**INDUSTRIAL INDEX**

**ANOTHER RECORD-BREAKING QUARTER FOR INDUSTRIAL**

The third quarter brought yet more records for the industrial property sector. Whether referencing data from brokerage firms or private data providers, all sources point to a record low vacancy rate and record high rent growth. In several of the largest industrial markets, the vacancy rate fell below 2% and even reached 1% in several metropolitan areas. The asking rent for what little space was available surged, with rent growth reaching into the double digits in virtually all of the major industrial markets. With each quarter bringing new heights in terms of net absorption, the first three quarters of 2021 have already broken the annual record for absorption and the year is not yet over. Leasing demand remained strong not only in primary distribution hubs but throughout most secondary and tertiary markets as well. During the third quarter, more than 500 million square feet were under construction across the country, another record setting level. In many markets, tenants are leasing space as soon as it becomes available, providing little relief to the tight vacancy rates in the near term.

Robust consumer activity continued to drive gains in online sales, accelerating the shift of retail inventory from store shelves to fulfillment centers, ready to be shipped directly to consumers. Quarterly e-commerce sales likely increased further during the third quarter, and most expect the upcoming data release from the Census Bureau to show substantial gains over the $222.5 billion of e-commerce sales in the second quarter. One of the outcomes of the pandemic and economic restrictions will be a permanent shift of a greater portion of retail sales to online channels. With such a surge in activity driving elevated demand for space by third-party logistics and e-commerce firms, it is no surprise that the vacancy rate has fallen below 2% in several major distribution markets.

Much like operating conditions, industrial sector returns reached new highs. Industrial total returns increased to 10.92% in the third quarter, the greatest return in the sector since the inception of the NPI. Compared with other property sectors, industrial was the only sector with double-digit total returns and far outpaced the apartment sector with third quarter returns of 6.53%. The bulk of the industrial return was driven by the capital appreciation component, which at 9.93% was nearly double the NPI capital return of 5.59%.

While the COVID-19 pandemic brought headwinds to commercial real estate, shifts in business and consumer behavior created strong tailwinds for the industrial sector. The combination of robust online sales growth and efforts to insulate supply chains from further upheaval by near-shoring inventory and final assembly, or a potential shift from just-in-time inventory to just-in-case, should translate into elevated tenant demand and will have implications on industrial product for years. With little to no state-of-the-art distribution space available in many cities, development activity will remain elevated for some time. In the near term, strong effective rent growth will bolster investment returns, and industrial returns should continue to outpace other commercial real estate types.

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