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INDUSTRIAL RESEARCH

An Industrial Sub-Sector Hiding in Plain Sight

The Case for Small-Bay and Mid-Bay Industrial

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Executive Summary

Following a multi-year reset that saw national vacancy climb from cyclical lows and rent growth moderate from pandemic-era highs, U.S. industrial real estate is once again exhibiting the supply/demand discipline that long defined it. Within that recovery, one segment has consistently outperformed: small-bay and mid-bay multi-tenant light industrial, also referred to in the industry as shallow-bay. CBRE reports that by early 2024 shallow-bay vacancy stood roughly 250 basis points below the overall industrial vacancy rate, a gap that has held throughout 2025 as big-box deliveries continued to elevate vacancy in the larger size cohorts (CBRE, Shallow-Bay Industrial Availability Remains Tight Amid Strong Demand, March 2026). Newmark Research data showed that 81% of all U.S. industrial leasing in the first half of 2025 occurred in units under 50,000 square feet, with vacancy for buildings under 100,000 square feet running roughly half that of larger-format inventory (Newmark Research, 3Q 2025; CoStar, August 2025).

Rising Realty Partners is bringing this thesis to market through its Multi-Tenant Light Industrial (MTLI) program. The firm targets institutional-quality assets generally between 100,000 and 300,000 square feet, with suite sizes typically randing between 5,000 and 30,000 square feet, in submarkets where in-place rents trail the market by 15% to 30%. The thesis is straightforward in framing and operationally complex in execution:

01 **Acquire below replacement cost in supply-constrained markets**	02 **Renew leases at market through demising, spec-suite delivery and active management**
03 **Position the asset both physically and financially**	04 **Build portfolio scale that attracts institutional liquidity at exit**

> Limited new development and strong demand from small occupiers continue to keep shallow-bay vacancy low and rents rising across major U.S. markets.
>
> CBRE (Shallow-Bay Industrial Availability Remains Tight Amid Strong Demand, March 2026)

Defining the Small-Bay Sub-Sector

Big-box logistics held the institutional spotlight for most of the last decade, but allocators are now rebalancing toward niche strategies that complement those core positions. Small- and mid-bay multi-tenant light industrial (referred to here interchangeably as shallow-bay) is the most prominent of those niches.

The shallow-bay segment generally encompasses the following:

- Total asset size below 300,000 square feet, often configured as a multi-building business park
- Suite sizes ranging from approximately 5,000 to 100,000 square feet, with mid-bay tenants in the 15,000 to 30,000 square foot range and small-bay tenants in the 1,500 to 15,000 square foot range
- Vintage between 1975 and 2010, with clear heights of 14 to 28 feet and a mix of grade-level and dock-high loading
- Office finish typically between 10% and 30% of the suite, depending on tenant base and market
- Locations within urban or near-in suburban infill submarkets, often inside high-barrier-to-entry sub-regions where new construction is constrained by land cost, zoning, or both
- Tenant counts ranging from three to roughly two hundred per asset, depending on configuration

Sub-Sector Fundamentals

Five characteristics distinguish small-bay fundamentals from broader industrial: a large universe of investable assets, structurally minimal new supply, low and stable vacancy, persistent rent growth, and a fragmented private ownership base. Each has reinforced the others through the recent cycle.

A Large Universe of Investable Assets

Buildings of 300,000 square feet or smaller account for roughly 70% of U.S. industrial inventory. CBRE's 2024 year-end research counted approximately 14.1 billion square feet across the under-300,000 square foot cohorts versus roughly 6.1 billion square feet in larger formats, a ratio that has not materially changed in years (CBRE Research, 2024 year-end). The investable universe at the smaller end is more than twice the size of the institutional big-box cohort, with significantly less competition from REITs and large institutional buyers.

Structurally Minimal New Supply

Construction costs have consistently favored larger formats of industrial real estate. CBRE found that nearly half of all shallow-bay inventory in major U.S. markets was built before 1980, more than 80% was built before 2000, and properties built since 2010 represent only 5% of the total (CBRE, March 2026). Newmark Research data referenced in late-2025 industry coverage showed that less than 1% of small-bay inventory is currently under construction, compared with roughly 3.5% for properties over 500,000 square feet (CoStar, December 2025; Newmark Research, 3Q 2025). The economics of new construction in the small-bay format remain difficult: land costs in infill submarkets favor higher-density alternatives, per-square-foot construction costs run higher for smaller buildings, and zoning restraints limit where new product can be built.

