

# Ares Industrial Real Estate Income Trust

**AIREIT**

Quarterly Update Letter – 1Q 2024 (Class I Shares)

(as of 03/31/24)

We are pleased to provide you with a performance and portfolio positioning update on AIREIT for 1Q 2024.

## Market Overview

The U.S. economy entered 2024 on solid footing, with tight labor markets and inflation, ending March at 3.48%<sup>1</sup> year-over-year. Following a year of tremendous interest rate volatility where the 10-year Treasury yield peaked at 4.98%,<sup>2</sup> interest rates remained fairly volatile in 1Q 2024, and the 10-year Treasury yield ended at 4.20%.<sup>2</sup> With the Federal Reserve signaling interest rate cuts, we believe we're entering a period with more visibility into inflation and interest rates, which we expect to lead to a reopening of real estate transaction markets.

## Performance Overview

In what has been a challenging environment for commercial real estate, AIREIT continues to deliver on its objective to generate durable income over the long term, generating a 4.78%<sup>3</sup> annualized distribution rate with respect to Class I Shares. Investors would need to earn greater than a 7.59%<sup>4</sup> yield from a fully taxable investment to earn the same after-tax distribution rate as an investment in AIREIT's Class I Shares, providing 3.39% of additional yield above the 10-year Treasury yield.

Since inception<sup>5</sup> over six years ago, AIREIT continues to be one of the best-performing NAV REITs, generating an 8.76% annualized return<sup>6</sup> with low correlation to public markets. In 1Q 2024, successful leasing execution drove strong rent growth. At the same time, interest rate volatility takes time to work through real estate markets, and returns were likely pressured by exit capitalization and discount rate expansion. As a result, in 1Q 2024, AIREIT returned -3.97% with respect to Class I Shares,<sup>6</sup> ending the quarter with a net asset value (NAV) of \$12.56 per share.<sup>7</sup>

AIREIT has taken meaningful write downs over the past +18 months, and we believe our property values reflect the rapid changes in the capital market environment. Increasing interest rate clarity and a pickup in investor and lender appetite for industrial real estate in 1Q 2024 suggest industrial real estate values should be stabilizing, and the impact of rate hikes on pricing appears to be largely behind us. Also, AIREIT has significant embedded value in the existing portfolio, which should generate compelling performance once exit capitalization and discount rates settle.

## Portfolio Activity

On-the-ground local teams enable us to be targeted and granular as we closely manage the existing portfolio. AIREIT entered the year from a position of strength with a highly stabilized portfolio that has remained above 97% leased<sup>16</sup> over the last three years. Throughout 1Q 2024 quarter, value creation through tenant retention and accretive leasing continued across the portfolio. Rent increases on AIREIT's industrial leases signed over the last 12 months averaged 47.8%, meaningfully contributing to cash flow. Further, in-place rents are 25.6% below market, which is expected to generate double-digit annualized NOI growth over the next three years.

We remain committed to our cycle-tested investing approach and focused on identifying accretive long-term opportunities. In 1Q 2024, AIREIT opportunistically recycled capital into higher yielding assets by disposing of two buildings in Houston, TX, where we had executed business plans and exited at favorable pricing of \$35.1 million. While Houston remains a high conviction market, in 1Q 2024, AIREIT also originated a \$36.4 million senior construction loan for two warehouses near the Port of Houston, generating a highly attractive yield in the low double-digits. Additionally, AIREIT closed on a tactical disposition in San Diego, CA, for \$71.6 million.

## At-A-Glance

**4.78%**

ANNUALIZED  
DISTRIBUTION RATE<sup>3</sup>

**100%**

2023 RETURN OF  
CAPITAL<sup>8</sup>

**8.76%**

SINCE INCEPTION  
RETURN<sup>5,6</sup>

**77**

CONSECUTIVE MONTHS  
OF DISTRIBUTION PAID<sup>3</sup>

**40.8%**

LEVERAGE<sup>9</sup>

## Portfolio Outlook

Some of the best returns in industrial real estate have come after repricing periods. We see a possible entry point to pursue opportunities to grow the portfolio at pricing levels not seen in many years. We believe that relationships and market intelligence that come with being one of the largest national owners of industrial real estate will be paramount to participating in recovery and driving performance. Also, real estate credit remains an important theme for AIREIT, and we are excited about the enhanced returns and potential downside protection that our growing exposure can bring.<sup>10</sup>

We believe AIREIT is well-positioned due to the institutional quality of our buildings, our concentration in high barrier-to-entry markets, and the resiliency of our balance sheet. Conservative leverage of 40.8%,<sup>9</sup> of which 98.9% is fixed or hedged,<sup>11</sup> and a below-market weighted average effective borrowing rate of 4.23% affords us notable flexibility and access to capital to take advantage of what we believe is a once-in-a-cycle opportunity for industrial real estate.

