INDUSTRIAL INDEX

EVERYONE LOVES INDUSTRIAL!

With turntables making a comeback, maybe it's okay to use the phrase "broken record".

Just as a vinyl record with a scratched groove can play the same part of a song over and over, industrial properties keep outpacing other property types quarter after quarter.

How long will this last? Good question!

In the second quarter, the Total Return for Industrial was 3.42 percent, more than double the next highest property type. Retail was by far the worst performer at a negative 0.11 percent Total Return. In the battle of clicks versus bricks, the winner has been industrial properties.

Appreciation for Industrial in the second quarter was 2.25 percent. Retail was far behind at negative 1.25 percent. As the showroom has moved from the front of a store to a computer, the stockroom has moved from the back of the store to a warehouse. Store values have gone down and warehouse values have gone up.

The Income Return for Industrial was solid at 1.17 percent for the quarter, but not substantially better than the other three major property types, which ranged from 1.06 percent to 1.14 percent.

Over the past year, the story is the same. The Total Return for Industrial was 13.86 percent, with Retail at just 1.75 percent. The Income Returns do not vary much, ranging from 4.27 percent to 4.78 percent. However, Industrial Appreciation Return of 8.78 percent blew the others away. Retail Appreciation Return was negative 2.82 percent.

Going back ten years, the numbers are a bit closer. Total Annualized Return for Industrial has been 11.38 percent, with Annualized Appreciation Return of 5.29 percent and Annualized Income Return of 5.86 percent. The other major property types trail in all categories, but not as badly.

The love for industrial properties is in large part driven by strong fundamentals. According to CoStar, the national vacancy rate for industrial properties has fallen from over 10 percent in 2010 to less than 5 percent in 2019. Vacancy has ticked up in the last two quarters as net absorption fell while net deliveries stayed steady. CoStar's base case forecast shows vacancy moving up to 6 percent by 2022. CoStar also projects that annual rent growth, which has been mostly in a range of 4 percent to 6 percent over the past five years, will fall to less than 2 percent by 2022.

Data from CBRE also shows strong fundamentals but a slowing market. For the five-year period ending in the fourth quarter of 2018, industrial net absorption was never less than 40 million square feet per quarter and exceeded supply growth in all but one quarter. In the first two quarters of 2019, net absorption has been less than 40 million square feet per quarter and supply growth has exceeded absorption.

How long will the Industrial Dynasty last? The absorption slowdown experienced so far this year is a good reminder that the rules of supply and demand still apply. But for now, enjoy the ride.

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INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2019	1.51	3.42	3.91	2.37	3.35	3.48
1st Q 2019	1.80	3.02	2.86	2.23	2.57	3.46
One Year	6.51	13.86	14.15	9.32	12.54	15.37
Three Years	6.89	13.44	13.62	9.73	11.31	15.23
Five Years	8.83	13.69	13.20	10.84	11.99	15.32
Ten Years	9.25	11.38	10.92	9.24	10.36	12.59
Twenty Years	8.88	9.99	9.92	7.84	8.67	11.33

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2019	1.12	1.17	1.20	1.33	1.25	1.07
1st Q 2019	1.11	1.16	1.19	1.29	1.25	1.09
One Year	4.53	4.78	4.90	5.40	5.15	4.42
Three Years	4.62	4.98	5.15	5.52	5.42	4.59
Five Years	4.79	5.19	5.42	5.75	5.65	4.76
Ten Years	5.42	5.86	6.19	6.30	6.21	5.45
Twenty Years	6.29	6.76	7.07	7.13	7.02	6.42

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
2nd Q 2019	0.38	2.25	2.71	1.04	2.09	2.41
1st Q 2019	0.69	1.86	1.67	0.94	1.33	2.37
One Year	1.91	8.78	8.93	3.76	7.12	10.61
Three Years	2.19	8.16	8.15	4.05	5.66	10.30
Five Years	3.90	8.19	7.48	4.88	6.08	10.20
Ten Years	3.68	5.29	4.51	2.81	3.96	6.85
Twenty Years	2.46	3.07	2.71	0.68	1.56	4.68

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS