fed has paused rate hikes and has even discussed potential rate cuts, cap rates are expected to begin to decline in 2024. As of 2023 Q3, national cap rates for industrial properties are sitting at 7% which represents a 0.8% increase from 2022 Q2[14].

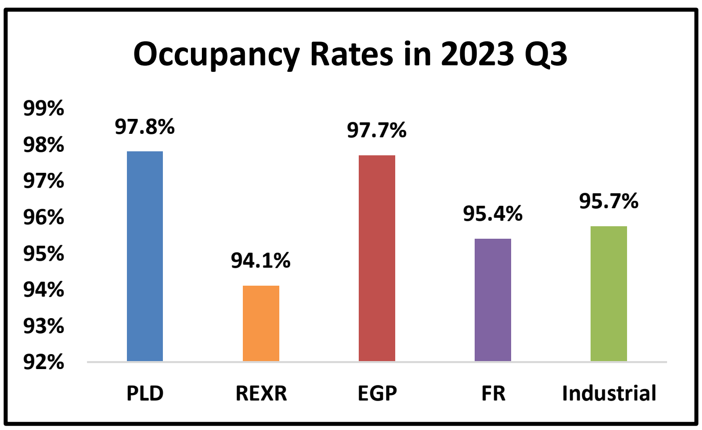


Source: Statista[15]

Occupancy Rates

Occupancy rates are used in every real estate sub-industry and are used as a key metric to determine the strength of a given real estate market. Occupancy rates are calculated by taking the square footage of occupied space and dividing it by the total amount of available space. Vacancy rates are a term often used in the real estate market as well and it is just the opposite of occupancy rates. The square footage of unoccupied divided by the total space available is how a vacancy rate is calculated.

Industrial REITs have been having great results when it comes to occupancy rates compared to other real estate markets. Industrial REITs are often leasing out their properties for multiple years at a time to tenants so it makes sense why they would have higher occupancy rates. The industry average for industrial REITs is sitting at 95.7% as of 2023 Q3[3]. Maintaining a high occupancy rate is crucial for industrial REITs, as they are reliant on rental income for the majority of their revenue.

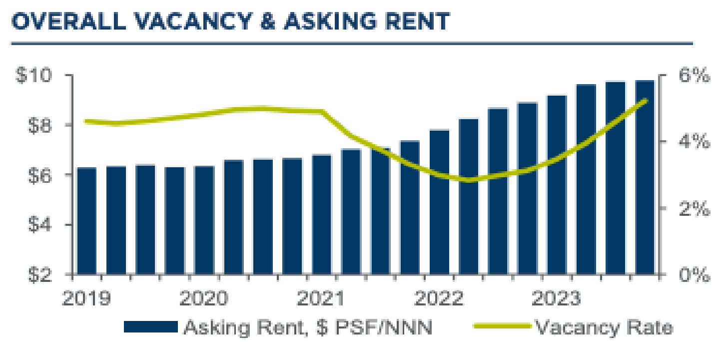


Source: REIT and FactSet[3, 4]

If a REIT is fails to occupy its properties with tenants, it raises a red flag with investors as they are missing out on potential revenue. It is important to note that the fluctuation of occupancy rates can be dependent on macroeconomic shifts. Occupancy rates dropped to 94.8% which is the lowest rate since 2020[16]. Overall, the occupancy was significantly high over the past 3 years, so this drop is not a big concern. Supply in industrial properties was at an all-time high in 2022 so it makes sense that the market is adjusting to more properties being available. In 2024, we project occupancy rates will drop by less than a percent through the end of the year as the market adjusts to the increase in supply.

Rental Growth

The increase in the supply of industrial properties in 2022 has also started to affect rental growth rates. Rental growth is attributable to the percentage that rent per square foot rises during a given time. Rental rates in the industrial market grew in the U.S. at 10% which is down from 15.2% in 2022[16]. Given the increase in supply resulting in a decrease in occupancy rates in Q4 2023, this result is not shocking. Rental rates only grew at 0.5% in Q4 which is low for a single quarter[16]. While rental growth in Q4 was not a result that industrial REITs wanted, growing at 10% YoY is still a good result for 2023. Markets will continue to rebalance with decreasing occupancy rates in 2024 and historical data has shown that an occupancy rate in the 94-95% range still produces steady rental growth[16].



Source: Cushman & Wakefield[16]

Property Locations

The whole objective of industrial properties is to manufacture products and get them shipped off to retailers, or directly to the consumer as efficiently as possible. To achieve this goal, the location of the property is integral to the success of the tenant. Not only does it matter what city or country the property is in, but other factors that need to be taken into consideration are city population, road systems, proximity to an airport, etc. With the increase in e-commerce, companies like Amazon have consumers wanting products shipped to their houses within 2 days. Having industrial properties in locations where traffic is low, and products can be shipped off quickly directly correlates to a higher demand from tenants.

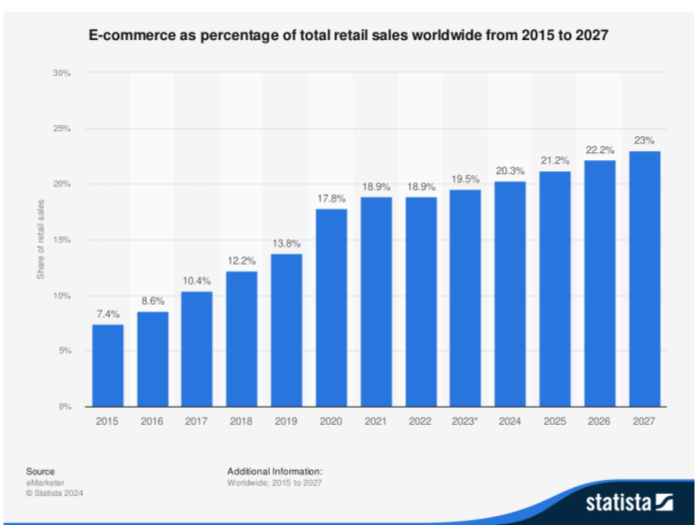
Purchasing land/properties in prime locations is essential for industrial REITs. Properties in prime locations typically reduce costs for the tenant and increase demand, rental rates, and occupancy rates. Every industrial REIT's top 2 revenue goals are increasing the number of tenants that want to rent your properties and generating a higher return from each property. Selecting properties in the right locations helps them achieve both of those goals.

There are guidelines and regulations, however, that REITs must follow when it comes to a property's location. Zoning and land use laws are common in the U.S. and ultimately decide where certain types of properties can and cannot be built. This is important when it comes to industrial REITs because manufacturing plants and distribution warehouses can often increase noise and traffic in a given town or city. Zoning laws consider what type of property is allowed in each area, ensure the area is not too congested, take into account neighboring communities, and consider environmental impacts, among other factors[17].