From a fundamental perspective, we remain bullish on the supply-demand forecast across our key markets. Construction starts are down over 80% from the 2022 peak to levels not seen since 2015, setting up a historically strong picture for the coming years.<sup>12</sup> This construction pullback, combined with persistent demand tailwinds – including re-shoring of supply chains and e-commerce reacceleration – is expected to generate outsized rent growth relative to other sectors in 2024 and beyond.

As investors navigate evolving market conditions, we believe AIREIT offers a differentiated private real estate solution that can continue to create long-term value and bring powerful diversification benefits to investor's portfolios.<sup>13</sup> As always, we thank you for your partnership and for giving us the opportunity to invest in the industrial real estate sector on your behalf.

- The Ares Real Estate Team

## Portfolio at a Glance

**\$8.7B**

TOTAL ASSET  
VALUE<sup>14</sup>

**252**

BUILDINGS<sup>15</sup>

**29**

MARKETS<sup>15</sup>

**418**

TENANTS<sup>15</sup>

**97.4%**

LEASED<sup>16</sup>

## Active Management Highlights

### Houston, TX – Port 225 Commerce Center



\$36.4 million senior loan for the construction of two Class-A warehouses in an infill location near the Port of Houston at pricing of SOFR + 4.75%.

### Houston, TX – Port 146 and LaPorte DC



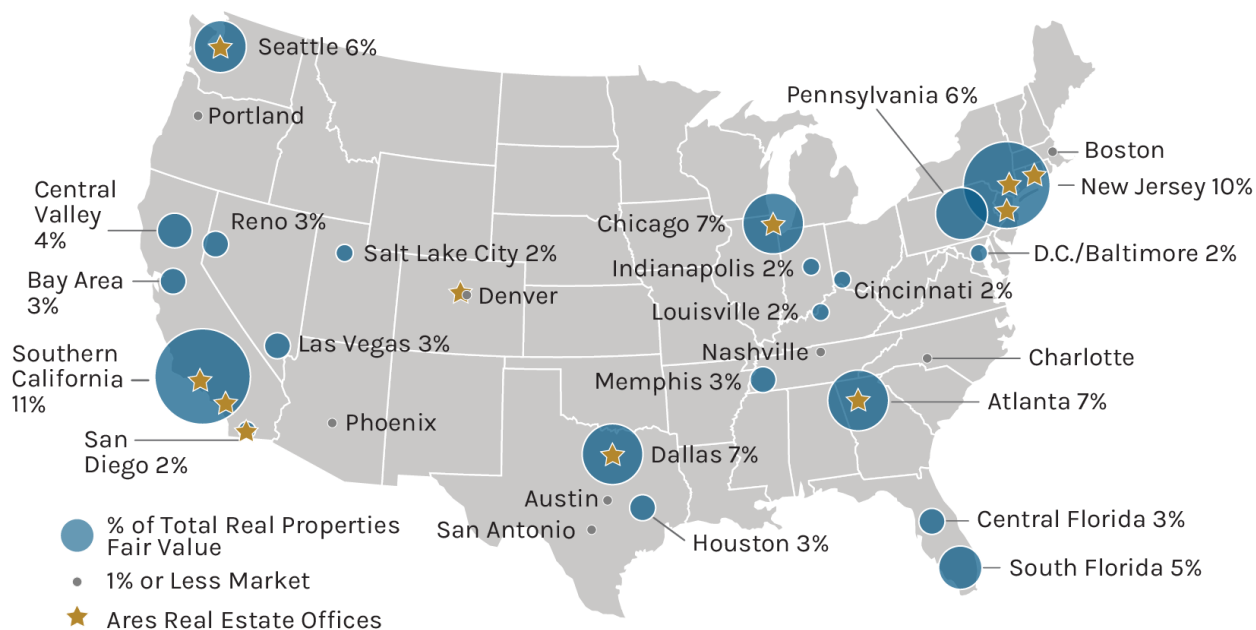
\$35.1 million strategic disposition of two Class-A warehouses in Houston, TX. Both assets were purchased vacant and AIREIT completed investment objectives through leasing.

