HABITAT

RESEARCH REPORT

SMALL BAY INDUSTRIAL

2024

ECONOMIC ANALYSIS OF
SMALL BAY INDUSTRIAL MARKETS

ECONOMIC ANALYSIS OF
U.S. SMALL BAY INDUSTRIAL MARKETS

Post Buffalo • Las Vegas, NV

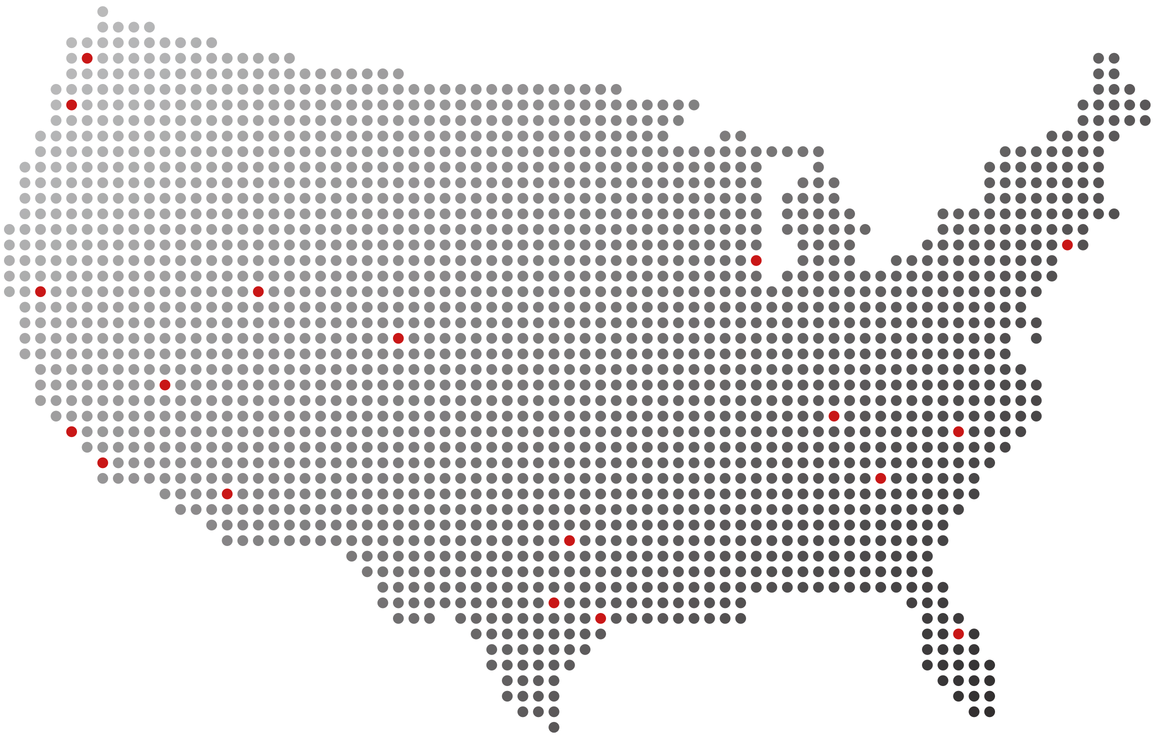
27,764 SF | 3 BUILDINGS | INDUSTRIAL FLEX

HABITAT DEVELOPMENT

Purpose of this Report

The purpose of this report is to provide a comprehensive analysis of the small bay industrial real estate market across the United States. The report aims to highlight the importance of small bay industrial properties, their role in the economy, and the current market dynamics affecting them. This analysis includes an examination of macroeconomic trends, tax policy changes, and regional economic conditions, which collectively influence the demand, supply, and investment opportunities in small bay industrial spaces.

The report profiles 18 different markets, categorized into top, middle, and bottom market segments. The markets were selected by taking the 60 largest MSA's, evaluating their current availability of industrial buildings under 50K SF, and the median months to market on industrial space between 10K-25K SF, and under 10K SF. Of the top 60, only select markets were chosen for analysis in this report. Each selected market is analyzed based on key metrics such as vacancy rates, net absorption, construction activity, lease rates, state tax profiles, GDP, and market growth.



TOP MARKET CITIES

Orlando | Nashville | Phoenix | Salt Lake City | Las Vegas

MIDDLE MARKET CITIES

Los Angeles | San Diego | Charlotte | Chicago | Sacramento | New York

BOTTOM MARKET CITIES

Atlanta | Denver | Portland | Seattle | Dallas | Houston | Austin

Small Bay Industrial Markets and Their Importance

Small bay industrial markets, characterized by industrial properties typically smaller than 50,000 square feet, have become increasingly significant within the broader commercial real estate landscape. Despite their relatively small footprint, these properties play a crucial role in the economic fabric of many regions, particularly as they cater to a diverse array of small businesses and trades. The importance of small bay industrial spaces is underscored by their scarcity and the high demand they continue to witness across the United States.

MARKET DYNAMICS

Recent analyses from CoStar highlight the persistent shortage of small industrial spaces across the country. The pandemic-induced industrial building boom has not alleviated this shortage, primarily due to the preference of developers for larger projects. Developing smaller industrial spaces is often seen as less efficient and less profitable compared to constructing large distribution centers or manufacturing facilities, leading to a dearth of new small bay developments.

The scarcity of small industrial spaces is evident in various metrics. Properties smaller than 25,000 square feet comprise only 2% of the industrial space under construction in 2024, despite representing 29% of the existing industrial space. This imbalance has resulted in near-record low vacancy rates for these smaller properties, with national vacancy rates below 4%.

ECONOMIC SIGNIFICANCE

The small bay industrial market is vital for numerous economic activities, particularly those involving blue-collar businesses such as HVAC contractors, plumbers, electricians, and small-scale manufacturers. These businesses are integral to the local economy, supporting both residential and commercial infrastructure. Markets with significant in-migration and robust construction activities, such as those in the Sun Belt region, have seen particularly high demand for small industrial spaces.

Moreover, smaller industrial properties have maintained impressive occupancy rates and rising rents over the past several years, positioning them as one of the best-performing categories in commercial real estate. This performance is largely attributed to their insulation from supply-side risks that affect larger industrial developments.

REGIONAL VARIATIONS

The availability and demand for small bay industrial spaces vary significantly across different regions. Areas experiencing high population growth and construction activities, like Nashville and various markets in Florida, are among the scarcest for small industrial spaces. In contrast, some larger markets like those in Texas have higher availability rates due to more abundant development facilitated by growth-friendly policies.

Critical port markets and regions with significant industrial infrastructure, such as Louisville, KY, also exhibit tight small bay industrial markets. Louisville's proximity to major distribution hubs and its strategic location within the burgeoning electric vehicle manufacturing region contribute to its high demand for small industrial properties.

CHALLENGES AND OPPORTUNITIES

The primary challenge facing the small bay industrial market is the lack of new development. The time-consuming and costly process of securing land and entitlements for smaller projects, combined with developers' preference for larger, more profitable projects, has limited the supply of new small industrial spaces. Additionally, economic pressures such as inflation and higher interest rates have impacted smaller tenants, though the overall demand remains robust due to the lack of available space.

Despite these challenges, the outlook for small bay industrial properties remains positive. The near-record low availability rates are expected to support stronger rent growth for these properties compared to larger industrial spaces. As economic conditions improve, including falling interest rates and increased consumer spending, leasing activities for small tenants are likely to pick up, further driving demand for small industrial spaces.

Macroeconomic Trends and the Impact on Small Bay Markets

GDP GROWTH TRENDS

The United States' real gross domestic product (GDP) grew at an annual rate of 1.3% in the first quarter of 2024. This growth rate marks a deceleration from the 3.4% growth observed in the fourth quarter of 2023. The slower growth in the first quarter was mainly due to increases in consumer spending and housing investment, which were partly offset by a decrease in inventory investment and higher imports,

The deceleration in GDP growth from 3.4% in Q4 2023 to 1.3% in Q1 2024 has significant implications for small bay industrial markets. Slower economic growth can lead to a reduction in business expansion and new investments, which may decrease demand for industrial spaces. However, given the high demand and low vacancy rates for small bay industrial properties, the impact might be less pronounced compared to larger industrial properties. The robust performance of these properties even during slower economic periods indicates resilience, particularly in regions with high in-migration and construction activities,

CURRENT INFLATION

The inflation rate in the United States has shown some moderation recently. The price index for gross domestic purchases increased by 3.0% in the first quarter of 2024, slightly down from the previous estimate. The personal consumption expenditures (PCE) price index, which excludes food and energy prices, rose by 3.6% (BEA). This indicates that while inflationary pressures remain, they are slightly lower than earlier projections.

Persistent inflation, though slightly moderated, affects the cost of construction materials and operations for small bay industrial developments. Higher prices for construction materials can increase the cost of developing new industrial spaces, potentially exacerbating the shortage of small bay properties. Additionally, higher operating costs can be passed on to tenants in the form of increased rents, which might strain small businesses that occupy these spaces. Nonetheless, the high demand and low vacancy rates could enable property owners to maintain or even increase rents without significant vacancy risks.

CURRENT INTEREST RATES

The Federal Reserve has maintained a cautious approach to adjusting interest rates, influenced by ongoing inflation concerns and economic performance. As of June 2024, the federal funds rate remains elevated as the Fed continues its efforts to manage inflation without stifling economic growth.

Elevated interest rates, a tool used by the Federal Reserve to manage inflation, impact the financing costs for developers and investors in small bay industrial markets. Higher borrowing costs can deter new construction projects and reduce the availability of new spaces, further tightening the market. For existing properties, higher interest rates might lead to increased costs for refinancing existing debt, which could also result in higher rental rates to cover these costs. However, the scarcity of small bay industrial spaces can help maintain strong occupancy rates and rental growth despite these financial pressures.

CURRENT EMPLOYMENT RATES

The employment situation in the U.S. remains strong, with robust job creation and low unemployment rates. The labor market has seen steady improvements, contributing to increases in personal income and disposable income. The personal saving rate was 3.8% in the first quarter of 2024, reflecting the economic stability and increased savings among individuals.

Strong employment rates contribute positively to the demand for small bay industrial spaces. High employment levels, particularly in construction trades and small-scale manufacturing, drive the need for smaller industrial units. As employment rises, so does the demand for goods and services provided by small businesses, which in turn increases the need for industrial spaces. Furthermore, higher personal income and disposable income levels can lead to increased business activities and expansions, further bolstering demand for these properties.

Trends of GDP, inflation, interest rates, and employment impact the small bay markets in several ways:

Demand Stability: Strong demand for small bay industrial spaces remains supported by high employment rates.

Cost Pressures: Inflation and interest rates increase limiting new developments and pushing up rental rates.

Supply Constraints: Costs and rates constrain the supply, maintaining low vacancy rates and high occupancy.

Economic Resilience: Unique characteristics of small bay markets contribute to their resilience amidst conditions.

Changing Tax Policy and Regulations in Key Markets

This section details recent and upcoming tax policy changes across several key cities in the United States and their potential impacts on small bay industrial markets. By examining changes in state and local tax laws, we can understand how these modifications are likely to influence the cost of doing business, attractiveness for investments, and overall demand for industrial properties in each region. The analysis covers a range of cities, highlighting both positive and negative economic impacts driven by these tax policy adjustments. This section only discusses cities that have been identified as Small Bay Industrial Markets that have had tax policy and regulation changes that could affect development in recent months.

TOP MARKET CITIES

ORLANDO, FL

Starting June 1, 2024, the state sales tax rate on commercial rentals in Florida will be reduced from 4.5% to 2.0%. This significant decrease aims to support businesses by lowering the cost of leasing commercial properties, potentially benefiting small bay industrial markets by reducing overhead costs for tenants.

The reduction of the state sales tax rate on commercial rentals from 4.5% to 2.0% is likely to positively impact the industrial real estate market in Orlando. This decrease will lower the cost of leasing industrial spaces, making it more attractive for businesses to operate and expand in the area. It could lead to increased demand for industrial properties, potentially driving up rental rates and property values over time.

SALT LAKE CITY, UT

Effective January 1, 2024, Utah is increasing its statewide motor fuel excise tax rate from $0.345 to $0.365 per gallon. This adjustment is part of a broader legislative effort to ensure adequate funding for the state's transportation infrastructure, including road maintenance and improvements.

The increase in the motor fuel excise tax from $0.345 to $0.365 per gallon in Utah will likely raise transportation costs for businesses that rely heavily on logistics and distribution. This may impact operating costs for industrial real estate tenants in Salt Lake City, particularly those in warehousing and distribution sectors. However, the additional tax revenue will support infrastructure improvements, which could enhance the overall business environment and long-term attractiveness of industrial properties.

MIDDLE MARKET CITIES

SACRAMENTO, LOS ANGELES, AND SAN DIEGO, CA

California will fund its state disability insurance program through a payroll tax of 1.1% on all wage income starting in 2024, lifting the previous wage ceiling of $153,164. This will raise the state's top marginal individual income tax rate on wage income to 14.4%. This change may impact the financial planning of individuals and businesses operating in the state.

The lifting of the wage ceiling on the state's disability insurance program tax in California will raise the top marginal individual income tax rate on wage income to 14.4%. This change could increase the cost of doing business in Sacramento, Los Angeles, and San Diego, potentially impacting industrial real estate demand negatively as businesses may look to relocate to lower-tax regions. However, the high demand for industrial space in these urban centers, driven by factors like proximity to ports and major markets, may mitigate some of the negative impacts.

CHARLOTTE, NC

North Carolina's state budget, Session Law 2023-134, sets the individual income tax rate at 4.5% for 2024, down from 4.75%. The legislation also extends sales and use tax exemptions for commercial aviation fuel and retail sales to professional motorsports teams that were set to expire in 2024.

The reduction in the individual income tax rate to 4.5% and the extension of sales and use tax exemptions for specific industries in North Carolina are expected to enhance the business climate in Charlotte. These tax incentives can attract more businesses to the area, boosting demand for industrial real estate as companies seek to establish or expand their operations.

Changing Tax Policy and Regulations in Key Markets

BOTTOM MARKET CITIES

ATLANTA, GA

Georgia will collapse its six individual income tax brackets into one at a rate of 5.49% starting in 2024. This flat tax initiative aims to simplify the tax code and potentially reduce the rate further to 5.39%, subject to revenue targets.

Georgia's move to adopt a flat tax rate of 5.49% on individual income is expected to simplify the tax code and potentially lower the tax burden for businesses and individuals. This could make Atlanta a more attractive destination for industrial investments, increasing demand for industrial properties. Additionally, if the rate is reduced further to 5.39%, it could accelerate this trend.

DENVER, CO

Through HB23B-1002, Colorado's earned income tax credit (EITC) will increase from 25% to 50% of the federal credit for the 2023-2024 fiscal year. Additionally, the state's unemployment insurance wage base will rise to $23,800 in 2024, with plans to increase it to $30,600 by 2026.

The increase in Colorado's earned income tax credit and the rise in the unemployment insurance wage base to $23,800 in 2024 may have mixed impacts on industrial real estate in Denver. While higher wage bases might increase labor costs for businesses, the enhanced earned income tax credit can boost consumer spending, indirectly supporting industrial sectors tied to consumer goods. The net effect on industrial real estate demand will depend on how these factors balance out.

PORTLAND, OR

New employers in Oregon will face a higher unemployment insurance tax rate in 2024, with the rate increasing from 2.1% to 2.4%. The wage base has also been increased to $52,800, up from $50,900.

New employers in Oregon facing a higher unemployment insurance tax rate of 2.4% and an increased wage base of $52,800 may experience higher labor costs. Additionally, the excise tax on motor fuel increasing to $0.40 per gallon can raise operational costs for logistics and distribution sectors. These increased costs might temper demand for industrial real estate in Portland, though the region's overall economic health and infrastructure quality will play significant roles.

DALLAS, HOUSTON, AND AUSTIN, TX

By approving Proposition 4, Texas voters have raised the homestead exemption from $40,000 to $100,000. This measure, known as "compression," will use state funds to reduce local property tax rates. Additionally, the "no tax due" threshold for the state franchise tax will double, meaning taxable entities generating less than $2.47 million in total annual revenue will not owe the franchise tax or be required to file a "no tax due report".

The approval of Proposition 4, which raises the homestead exemption and increases the "no tax due" threshold for the state franchise tax, will likely benefit businesses in Texas. Lower property tax rates and reduced franchise tax burdens can enhance the attractiveness of industrial real estate markets in Dallas, Houston, and Austin by lowering operational costs and encouraging business expansion.

NO TAX CHANGES

TOP MARKET: Nashville, Phoenix, Las Vegas

MIDDLE MARKET: Chicago, New York

BOTTOM MARKET: Seattle

Supply Chain Analysis for Small Bay Industrial Development

DYNAMICS OF SMALL BAY INDUSTRIAL PROPERTIES

Small bay industrial properties play a critical role in the modern supply chain, especially with the rise of e-commerce, advanced manufacturing, and technological innovations. These smaller industrial spaces are essential for supporting last-mile delivery, light manufacturing, and distribution, which have become increasingly vital as consumer demand shifts towards faster and more localized delivery options.

The demand for small bay industrial spaces has surged due to several factors. E-commerce companies require multiple small warehouses to ensure quick delivery times to urban centers, necessitating a network of well-located, smaller distribution hubs. Furthermore, advancements in manufacturing technologies, such as 3D printing and robotics, have reduced the space requirements for production, allowing more businesses to operate efficiently within small bay industrial units. This has led to an increased need for versatile and well-located small industrial properties that can support a variety of uses, from warehousing to light manufacturing.

SUPPLY CHAIN INTEGRATION AND MARKET TRENDS

The integration of small bay industrial properties into the broader supply chain has shown significant benefits. These properties are often used by tenants for a mix of warehousing, light manufacturing, and office space, providing flexibility and reducing the need for multiple locations. This integration helps streamline operations and reduces logistics costs, which is particularly important for companies engaged in e-commerce and just-in-time delivery models.

The market for small bay industrial properties remains robust, driven by low vacancy rates and high rental growth. For instance, in markets like Miami, small bay warehouse spaces have some of the lowest availability rates and highest rental rates, reflecting strong demand and limited supply. The supply of new small bay industrial developments is constrained by the high costs of land and development in urban areas, leading to a significant opportunity for investors who can navigate these challenges.

SUPPLY CHAIN FLEXIBILITY & INFILL DEVELOPMENT

The need for supply chain flexibility has increased the attractiveness of small bay industrial spaces. These properties offer versatile configurations that can serve multiple functions, from warehousing to light assembly and distribution. Their infill locations within urban centers allow businesses to be closer to their customer base, reducing transportation costs and improving service levels. Markets like Miami and Charlotte are examples where infill development has led to high occupancy rates and rental growth for small bay industrial spaces.

LIMITED SUPPLY AND HIGH DEMAND

Despite the growing demand, the supply of new small bay industrial developments remains limited. The high cost of land and construction in urban areas poses a challenge for developers. Additionally, zoning restrictions and the availability of suitable sites further constrain new developments. This limited supply, coupled with strong demand, has led to low vacancy rates and rising rents, making small bay industrial properties highly sought after by investors. Markets such as San Diego, Las Vegas, and Salt Lake City illustrate these dynamics, where the scarcity of available spaces drives up competition and rental prices.

Market Specific Analysis

This section provides a comprehensive examination of the industrial real estate markets across various cities, categorized into top, middle, and bottom market segments. Each category reflects distinct market dynamics, including vacancy rates, net absorption, construction activity, and lease rates. This segmentation allows for a detailed comparison and understanding of the opportunities and challenges present in each market tier.

TOP MARKET CITIES

Top market cities, such as Phoenix, Nashville, Las Vegas, Orlando, and Salt Lake City, display a diverse range of vacancy rates and net absorption figures, indicating varying levels of demand and space availability. Phoenix is notable for its high construction activity and significant completions, reflecting a booming development scene. Cities like Nashville and Las Vegas show strong absorption rates, signaling robust market activity. Lease rates are competitive across the segment, with cities like Orlando commanding higher rates due to strong demand, while Salt Lake City and Phoenix offer lower rates, making them attractive for cost-conscious tenants. Overall, these cities present a mix of high demand, substantial development, and varied pricing, providing valuable opportunities for both investors and tenants in the industrial real estate market.

MIDDLE MARKET CITIES

Middle market cities, including Los Angeles, San Diego, Charlotte, Chicago, Sacramento, and New York, generally maintain moderate vacancy rates and show balanced demand and availability. Net absorption is substantial in cities like Chicago and Los Angeles, showcasing active market conditions, though not as robust as top market cities like Phoenix. Construction activity is steady, with Chicago leading at 10,030,167 SF under construction, reflecting ongoing growth but less intensive than the top market. Lease rates vary significantly, with New York at a high $29.95/SF, reflecting its premium status, while Sacramento and San Diego offer more moderate rates, providing a range of options for tenants. These cities demonstrate a balanced mix of demand, development, and pricing, making them stable choices for investors and tenants seeking moderate opportunities.

BOTTOM MARKET CITIES

Bottom market cities, including Atlanta, Denver, Portland, Seattle, Dallas, Houston, and Austin, tend to have higher vacancy rates, indicating more available space and potentially lower demand. Net absorption figures are mixed, with some cities like Atlanta and Houston showing strong absorption, while others like Denver and Seattle reflect inconsistent market activity. Construction activity varies significantly, with cities like Austin and Dallas having substantial developments, indicating growth potential, while cities like Portland and Seattle show lower levels of construction. Lease rates are generally lower, making these markets more affordable but also reflecting lower demand. Bottom market cities present a more cautious investment landscape, with varied opportunities depending on localized market conditions.

Top Market Cities Analysis • 1Q2024

Top market cities show a diverse range of vacancy rates and net absorption figures, indicating varying levels of demand and space availability. Phoenix stands out with high construction activity and significant completions, reflecting a booming development scene, while cities like Nashville and Las Vegas show strong absorption rates, signaling robust market activity. Lease rates are competitive across the segment, with cities like Orlando commanding higher rates due to strong demand, while Salt Lake City and Phoenix offer lower rates, making them attractive for cost-conscious tenants. Overall, these cities present a mix of high demand, substantial development, and varied pricing, providing valuable opportunities for both investors and tenants in the industrial real estate market.

Top market cities exhibit a blend of high demand, substantial development, and competitive lease rates. The diversity in vacancy rates and net absorption highlights the varied market conditions within this segment. Cities like Phoenix and Las Vegas stand out for their significant construction activities, while Orlando and Nashville show robust demand reflected in their lease rates and low vacancy. Salt Lake City offers a balance of steady growth and attractive lease rates, making it an appealing option for tenants and investors.

MIDDLE MARKET CITIES COMPARISON

Top market cities like Phoenix and Las Vegas generally exhibit higher vacancy rates compared to middle market cities such as Los Angeles and Chicago. However, they also show strong absorption rates and significant under-construction and completion figures, indicating substantial market activity and development.

BOTTOM MARKET CITIES COMPARISON

Top market cities such as Phoenix and Las Vegas show competitive absorption and under-construction figures compared to bottom market cities like Dallas and Austin. Bottom market cities generally have higher vacancy rates, indicating more available space, but lower lease rates, making them more attractive for tenants seeking lower costs.

COMPARATIVE INSIGHTS

- **VACANCY RATES:** Top market cities generally have higher vacancy rates compared to middle market cities, indicating more available space but similar to bottom market cities.
- **NET ABSORPTION:** Cities like Phoenix and Las Vegas show strong absorption rates, comparable to middle market cities like Chicago.
- **CONSTRUCTION ACTIVITY:** Phoenix stands out with the highest under-construction and completion figures, while Nashville and Salt Lake City show steady growth.
- **LEASE RATES:** Top market cities tend to have competitive lease rates, making them attractive for tenants, though cities like Orlando have higher rates reflecting higher demand.

ORLANDO, FL

8.1%	186K	2.4M	2.6M	$8.76
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

NASHVILLE, TN

3%	1.7M	5.7M	653K	$8.38
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

PHOENIX, AZ

8.9%	4.5M	30.1M	11.8M	$1.08
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

SALT LAKE CITY, UT

5.8%	924K	4.5M	1.5M	$0.86
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

LAS VEGAS, NV

4.7%	1.8M	13.3M	4.4M	$1.05
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

Middle Market Cities Analysis • 1Q2024

Middle market cities generally maintain moderate vacancy rates, with Los Angeles at 2.70% and New York at 4.80%, indicating stable demand and availability. Net absorption is substantial in cities like Chicago (4,929,163 SF) and Los Angeles (3,789,818 SF), showcasing active market conditions, though not as robust as top market cities like Phoenix. Construction activity is steady, with Chicago leading at 10,030,167 SF under construction, reflecting ongoing growth but less intensive than the top market. Lease rates vary significantly, with New York at a high $29.95/SF, reflecting its premium status, while Sacramento and San Diego offer more moderate rates at $0.81/SF and $1.73/SF, respectively, providing a range of options for tenants.

Middle market cities demonstrate a balanced mix of demand, development, and pricing. Los Angeles and Chicago stand out for their lower vacancy rates and higher absorption, indicating relatively strong market conditions, while New York's high lease rates reflect its premium position despite moderate market activity. Cities like Sacramento and San Diego provide more affordable options, reflecting varied market dynamics within the middle market segment. The steady construction activity indicates ongoing but controlled growth, making these cities a stable choice for investors and tenants seeking moderate opportunities.

TOP MARKET CITIES COMPARISON

Middle market cities like Los Angeles and Chicago generally exhibit lower vacancy rates and higher lease rates compared to top market cities such as Orlando and Phoenix. They also show stronger absorption and substantial under-construction and completion figures, reflecting high demand and significant development activities.

BOTTOM MARKET CITIES COMPARISON

Middle market cities, particularly New York and Chicago, stand out with their higher lease rates and robust market activities compared to bottom market cities like Atlanta and Dallas. Bottom market cities generally have higher vacancy rates and lower lease rates, indicating more availability and potentially less competitive markets.

COMPARATIVE INSIGHTS

- **VACANCY RATES:** Middle market cities have some of the lowest vacancy rates, indicating higher demand compared to most top and bottom market cities.
- **NET ABSORPTION:** Los Angeles and Chicago lead with high absorption rates, showcasing strong market activities.
- **CONSTRUCTION ACTIVITY:** Chicago and Los Angeles exhibit significant construction activities, while Sacramento shows less development.
- **LEASE RATES:** New York stands out with an exceptionally high lease rate, far surpassing other cities, indicating a premium market. Other middle market cities also tend to have higher lease rates compared to top and bottom markets.

