

INDUSTRIAL INDEX

THE INDUSTRIAL E-REVOLUTION CONTINUES

To no surprise, the Industrial NPI once again outperformed all major property types in the fourth quarter of 2018 with a 3.40 percent return; more than twice that of every other sector in the quarter. The difference this quarter is that the Industrial sector is the ONLY one realizing improvement from the third quarter with a 4 bp gain, while every other sector decreased quarter-over-quarter. Looking by region, the East led the charge in the fourth quarter posting a 3.80 percent return, narrowly edging the West with a 3.68 percent return.

The latest gain pushes the total annualized Industrial return to 14.30 percent; 1.9 times that of hotel, 2.1 times that of office, 2.4 times that of apartment, and 6.6 times that of retail. This also marks nine consecutive years with double-digit annualized returns for the Industrial sector. The only other property types to reach double digits are Apartments and Retail, but neither within eight years. The 14.30 percent annualized return for industrial properties marks the largest for any property type within ten years, as well as 15 years, 20 years, and since inception in 1977.

The West region tops the annualized industrial index with 15.93 percent returns, followed by a 14.68 percent return in the East. Notably, the Midwest region is the only one that posted a slight dip in annualized returns, going from 10.10 percent (two years back) to 9.87 percent.

If history has shown us anything, there is no doubt that real estate markets are cyclical and there is even talk of an oversupplied market but when it comes to industrial properties, evidently, if you build it... they will come. According to Costar, the US saw 254 million square feet of deliveries in the past 12-months, and 212 million square feet of positive net absorption (over 83 percent of the new space). The national vacancy rate is a mere 4.9 percent and as a whole, the nation saw 5.3 percent rent growth in the past 12-months.

What's fueling the continued success and is it in fact cyclical in this case? The obvious and continued epic demand shift to industrial space from retail space, which is bolstered by the ever-increasing portion of E-commerce retail sales in the US, currently estimated at 9.8 percent of total retail sales (3Q18), including sales of fuel and automobiles. Some economists and internet retailers estimate that the figure is in fact more like 13.5 percent. The fact remains, it's still growing. Since the third quarter of 2017, year-over-year quarterly total retail sales have increased roughly 5.24 percent on average in the US, while E-commerce sales have averaged a 15.6 percent increase during this same time (US Census). Based on these trends, the demand shift is still in motion and the cycle could very well be prolonged. The question is, when do we start referring to this sector as Retail?

Wayne Horvath, MAI
Director, Valuation & Business Analytics
BDO

INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2018	1.37	3.40	3.80	2.20	3.04	3.68
3rd Q 2018	1.67	3.36	2.88	2.21	3.03	3.94
One Year	6.72	14.30	14.68	9.87	12.68	15.93
Three Years	7.21	13.22	12.93	9.80	11.07	15.16
Five Years	9.33	13.59	12.83	11.05	12.17	15.12
Ten Years	7.49	9.24	9.01	7.20	8.43	10.26
Twenty Years	8.98	9.93	9.83	7.86	8.58	11.28

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2018	1.11	1.17	1.22	1.36	1.24	1.08
3rd Q 2018	1.11	1.19	1.20	1.32	1.31	1.10
One Year	4.56	4.88	4.97	5.44	5.34	4.52
Three Years	4.67	5.08	5.27	5.58	5.54	4.68
Five Years	4.88	5.30	5.57	5.83	5.79	4.86
Ten Years	5.48	5.95	6.30	6.39	6.30	5.54
Twenty Years	6.39	6.87	7.19	7.23	7.12	6.53

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
4th Q 2018	0.26	2.22	2.58	0.84	1.80	2.59
3rd Q 2018	0.56	2.17	1.68	0.90	1.72	2.83
One Year	2.08	9.09	9.37	4.25	7.06	11.05
Three Years	2.46	7.85	7.38	4.06	5.31	10.13
Five Years	4.30	7.97	6.97	5.00	6.12	9.91
Ten Years	1.92	3.15	2.58	0.77	2.03	4.52
Twenty Years	2.47	2.91	2.50	0.60	1.38	4.52

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS

