INDUSTRIAL INDEX

A RECORD TEN STRAIGHT YEARS OF 10% PLUS RETURNS

The industrial sector achieved an 11.8% total return in 2020. This was at least 10% higher than any other property type. This huge one-year sector out-performance was last achieved in 2004 when retail out-performed, so this is a rare event. The strength of the industrial sector was driven by pandemic concerns and a shift to E-Commerce, as governments and employers locked down to help control the spread of Covid-19. As industrial demand rose in 2020, retail and office space demand declined and total employment dropped by 6%. At the second quarter Covid-19 driven peak E-Commerce sales rose to a record 16.1% share of retail sales, up from 11.8% in the prior quarter and more than double what it was just five years ago. Indicating the magnitude of this shift to E-Commerce, the sector experienced a 31.9% one-quarter spike in sales in the second quarter, while traditional retail declined by 8.6%.

The shift to E-Commerce has been dramatic and is not likely to be a "one-hit wonder," but rather some additional fuel for a long running industrial winning streak. For example, 2020 marked a record ten straight years of industrial returns exceeding 10%, which is a feat that no other property type can claim in NCREIF's 43-year history. And while the third quarter of 2020 E-Commerce sales share fell by nearly 2% to 14.3%, this is more of a shift to a new normal, as industrial demand has fundamentally changed with the shift to E-Commerce. Because industrial space has replaced store space in many cases, the pace of industrial demand growth has been exceptional. For example, industrial demand increased by nearly three times that of the office and retail sector over the past five years. Over the five-year term, only the apartment sector has seen stronger demand growth than industrial, with a 10.5% cumulative increase vs. 7.8% for industrial. Due to high levels of construction activity, rising industrial vacancy is nearly certain to continue for 2021, although the market remains healthy as the year-end 5.6% vacancy rate is still well below the 21-year historical average of 7.6%.

Due to reduced pandemic driven energy demand, the lowest large industrial market return in 2020 was for Houston at only +3.0%. While not driven by energy demand declines: Denver (+6.4%), Ft. Lauderdale (+6.5%), Chicago (+6.8%) and Miami (+9.7%) under-performed the 11.8% national average in 2020. In contrast, top performing metros of Austin (+18.6%), New York (16.4%), Baltimore (15.7%), San Diego (14.9%), Phoenix (14.1%) and Los Angeles (+13.4%) represents a diverse set of markets. By property subtype, the top 2020 returns were for R&D at 18.3%, followed by 11.9% for Warehouse, 9.4% for Other Industrial and 8.6% for Flex.

Walter Page
Research Consultant
Meritex Enterprises

INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2020	1.15	4.68	6.10	2.94	4.04	4.77
3rd Q 2020	0.74	3.04	3.58	2.62	2.69	3.08
One Year	1.60	11.78	14.79	8.07	10.05	12.19
Three Years	4.89	13.14	14.69	8.98	11.52	14.21
Five Years	5.91	12.96	13.64	9.30	11.02	14.43
Ten Years	9.00	13.07	12.80	10.42	11.81	14.39
Twenty Years	8.19	9.91	9.91	7.71	8.75	11.09

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2020	1.01	1.10	1.11	1.22	1.20	1.02
3rd Q 2020	1.02	1.11	1.14	1.27	1.21	1.02
One Year	4.20	4.51	4.65	5.08	4.89	4.15
Three Years	4.43	4.69	4.81	5.30	5.09	4.33
Five Years	4.55	4.88	5.05	5.44	5.31	4.50
Ten Years	5.06	5.45	5.75	5.94	5.85	5.05
Twenty Years	5.98	6.42	6.71	6.83	6.71	6.07

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2020	0.14	3.58	4.99	1.72	2.85	3.75
3rd Q 2020	-0.28	1.93	2.44	1.34	1.48	2.05
One Year	-2.52	7.04	9.80	2.88	4.98	7.80
Three Years	0.44	8.17	9.55	3.54	6.20	9.57
Five Years	1.32	7.79	8.28	3.71	5.49	9.61
Ten Years	3.80	7.32	6.76	4.29	5.71	9.01
Twenty Years	2.11	3.32	3.04	0.83	1.93	4.80

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS