

## INDUSTRIAL INDEX

### FROM STRENGTH TO STRENGTH, INDUSTRIAL RETURNS CONTINUE TO OUTPERFORM

While industrial total returns may have weakened modestly from the high-water mark set in Q4 2021, they remained remarkably strong in Q1 2022 – with the quarter representing the second-best on record. Nationally, industrial returns (10.96%) were more than double that of the second-best performing sector, apartments (5.25%). While industrial outperformance is geographically broad based, the strongest quarterly returns were once again seen in the three Greater Los Angeles MSAs – Riverside/Inland Empire (17.17%), Los Angeles (15.01%) and Anaheim/Orange County (14.72%).

Increasingly in the last few quarters, industrial outperformance has been primarily driven by capital appreciation, which accounted for 93% of overall total returns this quarter. In Oxford Economics' view, this trend is likely to shift over the remaining quarters of 2022, as downward pressure on valuation cap rates interact with the Federal Reserve's monetary tightening policies and rising 10-year US Treasury yields.

Despite the inevitably slowing of capital appreciation, occupier fundamentals for the industrial sector remain overwhelmingly positive. Nationally, new leasing activity levels have remained solid and are increasingly being driven by a broader range of occupiers, not just e-commerce firms and third-party logistics providers. Availability levels, already at near- or record-low levels in a number of markets, continue to decline. Prior to the pandemic, vacancy rates sub-2% were once unheard of outside of a smaller number of markets; now, more than a dozen cities have effectively no vacant space. New supply levels have increased and, despite cost and supply-chain constraints, so has space under construction – suggesting developers firmly believe increased costs will be recouped by increased rental levels. Indeed, this is borne out in Q1 2022 rental rates, which rose nearly 15% on the year.

Supporting this strong occupier story is a solid consumer-led recovery. Weak headline GDP figures for Q1 masks strengthening domestic demand. Indeed, the domestic side of the economy gathered pace, with consumer spending increasing at a 2.7% annualized rate. Moreover, as consumer behavior returns to its pre-pandemic trend, we can expect e-commerce penetration to continue its climb. In the face of continued supply-chain bottlenecks, industrial demand will continue to be boosted by a shift away from “just-in-time” warehouse stock practices to a “just-in-case” mindset.

We believe the near-term outlook for the industrial sector remains bright. However, there are downside risks worth highlighting. While demand remains robust, speculative development levels have risen quite markedly in select markets. This could result in some divergence in performance as demand gradually tapers over the near term. Secondly, rising Treasury yields this year will limit further cap rate compression in the hottest industrial markets. While this may result in increased allocations to secondary markets, we believe that income return and reversionary rental potential will become increasingly more important. Overall, the industrial sector will continue to be a key driver of positive NPI performance in the coming quarters.

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### INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2022	5.33	10.96	9.38	7.08	9.92	12.85
4th Q 2021	6.15	13.34	13.41	7.06	11.22	15.58
One Year	21.87	51.88	49.73	31.37	43.33	61.45
Three Years	9.60	25.07	26.29	16.10	21.32	28.27
Five Years	8.54	20.43	21.17	13.59	17.30	23.09
Ten Years	9.61	16.52	16.32	12.19	14.69	18.42
Twenty Years	8.89	11.88	11.70	8.88	10.47	13.41

### INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2022	0.99	0.84	0.81	1.05	0.97	0.75
4th Q 2021	1.03	0.92	0.92	1.13	0.99	0.84
One Year	4.18	3.86	3.83	4.60	4.25	3.55
Three Years	4.28	4.32	4.38	5.01	4.70	3.98
Five Years	4.41	4.57	4.65	5.19	4.97	4.21
Ten Years	4.83	5.14	5.39	5.69	5.55	4.72
Twenty Years	5.70	6.11	6.38	6.56	6.41	5.75

### INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2022	4.34	10.13	8.57	6.03	8.95	12.10
4th Q 2021	5.12	12.42	12.49	5.93	10.23	14.74
One Year	17.16	46.73	44.68	25.91	37.92	56.48
Three Years	5.16	20.09	21.21	10.69	16.05	23.58
Five Years	4.00	15.33	15.96	8.08	11.88	18.30
Ten Years	4.61	10.96	10.50	6.23	8.77	13.22
Twenty Years	3.06	5.50	5.06	2.20	3.85	7.32

### INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS

