

March 29, 2019

Dear clients and colleagues,

It is a well-known fact that the rise of e-commerce has caused many brick and mortar retailers to struggle. Consumer foot traffic at many stores has dropped, creating a phenomenon known as “dead malls”. Retail bankruptcies have been increasing for the past few years, with Diesel, the once hugely popular denim brand, as the latest casualty. Meanwhile, the CEO of Simon Property Group, one of largest shopping mall owners in the US, has expressed serious concern about several retailers.

Online shopping has not only affected demand for traditional retail spaces, it has also forced retailers to reconfigure their supply chain. In the wake of this shift, we have seen a considerable rise in demand for industrial real estate, such as warehouses. The reason for this is simple: online consumers expect to receive their orders within 48 – 72 hours. This means retailers must find a place to store their inventory close to shipping destinations.

According to Jefferies research, e-commerce makes up about 10 percent of all retail sales. If internet companies double their sales, it would create demand for about 600 million square feet (sq. ft.) of new warehouse space. Already, Jones Lang LaSalle estimates 40% of signed leases for industrial warehouses are with e-commerce companies.

Portfolio impact?

Global Alpha is taking advantage of increasing demand for industrial real estate through Rexford Industrial Realty.

Rexford Industrial Realty (REXR US – \$35.52)

www.rexfordindustrial.com

Business overview

Headquartered in west Los Angeles, Rexford focuses on owning and operating industrial properties in Southern California. It owns 181 properties with about 22.1million sq. ft. of rentable space and manages an additional 20 properties. The company completed its IPO in July, 2013 at \$14 per share.

Target market

Rexford focuses on the Southern California market, or just five counties to be precise. Most of its properties are located in Los Angeles and Orange County.

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Because Rexford targets well-located industrial assets, its buildings have stronger tenant demand throughout economic cycles and command above market rental rates due to low vacancy rates. Given the lack of land available in the company's target urban locations, there is also the possibility that properties could be converted into alternative use, such as condominiums.

- Total addressable market is \$24.1 billion (2,133 million sq. ft. at an average rent per sq. ft. of \$11.29).
- Highly fragment, as public REITS own approximately 5% of the Southern California market.
- Under supplied, as approximately 100 million sq. ft. has either been removed from the infill market or converted to other uses since 2001.
- Southern California ports are the largest in the US and link the country to the Pacific Rim, which accounts for 40% of all US containerized imports. Approximately 40%-50% of these imports are distributed locally.
- The regional population is projected to grow over 13% to almost 25 million by 2036.

Competitive advantages

- 66% of deals are off market and are identified by their internal research team.
- Accretive recycling of properties.
- Investment-grade rating by Fitch (BBB).

Growth strategy

- Rent increases – the current average rent in Rexford's properties is \$9.19 per sq. ft. versus the current market rate of \$11.29 per sq. ft.
- Repositioning of assets.
- M&A.

Management

Howard Schwimmer and Michael Frankel are Co-CEOs of Rexford. The company was founded by Richard Ziman, who is the current chairman. Ziman sold his previous company, Arden Realty, to GE in 2006 for \$4.8 billion. Rexford was founded with the idea that, in Southern California (a heavily populated economic zone and the largest industrial base in the nation) they could create a lot of value executing their proven investment strategy.

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Risks

- Lease rollover — in 2019 approximately 15% of Rexford’s rentable sq. ft. is up for renewal.
- Equity issue.
- Single market exposure — 100% Southern California.

Global small cap companies are not always known by name, but they invariably touch our daily lives in important ways. The next time you order something online, it is quite possible that it was shipped from one of the Rexford warehouses.

Have a great weekend.

The Global Alpha team

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