

INDUSTRIAL INDEX

INDUSTRIAL: STILL THE STANDOUT PERFORMER IN 2020

The U.S. industrial market has weathered the COVID-19 recession and the first several months of recovery quite well, outperforming all property subsectors in the NPI by wide margins—at least 650 basis points, annually since 2017.¹ Industrial property performance has been supported by resilient leasing demand and occupancy and rent stability, as well as strong investor interest. If leasing demand remains on track, and recovery continues in 2021, it is very possible that the industrial property sector will escape recession without significant occupancy or rent losses.²

Net absorption within CBRE-EA's sum of markets, indicates that net absorption through the third quarter of 2020 measured about 120 million square feet, a similar pace to 2019.³ Sustained low vacancy (4.7 percent third quarter of 2020) has kept market balance in favor of landlords and helped push new demand to the development pipeline, as retailers and logistics providers endeavored to accommodate a surge in e-commerce activity. New construction deliveries totaled about 200 million square feet through the third quarter. This new stock was approximately 50 percent leased upon delivery.⁴

We believe the key factors supporting positive demand this year were that US consumers were able to sustain spending (aided by stimulus and initial re-openings of the economy), and importantly, the surge of online shopping that occurred in response to the lockdowns has stimulated warehouse absorption in nearly all major markets.⁵ Additionally, logistics providers and other industrial occupants were largely deemed essential and able to either remain open or resume operations ahead of other industry segments.

COVID-19 inspired travel restrictions have constrained sales volumes in 2020, but strong investor interest continued to drive prices higher, as reflected in the 7.4 percent year-over-year price increase in RCA's CPPI.⁶ NCREIF data seems aligned with these trends, with 1-year appreciation returns of 5.4% in the third quarter of 2020.⁷

The industrial subsector achieved 6.6 percent 4-quarter NOI growth in 2020Q3, helping fuel total returns of 10.1 percent in the four quarters ending third quarter 2020. Office was the next best performing subsector, with 2.8 percent total returns during the same period.⁸

Investment performance in the subsector was varied across regions, with the East being the clear standout, posting 12.0 percent total returns on a 1-year basis in 2020Q3. The West also posted above average returns (10.8 percent), while the South and Midwest, posted lower 1-year returns of 8.6 percent and 7.0 percent, respectively in 2020Q3. Healthy industrial property market fundamentals are expected continue to support good future relative investment performance in the sector overall and in a greater number of markets.

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¹NCREIF, total returns data as of September 2020

²CBRE-EA, data as of third quarter, 2020

³CBRE-EA, data as of third quarter, 2020

⁴CBRE-EA and CoStar Property Database, data as of third quarter, 2020

⁵DWS, CBRE-EA and US Census Bureau News, data as of second quarter, 2020

⁶Real Capital Analytics Commercial Property Price Index, US Capital Trends, data as of third quarter, 2020

⁷NCREIF, data as of third quarter 2020

⁸NCREIF, data as of third quarter 2020

INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2020	0.74	3.04	3.58	2.62	2.69	3.08
2nd Q 2020	-0.99	1.02	1.54	0.61	1.06	0.88
One Year	2.00	10.14	12.03	7.05	8.60	10.78
Three Years	5.11	12.64	13.71	9.10	10.89	13.82
Five Years	6.28	12.64	12.85	9.34	10.76	14.18
Ten Years	9.37	12.93	12.49	10.45	11.65	14.31
Twenty Years	8.30	9.86	9.76	7.67	8.64	11.12

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2020	1.02	1.11	1.14	1.27	1.21	1.02
2nd Q 2020	1.01	1.09	1.13	1.24	1.18	1.01
One Year	4.30	4.54	4.71	5.19	4.90	4.17
Three Years	4.48	4.73	4.86	5.33	5.14	4.37
Five Years	4.58	4.93	5.11	5.49	5.36	4.54
Ten Years	5.13	5.52	5.81	6.01	5.90	5.11
Twenty Years	6.04	6.48	6.77	6.88	6.76	6.12

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2020	-0.28	1.93	2.44	1.34	1.48	2.05
2nd Q 2020	-2.00	-0.07	0.41	-0.63	-0.12	-0.13
One Year	-2.22	5.42	7.08	1.80	3.57	6.42
Three Years	0.61	7.64	8.54	3.63	5.54	9.16
Five Years	1.64	7.44	7.46	3.70	5.19	9.33
Ten Years	4.09	7.12	6.40	4.26	5.51	8.87
Twenty Years	2.17	3.22	2.84	0.75	1.78	4.77

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS

