INDUSTRIAL INDEX

INDUSTRIAL CONTINUES TO DELIVER TOP RETURNS

For the 16th consecutive quarter, the industrial sector produced the highest return in the NCREIF Property Index. This marks the longest winning streak for a property sector in the history of the NPI, breaking the previous record of 15 straight quarters by the apartment sector from 1991Q2 through 1994. The 13.36% annual return for NPI Industrial properties marked the ninth consecutive year of double digit returns and drove the ten-year return for the sector to 12.8%, 262 basis points above the apartment sector, the second best performer.

Those of us who have been in this game a while know that “past performance is no guarantee of future performance” is not just an idle catchphrase. One need look no further than the retail sector, which was the last sector to outperform industrial (in 2015) and was the top performing sector from 2010 through 2015 before dropping to the bottom of the pack the past three years. An investor who chose to overweight the retail sector after 2015 certainly has had the wind in their face.

Investors face at least three key questions when considering industrial today: 1) how long will this run continue 2) where geographically should I invest and 3) what types of industrial properties are best positioned for future performance. As always, in investing there is no right answer to these questions but there are some indications from past data and economic conditions.

How long? Much has been written about the cap rate compression in the industrial sector and there is no doubt that lower caps rates have significantly contributed to the sector’s outperformance. The income return of the NPI Industrial properties declined from 7.27% in 2010 to 5.48% in 2015 and 4.68% in 2019. But while this was the largest decline in the four principal property types, industrial income returns remain higher than apartment and office and are only marginally lower than retail. And this is despite continued income growth that dwarfs the other sectors. Rising values have clearly induced substantial additional development, but vacancy rates remain low by historic standards.

Where and What? The ongoing shift from store-based retail to direct to consumer is if anything accelerating. In the last decade the logistics business shifted from the primarily business to business to increasingly business to consumer, dramatically changing the nature of best location and best building. With Amazon’s dramatic move to direct logistics to support its soaring Prime business, the demand for distribution facilities close to large population centers has moved even higher.

Historic returns have been significantly higher in the Northeast and Pacific divisions and that continued in 2019. While many markets in the South Region and Mountain Division also sport large, growing populations, the easier development climates in those markets have marginally contained rent growth and appreciation. This seems unlikely to change: it is not getting any easier to find a location to serve same day delivery into Boston, New York or San Francisco.

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INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2019	1.55	3.15	3.55	1.97	2.68	3.46
3rd Q 2019	1.41	3.16	3.54	2.15	2.76	3.41
One Year	6.42	13.36	14.60	9.01	11.84	14.54
Three Years	6.70	13.57	14.05	9.73	11.60	15.18
Five Years	8.25	13.58	13.26	10.58	11.82	15.20
Ten Years	10.18	12.82	12.21	10.26	11.67	14.26
Twenty Years	8.73	10.02	9.91	7.75	8.68	11.39

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2019	1.10	1.13	1.16	1.33	1.21	1.04
3rd Q 2019	1.11	1.14	1.16	1.32	1.23	1.06
One Year	4.52	4.68	4.80	5.38	5.03	4.33
Three Years	4.59	4.88	5.02	5.46	5.30	4.50
Five Years	4.71	5.08	5.26	5.63	5.54	4.67
Ten Years	5.32	5.73	6.05	6.19	6.10	5.33
Twenty Years	6.20	6.65	6.94	7.03	6.91	6.31

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2019	0.45	2.02	2.39	0.65	1.46	2.42
3rd Q 2019	0.30	2.01	2.38	0.83	1.53	2.35
One Year	1.84	8.39	9.47	3.49	6.57	9.90
Three Years	2.04	8.39	8.71	4.11	6.07	10.34
Five Years	3.42	8.19	7.70	4.75	6.03	10.18
Ten Years	4.67	6.80	5.90	3.89	5.33	8.59
Twenty Years	2.42	3.20	2.82	0.68	1.67	4.85

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS