



# NEXPOINT

SMALL BAY INDUSTRIAL REAL ESTATE

## Small Bay, Big Impact

Unveiling the Untapped Potential of Compact  
Industrial Real Estate

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## Unveiling the Untapped Potential of Compact Industrial Real Estate

Small Bay Industrial real estate is a sub-sector of industrial commercial real estate that typically consists of multi-tenant warehouse or industrial buildings with small units and logistical loading and receiving bays on the rear-side of the properties. These units are usually between 20,000 and 100,000 square feet<sup>1</sup> and are designed to meet the needs of small to medium-sized businesses.

Industrial commercial real estate assets traded to the tune of nearly \$133 billion in the United States in 2022<sup>2</sup>, the best year on record. With increased competition among investors for industrial product, JLL Capital Markets in U.S. Multi-Tenant Industrial Market Update identified one sub-class gaining traction – “multi-use logistics” also commonly referred to as “Small Bay Industrial.”

# 33%

Small Bay Warehouses  
Account for 1/3 of all  
Industrial Space<sup>3</sup>

Small Bay Industrial real estate is typically characterized by its size, location, and functionality. The buildings are usually one or two stories, with high ceilings and large, open floor plans. They are designed to accommodate a variety of uses, such as storage, light manufacturing, distribution, and office space.

### Multi-Tenant Space

### Building Size

Between 20,000 – 100,000 sqft

### Building Type

Currently Existing, Under Construction, or Under Renovation Buildings

### Building Use

Used for Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showrooms, Research & Development, and High-Office Finish Flex

### Location

Urban or suburban areas, close to major transportation routes such as highways, airports, and ports

<sup>1</sup> JLL – U.S. Multi-Tenant Industrial Market Update\_Dec 2022 Page 2 <sup>2</sup> JLL – Basis Industrial\_Research Request 6.29.23 <sup>3</sup> JLL – U.S. Multi-Tenant Industrial Market Update\_Dec 2022 Page 2

# History of Small Bay Industrial Real Estate

## ORIGINS AND EARLY DEVELOPMENT

The origins of Small Bay Industrial real estate properties can be traced back to the Industrial Revolution in the late 18th century. As manufacturing and industrial activities expanded, businesses required dedicated spaces to house their operations and store their products. Initially, these spaces were often small, standalone buildings located near urban centers or industrial hubs.

## GROWTH OF URBAN INDUSTRIAL CENTERS

In the 19th and early 20th centuries, industrialization accelerated, leading to the growth of urban industrial centers around the world. These centers concentrated manufacturing, warehousing, and distribution activities, giving rise to the need for purpose-built industrial real estate properties.

During this period, Small Bay Industrial properties began to emerge as multi-tenant buildings with flexible spaces to accommodate a range of businesses. Their proximity to transportation routes, such as rail lines and ports, made them ideal for manufacturers and distributors looking for convenient access to markets and supply chains.



## MODERNIZATION AND POST-WAR EXPANSION

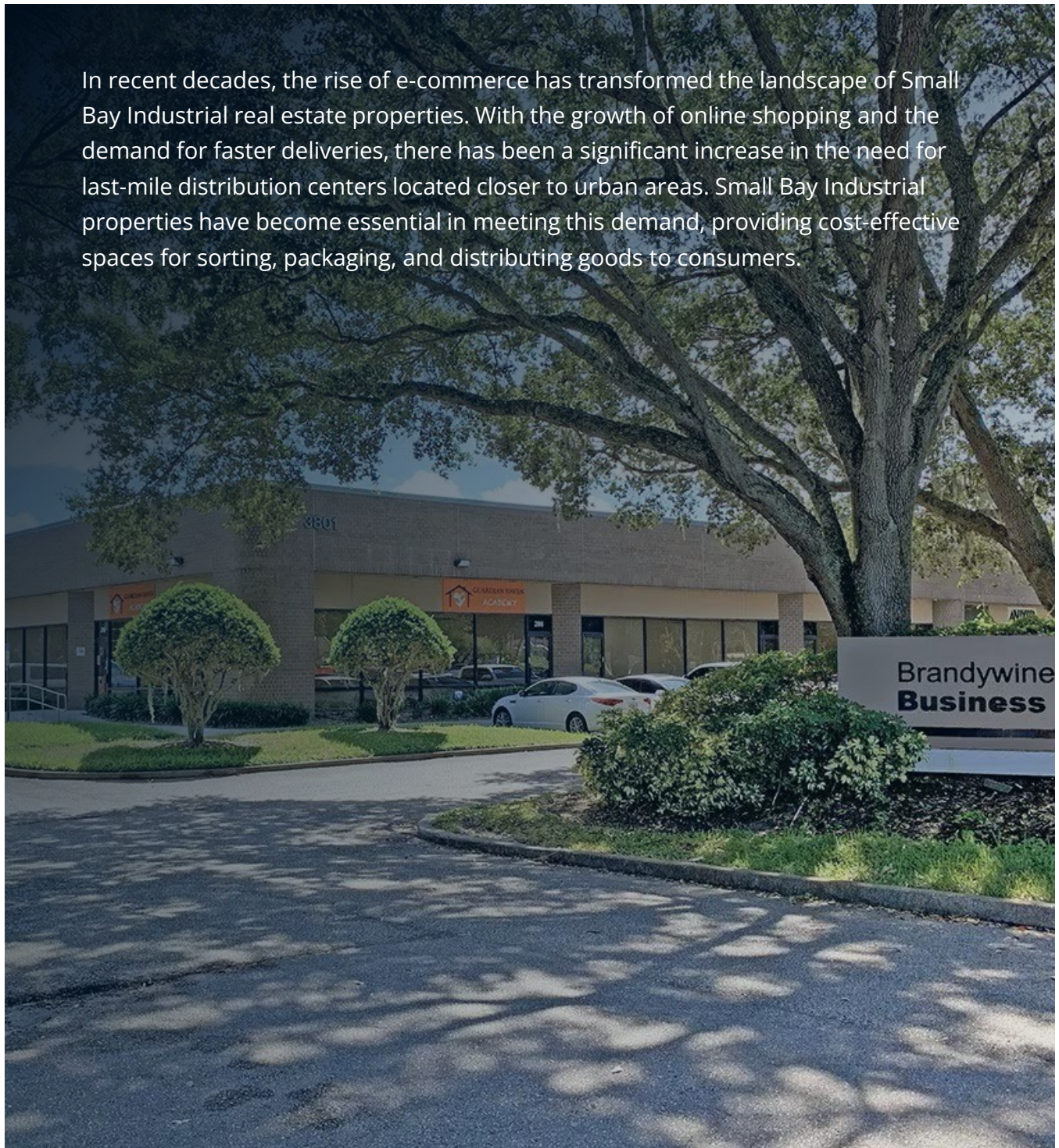
The mid-20th century witnessed the modernization and expansion of Small Bay Industrial real estate properties. With advancements in transportation and logistics, businesses increasingly relied on efficient distribution networks. Small Bay Industrial properties played a crucial role in supporting these networks by providing localized hubs for storage, packaging, and distribution.

The post-World War II era saw a surge in industrial activity and the need for smaller, more flexible spaces to accommodate a growing number of small and medium-sized enterprises. This led to the development of industrial parks and business parks, which often included Small Bay Industrial properties. These parks offered shared amenities, improved infrastructure, and zoning regulations to support industrial activities.



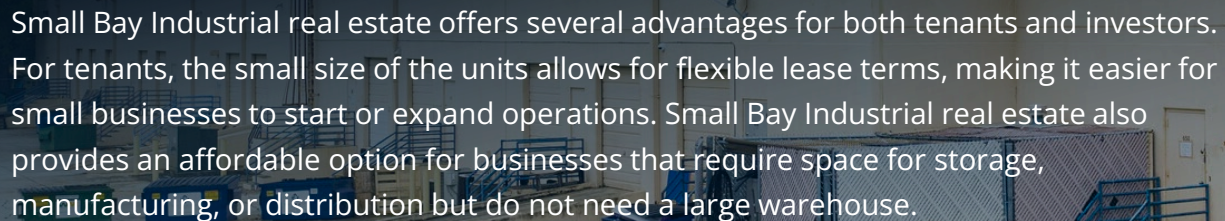
# The Rise of E-Commerce and Last-Mile Delivery

In recent decades, the rise of e-commerce has transformed the landscape of Small Bay Industrial real estate properties. With the growth of online shopping and the demand for faster deliveries, there has been a significant increase in the need for last-mile distribution centers located closer to urban areas. Small Bay Industrial properties have become essential in meeting this demand, providing cost-effective spaces for sorting, packaging, and distributing goods to consumers.





# Advantages of Small Bay Industrial Real Estate



Small Bay Industrial real estate offers several advantages for both tenants and investors. For tenants, the small size of the units allows for flexible lease terms, making it easier for small businesses to start or expand operations. Small Bay Industrial real estate also provides an affordable option for businesses that require space for storage, manufacturing, or distribution but do not need a large warehouse.