## Positioned For Success in the Current Environment

Revenue Growth	Embedded Value	Healthy Lease Roll	Triple-Net Leases	Resilient Balance Sheet
<b>48%</b>	<b>26%</b>	<b>31%</b>	<b>99%</b>	<b>99%</b>
TRAILING 12-MONTH RENT INCREASES ON NEW AND RENEWAL LEASES	BELOW MARKET RENT <sup>17</sup>	LEASES ROLLING WITHIN TWO YEARS	TRIPLE-NET LEASES (COMMERCIAL PORTFOLIO) <sup>18</sup>	FIXED OR HEDGED FINANCING <sup>11</sup>
Realizing significant rent growth to support cash flow	Below market rents can be marked-to-market overtime	Opportunity to realize market rent growth as leases expire	Relatively insulated from rising costs by passing expenses through to tenants	Mitigates exposure to elevated interest rates

## Geographic Diversification

Portfolio is **68%** concentrated in top-tier markets<sup>19</sup> that have historically had the highest rent growth and occupancy, with allocations to secondary markets with long-term growth potential.



\*Southern California market consists of Inland Empire, Los Angeles, and Orange County markets.

## Performance Summary<sup>3,5,6</sup>

	Quarter	1-year (Trailing 12 Months)	3-year	5-year	Inception-to- Date <sup>5</sup>	Distribution Rate (Ann.)
Class I at NAV	-3.97%	-12.62%	11.76%	9.54%	8.76%	4.78%
Class D at NAV <sup>20</sup>	-4.02%	-12.83%	11.43%	9.13%	8.71%	4.54%
Class T at NAV <sup>21</sup>	-4.16%	-13.32%	10.86%	8.59%	7.79%	3.97%
Class T w/Sales Charges <sup>22</sup>	-8.47%	-17.22%	9.17%	7.59%	7.02%	3.79%

The amount of distributions AIREIT may make is uncertain, is not guaranteed, may be modified at the program's discretion, and is subject to board approval. AIREIT may pay distributions from sources other than cash flow from operations, including without limitation the sale of assets, borrowings, return of capital or offering proceeds, and advances or the deferral of fees and expenses reimbursements, and AIREIT may be required to fund its monthly distributions from a combination of its operations and financing activities, which include net proceeds of this offering and borrowings (including borrowings secured by its assets), or to reduce the level of its monthly distributions. AIREIT has not established a cap on the amount of the distributions that may be paid from any of these sources.

1. Bureau of Labor Statistics, as of March 2024.

2. Bloomberg, data as of March 31, 2024.

3. The gross distribution increased by 10% beginning with distributions for the third quarter of 2023, the first of which was paid on August 1, 2023. The amount of distributions AIREIT may make is uncertain, is not guaranteed, may be modified at the program's discretion, and is subject to board approval. Substantial fees and expenses will be paid to AIREIT's advisor, dealer manager and other affiliates of AIREIT's sponsor for services they provide to AIREIT in connection with the offering and the operation of AIREIT's business and the acquisition, management and disposition of AIREIT's investments. Distributions may be paid from sources other than cash flow from operations. Distributions to stockholders may represent a return of capital. For the year ended December 31, 2023, approximately 1.1% of our total gross distributions were paid from cash flows from operating activities, as determined in accordance with generally accepted accounting principles (GAAP), and 98.9% of our total gross distributions were funded from sources other than cash flows from operating activities, as determined on a GAAP basis; specifically, 48.0% were funded with proceeds from shares issued pursuant to our distribution reinvestment plan and 50.9% were funded with proceeds from financing activities. For the year ended December 31, 2022, approximately 52.6% of our total gross distributions were paid from cash flows from operating activities, as determined on a GAAP basis, and 47.4% of our total gross distributions were funded from sources other than cash flows from operating activities; specifically, with proceeds from shares issued pursuant to our distribution reinvestment plan.