Consistently Low Vacancy and Diversified Tenant Mix

CoStar and Newmark Research data through 3Q 2025 showed buildings under 100,000 square feet posting average vacancy of 4.7%, compared with 8.9% across the 100,000 to 300,000 square foot cohort and roughly 10% for buildings over 500,000 square feet (CoStar; Newmark Research, August 2025). The gap has widened, not narrowed, through the recent supply cycle. PS Business Parks data covering 2008 to 2013 provides the cleanest historical illustration of the segment's resilience: through the Global Financial Crisis, occupancy held at or above the broader industrial market average, peaking 48% below the overall market high in vacancy, with rents falling less than the broader market (PS Business Parks; CBRE; CoStar Group; Moody's Economy.com).

4.7%	8.9%	10.0%	<1%
Vacancy: <100K SF	Vacancy: 100-300K SF	Vacancy: 300-500K SF	Small-Bay UC % of Inv.

Source: CoStar; Newmark Research, August 2025.

Strong Rent Growth and Robust Leasing

By 2025, CBRE's shallow-bay rent index sat more than 50% above 2010 levels, with regional disparities favoring high-cost coastal and high-growth Sun Belt markets (CBRE, March 2026). Newmark Research data showed that in the first half of 2025, leases of less than 50,000 square feet accounted for 81% of all U.S. industrial leasing activity (Newmark Research, 3Q 2025). In Tampa and Nashville, properties under 50,000 square feet accounted for more than half of all new leases through midyear 2025 (CoStar via NAIOP, January 2026).

> Smaller and mid-size users in the 50,000 to 150,000 square foot range are absolutely the most active part of the market right now.
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> Stewart Hasty, Industrial Specialist, Piedmont Properties / CORFAC International (Urban Land Magazine, December 2025)

Demand Drivers Specific to Small-Bay

Three structural demand drivers are concentrated disproportionately in the small-bay format: e-commerce last-touch fulfillment, the supplier tail of reshored manufacturing, and the small-business tenant base that anchors local and regional economies.

E-Commerce and Last-Touch Logistics

U.S. retail e-commerce sales reached $316.1 billion in Q4 2025 (seasonally adjusted), up 5.3% year-over-year per the U.S. Census Bureau (U.S. Census Bureau, Quarterly Retail E-Commerce Sales, Q4 2025; Savills, January 2026). Prologis projects that approximately 25% of new industrial leasing in 2026 will involve e-commerce occupiers (Prologis, November 2025). The geography of e-commerce demand has shifted away from coastal port hubs and toward distributed networks: regional sortation, last-touch facilities in dense infill submarkets, and microfulfillment near consumer concentrations. The last-touch layer is small-bay's natural habitat. AI-facilitated shopping could reach nearly 25% of total online sales globally by 2030, up from roughly 5% today, with warehouse automation projected to grow from $25 billion in 2024 to $54 billion by 2029 (Newmark Research, 3Q 2025; NAIOP Research Foundation, October 2025). Automation is reducing the marginal space required per dollar of throughput, which favors smaller, denser, better-located product over the long run.

Supplier Tail of Reshored Manufacturing

Manufacturing construction spending reached $114 billion in July 2025, nearly twice the pre-pandemic five-year average (Newmark Research, 3Q 2025). Anchor projects (Eli Lilly's $6.5 billion Houston campus, Amkor Technology's $7 billion Peoria semiconductor expansion, Hitachi Energy's $457 million South Boston expansion, Gotion's $2 billion Illinois EV battery plant) are themselves big-box or build-to-suit facilities. The small-bay relevance is downstream. Anchor manufacturing investment generates a long tail of supplier demand best housed in flexible 5,000 to 75,000 square foot space close to the assembly plant. JLL's 3Q 2025 data captured this, with manufacturing leasing up 330% year-over-year, the third consecutive quarter of growth (JLL, 3Q 2025).

The Small Business Tenant Base

Small- and mid-bay assets serve the local and regional businesses that comprise more than 99% of all U.S. enterprises and approximately 43.5% of GDP (U.S. Small Business Administration; U.S. Chamber of Commerce). The diversification matters at two levels. At the property level, a 50-tenant park has an entirely different cash flow profile than a single-tenant 500,000 square foot box. At the portfolio level, scale across geographies and tenant industries means a single-industry shock affects only a fraction of total income. That diversification is one reason institutional underwriters increasingly treat small-bay multi-tenant cash flows as closer to a stabilized core profile than to a typical value-add risk.