## LOW VACANCY RATES

Small Bay Industrial properties typically have lower vacancy rates compared to other commercial real estate sectors. According to a report by CBRE, the vacancy rate for Small Bay Industrial properties was 4.0% in the first quarter of 2023, compared to 20.1% for office properties and 4.2% for retail properties<sup>1</sup>.

## INCREASING DEMAND

Small Bay Industrial real estate is experiencing increased demand due to the growth of e-commerce and the need for last-mile delivery facilities. According to JLL, e-commerce accounted for 28% of all leasing activity in the small and mid-sized industrial sector in 2021<sup>2</sup>.

## STRONG RENTAL GROWTH

Rents for Small Bay Industrial properties have been increasing in recent years.

According to a report by JLL, average asking rents for Small Bay Industrial properties are projected to increase by 6.2% over the next three years, outpacing the 5.7% growth that is projected in rents for larger industrial properties<sup>3</sup>.

## LIMITED NEW SUPPLY

There is limited new supply of Small Bay Industrial properties, which helps to support rental growth and occupancy rates. According to a report by NAIOP, Small Bay Industrial properties accounted for only 13% of new industrial construction in 2022<sup>4</sup>.

## STABLE INCOME STREAM

Small Bay Industrial properties can provide a stable income stream for investors due to their multi-tenant nature and long-term leases.

1 JLL – Basis Industrial Research Request 6.29.23 JLL Retail Outlook Page 3, JLL US Office Outlook Page 14 2 JLL in the article “Small to Midsize Industrial Real Estate Dominates Leasing Market” 3 JLL – U.S. Multi-Tenant Industrial Market Update\_Dec 2022 Page 3 4 NAIOP Page 19 = Industrial SF Under Construction (121) divided the total under construction (926) = 13%. CBRE – The Case For Small Bay Warehouse\_2016 – Executive Summary Page 1

# Challenges of Small Bay Industrial Real Estate



## LIMITED SPACE

One of the primary challenges of Small Bay Industrial real estate is the limited space available in each unit. Small bay properties are typically designed with smaller square footage, which can be a constraint for businesses with larger space requirements. This may limit the types of businesses that can effectively operate in these spaces.

## LACK OF STANDARDIZATION

Unlike larger industrial properties, Small Bay Industrial properties often lack standardization in terms of layout, amenities, and features. Each unit may vary in terms of accessibility, loading capabilities, ceiling heights, and other essential infrastructure. This lack of standardization can make it challenging to find the right space that fits specific operational needs.

## MAINTENANCE AND UPKEEP

Small Bay Industrial properties may require regular maintenance and upkeep to ensure they meet the needs of tenants. This can include repairs, infrastructure upgrades, and overall property management. For property owners, it is essential to allocate resources for ongoing maintenance and address any issues promptly to maintain tenant satisfaction.

## COMPETING DEMAND AND RENTAL RATES

Due to the popularity of Small Bay Industrial properties, there can be high demand in certain areas, which may lead to increased rental rates. This can present challenges for businesses seeking affordable leasing options. As demand continues to grow, rental rates can rise, impacting the affordability and feasibility for some tenants.

## ZONING AND REGULATORY CONSIDERATIONS

Depending on the location, Small Bay Industrial properties may face zoning and regulatory challenges. Local zoning regulations may restrict certain types of businesses or operations, limiting the tenant pool. It is crucial to understand the zoning requirements and any potential restrictions before investing in or leasing a Small Bay Industrial property.

# Small Bay, A Prominent Industrial Sub-Class

Today, Small Bay Industrial real estate properties continue to play a vital role in supporting a wide range of businesses, from light manufacturing and logistics to creative industries and technology startups. They offer flexibility, affordability, and accessibility for businesses seeking smaller footprints or localized operations.

As e-commerce continues to flourish, the demand for Small Bay Industrial properties is expected to remain strong. The integration of advanced technologies, such as automation and robotics, may also reshape the design and functionality of these properties to optimize efficiency and productivity.

The history of Small Bay Industrial real estate properties reflects the evolution of industrialization, changing economic landscapes, and the dynamic needs of businesses. From their humble origins to their modern-day significance, Small Bay Industrial properties have adapted to meet the demands of businesses and continue to play a vital role in supporting economic growth and development. These property types can offer stable income for investors and can help to diversify risk through the multi-tenant nature. Overall, Small Bay Industrial real estate can be a practical investment option for those prepared to navigate the unique characteristics.





## IMPORTANT DISCLOSURES & RISKS

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