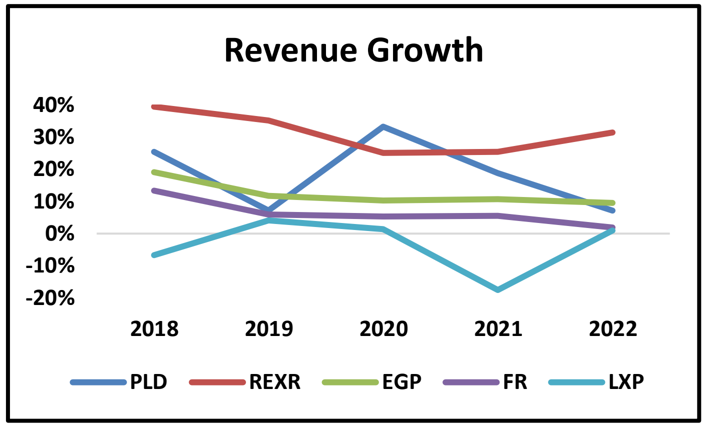
INDUSTRY TRENDS

E-Commerce Growth

With the extreme uptick in E-commerce over the past decade, demand for industrial properties has been up. E-commerce has been a main driving factor behind industrial REITs revenue growth. Companies engaged in the E-commerce market rely on leasing properties to manufacture, store, and distribute their products since they typically do not have brick-and-mortar stores. For 4 out of the top 5 industrial REITs, in terms of market cap, sales revenue has continued to grow as E-commerce gains market share in the retail industry.



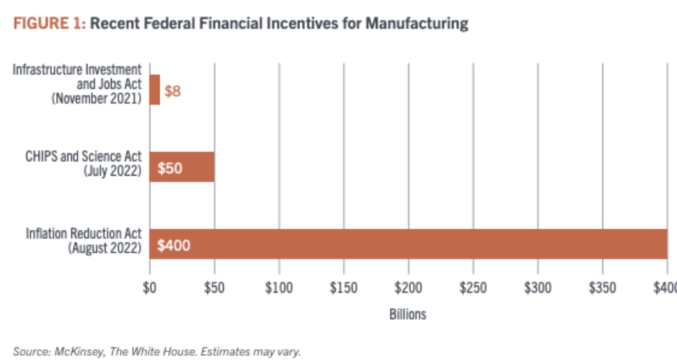
Source: Statista[15]



Source: FactSet[4]

U.S. vs China Disputes

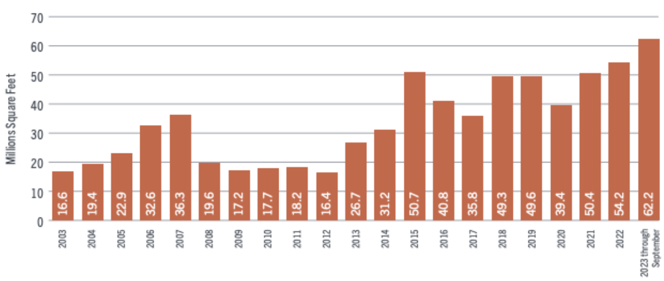
The U.S. and China have been in a trade war since 2018 when President Donald Trump began imposing tariffs and trade barriers on China. It is no secret that many U.S. companies have relied on China for cheaper supply chains and importing goods rather than setting up their warehouses in the U.S. Since the trade war began, the U.S. has begun signing various acts to attract companies to begin setting up their manufacturing plants and supply chains in the U.S. These acts consist of the Infrastructure Investment and Jobs Act of 2021, the Inflation Reduction Act of 2022, and the CHIPS and Science Act of 2022[18]. These acts have allowed for various financial incentives for manufacturing in the U.S. from the government paving the way for more potential tenants in industrial real estate.



Source: NAIOP[18]

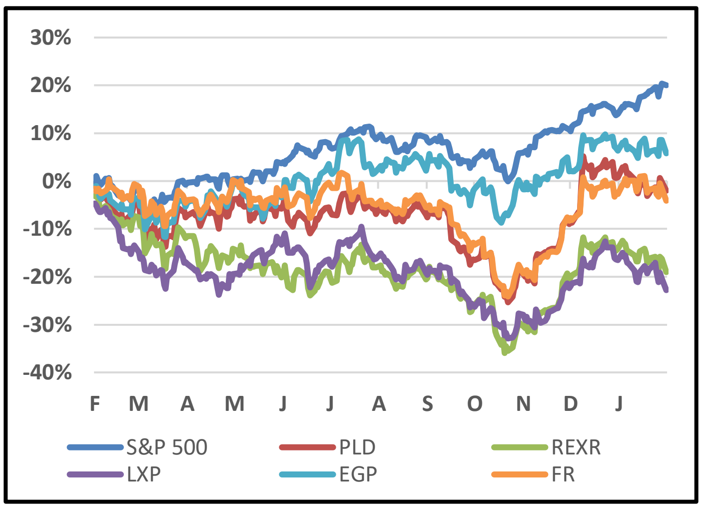
As more manufacturing property projects are being planned, industrial real estate has a clear path to grow significantly over the next decade. Over 250 million square feet of potential projects have been released to the public by various companies and real estate investors that aim to be finished within a decade from now[18]. Industrial construction continues to grow YoY made possible by the U.S. government's continued support since 2018.

FIGURE 8: U.S. Manufacturing Construction Pipeline



Source: NAIOP[18]

MARKETS AND COMPETITION



Source: Yahoo Finance[8]

The following 5 major industrial REITs will be compared and contrasted to determine who is best set up for success in 2024: Prologis (PLD), Rexford Industrial Realty (REXR), EastGroup Properties (EGP), First Industrial Realty Trust (FR), and LXP Industrial Trust (LXP).

It is important to note that while stock performance is down among the 5 top industrial REITs, dividend yields remain high and are a massive factor in determining investment return over the year.

Prologis, Inc. (PLD)

Market Cap ($M)	$122,439
Funds from Operation (FFO) ($M)	$1,384.8
Cap Rate	5.26%
Occupancy Rate	97.8%
# of Properties	5,495
Square Footage (in millions)	1,213

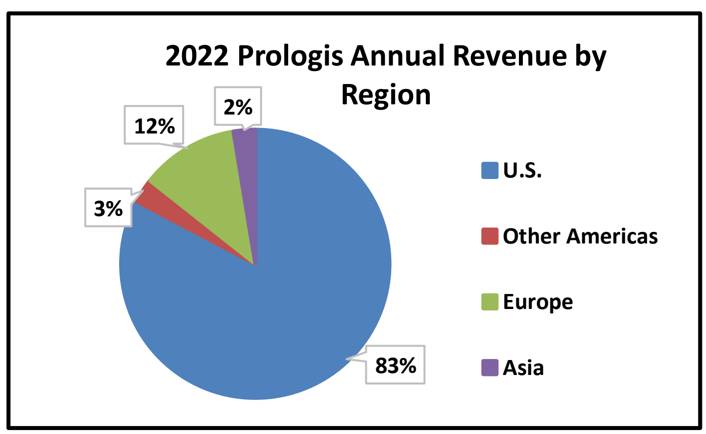
Source: FactSet and 2022 PLD 10-K[4, 5]

Prologis is the industry leader by a very wide margin. They have and will continue to dominate the industrial real estate market for the foreseeable future. They are over 10x bigger than the 2nd biggest industrial REIT all while maintaining a very high occupancy rate. They provide industrial spaces for some of the biggest companies in the U.S. A breakdown of their top 10 tenants is as follows:

Tenants	% of Net Rent
1. Amazon	5.3%
2. Home Depot	1.7%
3. FedEx	1.3%
4. Geodis	1.3%
5. DHL	1.1%
6. CEVA Logistics	0.9%
7. UPS	0.8%
8. GXO	0.7%
9. DSV Panalpina	0.7%
10. Maersk	0.6%

Source: 2022 PLD 10-K[5]

It is worth noting that while Amazon is a strong company, there is risk involved with them being responsible for 5.3% of Prologis' net rent. Outside of Prologis having a firm grasp on the U.S. market, they also have a strong presence in the international market as well. A breakdown of their revenue by region is shown below.



Source: 2022 PLD 10-K[5]

A big reason why about 17% of their revenue is from international regions is their due to their Strategic Capital Segment. This segment in their operations allows them to partner with large institutional investors to generate long-term cash flows with minimal capital investment after the initial investment is made[5]. Prologis holds significant ownership interests (between 15-50%) in all 8 of their unconsolidated co-investment ventures which allows them to limit their exposure to foreign currency movements for international investments.

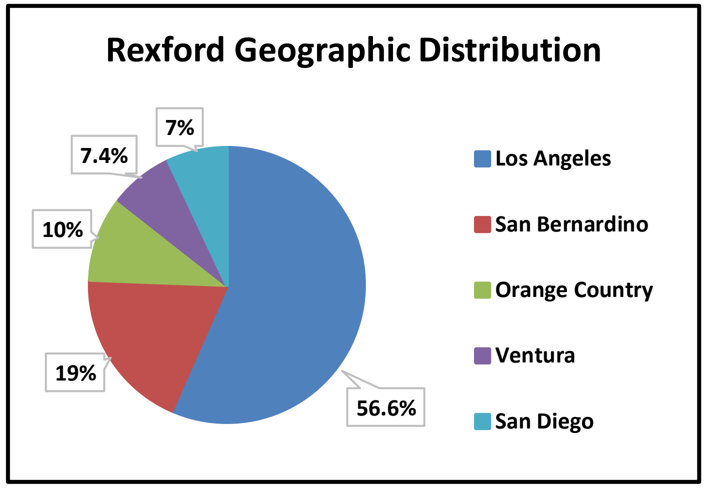
Overall, Prologis is the industry leader in almost every metric and should be positioned to succeed in the future. Even if occupancy rates and rental growth were to decline throughout 2024, Prologis has the capital and assets to push through soft market conditions in the meantime. Barring a catastrophic unforeseen event, Prologis will continue to be the industry leader by a wide margin in 2024. Between their international investments, prime property locations, constant push to develop new properties, and extremely high occupancy rates, we foresee Prologis bouncing back from a shaky 2023 and performing well in 2024 as we expect market conditions to harden.

Rexford Industrial Realty, Inc. (REXR)

Market Cap ($M)	$11,719
FFO ($M)	$114.6
Cap Rate	4.58%
Occupancy Rate	94.1%
# of Properties	356
Square Footage (in millions)	42.4

Source: FactSet and 2022 REXR 10-K[4, 9]

There is quite a drop off in terms of size from the industry leader Prologis to Rexford but that is not to take away from Rexford. Rexford is a relatively new REIT, founded in 2013, and has seen amazing growth over the past decade of their existence. What differentiates Rexford from the rest of the field is they only own properties in southern California. They maintain a firm grasp in the Los Angeles and surrounding areas market. A pie chart below shows Rexford's geographic distribution of their properties.



Source: 2022 REXR 10-K[9]

It is worth noting that the southern California region is a massive reason why Rexford has experienced over 25% revenue growth YoY over the past 5 years[4]. While they have been very successful in growing their revenue in southern California, it does provide some additional risk to have all their properties in one area. They are below average in occupancy rates and have a relatively small number of properties and square footage when compared to some of their smaller competitors. This is because property and land prices in southern California are high due to a lack of supply and a very high demand for industrial properties. Rental rates in Los Angeles have ranged from $18.93 - $20.55 per square foot; almost double the national average rental rate which was $9.79 per square foot in Q3 of 2023. This extremely high rental rate has been able to offset the majority of Rexford's deficiencies.