Mark-to-Market Opportunity

Of the structural advantages the small-bay segment offers, the mark-to-market opportunity is the most time-sensitive. Leases signed during the 2020 to 2022 window are now rolling. In many markets, those leases were inked at rents materially below current market rents, which means renewals carry rent step-ups that can be twenty, fifty, or in select markets, nearly one hundred percent. Rising Realty Partners' Q1 2026 underwriting estimates show in-place rents 15% to 30% below market across the firm's MTLI target portfolio, with WALTs typically under three years. The window for capturing the bulk of this mark-to-market is narrow. Five-year leases signed in 2020 and 2021 will roll through 2026 and 2027.

Market	2021 Rent (PSF)	2025 Market (PSF)	2026 M2M %
Inland Empire, CA	$12.84	$17.95	115%
Northern New Jersey	$10.21	$17.30	108%
Philadelphia	$8.42	$12.50	92%
Pennsylvania I-78/81	$5.78	$9.20	87%
Miami	$11.91	$15.85	84%
Houston	$5.16	$8.85	78%
Tampa	$6.73	$13.20	78%
Orange County	$16.44	$22.10	65%
Los Angeles	$15.24	$19.95	63%
Nashville	$6.35	$11.88	62%
Dallas / Fort Worth	$5.85	$8.20	57%
Phoenix	$9.72	$13.65	55%
Las Vegas	$11.75	$14.55	47%
Salt Lake City	$8.09	$10.10	42%
Atlanta	$5.45	$7.45	38%

Source: CBRE; CoStar Q1 2026 market rent data; Rising Realty Partners analysis. Lease rollover assumes a 5-year initial term with 3% annual increases.

Two observations are worth noting. First, the markets with the steepest mark-to-market are those where 2020 and 2021 leases priced through the early stages of the pandemic rent surge (Inland Empire, Northern New Jersey, the Pennsylvania I-78/81 corridor) and where those rates were locked in just before the 2022 spike. Second, even markets with more modest rent runs (Atlanta, Salt Lake City, Las Vegas) still show 40% to 50% mark-to-market potential.

The execution-side of the argument is time on market. Across Rising Realty Partners' MTLI underwriting universe, marketing periods for sub-30,000 square foot suites in supply-constrained submarkets routinely come in under six months, a function of the deeper tenant pool, the lower aggregate rent commitment per tenant decision, and the relative scarcity of comparable infill space. The faster lease-up dynamic is what makes a mark-to-market strategy operationally viable.

Multiple Paths to Value Creation

The small-bay segment supports several distinct value creation strategies, typically pursued in combination across a portfolio. Rising Realty Partners' approach blends financial repositioning (rent capture, lease structure conversion, expense discipline) with physical repositioning (demising, spec suites, branding, deferred maintenance), and where appropriate, redevelopment.

The combination of physical repositioning and the underlying mark-to-market opportunity has supported above-market NOI growth across institutional small-bay programs reporting 4 to 6 percentage points of occupancy outperformance versus competitors and 17 to 21 percent average leasing spreads (Newmark Research, 3Q 2025). In dense urban submarkets, land values continue to rise faster than the income generated by older industrial product, creating selective conversion-to-higher-intensity-use optionality on top of the base case industrial yield. In supply-constrained Western markets, older buildings with low clear heights are being replaced with modern higher-clear-height distribution facilities that command meaningful rent premiums.

OPERATIONAL LEVERS

- Conform leases to triple-net structure to insulate NOI from operating expense volatility
- Implement spec-suite programs to compress lease-up timelines and reduce tenant improvement allowances
- Re-bid operating expense vendors and pursue property tax appeals where assessed values lag market
- Layer in clean energy and sustainability investments (LED retrofit, photovoltaic, water conservation, EV charging) that reduce operating cost while supporting institutional ESG underwriting
- Develop ancillary revenue streams where the asset supports them (billboard rights, cell tower leases, filming income, industrial outside storage on excess land)
- Build a property-level brand that supports tenant retention and aids in eventual portfolio aggregation and exit

PHYSICAL LEVERS

- Demise oversized units into marketable suite configurations that command higher per-square-foot rents
- Deliver spec suites in advance of lease-up to compress absorption timelines and reduce tenant improvement allowance requirements at signing
- Peel back excess office finish upon rollover to restore warehouse-to-office ratios aligned with tenant demand
- Upgrade exterior paint, signage, landscaping, and paving to reposition the asset's curb appeal and support institutional-quality branding at the property level
- Address deferred maintenance to eliminate tenant attrition risk and reduce capital drag on stabilized cash flow
- Develop a property-level identity that reinforces tenant retention and strengthens the asset's image at disposition

Capital Markets Setup

Smaller industrial transactions have increasingly dominated activity. Per Newmark Research, deals under $100 million accounted for roughly 70% of total industrial transaction volume across the past four quarters, the highest share in more than a decade. Yardi Matrix recorded a 10.6% year-over-year increase in average sale price for buildings under 100,000 square feet, against 3.5% growth for buildings between 100,000 and 1 million square feet (Newmark Research, 3Q 2025; Yardi Matrix, November 2025). Industrial cap rates have held in the mid-5% range even as broader commercial real estate has repriced, reflecting durable capital demand for income-generating, well-located industrial (NAIOP, Spring 2026).

> What stands out right now is not just demand, but where liquidity is actually returning first. As valuations stabilize, capital is re-engaging most decisively in small-bay industrial because the fundamentals are easier to underwrite and the income story is clearer.
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> Industry commentary cited in GlobeSt, December 2025

Conclusion

For Rising Realty Partners, the case for the strategy reduces to four points: a deeply fragmented and supply-constrained inventory base; a tenant cohort serving the most resilient and diversified portion of the U.S. economy; a 24- to 36-month window in which existing leases roll into a meaningfully higher rent environment; and a capital markets backdrop that has begun to reward smaller, operationally-intensive industrial portfolios with both improving liquidity and stable cap rates. The opportunity favors those who can execute on the operational complexity at scale.

About Rising Realty Partners

Rising Realty Partners is a privately owned, vertically-integrated commercial real estate firm based in Los Angeles. Founded in 2012 by Nelson and Christopher Rising, the firm acquires, redevelops, and manages commercial properties across the Western U.S., with a current portfolio of 6.3 million square feet and approximately $1.64 billion in assets under management. Rising's industrial team brings more than 120 years of combined experience across multiple cycles. Since 2021, the firm has acquired over a dozen light industrial assets in California, Texas, Colorado and Nevada.

6.3M	1.64B	120+
Square Feet in Portfolio	Assets Under Management	Years of Combined Experience

Source: CoStar; Newmark Research, August 2025.

SOURCES

CBRE: Shallow-Bay Industrial Availability Remains Tight Amid Strong Demand (March 2026); Q1 2026 Industrial Reports; CBRE Research 2024 year-end inventory data. Cushman & Wakefield: U.S. Industrial MarketBeat, Q1 2026. JLL: U.S. Industrial Market Dynamics, Q1 2026; 3Q 2025 U.S. Industrial Market Report; 2025-2026 Industrial Tenant Demand Study. Newmark Research: 3Q 2025 U.S. Industrial Market Conditions and Trends. Prologis: Industrial Business Indicator and Logistics Real Estate Outlook (November 2025). CoStar: U.S. Industrial National Reports Q4 2025 and Q1 2026; CoStar Insight, Here Are the Places Where the Small-Bay Industrial Sector Is Thriving (Arias and Rumore, November 2025). Yardi Matrix: U.S. Industrial Market Outlook (November 2025). NAIOP: Industrial Space Demand Forecast Q1 2026; The Small-Bay Surge at the Heart of the Industrial Market's Recovery, Development Magazine (David Greek, Spring 2026); NAIOP Research Foundation publications. Urban Land Magazine via CORFAC International: Smaller Users Driving Industrial Leasing Amid Market Shifts (December 2025). GlobeSt: Investors Flock to Small-Bay Industrial as AI and E-Commerce Reshape Demand (December 2025). Trowbridge Development: Small-Bay Industrial Rent Trend Analysis (3Q 2025). Savills: U.S. Industrial Market Briefings Q4 2025 and Q1 2026. U.S. Census Bureau: Quarterly Retail E-Commerce Sales (Q4 2025). U.S. Small Business Administration; U.S. Chamber of Commerce: Small business statistics.