INDUSTRIAL INDEX

SECOND QUARTER NCREIF RETURNS FOR THE INDUSTRIAL SECTOR

The Industrial sector continued its standout performance in the second quarter of 2018, making it come as no surprise that it is the most sought after asset class today. Industrial performance led NCREIF returns in the second quarter of 2018, with a 3.58% total return, versus 1.95% for hotels, 1.54% for multifamily and office and 1.32% for retail. Industrial returns have gradually accelerated over the last four quarters as other property sectors have decelerated or remained stable. Overall Industrial returns for the quarter were driven by appreciation of 2.37%, which accelerated from 2.03% in the first quarter. Interest rate concerns have been outweighed by investor demand, strong rental performance and resultant aggressive revenue underwriting.

For the one year period ending 2Q 2018, the Industrial sector produced 14.09% returns. This is almost double the overall NCREIF property index returns of 7.19%, and Industrial was the only property sector to generate double digit one year returns.

Regionally, the strongest industrial performer was the West at 3.95%, closely followed by the East at 3.76% and the South at 3.24%, which reflects cap rate compression in gateways. The Midwest lagged with a 2.38% total return for the quarter, primarily as a result of a lack of appreciation, as income returns across regions remained in a tight band. The Midwest and Southeast have followed coastal cap rate compression throughout the cycle to date.

The strongest property subtypes were warehouse and flex space which had similar returns of 3.62% and 3.60% respectively for the quarter.

Strong sector performance reflects investor appetite for the sector as well as strong Industrial fundamentals, with vacancy hovering at the 5% level and strong absorption. Absorption in 2017 just outstripped new supply (246.3 msf versus 246.1 msf) and 2018 forecasted absorption is a healthy 232.2 msf.

Despite interest rate volatility, cap rate compression continues in the industrial sector. Cap rate compression was more significant in the highest quality product; best-in-class assets in major markets are now at yields below borrowing costs, however strong rent growth has made this a temporary phenomenon.

Quality spreads between A and B industrial product remain elevated at 112 bp. However this spread is trending downward as average class B cap rates have compressed by more than aaverage class A cap rates in the last year. This is due to the strong demand for industrial assets and a lack of product which has led investors to “expand the bullseye” for acquisitions, increasing the demand for Class B assets.

James Carpenter, Executive Managing Director
Janice Stanton, Executive Managing Director
Cushman & Wakefield

INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2018	1.81	3.58	3.76	2.38	3.24	3.95
1st Q 2018	1.70	3.25	3.49	2.73	2.80	3.50
One Year	7.19	14.09	14.41	10.90	11.12	16.13
Three Years	8.25	13.26	12.57	10.52	11.20	15.14
Five Years	9.77	13.44	12.72	11.15	12.25	14.80
Ten Years	6.22	7.62	7.54	6.04	7.05	8.32
Twenty Years	9.19	9.93	9.79	7.95	8.59	11.25

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2018	1.14	1.21	1.22	1.37	1.33	1.13
1st Q 2018	1.12	1.22	1.24	1.29	1.35	1.13
One Year	4.64	4.99	5.09	5.45	5.48	4.61
Three Years	4.74	5.18	5.42	5.67	5.66	4.76
Five Years	4.98	5.42	5.75	5.92	5.90	4.96
Ten Years	5.51	6.00	6.35	6.43	6.35	5.58
Twenty Years	6.50	6.97	7.30	7.33	7.23	6.64

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2018	0.67	2.37	2.55	1.01	1.91	2.82
1st Q 2018	0.58	2.03	2.25	1.44	1.45	2.37
One Year	2.46	8.79	8.98	5.24	5.42	11.14
Three Years	3.40	7.78	6.87	4.66	5.31	10.03
Five Years	4.63	7.71	6.69	5.01	6.08	9.50
Ten Years	0.68	1.55	1.13	-0.39	0.66	2.62
Twenty Years	2.57	2.80	2.35	0.58	1.29	4.39

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS