January 25, 2021

RE: The Amazon Effect

Dear Valued Customer,

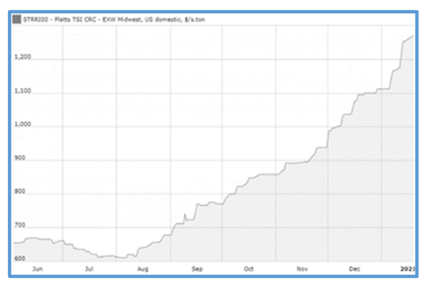
As you may have become aware, steel and other commodities have had a meteoric rise in the past 15-90 days to new historic highs, with no real end in sight. We feel we have the responsibility to share this information so you can plan for the future and run your business effectively.

While Amazon has driven space demand and lease rates higher, their insatiable demand is now beginning to drive costs up as well. Nucor is North America's largest and most diversified steel company, and ARCO has a seat on their customer advisory board. During a recent board meeting it was shared that Amazon has communicated a need for 400,000 tons of joist and girder in 2021. Nucor's current national capacity is 1.2M tons, with Amazon effectively wanting 33% of the entire national capacity. Vulcraft is Nucor's business that manufactures joist and decking. The previous longest lead time for any Vulcraft plant in history was 20 weeks back in 1999; currently there are three Vulcraft plants with lead times in excess of 20 weeks.

Nucor also projects that with what some refer to as the "Blue Wave" in Washington, there are expectations that both traditional and green infrastructure bills are on the horizon.

To document some of this effect, the price of joist and girder raw material has increased by $140/ton since November 1st, 2020. Through ARCO's proprietary relationship with Vulcraft, we have been informed that there are additional price increases planned for Q1 which will increase joist and girder pricing an additional ~$200-250/ton by March. For a typical industrial facility, that raises the overall construction cost by almost $0.60/SF.

The raw material for decking has more than doubled in cost since early fall, up to $1,270/ton today. This equates to an increase in overall construction cost by almost $0.70/SF. Deck material pricing continues to rise, and we do not believe that we will achieve peak pricing for several months. The recent runup is visually represented in the graph to the right.



The influence that Amazon and its peers have had on demand is not limited to joist and deck as described above. Amazon's demand has increased the cost of all commodities as well as put strain on the supply of available subcontractor manpower capacity, further increasing total construction costs. ARCO will continue to communicate the implications of this increased demand on both cost and schedule, and advocate on your behalf for the success of your upcoming development projects.

- ARCO Design/Build Industrial