

INDUSTRIAL REAL ESTATE AND ITS SEVEN SUB-ASSET TYPES

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Insights for Real Estate Investors on the nuances of Industrial Sub-Asset Types.

Commercial Real Estate is an asset class that belongs in most investor's portfolio for various reasons such as: potential long-term returns, a hedge against inflation, and the combination of high potential reoccurring cash flows together with capital appreciation.

The challenge of where and how to invest lies in the ever-evolving commercial real estate markets. Buyer beware of a dynamic environment fraught with pitfalls.

As newspaper headlines have reported, office space has a 5-year average return of -0.12% and face a significant risk of negative returns in

future years with nationwide vacancy rates at 13.8% and rising. Not all subsectors of commercial real estate have faltered like office has.

By contrast, industrial real estate has outperformed other commercial real estate sectors over the past thirty years and particularly the past five years, amidst a challenging investment environment marked by COVID lockdowns, rising inflation, interest rates, and general economic volatility. This historical out-performance has rightly increased the desirability of industrial as an asset class, among investors. In this context, industrial real estate

REIT Annual Price and Total Returns by Property Sector
1994 - 2023
(Returns in Percent)

	Office Total	Industrial Total	Retail Total	Residential Total	Diversified Total
3 Yr	-4.53	17.53	16.39	11.54	1.98
5 Yr	-0.12	22.70	6.93	10.96	1.65
10 Yr	2.95	18.59	5.80	12.62	3.26
20 Yr	6.20	13.09	8.82	12.76	6.12
30 Yr	9.05	14.81	10.99	12.58	7.38

* Source: NAREIT Annual Index Values & Returns
(<https://www.reit.com/data-research/reit-indexes/annual-index-values-returns>)

presents a compelling investment thesis. But will the sector continue its performance? This series of articles is intended to shed light on the subject.

We believe investors may find incremental return by considering industrial sub-types often overlooked by institutions – primarily some or all sub-types other than bulk industrial, but this hypothesis can vary significantly by city. This article advocates for a city by city nuanced approach to categorizing industrial real estate and explores the similarities and differences among its various sub-types. Future articles in this series will delve into each sub-asset type in detail.

THE HISTORY OF INDUSTRIAL

Industrial real estate has roots as ancient as human civilization itself. From the earliest workshops for metalworking to barns for agricultural storage, the concept of industrial real estate has evolved significantly over time. In modern times, this expansive asset class encompasses a diverse range of sub-types, each with its own defining characteristics. Additionally, industrial real estate plays a pivotal role in the global economy, facilitating manufacturing, warehousing, and distribution activities. Despite the diversity within this sector, there are notable similarities among different industrial functions. These include zoning regulations set by municipalities, geographical positioning relative to other commercial asset types, lot setbacks, and developmental requirements mandated by local authorities.

Historically, industrial areas have been associated with activities perceived as nuisances, such as noise pollution from manufacturing processes, the movement of heavy machinery and vehicles, and environmental concerns arising from industrial operations. However, stringent regulations, particularly those enforced by the EPA, have led to improved environmental standards in industrial settings, mitigating many of these issues.

Industrial real estate tends to be segregated from residential areas due to inherent incompatibilities. Operations often involve activities that extend into the night, making

proximity to residential zones impractical without restrictions on operating hours and activities. Municipalities impose rigorous criteria for industrial development or changes in land use, necessitating thorough assessments such as traffic studies to address concerns like traffic flow and safety.



Despite overarching similarities, the differences among industrial sub-asset types are significant. For instance, Heavy Industrial facilities, such as manufacturing plants, require robust infrastructure to support heavy machinery, substantial power supply, and specialized loading facilities. Conversely, Industrial Outdoor Storage facilities focus primarily on providing space for equipment and materials, requiring amenities like graded land, fencing, and weatherproof storage areas. Each sub-type offers distinct advantages and challenges, reflecting diverse market demands and operational needs. The list of Industrial Sub-Asset Types is extensive and includes Bulk Industrial, Heavy Industrial, Light Industrial, Shallow Bay Light Industrial, Flex Industrial, Truck Terminals, and Industrial Outdoor Storage. As this categorization doesn't currently enjoy industry wide uniformity, terminology may differ but here at Bespoke Holdings, this is the vernacular we've adopted.

Subsequent articles in this series will delve into the unique characteristics, tenant profiles, property attributes, ownership structures, investment opportunities, and nuances of each sub-type. By examining each Industrial Sub-Asset Type individually, investors can gain insights into the unique attributes and

considerations associated with each category, enabling more informed decisions regarding their investment portfolios.

Bespoke Holdings Company specializes in Industrial Real Estate, with a distinct focus on acquiring, owning, and operating unique assets in burgeoning markets. Central to our decision-making process is our industry-unique, increasingly comprehensive and proprietary database of industrial assets. This database allows us to identify sub-asset types that are in demand, may be in short supply and lack institutional ownership in each market. We are not aware of any other industrial real estate company with a comparable database and internal methodology for performing analysis in this fashion. Our goal is to bring greater awareness to the various industrial sub-property types and challenge the industry to adopt a similarly refined approach. Stay tuned for more insights in future articles.

For more information on Bespoke Holdings Company, please contact:

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¹NAREIT 2023 Annual Returns of REITS

²Source – CoStar Office Space Nationwide Vacancy Report June 2024