LOS ANGELES, CA

Vacancy Rate	Net Absorption SF	Under Construction SF	Completions SF	Lease Rate / SF
2.7%	3.8M	7.3M	820K	$1.52

SAN DIEGO, CA

Vacancy Rate	Net Absorption SF	Under Construction SF	Completions SF	Lease Rate / SF
4.6%	354K	2.3M	515K	$1.73

CHARLOTTE, NC

Vacancy Rate	Net Absorption SF	Under Construction SF	Completions SF	Lease Rate / SF
5.8%	945K	14M	2.8M	$9.59

CHICAGO, IL

Vacancy Rate	Net Absorption SF	Under Construction SF	Completions SF	Lease Rate / SF
4.3%	4.9M	10M	7.2M	$6.59

SACRAMENTO, CA

Vacancy Rate	Net Absorption SF	Under Construction SF	Completions SF	Lease Rate / SF
4.9%	802K	190K	1.4M	$0.81

NEW YORK, NY

Vacancy Rate	Net Absorption SF	Under Construction SF	Completions SF	Lease Rate / SF
4.8%	81K	4.4M	N/A	$29.95

Bottom Market Cities Analysis • 1Q2024

Bottom market cities tend to have higher vacancy rates, with Dallas at 9.70% and Austin at 8.70%, indicating more available space and potentially lower demand. Net absorption figures are mixed, with cities like Atlanta and Houston showing strong absorption, while others like Denver (387,954 SF) and Seattle (119,250 SF) lag behind, reflecting inconsistent market activity. Construction activity varies significantly, with Austin and Dallas having substantial developments at 16,034,242 SF and 14,883,100 SF under construction, respectively, indicating growth potential, while cities like Portland and Seattle show lower levels of construction. Lease rates are generally lower, making these markets more affordable but also reflecting lower demand; for instance, Houston offers a comparatively lower rate of $9.49/SF, while Austin is higher at $13.29/SF, indicating some localized demand variations.

Bottom market cities show a mix of higher vacancy rates, variable absorption, and inconsistent development activity, suggesting a less robust industrial real estate market compared to top and middle market cities. While cities like Atlanta and Houston exhibit strong absorption and significant construction, others like Denver and Seattle indicate slower market activity and less development. The generally lower lease rates make these markets more accessible but also reflect lower demand, presenting a more cautious investment landscape.

TOP MARKET CITIES COMPARISON

Bottom market cities like Dallas and Austin generally exhibit higher vacancy rates compared to top market cities such as Orlando and Las Vegas. However, they also show strong absorption rates and significant under-construction and completion figures, indicating substantial market activity and development.

MIDDLE MARKET CITIES COMPARISON

Bottom market cities such as Houston and Atlanta show competitive absorption and under-construction figures compared to middle market cities like Los Angeles and Chicago. However, bottom market cities generally have lower lease rates, making them more attractive for tenants seeking lower costs.

COMPARATIVE INSIGHTS

- **VACANCY RATES:** Bottom market cities generally have higher vacancy rates compared to top and middle market cities, indicating more available space.
- **NET ABSORPTION:** Cities like Atlanta and Houston show strong absorption rates, comparable to middle market cities like Chicago.
- **CONSTRUCTION ACTIVITY:** Dallas and Austin exhibit significant construction activity, indicating substantial development comparable to middle market cities.
- **LEASE RATES:** Bottom market cities tend to have lower lease rates, making them attractive for cost-conscious tenants, though cities like Austin and Denver have higher rates reflecting localized demand.

ATLANTA, GA

7%	4.1M	15.9M	4.9M	$7.42
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

DENVER, CO

7.6%	388K	5.9M	540K	$9.23
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

PORTLAND, OR

4.1%	1M	2.9M	155K	$0.89
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

SEATTLE, WA

8%	119K	933K	972K	$1.45
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

DALLAS, TX

9.7%	2.8M	14.9M	8.8M	$8.23
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

HOUSTON, TX

7.4%	2.4M	15.6M	6M	$9.49
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

AUSTIN, TX

8.7%	2.6M	16M	3.1M	$13.29
Vacancy Rate	*Net Absorption SF*	*Under Construction SF*	*Completions SF*	*Lease Rate / SF*

Regional Economic Conditions

ORLANDO, FL

2.8M	5.5%	3.3%	5.4%	0%	1.4M
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**6%**	**0.63%**	**$130K**	**$362B**	**104.4**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Orlando's economy is supported by a large population and labor force, with favorable tax conditions including no payroll or individual income taxes. The industrial market is active with competitive rental rates and a moderate cost of living. The city benefits from significant GDP contributions across various sectors, making it a robust environment for industrial development.

Orlando's future in small bay industrial development looks promising due to its robust population growth and favorable tax environment. The absence of payroll and individual income taxes creates a business-friendly atmosphere, encouraging both local and external investments. The city's industrial market, with competitive rental rates and ongoing construction, suggests a balanced demand and supply dynamic. The significant GDP contributions from various sectors, including construction and finance, further support Orlando's potential for sustained industrial growth. As businesses continue to seek cost-effective locations with solid infrastructure, Orlando is well-positioned to attract new small bay industrial developments, boosting its economic landscape.

NASHVILLE, TN

2.1M	6.5%	2.4%	10%	10%	1.1M
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**7%**	**0.57%**	**$140K**	**$135B**	**108.1**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Nashville's low unemployment rate and high GDP per employee reflect a strong economic performance. Despite higher payroll and unemployment insurance taxes, the city remains attractive for industrial investments due to its lower property and industrial rental rates. The growing economy is further supported by significant contributions from construction and finance sectors.

Nashville's low unemployment rate and high GDP per employee reflect a strong economic foundation that supports industrial growth. Despite higher payroll and unemployment insurance taxes, Nashville's low property and industrial rental rates make it an attractive market for small bay industrial developments. The city's substantial ongoing construction and high pre-leasing rates indicate strong demand for industrial spaces. With continued population growth and economic diversification, Nashville is likely to see increased investments in small bay industrial properties, driving further economic development and enhancing its role as a regional industrial hub.

Regional Economic Conditions

PHOENIX, AZ

5.1M	**4.9%**	**2.6%**	**18.8%**	**5.1%**	**2.6M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**5.6%**	**0.63%**	**$135K**	**$245B**	**102.4**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Phoenix's economy is marked by a large labor force and low unemployment rate, supported by a favorable tax environment. The city's industrial market is competitive with moderate rental rates and a reasonable cost of living. Significant GDP contributions from the construction and finance sectors underscore Phoenix's economic strength.

Phoenix presents a dynamic environment for small bay industrial development due to its large labor force, low unemployment rate, and favorable tax conditions. The city's competitive industrial rental rates and significant GDP contributions from construction and finance sectors highlight its economic strength. The higher industrial vacancy rate suggests ample opportunities for new businesses to enter the market. As the demand for localized manufacturing and quick distribution increases, Phoenix's strategic location and growing economy will attract more small bay industrial investments, fostering long-term economic development.

SALT LAKE CITY, UT

1.3M	**4.85%**	**2.8%**	**7%**	**4.85%**	**760K**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
4.85%	**5.1%**	**0.72%**	**$125K**	**$121B**	**100.2**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Orlando's economy is supported by a large population and labor force, with favorable tax conditions including no payroll or individual income taxes. The industrial market is active with competitive rental rates and a moderate cost of living. The city benefits from significant GDP contributions across various sectors, making it a robust environment for industrial development.

Orlando's future in small bay industrial development looks promising due to its robust population growth and favorable tax environment. The absence of payroll and individual income taxes creates a business-friendly atmosphere, encouraging both local and external investments. The city's industrial market, with competitive rental rates and ongoing construction, suggests a balanced demand and supply dynamic. The significant GDP contributions from various sectors, including construction and finance, further support Orlando's potential for sustained industrial growth. As businesses continue to seek cost-effective locations with solid infrastructure, Orlando is well-positioned to attract new small bay industrial developments, boosting its economic landscape.

Regional Economic Conditions

LAS VEGAS, NV

2.3M	**0%**	**5.2%**	**5.4%**	**1.17%**	**1.2M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**6.85%**	**0.59%**	**$123K**	**$161B**	**101.1**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Las Vegas offers a unique economic environment with no corporate or individual income taxes, making it highly attractive for businesses. Despite a higher unemployment rate, the city's industrial market shows moderate rental rates and a cost of living close to the national average. Significant contributions from the construction and finance sectors support the city's economic stability.

Las Vegas offers a unique economic environment with no corporate or individual income taxes, making it highly attractive for businesses. Despite a higher unemployment rate, the city's moderate industrial rental rates and significant contributions from the construction and finance sectors provide a stable foundation for economic growth. The substantial ongoing industrial construction and moderate vacancy rates suggest opportunities for new industrial developments. As businesses seek tax-friendly locations with robust infrastructure, Las Vegas is poised to attract more small bay industrial investments, enhancing its economic landscape and diversifying its industrial base.

LOS ANGELES, CA

12.8M	**8.84%**	**4.3%**	**6.2%**	**6.6%**	**6.6M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
13.3%	**7.25%**	**0.75%**	**$170K**	**$1.23T**	**150.6**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Los Angeles is a major economic hub with a large population and labor force. The high corporate and individual income tax rates are complemented by significant GDP per employee, indicating strong economic productivity. However, the high cost of living and elevated rental rates for office and industrial spaces present challenges for affordability and business expansion.

The future of small bay industrial development in Los Angeles is somewhat mixed. The city's large population and economic productivity are strong positives, but high corporate and individual income tax rates, combined with elevated property and payroll taxes, present significant hurdles for new businesses. While the substantial labor force and high GDP per employee indicate ongoing economic activity, the high costs associated with operating in Los Angeles may deter some potential investors. Overall, while there are opportunities, the challenges may temper the pace of industrial development.

Regional Economic Conditions

SAN DIEGO, CA

3.3M	**8.84%**	**4.1%**	**6.2%**	**6.6%**	**1.6M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
13.3%	**7.25%**	**0.75%**	**$166K**	**$296B**	**144.2**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

San Diego's economic conditions are similar to Los Angeles, with high tax rates and a significant GDP per employee. The cost of living is slightly lower than Los Angeles, and industrial rental rates are competitive, making it a relatively attractive location for businesses seeking a balance between cost and quality of life.

San Diego faces a similar scenario to Los Angeles, with high tax rates posing a challenge to potential small bay industrial development. The city's lower cost of living compared to Los Angeles and competitive industrial rental rates provide some relief. However, these factors may not be enough to fully counterbalance the high tax burden. San Diego's strong economic foundation and significant GDP per employee offer potential, but the high operational costs could limit aggressive industrial expansion.

CHARLOTTE, NC

2.8M	**2.5%**	**3.2%**	**5.76%**	**5.09%**	**1.5M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
4.99%	**4.75%**	**0.82%**	**$160K**	**$229B**	**92.8**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Charlotte presents a favorable economic environment with low corporate and individual income tax rates. The low unemployment rate and cost of living index make it an attractive location for businesses and employees alike. The competitive industrial rental rates further enhance its appeal for industrial development.

Charlotte offers a relatively better environment for small bay industrial development compared to other mid-market cities, thanks to its low corporate and individual income tax rates and lower cost of living. These conditions make Charlotte more attractive to businesses. However, while the city's low unemployment rate and substantial labor force are positives, the overall market conditions may not drive the same level of industrial development seen in top market cities. Charlotte is favorable, but it is not without its limitations.

Regional Economic Conditions

CHICAGO, IL

9.3M	**9.5%**	**4.4%**	**7.1%**	**4.95%**	**5M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
4.95%	**6.25%**	**2.05%**	**$149K**	**$833B**	**113.7**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Chicago's large population and labor force support its role as a major economic center. Despite higher corporate and property tax rates, the city's competitive industrial rental rates and significant GDP per employee highlight its economic strength. The cost of living index is moderate, making it a viable option for businesses and residents.

Chicago's economic conditions provide both opportunities and challenges for small bay industrial development. The city's large population and labor force are strengths, but higher corporate and property tax rates could deter some investors. While the competitive industrial rental rates and significant GDP per employee indicate economic potential, the moderate cost of living and tax burden may slow the pace of development. Chicago has potential, but it is balanced by significant economic hurdles.

SACRAMENTO, CA

2.4M	**8.84%**	**4.9%**	**6.2%**	**6.2%**	**1.1M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
13.3%	**7.25%**	**0.75%**	**$141K**	**$176B**	**119.4**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Sacramento's economic conditions are characterized by high tax rates but competitive industrial rental rates. The cost of living index is higher than the national average, reflecting demand for residential and commercial spaces. The city's moderate GDP per employee and significant labor force support its economic viability.

Sacramento's prospects for small bay industrial development are moderate. Competitive industrial rental rates and a moderate GDP per employee are positives, but high tax rates and a higher cost of living present notable challenges. While the city has a significant labor force and demand for industrial spaces, these factors may not be enough to overcome the high costs of operation. Sacramento offers opportunities, but the path to growth may be gradual and constrained by economic pressures.

Regional Economic Conditions

NEW YORK, NY

19.5M	**7.25%**	**4%**	**9.8%**	**N/A**	**10.3M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
10.9%	**4%**	**1.38%**	**$178K**	**$2.16T**	**N/A**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

New York's massive population and labor force underscore its position as a global economic powerhouse. Despite the high cost of living, the city's significant GDP per employee reflects its economic productivity. The corporate income tax rate is relatively lower than California's, but higher than tax haven states such as Nevada, Texas, and Florida.

New York's potential for small bay industrial development is tempered by high living costs and operational expenses. The city's large population and labor force are undeniable strengths, but the relatively lower corporate income tax rate and sales tax might not be sufficient to attract widespread industrial investment. Despite a high GDP per employee, the overall cost of doing business in New York could slow industrial growth. New York remains a key economic hub, but its attractiveness for small bay industrial development is limited by significant financial challenges.

ATLANTA, GA

6.3M	**5.75%**	**3.1%**	**8.1%**	**5.8%**	**3.3M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
5.75%	**4%**	**0.92%**	**$150K**	**$526B**	**96.6**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Atlanta presents a mixed bag for industrial development. While the city benefits from a substantial population and a moderate cost of living, the corporate and individual income tax rates, along with the unemployment insurance tax, are relatively high. This could deter some businesses from setting up operations.

The future of small bay industrial development in Atlanta is somewhat challenging due to the relatively high corporate and individual income tax rates and the significant unemployment insurance tax. However, Atlanta's large population and moderate cost of living offer some potential for growth. The low industrial rental rates might attract cost-conscious businesses looking for affordable space, but the overall high tax burden may limit the pace of development. While there are opportunities, they are tempered by economic constraints.

Regional Economic Conditions

DENVER, CO

3M	**4.4%**	**3.9%**	**10.39%**	**4.4%**	**1.7M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
4.4%	**2.9%**	**0.55%**	**$155K**	**$288B**	**107.6**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Denver's economic environment is characterized by a relatively low corporate income tax and competitive property taxes. However, the high unemployment insurance tax and moderate cost of living could pose challenges for new businesses. The industrial rental rates are attractive, making Denver a viable option for businesses seeking affordable industrial space, though the overall economic conditions may not drive rapid growth.

Denver presents a mixed outlook for small bay industrial development. The relatively low corporate income tax and competitive property taxes are positives, but the high unemployment insurance tax and moderate cost of living could deter new businesses. The industrial rental rates are attractive, making Denver a viable option for businesses seeking affordable industrial space. However, the economic environment may not drive rapid growth, and development could be gradual.

PORTLAND, OR

2.5M	**7.6%**	**4.4%**	**5.4%**	**8%**	**1.4M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
9.9%	**0%**	**0.93%**	**$144K**	**$204B**	**119**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Portland's high corporate and individual income tax rates, combined with a relatively high cost of living, make it less attractive for small bay industrial development. The absence of a sales tax is a positive factor, but the overall tax burden may outweigh this benefit. The moderate industrial rental rates offer some incentive for businesses, but the economic environment is challenging.

Portland's future for small bay industrial development is less favorable due to high corporate and individual income tax rates and a relatively high cost of living. The moderate industrial rental rates offer some incentive for businesses, but the economic environment remains challenging. Growth in the small bay industrial sector may be slow and limited.

Regional Economic Conditions

SEATTLE, WA

4M	**0%**	**4.1%**	**5.4%**	**0%**	**2.2M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**6.5%**	**0.87%**	**$219K**	**$518B**	**144**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Seattle offers a mixed outlook for small bay industrial development. The absence of corporate and individual income taxes is a significant advantage, but the high cost of living and elevated rental rates for office and industrial spaces present challenges. The substantial GDP per employee indicates strong economic productivity, but the high operational costs may limit aggressive industrial expansion.

Seattle offers a somewhat balanced outlook for small bay industrial development. The absence of corporate and individual income taxes is a significant advantage, but the high cost of living and elevated rental rates for office and industrial spaces present challenges. The substantial GDP per employee indicates strong economic productivity, which could attract businesses. However, the high operational costs may limit aggressive industrial expansion. Seattle's growth in the small bay industrial sector will likely be moderate, with businesses carefully weighing the benefits against the costs.

DALLAS, TX

8.1M	**0%**	**3.9%**	**6%**	**0%**	**4.4M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**6.25%**	**1.68%**	**$142K**	**$689B**	**101.5**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Dallas presents a favorable environment for small bay industrial development due to the absence of corporate and individual income taxes. The moderate cost of living and competitive office rental rates make it attractive for businesses.

However, the high property tax rate could be a deterrent. Overall, Dallas has potential for growth in the small bay industrial sector, but the economic conditions are not as compelling as those in top market cities. Development may proceed at a steady but cautious pace.

Regional Economic Conditions

HOUSTON, TX

7.5M	**0%**	**3.8%**	**6%**	**0%**	**3.7M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**6.25%**	**1.68%**	**$155K**	**$633B**	**93.8**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Houston benefits from the absence of corporate and individual income taxes, making it an attractive location for businesses. The relatively low cost of living and competitive industrial rental rates add to its appeal. However, the high property tax rate and moderate GDP per employee could limit rapid industrial growth.

Houston offers potential for small bay industrial development, but economic challenges such as high property taxes need to be managed carefully. Growth is likely to be moderate, with opportunities for incremental expansion.

AUSTIN, TX

2.5M	**0%**	**3%**	**6%**	**0%**	**1.5M**
Population	*Corporate Income Tax*	*Unemployment Rate*	*Unemployment Tax*	*Payroll Tax*	*Labor Force*
0%	**6.25%**	**1.68%**	**$148K**	**$222B**	**97.9**
Individual Income Tax	*Sales Tax*	*Property Tax*	*GDP per Employee*	*GDP*	*Cost of Living Index*

Austin's economic conditions are mixed for small bay industrial development. The absence of corporate and individual income taxes is a major advantage, and the moderate cost of living index makes it attractive for residents and businesses.

However, high office rental rates and a moderate GDP per employee could pose challenges. The city's economic environment offers opportunities, but growth in the small bay industrial sector may be gradual due to existing limitations. Austin has potential, but development will likely be cautious and measured.

ECONOMIC ANALYSIS OF U.S. SMALL BAY INDUSTRIAL MARKETS

Sunset Decatur • Las Vegas, NV

193,300 SF | 12 BUILDINGS | MIXED USE FLEX & DISTRIBUTION

HABITAT DEVELOPMENT

Forecast for Small Bay Industrial Markets

The small bay industrial real estate market is poised for continued growth and resilience despite various economic challenges. This forecast examines the potential trends and factors that will shape the small bay industrial sector across the United States, emphasizing the unique dynamics of top, middle, and bottom market cities.

TOP MARKET CITIES

Top market cities such as Orlando, Nashville, Phoenix, Salt Lake City, and Las Vegas are expected to maintain their strong performance due to robust economic growth, favorable tax environments, and high demand for industrial spaces. These cities are likely to see sustained construction activity and stable lease rates. The strategic locations and economic diversification in cities like Phoenix and Las Vegas will continue to attract investments, driving further industrial development.

- **VACANCY RATES:** Expected to remain low due to high demand and ongoing economic growth.
- **NET ABSORPTION:** Strong absorption rates will persist, reflecting healthy market activity.
- **CONSTRUCTION ACTIVITY:** Continued development is anticipated, particularly in high-growth areas like Phoenix.
- **LEASE RATES:** Competitive lease rates will attract a diverse range of tenants, supporting stable rental growth.

MIDDLE MARKET CITIES

Middle market cities including Los Angeles, San Diego, Charlotte, Chicago, Sacramento, and New York will face a balanced mix of opportunities and challenges. High operational costs and tax rates may temper growth, but the inherent economic strengths of these cities provide a foundation for moderate industrial development.

- **VACANCY RATES:** Likely to remain moderate, reflecting stable demand and balanced availability.
- **NET ABSORPTION:** Substantial absorption rates in cities like Chicago and Los Angeles will showcase active market conditions.
- **CONSTRUCTION ACTIVITY:** Steady, but not as intensive as in top market cities, indicating controlled growth.
- **LEASE RATES:** Vary significantly, with New York commanding premium rates due to its economic status, while other cities offer more moderate pricing.

BOTTOM MARKET CITIES

Bottom market cities such as Atlanta, Denver, Portland, Seattle, Dallas, Houston, and Austin face various economic challenges that could slow industrial growth. High tax rates and operational costs present hurdles, but large populations and substantial labor forces provide a foundation for potential development.

- **VACANCY RATES:** Higher vacancy rates indicate more available space, but also lower demand.
- **NET ABSORPTION:** Mixed figures with cities like Houston showing strong absorption, while others like Denver lag behind.
- **CONSTRUCTION ACTIVITY:** Substantial in cities like Austin and Dallas, indicating growth potential despite economic challenges.
- **LEASE RATES:** Generally lower, making these markets more accessible for cost-conscious tenants but reflecting lower overall demand.

Insights and Projections

DEMAND STABILITY: Strong employment rates and economic resilience support ongoing demand for small bay industrial spaces. High demand in strategic locations will drive occupancy and rental growth.

COST PRESSURES: Inflation and high interest rates may increase construction and operational costs, impacting new developments and pushing up rental rates.

SUPPLY CONSTRAINTS: The limited supply of new small bay industrial properties, combined with high demand, will maintain low vacancy rates and high occupancy.

ECONOMIC RESILIENCE: The role of small bay industrial spaces for small businesses and trade services ensures resilience amidst varying economic conditions. Markets with robust infrastructure and strategic locations will continue to attract successful investments.

Overall, the small bay industrial market is expected to remain robust, with top market cities leading the way in terms of growth and development. Middle market cities will experience moderate expansion, while bottom market cities will see cautious and steady growth. Investors and developers should consider the unique dynamics of each market segment to capitalize on the opportunities and navigate the challenges in the small bay industrial sector.

Summary

This comprehensive analysis of the small bay industrial real estate market across the United States focused on 18 key cities from the top 60 MSA's categorized into top, middle, and bottom market segments. The analysis highlights the significance of small bay industrial properties in the broader economy, examining how macroeconomic trends, tax policies, and regional economic conditions impact this sector.

TOP MARKET CITIES

The top market cities - Orlando, Nashville, Phoenix, Salt Lake City, and Las Vegas - are characterized by strong economic growth, favorable tax environments, and significant industrial development activities. These cities exhibit a mix of high demand, substantial construction, and competitive lease rates, making them prime candidates for increased industrial investments. For example, Phoenix stands out with its booming development scene and significant industrial completions, while Nashville and Las Vegas demonstrate robust market activity and strong absorption rates.

MIDDLE MARKET CITIES

Middle market cities, including Los Angeles, San Diego, Charlotte, Chicago, Sacramento, and New York, present a balanced mix of opportunities and challenges. While these cities offer more potential than bottom market cities, high taxes, operational costs, and living expenses present significant hurdles. Despite these challenges, cities like Chicago and Los Angeles show strong market conditions with substantial net absorption and ongoing construction. Charlotte, with its favorable tax rates and lower cost of living, also presents attractive opportunities for industrial development.

BOTTOM MARKET CITIES

Bottom market cities - Atlanta, Denver, Portland, Seattle, Dallas, Houston, and Austin - face a range of economic conditions that make them less attractive compared to top and middle market cities. High tax rates, operational costs, and cost of living indices pose challenges that may slow industrial growth. However, these cities also possess inherent strengths, such as large populations and substantial labor forces, which provide a foundation for moderate economic development. Cities like Houston and Atlanta show strong absorption rates and significant construction activity, indicating pockets of potential growth.

KEY INSIGHTS

VACANCY RATES: Top market cities generally have higher vacancy rates compared to middle market cities, indicating more available space but similar to bottom market cities.

NET ABSORPTION: Cities like Phoenix and Las Vegas show strong absorption rates, comparable to middle market cities like Chicago, while bottom market cities have more variable absorption figures.

CONSTRUCTION ACTIVITY: Phoenix stands out with the highest under-construction and completion figures, while cities like Dallas and Austin in the bottom market segment also exhibit substantial construction activity.

LEASE RATES: Lease rates are competitive across top market cities, making them attractive for tenants. Middle market cities tend to have higher lease rates due to high demand and operational costs, whereas bottom market cities offer more affordable options.

The small bay industrial real estate market presents diverse opportunities and challenges across different regional segments. Top market cities are well-positioned for growth with their robust economic conditions and favorable tax environments. Middle market cities offer balanced prospects but face some economic hurdles. Bottom market cities, while less attractive overall, could still provide viable opportunities for strategic investments. Understanding these regional dynamics is crucial for stakeholders to make informed decisions and capitalize on the potential within the small bay industrial sector.

Definitions

INDUSTRIAL SMALL BAY: Refers to industrial properties typically smaller than 50,000 square feet

VACANCY RATE: The percentage of all available units in a rental property that are vacant or unoccupied at a particular time.

NET ABSORPTION: The net change in occupied space in a market over a specified period, reflecting the balance of new space occupied versus space vacated.

CONSTRUCTION ACTIVITY: The amount of space under construction, indicating future supply in the market.

LEASE RATE: The amount charged per square foot for leasing industrial space

GDP PER EMPLOYEE: The total economic output produced per employee in a specific area, indicating productivity.

COST OF LIVING INDEX: A relative measure of the cost of living in different locations, where a higher index indicates higher living costs.

UNEMPLOYMENT RATE: The percentage of the labor force that is unemployed and actively seeking employment.

UNEMPLOYMENT INSURANCE TAX: A tax imposed on employers to fund unemployment benefits

PAYROLL TAX: Taxes imposed on employers and employees,

Corporate Income Tax: A tax on the profits of a corporation. Individual Income Tax: A tax on individuals' earnings

SALES TAX: A tax on sales or on the receipts from sales. Property Tax: A tax assessed on real estate by the local government, based on the value of the property.

LABOR FORCE: The total number of people employed or actively seeking employment in a given area.

TRIPLE NET LEASE: A lease agreement on a property where the tenant agrees to pay all real estate taxes, building insurance, and maintenance on the property in addition to any normal fees.

TOP MARKET: Cities in the top 20 of the 60 largest MSA's based on availability and time on market of industrial property under 50K SF

MIDDLE MARKET: Cities in the middle 20 of the 60 largest MSA's based on availability and time on market of industrial property under 50K SF

BOTTOM MARKET: Cities in the bottom 20 of the 60 largest MSA's based on availability and time on market of industrial property under 50K SF

Data Sources

- Las Vegas Global Economic Alliance (LVGEA)
- Bureau of Economic Analysis (BEA)
- Bureau of Labor Statistics (BLS)
- Tax Foundation
- CBRE Industrial Market Reports Q1 2024, Various Cities
- Colliers Industrial Market Reports Q1 2024, Various Cities
- Trading Economics
- National Conference of State Legislatures (NCSL)
- Florida Department of Revenue
- Clarus Partners
- PricewaterhouseCoopers (PwC)
- Commercial Search
- Hall CPA
- BKM Capital Partners
- NAIOP, the Commercial Real Estate Development Association
- JLL (Jones Lang LaSalle)
- Real Capital Analytics
- U.S. Census Bureau

HABITAT

DESIGN • DEVELOPMENT

HABITATDD.COM