4. Tax-equivalent yield was calculated using AIREIT's Class I share annualized distribution yield as of March 31, 2024 and assuming the 2023 tax year reallocations. Calculations account for the 20% deduction that may be taken for REIT dividend income and assume a federal tax rate of 37%. Tax-equivalent yields for all other share classes were as follows: 7.21% for Class D, 6.30% for Class T (without sales charge) and 6.02% for Class T (with sales charge). State taxes could lower after-tax yield. Tax-equivalent yield will vary based on the current yield, non-dividend distributions during any given tax year, and an investor's state and federal tax brackets. As a result, actual tax-equivalent yields may be lower. A portion of REIT ordinary income distributions may be tax deferred given the ability to characterize ordinary income as Return of Capital ("ROC"). ROC distributions reduce the stockholder's tax basis in the year the distribution is received, and generally defer taxes on that portion until the stockholder's stock is redeemed or sold. Tax-equivalent yield does not take into account other taxes that may be owed by the investor upon redemption or sale of the investment. At that time, the investor may be subject to higher capital gains taxes as a result of a lower cost basis due to the return of capital distributions. Certain non-cash deductions, such as depreciation and amortization, lower the taxable income for REIT distributions. This content should not be relied upon or considered as tax advice. Investors should consult their own tax advisors in order to understand any applicable tax consequences of an investment. Prospective investors should note that the tax treatment of each investor, and of any investment, depends on individual circumstances and may be subject to change in the future. Please see the [AIREIT Tax Information](#) page for additional details.

5. Inception is the date shares of AIREIT's common stock were first issued to third-party investors in its initial public offering. The inception date for Class T shares and Class I shares was November 1, 2017. The inception date for Class D shares was July 2, 2018.

6. Past performance is no guarantee of future results. Performance is measured by total return, which includes income and appreciation (i.e., distributions paid and changes in NAV through the end of the applicable period). Total return represents the compound rate of return assuming reinvestment of all distributions pursuant to AIREIT's distribution reinvestment plan. Performance would be lower if calculated assuming distributions are not reinvested. Actual individual investor returns will vary. The returns have been prepared using unaudited data and valuations of the underlying investments in AIREIT's portfolio, which are estimates of fair value and form the basis for AIREIT's NAV. Valuations based upon unaudited or estimated reports from the underlying investments may be subject to later adjustments or revisions, may not correspond to realized value, and may not accurately reflect the price at which assets could be liquidated on any given day. Performance data quoted is historical. Current performance may be higher or lower than the performance data quoted. All returns are net of all AIREIT expenses, including general and administrative fees, management fees, performance allocation fees, and development fees, but exclude the impact of early redemption deductions for shares held less than one year. NAV-based calculations involve significant professional judgments and the calculated value of AIREIT's assets and liabilities may differ from AIREIT's actual realizable value or future value. An incorrect judgment will affect the NAV as well as any returns derived from that NAV, and ultimately the value of the investment. As return information is calculated based on NAV, return information presented will be impacted should the assumptions on which NAV was determined prove to be incorrect.

7. See AIREIT's Current Report on Form 8-K, filed with the SEC on April 15, 2024, for important additional information concerning the calculation of our NAV as of March 31, 2024. NAV is calculated in accordance with valuation procedures adopted by AIREIT's board and is not subject to GAAP. NAV will likely differ from the GAAP value of our equity reflected in our financial statements. As of December 31, 2023, our total equity under GAAP, excluding third party JV interests, if any, was approximately \$1,795,000 and our GAAP total equity per share/unit was approximately \$6.05. GAAP total equity per share/unit is presented on a "blended" share class/unit basis and is calculated as total equity divided by the aggregate number of outstanding shares issued by AIREIT and units issued by AIREIT Operating Partnership LP. Please [click here](#) for a reconciliation of our GAAP total equity, excluding third party JV interests, if any, to our NAV. Investors should review this information prior to making an investment decision.

8. Distributions to stockholders are characterized for U.S. federal income tax purposes as: (i) ordinary income; (ii) non-taxable return of capital; or (iii) long-term capital gain. Distributions that exceed our current and accumulated tax earnings and profits constitute a return of capital and reduce the stockholders' basis in the common shares.

9. Leverage is calculated as AIREIT's outstanding principal balance of borrowings, including secured financings on investments in real estate-related securities, less cash and cash equivalents, divided by the fair value of AIREIT's real property, net investment in an unconsolidated joint venture partnership, investments in real estate-related securities and debt-related investments not associated with the DST Program, as determined in accordance with AIREIT's valuation procedures. The use of leverage magnifies the potential for gain or loss on the amount invested and may increase the risk of investment.

10. References to "downside protection" or similar language are not guarantees against loss of investment capital or value.

11. Incorporates direct fixed rate financings, floating rate financings hedged with interest rate caps or swaps and floating rate financings on floating rate debt investments that are effectively match funded. Excludes the line of credit and asset level financing on investments whereby AIREIT is investing through preferred equity, if any.

12. CoStar, as of Q1 2024.

13. Diversification does not guarantee against the risk of loss of investment capital or value.

14. Total asset value is calculated as fair value of AIREIT's real estate investments, fair value of AIREIT's net investment in an unconsolidated joint venture partnership, plus cash and cash equivalents and investments in real estate debt and securities.



15. Represents portfolio information for our wholly-owned properties.
16. Percent leased represents AIREIT's wholly owned Operating Portfolio, which includes properties that are more than 90% leased or have been owned for more than a year.
17. Below market rent percentage calculated as (in place rent/market rent)-1 that is weighted by occupied square footage.
18. Triple Net Lease percentage is calculated as: Number of leases in the portfolio structured as a triple-net lease / total number of leases in the portfolio.
19. Tier 1 industrial markets as identified by Ares using CoStar market data.
20. The Class D at NAV performance does not include maximum up-front selling commissions at initial subscription but includes ongoing distribution fees in effect during the time period indicated.
21. The Class T at NAV performance does not include maximum up-front selling commissions at initial subscription but includes ongoing distribution fees in effect during the time period indicated.
22. The Class T with Sales Charges performance was calculated assuming the maximum up-front selling commissions, dealer manager fees, and ongoing distribution fees in effect during the time period indicated.

## Risk Factors

An investment in Ares Industrial Real Estate Income Trust Inc. ("Ares Industrial REIT" or "AIREIT") is subject to significant risks. A summary of some of the more important risks is below. A more detailed description of the risks associated with the offering is found in the section of the prospectus entitled "Risk Factors." Investors should read and understand all of the risk factors before making a decision to invest in shares of AIREIT's common stock.

This sales and advertising literature must be read in conjunction with the AIREIT prospectus in order to understand fully all of the implications and risks of the offering of securities to which it relates.

- **Past performance is not a guarantee of future results. Investing in shares of AIREIT's common stock involves a high degree of risk.**
- **Neither the Securities and Exchange Commission (SEC) nor any other state securities regulator has approved or disapproved of the securities or determined if the prospectus is truthful or complete. In addition, the Attorney General of the State of New York has not passed on or endorsed the merits of the offering. Any representation to the contrary is a criminal offense. AIREIT is not an investment company registered under the Investment Company Act of 1940.**
- REITs are not suitable for all investors. AIREIT is subject to various risks related to owning real estate, including changes in economic, demographic and real estate market conditions. Due to the risks involved in the ownership of real estate and real estate-related investments, the amount of distributions AIREIT may pay to stockholders in the future, if any, is uncertain, there is no guarantee of any return on investment and stockholders may lose the amount they invest.
- AIREIT anticipates that its investment in real estate assets will be primarily concentrated in the industrial real estate sector and that its investments will be concentrated in the largest distribution and logistics markets in the United States. Such industry concentration may expose AIREIT to the risk of economic downturns in this sector to a greater extent than if its business activities included investing a more significant portion of the net proceeds of the offering in other sectors of the real estate industry; and such market concentrations may expose AIREIT to the risk of economic downturns in these areas. In addition, if AIREIT's tenants are concentrated in any particular industry, any adverse economic developments in such industry could expose AIREIT to additional risks. These concentration risks could negatively impact AIREIT's operating results and affect its ability to make distributions to its stockholders.
- Further, investing in AIREIT's common stock involves additional and substantial risks specific to AIREIT, including, among others, that:
  - i. There is no assurance that it will be able to achieve its investment objectives. AIREIT has experienced net loss, as defined by generally accepted accounting principles.
  - ii. There is no public trading market for shares of AIREIT's common stock, and AIREIT does not anticipate that there will be a public trading market for its shares, so redemption of shares by AIREIT will likely be the only way to dispose of stockholders' shares. AIREIT's share redemption program will provide stockholders with the opportunity to request that AIREIT redeems stockholders' shares on a monthly basis, but AIREIT is not obligated to redeem any shares and may choose to redeem only some, or even none, of the shares that have been requested to be redeemed in any particular month, in its discretion. In addition, redemptions will be subject to available liquidity and other significant restrictions. Further, AIREIT's board of directors may modify or suspend its share redemption program if in its reasonable judgment it deems such action to be in AIREIT's best interest and the best interest of its stockholders. As a result, AIREIT's shares should be considered as having only limited liquidity and at times may be illiquid.
  - iii. A portion of the proceeds received in this offering is expected to be used to satisfy redemption requests. Using the proceeds from this offering for redemptions will reduce the net proceeds available to retire debt or acquire properties, which may result in reduced liquidity and profitability or restrict AIREIT's ability to grow its NAV.

- iv. The transaction price may not accurately represent the value of AIREIT's assets at any given time and the actual value of a stockholder's investment may be substantially less. The transaction price generally is based on AIREIT's most recently disclosed monthly NAV of each class of common stock (subject to material changes as described above) and is not based on any public trading market. In addition, the transaction price may represent AIREIT's enterprise value and may not accurately reflect the actual prices at which AIREIT's assets could be liquidated on any given day, the value a third party would pay for all or substantially all of AIREIT's shares, or the price at which AIREIT's shares would trade on a national stock exchange. Further, AIREIT's board of directors may amend its NAV procedures from time to time.
- v. This is a "blind pool" offering; stockholders will not have the opportunity to evaluate all of the investments AIREIT will make before it makes them.
- vi. This is a "best efforts" offering and if AIREIT is unable to raise substantial funds, then AIREIT will be more limited in its investments.
- vii. AIREIT may change its investment policies without stockholder notice or consent, which could result in investments that are different from those described in the prospectus.
- viii. Some of AIREIT's executive officers, directors and other key personnel are also officers, directors, managers, key personnel and / or holders of an ownership interest in Ares Commercial Real Estate Management LLC (the Advisor), Ares Wealth Management Solutions, LLC (the Dealer Manager), and/ or other entities related to Ares Real Estate Group, the parent of the Advisor and the sponsor of this offering, or the "Sponsor." As a result, they face conflicts of interest, including but not limited to conflicts arising from time constraints, allocation of investment and leasing opportunities, and the fact that certain of the compensation the Advisor will receive for services rendered to AIREIT is based on AIREIT's NAV, the procedures for which the Advisor assists AIREIT's board of directors in developing, overseeing, implementing and coordinating. AIREIT expects to compete with certain vehicles sponsored or advised by affiliates of direct and indirect owners of the Sponsor for investments and certain of those entities may be given priority with respect to certain investment opportunities.
- ix. AIREIT may pay distributions from sources other than cash flow from operations, including without limitation from the sale of assets, borrowings, return of capital or offering proceeds, and advances or the deferral of fees and expense reimbursements, and AIREIT may be required to fund its monthly distributions from a combination of its operations and financing activities, which include net proceeds of these offerings and borrowings (including borrowings secured by its assets), or to reduce the level of their monthly distributions. AIREIT has not established a cap on the amount of the distributions that may be paid from any of these sources.
- x. If AIREIT fails to qualify as a REIT, it would adversely affect its operations and its ability to make distributions to its stockholders.

**THIS IS NEITHER AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN AIREIT'S PROSPECTUS. THE OFFERING IS MADE ONLY BY THE AIREIT PROSPECTUS. THIS MATERIAL MUST BE PRECEDED OR ACCOMPANIED BY AN AIREIT PROSPECTUS, WHICH CONTAINS IMPORTANT INFORMATION ABOUT AIREIT.**

Shares will be offered to the public through the Dealer Manager and through other members of the Financial Industry Regulatory Authority (FINRA) or with the assistance of registered investment advisors. Securities are not FDIC-insured, nor bank guaranteed, and may lose value.



**Not a Deposit | Not FDIC Insured | Not Guaranteed by the Bank | May Lose Value | Not Insured by any Federal Government Agency**

Ares Wealth Management Solutions, LLC, Distributor | Member FINRA

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