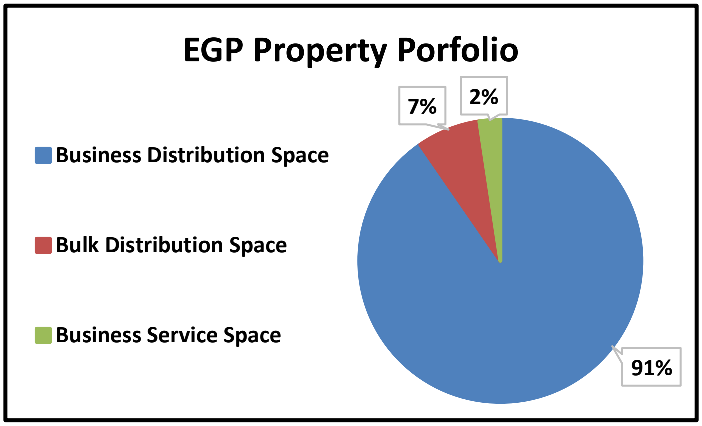
Overall, Rexford's growth since they were founded is unmatched in the industry and we think they will continue to flourish in the southern California market. Revenue growth as high as 31.52%[4], as they experienced in 2023, is not sustainable long-term and will likely come down in the coming years. For 2024, we foresee rent continuing to grow in the Los Angeles area due to limited supply and Rexford will continue growing at an above industry average rate.

EastGroup Properties, Inc. (EGP)

Market Cap ($M)	$8,484
FFO ($M)	$91.4
Cap Rate	5%
Occupancy Rate	97.7%
# of Properties	488
Square Footage (in millions)	52

Source: FactSet and 2022 EGP 10-K[4, 11]

EastGroup Properties is an industrial REIT that was founded in 1969. They are a solid company with consistent and organic growth over the past decade. EastGroup boasts an above-industry average occupancy rate with distribution properties concentrated in the sunbelt region of the U.S. EastGroup considers its core markets as the states of Florida, Texas, Arizona, California, and North Carolina[11]. They specialize in providing space to tenants for distribution needs. Their portfolio is depicted in the graph below:



Source: 2022 EGP 10-K[11]

EastGroup features a strong balance sheet and has been growing very nicely over the past decade. They have maintained their grasp on the distribution market within the U.S. and ultimately it is why they will continue to be successful throughout 2024. We foresee EastGroup continuing to grow revenue and FFO at a rate of about 15% which would put them in a position to have a good year of returns for investors.

First Industrial Realty Trust, Inc. (FR)

Market Cap ($M)	$7,110
FFO ($M)	$81.3
Cap Rate	4.88%
Occupancy Rate	95.4%
# of Properties	416
Square Footage (in millions)	62.9

Source: FactSet and 2022 FR 10-K[4, 10]

First Industrial Realty Trust outlines its business strategy as focusing on 15 defined markets, typically along the U.S. coasts. The 15 U.S. Markets they operate in are:

Metropolitan Area	# of Properties
Atlanta, GA	23
Baltimore, MD	14
Central Florida	8
Central/Eastern PA	25
Chicago, IL	26
Cincinnati, OH	10
Dallas/Ft. Worth, TX	53
Denver, CO	35
Detroit, MI	22
Houston, TX	29
Minneapolis/St. Paul, MN	13
Nashville, TN	6
New Jersey	24
Northern California	7
Phoenix, AZ	17
Seattle, WA	8
South Florida	19
Southern California	77

Source: 2022 FR 10-K[10]

First Industrial values properties in locations near ports so tenants can efficiently receive imported parts and materials. Historically this has been a great strategy for property location but First Industrial has seen its revenue growth YoY be stagnant over the last 5 years compared to its peers. The trade war with China has hurt imports significantly and as a result, decreased demand for warehouse locations near ports. Even with high occupancy rates in past years, First Industrial has struggled to raise rental rates. They have also been a victim of industry occupancy rates dropping in 2023. In their 10-K FY 2022, First Industrial reported an occupancy rate of 98.8%[10]. That figure has dropped to just 95.4%[4] in their 2023 3Q report. While the trade war is certainly a factor, increased property supply within First Industrial's markets is concerning.

We project that First Industrial will have a below-average year in terms of performance as they slowly lose market share in the industry. We foresee their revenue growth dropping in 2024 and they will need to revise their business strategy if they hope to continue being a top competitor in industrial real estate in the years to come.

LXP Industrial Trust (LXP)

Market Cap ($M)	$2,690
FFO ($M)	$50.3
Cap Rate	6.22%
Leased Rate	99%
# of Properties	116
Square Footage (in millions)	54

Source: FactSet and 2022 LXP 10-K[4, 12]

LXP is the smallest of the 5 peers by a significant margin, but they have been in the industry for a while since it became a REIT in 1997. When comparing LXP to the other 4 REITs, it is clear they do not have the same level of assets and capital which makes them more susceptible to hardships during economic and industry distress. LXP has seen its revenue fluctuate significantly over the course of the past 5 years. In 2015, LXP transitioned from investing only 16% of its portfolio in industrial warehouses to over 98%[12]. This change allowed LXP to reduce costs significantly, but its revenue and FFO have declined since 2015 as well. An additional risk factor is their top 5 tenants being responsible for 25.5% of their leased square footage[12].

Tenant	% of Leased Square Feet
1. Amazon	7.2%
2. Nissan	5.5%
3. Kellogg	5.2%
4. Wal-Mart	4.4%
5. GXO Logistics	3.2%
Total	**25.5%**

Source: 2022 LXP 10-K[12]

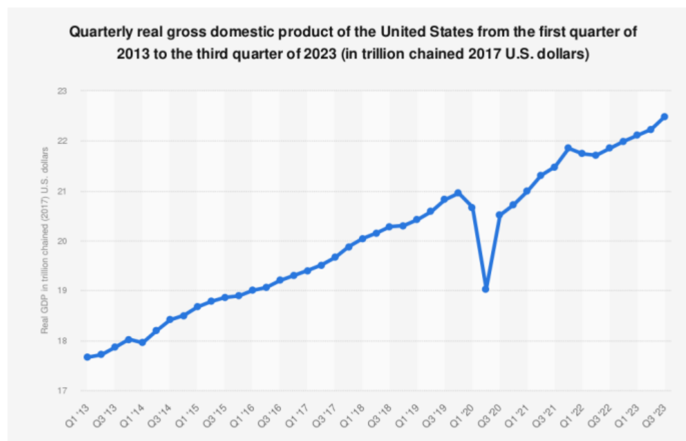
In 2024, we expect industrial real estate to regain some traction in the market, LXP is not set up particularly well to bounce back. Even with a high lease rate, they have underperformed its peers each year since 2018. With interest rates continuing to be high for the foreseeable future as well, it will only be increasingly difficult for LXP to raise capital to grow its business in 2024.

ECONOMIC OUTLOOK

The industrial real estate market, like most other markets, typically thrives when the economy is growing, and consumer confidence is high. Real GDP growth, federal interest rates, and exchange rates are a few of the biggest macroeconomic factors that play a major role in the success of industrial real estate.

Real GDP Growth

Gross domestic product (GDP) is a metric that is used to gauge the overall health of the economy. The change in real GDP measures economic growth from one period to another and is adjusted for inflation and deflation. When real GDP grows at a high rate, it often indicates that the economy is growing and performing strongly. The graph below depicts the growth in real GDP in the U.S. by quarter since 2013.

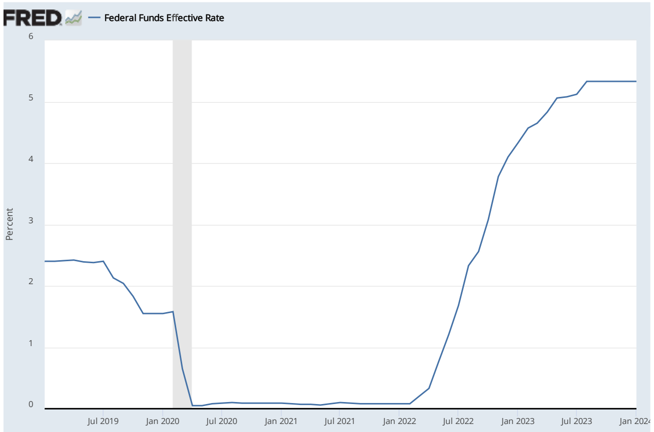


Source: Statista[15]

The industrial real estate market performs best when real GDP is growing, and the economy is performing at a high level. When real GDP is increasing, real estate transactions increase, demand for industrial property increases, and tenants are willing to pay higher rental rates. We expect real GDP to grow at around 2% in the U.S. for 2024 which is still good it would be down from what it grew at in 2023 at 2.5%.

Federal Interest Rates

Jerome Powell, Chair of the Federal Reserve, has come out and said that rate cuts are on the way, but it will probably be longer than many were expecting. The graph below depicts how much interest rates have increased over the past 2 years. This has put increased economic stress on the industrial real estate market as capital becomes more expensive and transactions in the sector have slowed[20].

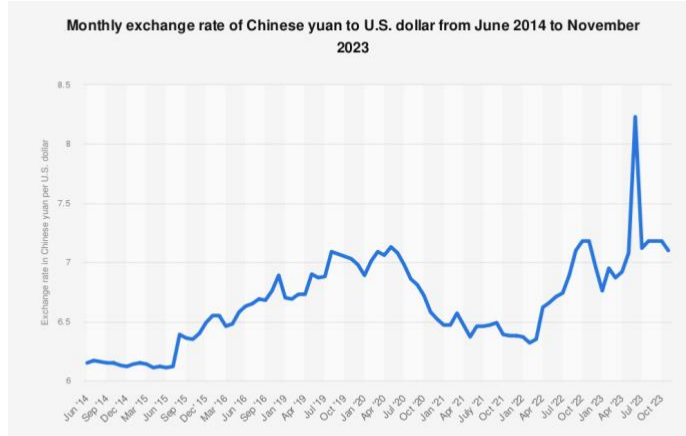


Source: FRED[19]

By the end of 2024, we expect to see rates cut to 4.75%-5.00%. This will allow the industrial real estate market to ease a little of the economic stress and allow for more access to capital. The effects throughout 2024 should be positive but overall should be relatively small. If rates continue to decrease over the next few years, industrial REITs could benefit.

Exchange Rates

The industrial real estate market is affected by currency exchange rates, largely due to the cost of importing construction materials. Industrial REITs rely on importing various materials from various countries to develop land in the U.S. and build new properties. If the dollar were to depreciate against, for example: the Chinese yuan, it would be costly to import construction materials from China and could slow down construction development in the U.S. The graph below depicts how the U.S. dollar has been exchanged with the Chinese yuan over the past few years.



Source: Statista[15]

I expect the U.S. dollar to Chinese yuan exchange rate to slightly increase throughout 2024 which would slightly increase construction development. As inflation in the U.S. seems to be coming down after the interest rates, we would expect construction projects to go on as scheduled in the industrial real estate market.

INVESTMENT SUMMARY

Industrial real estate is in a good position to succeed over the next 3-5 years. We expect to see marginal returns in 2024 as the market is still experiencing the effects of high interest rates and the trade war between the U.S. and China. While some industrial REITs may regress due to the trade war, ultimately it should benefit the industry as more companies move their supply chain from China to the U.S. Whether it be in 2024 or the years to come, fed rate cuts will inevitably come and industrial REITs will benefit immensely.

Companies such as Prologis and EastGroup Properties should look to be viable options for exposure to industrial real estate with minimal risk. Both companies boast robust balance sheets with sustained success spanning across the past decade that will allow them to push through a hardened economic climate in 2024.

LXP seems very high risk in a low return environment and we do not foresee the company returning investors a positive return in 2024. With their leased rates almost capped out at 99%, LXP is still generating low FFO and are unable to attract new tenants due to a shortage in leasable properties.

For the year 2024, we expect the economy to relax its grip on the industrial real estate market, allowing for marginal growth in returns and a **market weight** rating.

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