

INDUSTRIAL INDEX

A RECORD SETTING FIRST HALF: INDUSTRIAL STAYS ON TOP

There's no secret about it; the industrial market is hotter than ever. The industrial sector has been setting records each quarter and there are no near-term signs of slowing. According to CoStar, the National Industrial Market posted a 4.9% vacancy rate at the end of 2Q21 with trailing 12-month deliveries of 293M SF and positive net absorption of 364M SF. On top of these strong numbers, CoStar is reporting 12-month average rent growth in the U.S. at 5.3% being driven by continued demand from industrial users.

E-commerce is a driving force for this continued demand with many consumers shifting to online shopping during the pandemic. In 1Q20 (pre-pandemic) the U.S. Department of Commerce reported e-commerce accounted for 11.4% of total retail sales with consumers spending \$154.6 billion (adjusted). One year later in 1Q21, e-commerce made up 13.6% of the total retail market with retail sales just over \$215 billion (adjusted), a staggering 39.1% increase.

In 2Q21, the trend to e-commerce stayed the course with \$222.5 billion in sales accounting for 13.3% of total retail sales. Compared to 2Q20, which reported sales of \$203.9 billion (adjusted), e-commerce sales accounted for 15.7% of total retail sales during a time when most of the nation was under stay at home orders. E-commerce sales have continued to gain market share with a 9.1% increase in total retail sales year-over-year based on the preliminary 2Q21 results.

As a rough estimate, for every \$1 billion in online sales, 1.3 million SF of warehouse space is needed. As of 2Q21, CoStar reports there is 593M SF of industrial space under construction across the U.S. which is up 22% from the figures reported just prior to the pandemic. More impressive, at the end of 2Q21, CoStar reported more than \$29 billion in U.S. industrial property sales which set an all-time high for the first half of the year. These trends indicate there is still strong demand for new development and growth within the sector.

The NCREIF Property Index just posted its largest quarterly return in 10 years in 2Q21 at 3.59%. This was heavily driven by industrial performance. The Industrial total return for 2Q21 was 8.88%, the largest gain since 2Q05 at 7.23%. The 2Q industrial return is also the fourth largest return posted since reporting started in 1978 across all property types; only being beat by office in 1978 and 1980 and apartment in 1979 (when there were far less properties in the index).

It is the industrial sector's turn to shine. Demand from users and investors is high, creating a very competitive environment across the US. It's no longer just the coastal, port markets seeing large rent increases and compression in capital market assumptions, the mid-west has climbed aboard the steam train with every major city needing final mile distribution to meet consumer demand. With new deals breaking barriers each week, how long will this run last? What we do know is that industrial demand is here to stay for the foreseeable future.

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INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2021	3.59	8.88	8.64	6.69	7.22	10.23
1st Q 2021	1.72	4.72	5.17	3.38	3.82	5.24
One Year	7.37	22.98	25.58	16.50	18.94	25.28
Three Years	5.50	15.58	17.09	10.72	13.30	17.12
Five Years	6.13	14.63	15.58	10.41	12.25	16.33
Ten Years	8.79	13.69	13.48	10.76	12.37	15.07
Twenty Years	8.21	10.31	10.29	8.01	9.07	11.55

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2021	1.06	1.06	1.06	1.22	1.14	0.99
1st Q 2021	1.04	1.08	1.06	1.25	1.18	1.01
One Year	4.19	4.43	4.44	5.06	4.81	4.11
Three Years	4.37	4.59	4.69	5.24	4.96	4.24
Five Years	4.49	4.79	4.93	5.37	5.20	4.41
Ten Years	4.96	5.34	5.62	5.85	5.75	4.93
Twenty Years	5.87	6.31	6.59	6.74	6.59	5.95

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2021	2.54	7.81	7.58	5.47	6.08	9.24
1st Q 2021	0.67	3.63	4.11	2.13	2.64	4.23
One Year	3.08	17.97	20.47	11.03	13.64	20.56
Three Years	1.09	10.63	11.98	5.28	8.05	12.48
Five Years	1.59	9.51	10.28	4.84	6.79	11.54
Ten Years	3.69	8.03	7.54	4.70	6.35	9.79
Twenty Years	2.25	3.81	3.52	1.20	2.36	5.35

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS

