

## INDUSTRIAL INDEX

### E-VOLUTION: CITIES CONTINUE TO ADAPT TO INDUSTRIAL SECTOR GROWTH

As the world transforms around us, the industrial markets continue to adapt and grow to make it possible. In the first quarter of 2019, the Industrial NPI outperformed all major property types at 3.02%, down just slightly from the 3.4 NPI in the last quarter of 2018. Apartment returns remained the same, Hotels were down by more than 50%, Office was nearly the same, and Retail saw the biggest gain from -0.43 in Q418 to 1.74 in Q119. The Western region was the highest return at 3.46%, edging out the East from last quarter. All regions were down with the exception of the Midwest with a modest gain of .03%.

In 2018, the total Industrial return for the calendar year was 14.30%, nearly double the return of the next highest sector (Hotel), and nearly seven times higher than Retail returns overall. Industrial returns have been in the double digits since 2011.

This sector has been the most consistent of all the major sectors in the past five years, with only a 2% delta, while Apartments saw a spread of 5.92% between the highest return rate and the lowest, Office 6.47%, Hotel 8.49%, and Retail a staggering 13.1% difference in annual returns.

Costar reports that the industrial market is showing strong fundamentals, driven primarily by demand for infill and regional distribution centers. 2018 saw leasing volume top a billion square feet, a new annual record. The change in how consumers shop has not reduced demand, as goods consumption grew more than 5% in 2018.

The total supply delivered in 2018, 215 million square feet, was down from 2017's 242 million square feet, but Costar is predicting a record 276 million square feet to deliver in 2019. The Inland Empire is leading this supply addition with 26 million square feet currently under construction. DFW, Atlanta and Houston are the next highest additions to supply with 22.5, 16.0, and 12.9 million square feet, respectively, but the Lehigh Valley is adding the most space as a percent of supply at 9 million square feet, almost 7% of its total supply.

Nationally, rents for industrial space continue to grow more than 5% year-over-year, with the highest rent growth taking place in the California markets and the lowest rates in the Midwest. Fueling the increases across the board is strong consumer spending, with e-commerce now capturing 12% of core retail sales and growing between 15 to 20% each year.

US Trade is showing strength in both exports and imports. Local production is on the rise to help offset recent increases in transit and labor costs world-wide. These factors are driving logistics hiring to new level. One in five job openings is now within the trade, transportation, and utilities industry. New technology will continue to disrupt the market as the forces of demand for speed and labor shortages affect the design of industrial space. In short, the robots are coming for these jobs, and it's a good thing they are.

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### INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2019	1.80	3.02	2.86	2.23	2.57	3.46
4th Q 2018	1.37	3.40	3.80	2.20	3.04	3.68
One Year	6.83	14.04	13.98	9.33	12.43	15.89
Three Years	7.07	13.25	13.10	9.73	11.12	15.13
Five Years	9.13	13.65	12.92	10.93	12.12	15.27
Ten Years	8.51	10.43	10.05	8.34	9.49	11.56
Twenty Years	8.93	9.96	9.84	7.84	8.61	11.32

### INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2019	1.11	1.16	1.19	1.29	1.25	1.09
4th Q 2018	1.11	1.17	1.22	1.36	1.24	1.08
One Year	4.55	4.83	4.92	5.44	5.23	4.47
Three Years	4.65	5.03	5.22	5.55	5.48	4.63
Five Years	4.83	5.25	5.50	5.80	5.72	4.81
Ten Years	5.46	5.91	6.25	6.35	6.26	5.50
Twenty Years	6.34	6.81	7.13	7.18	7.07	6.48

### INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2019	0.69	1.86	1.67	0.94	1.33	2.37
4th Q 2018	0.26	2.22	2.58	0.84	1.80	2.59
One Year	2.20	8.90	8.75	3.74	6.93	11.05
Three Years	2.34	7.92	7.59	4.02	5.42	10.15
Five Years	4.14	8.09	7.13	4.92	6.14	10.10
Ten Years	2.93	4.32	3.62	1.89	3.07	5.81
Twenty Years	2.47	2.99	2.57	0.63	1.46	4.61

### INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS

