INDUSTRIAL INDEX

INDUSTRIAL: 2018 OFF TO A STRONG START

The NCREIF reported total return for the industrial sector in 1Q18, at 3.25%, is the highest of the four major property types – exceeding the return of the next highest sector by 145bps. The Industrial–Other subtype, which includes Manufacturing and Office Showroom, showed the strongest total return at 7.88%, followed by the Flex-Space subtype at 3.20%. The Northeast region was the strongest geographical division with a total return of 3.93% for the quarter, led by the New York metro area with a total return of 4.94%.

During 1Q18, the US industrial sector's transaction volume totaled $20.9 billion according to Real Capital Analytics, up 33.8% from 1Q17. Over the 12-month period ended 1Q18, transaction volume registered $78.7 billion, up 25.5% from $62.7 billion last year. Large portfolio transactions were prominent as institutional capital pursued industrial acquisitions.

Construction activity remained elevated over the past year, with speculative development representing the majority of new supply. According to CoStar, 219.7 million SF of industrial space came online between 1Q17 and 1Q18, 11.3% more than the prior year and roughly double the average annual delivery over the past decade. Tenant demand, however, continued to outstrip new completions. Net absorption measured 248.1 million SF during the past year, following the 272.3 million SF over the previous 12 months and 148.5 million SF annually from 2008 to 2017.

While traditional retail has struggled, e-commerce growth continues to bolster industrial demand. CoStar estimates that e-commerce contributed to nearly one-third of total industrial absorption over the past year. Amazon, which accounted for half of e-commerce absorption during this time, is one of the main contributors to this trend. The company has expedited delivery times by expanding its distribution channels and locating its centers closer to the buyer, changing consumer delivery expectations and forcing competitors to follow suit.

Industrial operating fundamentals in the US remain strong. CoStar reported the sector's average vacancy rate reached a cyclical low of 5.0% as of 1Q18, reflecting a decline of 30 basis points over 1Q17, and a decline of 550 basis points from the 1Q10 peak of 10.5%. In addition, average asking rents grew by 6.0% since 1Q17, to $8.07 per SF. Although this marks some deceleration from the prior year's rent increase of 6.4%, it is significantly above the average annual rent growth of 2.1% over the past decade.

As speculative construction continues to come online, supply-side pressure in the US industrial sector may become a concern over the near term. Outsized tenant demand, however, should continue, preventing any steep declines in operating fundamentals. Multiple East Coast ports have completed expansion projects or are nearing completion on projects that will support increased trade activity with Asia now that the Panama Canal expansion is complete and operational. In addition, the continued growth of e-commerce and its distribution facilities will also support future performance relative to demand, absorption and rental rates.

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INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2018	1.70	3.25	3.49	2.73	2.80	3.50
4th Q 2017	1.80	3.28	3.39	3.28	2.30	3.70
One Year	7.12	13.53	13.80	10.51	10.61	15.52
Three Years	8.72	13.33	12.45	10.92	11.35	15.16
Five Years	10.00	13.36	12.58	11.38	12.28	14.62
Ten Years	6.09	7.35	7.24	5.81	6.83	8.02
Twenty Years	9.31	9.98	9.79	7.92	8.60	11.37

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2018	1.12	1.22	1.24	1.29	1.35	1.13
4th Q 2017	1.16	1.22	1.25	1.30	1.34	1.13
One Year	4.66	5.03	5.20	5.48	5.52	4.64
Three Years	4.78	5.23	5.50	5.71	5.71	4.79
Five Years	5.03	5.47	5.84	5.95	5.95	5.01
Ten Years	5.53	6.02	6.39	6.45	6.37	5.60
Twenty Years	6.55	7.03	7.36	7.37	7.28	6.69

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2018	0.58	2.03	2.25	1.44	1.45	2.37
4th Q 2017	0.63	2.06	2.14	1.98	0.96	2.57
One Year	2.38	8.19	8.28	4.84	4.89	10.53
Three Years	3.81	7.80	6.68	5.00	5.41	10.02
Five Years	4.79	7.58	6.46	5.19	6.06	9.27
Ten Years	0.54	1.26	0.81	-0.62	0.43	2.31
Twenty Years	2.64	2.80	2.30	0.52	1.24	4.45

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS