

INDUSTRIAL INDEX

WRAPPING UP A RECORD YEAR WITH A RECORD QUARTER FOR INDUSTRIAL

The industrial property sector recorded one of its strongest quarters ever to end an exciting year for the property type. An environment of very low vacancy rates and robust rental growth persisted, with broad-based strength generally being led by coastal infill regions. Net absorption outpaced supply growth again this quarter, driving availability rates lower on both a sequential and year-over-year basis. With vacancy dropping below 4% for the first time on record, landlord pricing power is strong. New supply growth has picked up, but with over two-thirds of industrial product being leased before completion, space shortages abound. Leasing demand was particularly strong throughout the year for third party logistics and distribution companies, as their end users continue to focus on network resilience during times of volatile supply chain dynamics.

In our view, the key drivers of underlying industrial demand all remain on solid footing. Aggregate consumption levels remain high, buffeted by a strong mix of government stimulus and supportive wage inflation. Furthermore, the consumer behavior shift toward spending on goods, and especially spending on goods through the e-commerce channel, remains a tailwind. For the more immediate term, many industrial landlords are closely watching the strains on supply chains that have been created during the pandemic, which continues to evolve dynamically; the theme of network resilience rules the day.

Investment returns in the sector hit a record high this quarter. Total returns increased to 13.34% in the fourth quarter, the highest return since the inception of the NPI. Compared to other property sectors, industrial was yet again the only property type with double-digit total returns, nearly doubling the return of the second-highest sector (apartments). The industrial sector's returns remained heavily driven by capital appreciation, which was 12.42%, more than double the NPI capital return of 5.12%. As the books close for the full year, the industrial property sector generated a total return of +43.33% in 2021, which in our opinion, is an impressive number by any standard.

Powered by robust e-commerce sales, strong economic growth, and a focus on building resilient supply chains across multiple market segments, 2021 was a record year for the industrial property sector. With all the key demand drivers appearing intact heading into the new year, we believe the outlook remains bright for industrial property in the U.S. In our view, strong effective rent growth and stable cap rates are likely to help the industrial sector manufacture attractive investment returns again in the near-term.

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INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2021	6.15	13.34	13.41	7.06	11.22	15.58
3rd Q 2021	5.23	10.92	11.10	7.41	9.35	12.29
One Year	17.70	43.33	43.97	26.83	35.38	50.56
Three Years	8.37	22.01	23.72	14.32	18.55	24.61
Five Years	7.75	18.61	19.65	12.61	15.67	20.88
Ten Years	9.32	15.62	15.55	11.73	13.89	17.34
Twenty Years	8.69	11.41	11.33	8.60	10.03	12.83

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2021	1.03	0.92	0.92	1.13	0.99	0.84
3rd Q 2021	1.05	0.99	0.98	1.12	1.09	0.92
One Year	4.24	4.12	4.09	4.81	4.47	3.81
Three Years	4.32	4.44	4.51	5.09	4.79	4.10
Five Years	4.44	4.65	4.76	5.25	5.05	4.29
Ten Years	4.88	5.21	5.48	5.74	5.62	4.80
Twenty Years	5.76	6.18	6.46	6.63	6.48	5.82

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2021	5.12	12.42	12.49	5.93	10.23	14.74
3rd Q 2021	4.18	9.93	10.12	6.29	8.27	11.37
One Year	13.05	38.08	38.73	21.27	29.94	45.50
Three Years	3.92	17.01	18.58	8.89	13.28	19.90
Five Years	3.20	13.48	14.37	7.08	10.23	16.07
Ten Years	4.29	10.02	9.66	5.74	7.94	12.10
Twenty Years	2.81	4.98	4.63	1.87	3.37	6.70

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS

