COSTAR INSIGHT

Small Industrial Spaces Are in Short Supply Across the US. Here's Where They Are Scarcest.

Tenants Tied to Construction Trades Swallow Up Space in Many Sun Belt Markets

This 10,000-square-foot industrial property sits outside of Louisville, Kentucky, surprisingly one of the country's scarcest markets for available small-bay industrial space. (CoStar)

By Adrian Ponsen
CoStar Analytics

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Smaller industrial properties have maintained impressive occupancy rates and rising rents for several years, but in recent months they have increasingly stood out as one of the best-performing categories of commercial real estate.

Other property types typically favored by investors, namely luxury apartments and big-box distribution centers, are facing headwinds as the large amount of new development started during the pandemic reaches completion in record numbers, helping to drive up vacancy rates.

In contrast, the recent outperformance of smaller industrial properties owes mainly to their insulation from supply-side risk. Securing land and entitlements for industrial projects near most major cities is challenging and few developers are willing to invest the time needed to clear these hurdles unless the projects involved and the corresponding payouts for completing them are large.

Meanwhile, developers behind the unleased big-box distribution centers being completed these days are largely unwilling to subdivide their space and lease to tenants smaller than 25,000 square feet or even 50,000 square feet. The net result is that very few developers are building small-bay industrial facilities favored by small, blue-collar businesses, and vacancy rates among small industrial properties remain near all-time lows.

To learn which U.S. markets have the most acute shortages of smaller industrial space, CoStar ranked the 60 largest U.S. markets based on the composite scores of three criteria: current availability rates for industrial buildings smaller than 50,000 square feet; the median number of months on the market of 10,000-25,000-square-foot industrial spaces leased in the past 12 months; and the median number of months on the market of industrial spaces smaller than 10,000 square feet leased in the past 12 months.

The amount of time smaller industrial spaces spend on the market can differ widely within and between markets depending on whether the properties leased are built to modern standards or older buildings bordering on functional obsolescence. To control for these differences, median months to lease were calculated only for spaces in properties built in the 1970s and 1980s, typically the largest vintages of smaller industrial buildings in most U.S. markets.

Tightest 20 Markets Are Migration Magnets, Critical Port Cities

Composite Ranking	Market	Availability Rate of Properties Smaller Than 50,000 Square Feet	Median Months To Lease for 10,000-25,000-Square-Foot Spaces*	Median Months To Lease for Spaces Smaller Than 10,000 Square Feet*
1	Louisville - KY	1.6%	3.1	1.5
2	Jacksonville - FL	3.5%	2.0	2.0
3	Tampa - FL	3.3%	3.0	2.5
4	Milwaukee - WI	2.8%	2.7	3.2
5	Orlando - FL	3.9%	2.5	2.6
6	Nashville - TN	3.5%	3.4	2.5
7	Orange County - CA	4.1%	3.5	2.1
8	Phoenix - AZ	4.2%	3.4	2.1
9	Miami - FL	3.5%	3.3	2.8
10	Lehigh Valley - PA	3.9%	3.0	2.9
11	Salt Lake City - UT	3.1%	6.1	2.2
12	Las Vegas - NV	5.1%	2.9	2.2
13	Richmond - VA	2.6%	4.7	3.4
14	Rochester - NY	3.2%	4.1	3.3
15	Greensboro - NC	3.5%	4.7	3.0
16	Long Island - NY	4.3%	4.6	2.4
17	Norfolk - VA	3.4%	5.4	2.8
18	Kansas City - MO	3.5%	4.3	3.5
19	Los Angeles - CA	5.0%	4.0	2.5
20	Columbus - OH	3.8%	5.0	3.3

Source: CoStar, March 2024
*Median months to lease are calculated for spaces in properties built in the 1970s or 1980s.

Markets that have attracted a surge of in-migration in recent years, including Nashville, Tennessee, and the Florida markets of Jacksonville, Tampa and Orlando, are well represented among the 20 areas that score highest for having a scarcity of small industrial spaces. This makes sense, given that businesses catering to growing local housing stocks, such as HVAC contractors, plumbers and electricians, are key occupiers of smaller industrial properties.

Critical port markets in Virginia, South Florida and Southern California also rank among the top 20 areas with a scarcity of available small-bay industrial space.

Louisville, Kentucky, may surprise many readers for its ranking as one of the tightest markets in the United States. However, its location in the middle of the burgeoning electric vehicle manufacturing region known as the battery belt, coupled with major distribution infrastructure including Louisville Muhammad Ali International, North America’s third-largest cargo airport, provides industrial leasing drivers.

Middle Ranking Markets Include the Largest Midwest Cities

Composite Ranking	Market	Availability Rate of Properties Smaller Than 50,000 Square Feet	Median Months To Lease for 10,000-25,000-Square-Foot Spaces*	Median Months To Lease for Spaces Smaller Than 10,000 Square Feet*
21	San Diego - CA	4.9%	4.6	2.6
22	Charlotte - NC	3.1%	5.4	4.1
23	San Jose - CA	3.8%	6.9	2.9
24	Minneapolis - MN	2.9%	7.4	3.4
25	Memphis - TN	3.8%	6.0	3.4
26	Cincinnati - OH	2.3%	8.6	3.4
27	Fort Lauderdale - FL	4.1%	7.1	2.7
28	Greenville/Spartanburg - SC	3.4%	3.2	5.3
29	Northern New Jersey - NJ	4.4%	5.8	3.3
30	Indianapolis - IN	3.0%	5.9	4.4
31	Chicago - IL	4.7%	5.6	3.3
32	East Bay - CA	4.9%	5.1	3.4
33	Detroit - MI	4.3%	5.5	3.8
34	Sacramento - CA	4.5%	6.9	3.0
35	Inland Empire - CA	6.5%	4.6	2.5
36	Providence - RI	3.2%	4.6	5.2
37	Grand Rapids - MI	1.3%	3.9	7.1
38	Birmingham - AL	3.1%	8.0	3.7
39	Stockton - CA	5.0%	7.1	2.6
40	New York - NY	4.5%	5.7	3.8

Source: CoStar, March 2024
*Median months to lease are calculated for spaces in properties built in the 1970s or 1980s.

Most of the largest cities in the Midwest, including Chicago, Detroit, Indianapolis and Minneapolis, rank in the middle of the pack. Geographic and infrastructure advantages support leasing by small manufacturing and distribution tenants in these locations.

However, limited population growth, or in some cases population losses, result in less robust leasing among smaller tenants in local construction trades. Similar headwinds weigh on leasing in other middle-ranking markets such as New York City and California’s East Bay.

Multiple Markets in Georgia, Ohio, Oklahoma, Pennsylvania, and Texas Rank in the Bottom 20

Composite Ranking	Market	Availability Rate of Properties Smaller Than 50,000 Square Feet	Median Months To Lease for 10,000-25,000-Square-Foot Spaces*	Median Months To Lease for Spaces Smaller Than 10,000 Square Feet*
41	Atlanta - GA	4.9%	5.3	3.7
42	Denver - CO	5.6%	4.7	3.5
43	Portland - OR	5.6%	5.6	3.1
44	Saint Louis - MO	4.1%	7.7	3.6
45	Seattle - WA	4.5%	6.1	4.1
46	Savannah - GA	3.7%	8.4	3.8
47	Oklahoma City - OK	6.0%	4.6	3.9
48	Pittsburgh - PA	4.6%	3.5	5.6
49	Dallas-Fort Worth - TX	6.1%	5.1	3.6
50	Boston - MA	4.3%	7.7	3.8
51	Philadelphia - PA	4.5%	7.3	4.4
52	San Antonio - TX	5.9%	5.2	4.3
53	Tulsa - OK	3.5%	9.5	4.7
54	Hartford - CT	3.4%	7.7	5.9
55	Houston - TX	6.9%	6.1	4.1
56	Washington - DC	4.6%	11.3	3.5
57	Cleveland - OH	2.7%	10.6	5.5
58	Baltimore - MD	6.0%	7.8	4.2
59	Dayton - OH	3.1%	11.9	5.0
60	Austin - TX	9.0%	5.9	3.5

Source: CoStar, March 2024
*Median months to lease are calculated for spaces in properties built in the 1970s or 1980s.

A diverse set of locales comprise the 20 markets with the highest availability rates and leasing times for small industrial spaces. The four largest Texas markets, Austin, Dallas-Fort Worth, Houston and San Antonio, all rank in this group.

In all four of these markets, the stock of industrial properties smaller than 50,000 square feet has increased at more than twice the national rate over the past five years, with Austin and Houston more than quadrupling the U.S. growth rate.

Texas is widely known for the growth-friendly policies of its state and local governments. More abundant development of small industrial properties is likely contributing to these markets' higher availability rates.

However, most of these 20 markets with higher availability rates and longer leasing timelines than most locales still have limited inventories of small industrial spaces available for lease. For example, in Dallas-Fort Worth, the current 6.1% availability rate for small industrial properties is well below the 8.7% level recorded in the market 10 years ago. Similarly, the median time to lease for spaces smaller than 10,000 square feet in Dallas-Fort Worth is 3 1/2 months, down from the median time to lease of five months recorded 10 years earlier.

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