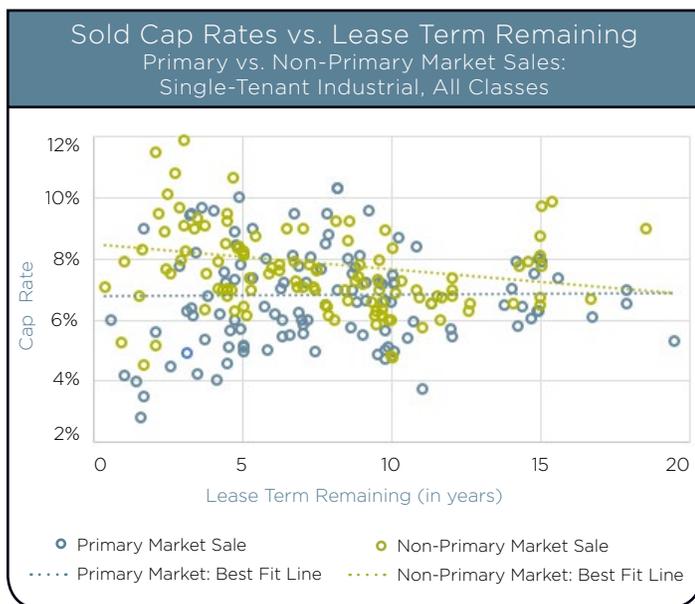


# Market Scoop

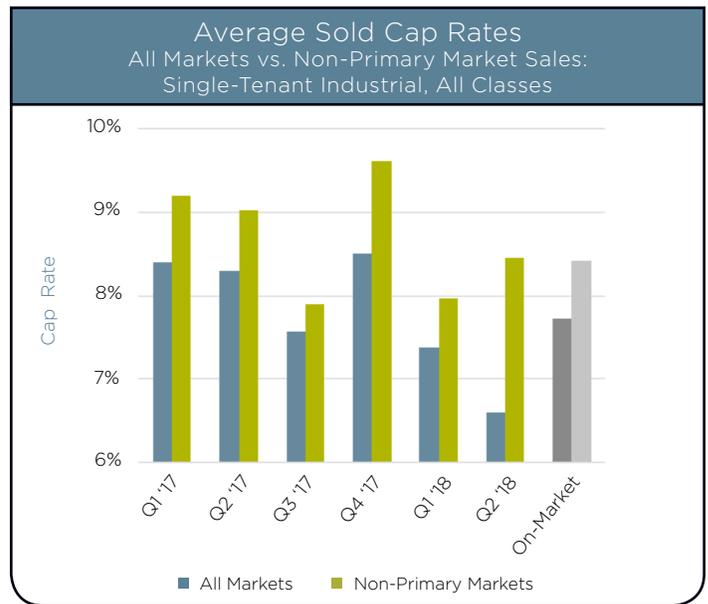
## Industrial Case Study: How Location and Other Factors Impact Industrial Cap Rates

At mid-year 2018, single-tenant industrial cap rates continued to compress across the market. Since peaking in 2010, average rates have fallen to an all-time low of 6.21 percent. It is expected that we will begin to see increases in the next 12 months or so, since retail cap rates have already started inching upward and that trend is typically a leading indicator.

While this “whole market” picture is insightful and informative for tracking overall market trends, it can present challenges for buyers and sellers when they try to accurately price or value an individual asset, especially in today’s shifting market. For properties with qualities that impact pricing significantly, a more tailored analysis is required.



Depending on characteristics like the lease term remaining, the creditworthiness of the tenant, the location of the property, and many others, pricing an individual asset can be challenging. And in the less-commoditized industrial sector, finding truly comparable “comps” may not be easy either. It is clear, however, that certain criteria tend to impact pricing more dramatically, and being aware of these influencing factors can help investors determine realistic price points at the beginning of the deal’s lifecycle.



**Industrial Case Study |** An investor owns a mid-sized industrial manufacturing facility in the rural Southeast with four years of lease term remaining, and he is looking to sell. When using a “whole market” approach to determine pricing, the investor might think his property could command a cap rate at or near the market average of 6.21 percent. But if we take into account the low lease term remaining, we see that there is quite a disparity in sold cap rates once you get below five years remaining. Additionally, the expected cap rate could be impacted by more than 200 basis points simply due to the asset’s rural location.

While this scenario is just an example, it serves to illustrate the importance of analyzing relevant market data to determine pricing. While aggregate market statistics can provide a wealth of information and help investors gauge market conditions and predict future trends, relying on the market average to provide a benchmark for an individual asset may not result in realistic expectations.

Source: Stan Johnson Company Research; analysis includes single-tenant, nationwide closed sales for all industrial asset classes since January 1, 2017 where cap rate and lease term remaining were both reported; portfolio sales have been excluded, and some outliers may not be visible on the scatterplot graph. Case study is for illustrative purposes only and should not be considered advice or a recommendation.