

# RCM/SIOR INDUSTRIAL SENTIMENT REPORT SHOWS OPTIMISM FOR 2018

## STRONG FUNDAMENTALS AND BALANCED INFLUENCING FACTORS DRIVE MARKET

By Allison Millar

The current industrial cycle has been striking in its longevity, with record growth in leasing, sales and construction, and demand often out-pacing supply in key markets. This strong run has elevated the industrial sector to a more prominent position in the eyes of investors, drawing institutional capital and an influx of foreign investors.

And, as cycles go, there is the inevitable question: “How long will it last?” According to a recent Industrial Investment Sentiment Report from Real Capital Markets and SIOR, there appears to be no end in sight, at least for the next 12-18 months.

“The industrial sector continues to draw a wide range of investors, due to its stability and the potential for long-term growth,” said Steve Shanahan, Executive Managing Director, RCM. “That equilibrium and other market dynamics make industrial investment properties the preferred option among a wide range of investors. We don’t foresee a dramatic shift in the near term.”

The report, generated through surveys and in-depth interviews with industrial brokers and investors across the country, showed that 90 percent believe

investment activity will at least remain the same or increase in 2018. Pricing is expected to remain strong as well, with many respondents predicting at least a 5 percent growth rate and possibly twice that level in 2018.

One significant force behind industrial’s strong run is the expansion of e-commerce, which is driving warehouse construction as well as leasing

and investment activity. Overall, 37.4 percent of the study’s respondents identified e-commerce as having the greatest impact, followed closely by the second selection, the general strength of the economy, at 34.5 percent.

Geoff Kasselmann, SIOR, executive managing director and national industrial practice leader of Newmark Knight Frank in Chicago, believes the



### Most Attractive Industrial Investments

Newly-built, high cube distribution facilities	28.0%
Mid-size, modern, single-user facilities	16.9%
Mid-size, modern, multi-tenant facilities	35.8%
Infill redevelopment	16.4%
Other	2.9%

Source: Real Capital Markets

October 2017 Industrial Sentiment Report



## 12 to 18 Month Outlook for Industrial Investment Levels

Increase above current levels	19.3%
Increase, but only nominally	28.5%
Remain at the current level	42.5%
Decrease from current level	7.3%
Decrease, but only nominally	2.4%

Source: Real Capital Markets

October 2017 Industrial Sentiment Report

importance of e-commerce and the way Amazon is changing the marketplace cannot be overstated. "Everyone needs an Amazon strategy," said Kasselmann, who just finished his term as the 2017 SIOR Global President. "If you want a building, you need to assume that Amazon wants it too, and may outbid you for it. If you are located near an Amazon facility, there will be great competition for labor, and it too could cost you more."

Others see e-commerce as an important part of a broader industrial marketplace, but not the only factor. "We have to be careful to not overemphasize its role, because it is not solely responsible for the success of the industrial market," said Scott McKibben, Chief Investment Officer of Brennan Investment Group in Chicago.

Other key contributors include the robust housing industry, especially the strong multifamily sector, the auto industry, and the "onshoring" of industrial manufacturing to the U.S., he added.

In many top tier markets, the availability of high quality assets is limited, which changes market dynamics. Well-located, efficient industrial space is being competitively bid at extraordinary levels, said Robert Thornburgh, SIOR, executive vice president, Partner at Kidder Matthews in Long Beach, CA. "The primary challenge is there isn't nearly enough supply on the market to meet demand. With inventory so scarce, simply put, you will see more investors competing for fewer deals."

As industrial brokers and investors surveyed by Real Capital Markets and SIOR look ahead to 2018, there is much optimism, balanced with a dose of reality. Many investors expect that cap rates have plateaued; certain others are finding it challenging to find the perfect assets; and still others have concerns about the broader, geopolitical climate. Overall the outlook is positive and should continue to support the strong leasing, construction and investment cycle in the near term. ▾

## CORPORATE REAL ESTATE SERVICES

**Specialists in Port-Related  
Industries, Emphasizing  
Transportation & Logistics**

*Over  
7,200,000 SF / 90 Acres  
Leased or Sold  
in 2016*

