

INDUSTRIAL INDEX

THE INDUSTRIAL SECTOR POSTED CONSECUTIVE NEGATIVE RETURNS FOR THE FIRST TIME SINCE 2009

The U.S. Industrial market posted a negative total return for the second quarter in a row, which represents the first time the sector has seen back-to-back negative returns since 2009. Transaction volume has declined in the industrial asset class compared to the prior quarter. Quarter over quarter occupancy has remained approximately the same, at 98.5%, but NOI and rent growth have increased considerably. All things considered, it seems that the industrial sector is slowing down from its past few years of substantial growth.

The Federal Reserve increased rates by 25 bps twice in the first quarter, in both February and March, bringing the rate from 4.50% at the start of the year to 5.00% at quarter's end. The increasing interest rates reflect the Federal Reserve's aim to lower inflation in the hopes of avoiding, or at least minimizing a recession.

First quarter industrial returns totaled -0.82% comprised of -1.65% appreciation and 0.83% income. In the NCREIF Property Index, for the second quarter in a row, all industrial properties in U.S. regions produced a negative total return, though not as drastic as the prior quarter. The west was the best performing region with a -0.77% total return. Research & development and manufacturing were the only two industrial subtypes to show a positive total return for the industrial sector at 1.01% and 0.59%, respectively. The majority of industrial assets in the NPI are warehouse, which had -0.85% total return. As compared to the other major asset classes, industrial ranked in the middle, outperforming both apartments (-2.10%) and office (-4.06%), while underperforming retail (0.52%) and hotel (2.30%).

The industrial sector's outlook remains mixed. Occupancy is at its peak with above average rent and NOI growth. With occupancy so high, it does not give the impression that there is an oversupply in the market. However, the potential for a recession may cause e-commerce demand to fall impacting the sector. If these fundamentals can remain steady, the sector may continue to outperform the overall NCREIF Property Index (NPI) in the coming quarters.

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INDUSTRIAL TOTAL RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2023	-1.81	-0.82	-0.89	-0.82	-0.84	-0.77
4th Q 2022	-3.50	-3.56	-3.96	-4.21	-3.28	-3.38
One Year	-1.63	2.39	1.12	-0.45	1.38	3.92
Three Years	7.15	21.07	21.13	12.84	17.66	24.37
Five Years	6.71	17.96	18.35	11.24	15.27	20.51
Ten Years	8.34	15.64	15.43	11.31	13.76	17.53
Twenty Years	8.43	11.64	11.33	8.46	10.26	13.23

INDUSTRIAL INCOME RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2023	1.01	0.83	0.82	1.13	0.94	0.74
4th Q 2022	0.95	0.76	0.76	1.05	0.87	0.67
One Year	3.92	3.17	3.15	4.26	3.64	2.79
Three Years	4.08	3.83	3.83	4.65	4.25	3.49
Five Years	4.26	4.19	4.24	4.94	4.59	3.84
Ten Years	4.64	4.83	5.04	5.45	5.27	4.42
Twenty Years	5.49	5.85	6.10	6.34	6.16	5.47

INDUSTRIAL APPRECIATION RETURNS

	Total NPI	Total Industrial	East	Midwest	South	West
1st Q 2023	-2.82	-1.65	-1.72	-1.95	-1.79	-1.50
4th Q 2022	-4.45	-4.32	-4.72	-5.27	-4.15	-4.05
One Year	-5.39	-0.76	-1.98	-4.57	-2.20	1.10
Three Years	2.98	16.77	16.83	7.92	13.01	20.36
Five Years	2.37	13.36	13.67	6.07	10.33	16.21
Ten Years	3.58	10.43	10.01	5.63	8.17	12.68
Twenty Years	2.83	5.54	4.99	2.01	3.90	7.44

INDUSTRIAL INDEX—QUARTILE RANGE OF RETURNS

