INDUSTRIAL INDEX

INFILL INDUSTRIAL FOR THE MODERN CONSUMER DELIVERY SYSTEM

The impact of e-commerce on Americans' shopping habits and consumer expectations has significantly disrupted the logistics industry and is rippling through retailers' supply chains. Traditional supply-chain models were created for consumers and shopping patterns that no longer exist. The retail and third-party logistics companies that survived the first wave of logistics disruption realize that the task of navigating the current technological disruption is enormous. The four key challenges are:

- Rising fulfillment speed requirements
- Labor shortages
- Aging infrastructure
- A shortage of well-located, functional delivery nodes

The modern consumer delivery system ("MCDS"), which includes e-commerce and omni-channel shopping channels, depends largely on the creation of a network of warehouses located in densely populated areas. Scott Marshall of CBRE estimates that an additional 50 to 60 million square of warehouse distribution space will be needed per year across the US if e-commerce grows at a 10% annual rate. He conservatively estimates that every $1 billion in e-commerce sales requires 1.25 million square feet of industrial warehousing.

Additional demand drivers include an increase in urban population sizes and a requirement for faster delivery times, leading to a substantial need for functional infill industrial warehouses within every major city in the US. CBRE estimates that approximately half of US warehouse inventory consists of light-industrial buildings between 70,000 sf and 120,000 square feet in size, often located in dense urban areas. Due to rising demand, availability rates of light industrial over the past five years have declined to 7.4% and rents have grown by 30%. As a result of rapid rent growth and corresponding property value appreciation, total one-year returns for industrial warehouse investments were 13.77%, which is approximately 2% above the returns for other industrial categories like flex space and R&D.

Supply-side constraints are putting further upward pressure on rents and prices of infill warehouses. New supply of US industrial real estate since 2010 has been approximately half its long-term average, and the 1 billion square feet of modern warehouse space built over the past 10 years accounts for only 11% of the country's total warehouse inventory. Meanwhile, the existing inventory is aging due to a combination of limited capital investment since the Great Recession and a high percentage of under-capitalized private owners. Further, developers are repositioning many older industrial facilities as residential, mixed use, or creative office properties; for example, Orange County has lost nearly 3 million square feet of infill industrial to other uses since 2010.

Addressing the supply-demand imbalance in the warehouse sector will require substantial capital investment in industrial nodes close to consumers. Improvements such as raising roofs above 32 feet for added storage and adding dock doors for improved loading will make the existing inventory suitable for logistics operators. With supply constraints likely to persist for the foreseeable future, rental rates and prices will continue to rise and vacancy rates will continue to decline as logistics and retail operators demand fast, seamless 24-hour access to US population centers.

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INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2019	1.41	3.16	3.54	2.15	2.76	3.41
2nd Q 2019	1.51	3.42	3.91	2.37	3.35	3.48
One Year	6.24	13.64	14.88	9.25	12.24	14.78
Three Years	6.76	13.54	14.03	9.67	11.54	15.18
Five Years	8.57	13.74	13.30	10.82	11.97	15.40
Ten Years	9.77	12.18	11.59	9.78	10.98	13.60
Twenty Years	8.80	10.00	9.93	7.80	8.65	11.36

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2019	1.11	1.14	1.16	1.32	1.23	1.06
2nd Q 2019	1.12	1.17	1.20	1.33	1.25	1.07
One Year	4.53	4.73	4.86	5.41	5.06	4.37
Three Years	4.60	4.93	5.09	5.49	5.36	4.54
Five Years	4.75	5.13	5.34	5.69	5.60	4.71
Ten Years	5.37	5.80	6.12	6.24	6.15	5.40
Twenty Years	6.25	6.70	7.00	7.08	6.96	6.37

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
3rd Q 2019	0.30	2.01	2.38	0.83	1.53	2.35
2nd Q 2019	0.38	2.25	2.71	1.04	2.09	2.41
One Year	1.65	8.61	9.67	3.69	6.92	10.08
Three Years	2.09	8.30	8.61	4.01	5.94	10.29
Five Years	3.69	8.29	7.66	4.92	6.12	10.33
Ten Years	4.23	6.11	5.23	3.37	4.62	7.88
Twenty Years	2.44	3.13	2.77	0.68	1.59	4.76

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS