

SPANVOR RESEARCH | PUBLIC CMBS LOAN DATA

Small-Bay Earns More Per Foot. The Expense Line Tells the Rest.

What public CMBS loan tapes reveal when industrial properties are classified by how they operate—not by an arbitrary size ceiling

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Industrial real estate loves simple labels. Small warehouse. Big warehouse. Flex. Distribution. Draw a line at a certain number of square feet, sort the properties and move on.

Small-bay refuses to cooperate.

A 240,000-square-foot business park can contain twenty 12,000-square-foot buildings and eighty tenants. A 170,000-square-foot distribution building can contain one tenant on a long-term net lease. The first can be a classic small-bay operating business. The second can behave more like a bond wrapped in concrete and loading doors.

The important distinction is not simply how much real estate sits inside the collateral. It is **how that real estate makes money**.

This report uses operating evidence to make that distinction: flex designation, average building size, average tenant space, tenant concentration, property and building counts, drive-in doors and clear height. Total size still matters, but it does not decide the category by itself.

That produces a revealing result. Operating small-bay generated approximately **70% more NOI per building square foot** than a high-confidence group of genuinely large industrial buildings. Its property revenue also grew faster. But expenses grew faster still, occupancy outcomes were more uneven, and nearly six times as many loans fell below 1.25x debt-service coverage.

That is not a contradiction. It is the small-bay business model.

Small-bay has more ways to create income—and more places for that income to leak out before it becomes NOI.

A 1.4-million-square-foot small-bay park is still small-bay

The largest operating small-bay property in the CMBS comparison is Century Business Center in Hawthorne, California. It contains approximately **1.4 million square feet across 21 buildings**. The average building is about 67,000 square feet, and the collateral is identified as flex.

Calling that property big-box because the total exceeds 200,000 square feet would miss what an owner actually owns.

The tape contains other examples:

- An approximately 1.08-million-square-foot logistics portfolio divided among 62 collateral properties—about 17,500 square feet apiece.
- An approximately 877,000-square-foot Chicago infill portfolio spread across 12 properties.
- A 277,000-square-foot Kenosha property containing 13 buildings averaging about 21,000 square feet.
- Chandler Tech Center: approximately 242,000 square feet across six buildings, explicitly identified as flex.
- McGaw Commerce Center: approximately 281,000 square feet with an estimated average tenant footprint below 19,000 square feet.

At the other end sits a 169,700-square-foot FedEx distribution property where FedEx occupies approximately 78% of the space. It is smaller in total area, but it does not operate like a granular small-bay park.

The contrast is the point: total area alone can put both properties in the wrong category.

The comparison

The CMBS warehouse contains 3,449 industrial properties in the current performance snapshot. The primary comparison now uses two evidence-based groups:

- **Operating small-bay/flex:** 708 properties with at least one positive operating signal. This group has no total-size ceiling; 25 properties exceed 200,000 square feet and three exceed 500,000 square feet.
- **Known large-building industrial:** 94 properties without a positive small-bay signal and with building-count evidence showing an average building of at least 200,000 square feet.

Properties that could not be placed cleanly in either group remain outside the headline comparison. That includes 1,647 properties below 200,000 square feet that do not yet carry enough operating evidence to be called small-bay with confidence.

Leaving those properties unresolved reduces the sample. It also produces a more useful comparison between two operating models rather than two arbitrary size buckets.

The finding in eight numbers

	Operating small-bay/flex	Known large-building
Properties in primary comparison	708	94
Total area—median / average	71,150 / 89,000 SF	417,300 / 573,300 SF
Average building area—median / average*	36,500 / 45,000 SF	332,700 / 398,900 SF
Securitization NOI/SF—median / average	\$7.84 / \$8.48	\$4.58 / \$5.22
Latest annual NOI/SF—median / average	\$9.44 / \$10.64	\$5.21 / \$6.44
Latest NOI margin—median / average	67.2% / 65.6%	71.6% / 73.7%
Current DSCR—median / average	2.11x / 2.38x	2.19x / 2.75x
Day-one cap rate—median / average	6.69% / 6.72%	6.30% / 6.49%

*Average-building figures use the properties with a usable building count: 359 operating small-bay properties and all 94 known large-building properties.

The first conclusion is familiar: smaller industrial buildings earn more from every physical foot.

The second conclusion is more important: small-bay does not keep as much of that revenue. The latest annual operating panel shows a median NOI margin of approximately 67% for operating small-bay, versus about 72% for known large buildings. The average gap is wider.

Small-bay wins the income-density contest. Large-format wins the conversion contest.

Why small-bay earns more per foot

The median operating small-bay property entered securitization producing approximately **\$7.84 of NOI per building square foot**. The median known large building produced about **\$4.58**.

That is a roughly 71% premium.

The latest annual figures preserve almost exactly the same relationship: about **\$9.44 per square foot for small-bay versus \$5.21 for large buildings**.

The reason is not mysterious. Industrial space is priced in pieces. A local operator leasing 5,000 square feet typically pays more per foot than a national company taking 500,000 square feet. A park with ten buildings and forty suites can repeatedly reprice smaller portions of its rent roll. A single large building generally has fewer pricing events and fewer ways to reposition income incrementally.

That granularity is what investors are buying.

But it comes with payroll, repairs, collections, turnovers, leasing costs, common areas and dozens of small decisions that do not exist in the same way inside a passive single-tenant box.

The work is not incidental to the return. The work creates the return.

The revenue growth was there

Operating small-bay property revenue grew faster than revenue at known large buildings. In the current securitization-to-latest comparison, median annual property-revenue growth was approximately **3.5% for operating small-bay and 2.2% for known large buildings**. The averages were about **3.8% and 2.8%**.

This is property revenue, not a pure contractual-rent series. CMBS reports do not consistently separate rent increases from occupancy changes, reimbursements and other income. But it is still the cleanest top-line operating measure in the public tape.

Annualized growth from securitization to latest comparable observation	Operating small-bay/flex	Known large-building
Property revenue—median / average	3.48% / 3.83%	2.21% / 2.75%
Operating expenses—median / average	7.18% / 8.17%	4.53% / 6.59%
NOI—median / average	2.63% / 2.76%	3.04% / 3.54%
Properties with usable revenue / expense / NOI growth	219 / 212 / 212	33 / 28 / 35

That table is the report.

Small-bay revenue grew faster. Small-bay expenses grew faster still. By the time the additional revenue reached the NOI line, the large buildings had caught up and passed it.

The annual reporting panel tells the same story from a different angle. Across properties with multiple usable annual observations, operating small-bay recorded approximately **4.2% median annual revenue growth**, versus about **2.5% for the known large buildings**. Small-bay expenses grew about **5.6%**, versus approximately **3.9%**, leaving median NOI growth of roughly **2.7% and 2.0%**, respectively.

The exact values move depending on which reporting window is used. The operating message does not:

The rent-and-revenue opportunity is real. Capturing it requires controlling expenses.

The cycle shows where the advantage went

The year-by-year results make the story easier to see.

Fiscal year	Small-bay revenue	Small-bay expenses	Small-bay NOI	Large-building NOI
2020	1.6%	-1.1%	2.3%	2.2%
2021	4.2%	5.9%	2.8%	2.0%
2022	4.7%	4.1%	3.6%	3.5%
2023	4.0%	4.7%	5.0%	2.0%
2024	3.1%	7.4%	1.7%	0.9%
2025	2.4%	2.7%	1.6%	0.3%

These are median consecutive-year changes for properties with usable reports in both years.

Small-bay had an excellent run from 2021 through 2023. Revenue grew, and 2023 NOI growth reached approximately 5%. Then expenses accelerated in 2024 while revenue growth slowed. NOI growth did not disappear, but the spread narrowed sharply.

That is the practical lesson. Owners cannot underwrite the mark-to-market opportunity without underwriting the cost of producing it.

Insurance, taxes, repairs, payroll, utilities and turnover do not care that the new lease was signed at a higher rent.

Does value-add explain the weak DSCR tail?

Partly—but it cannot carry the whole explanation.

Value-add buyers may willingly accept thin day-one coverage because they expect faster lease-up, more frequent renewals or a quicker rent mark-to-market. That logic is entirely plausible in small-bay. The detailed top-loan filings contain recapitalizations, acquisition business plans, renovation programs, TI/LC reserves and real examples of in-place rents below appraisal market rents.

But the properties currently below 1.25x coverage do not look, as a group, like value-add plans waiting patiently to work.

Among operating small-bay properties with a usable current DSCR, 38 were below 1.25x and 220 were at or above it:

Median result	Below 1.25x	At or above 1.25x
DSCR at securitization	1.67x	1.92x
Current DSCR	0.97x	2.32x
Occupancy at securitization	100%	100%
Current occupancy	94%	100%
Property-revenue growth	-0.86%	4.74%
Expense growth	7.43%	7.18%
NOI growth	-8.63%	4.16%
Day-one LTV	65.0%	61.6%

The weak group began with less cushion and slightly more leverage. It subsequently lost occupancy and revenue while expenses kept climbing.

Some of those loans may still contain unfinished value-add stories. But the aggregate result is operating deterioration, not merely future upside waiting to arrive.

That distinction matters because “value-add” can become a flattering explanation for any loan that misses its numbers. The tape suggests a less comfortable rule: a mark-to-market plan is not a result until the revenue shows up and survives the expense line.

The wider range of outcomes is real

The typical property in both groups remains well covered. Median current DSCR is 2.11x for operating small-bay and 2.19x for known large buildings. Median reported occupancy is 100% for both.

The tails tell a different story.

- **14.7%** of operating small-bay properties with usable current DSCR were below 1.25x, compared with **2.5%** of known large buildings.
- Approximately **25%** of operating small-bay properties with a current occupancy observation were at 90% or below, versus about **19%** of known large buildings.
- Operating small-bay entered at slightly greater leverage: approximately **62.7% median day-one LTV**, versus **59.9%**.

This does not mean small-bay is categorically riskier. It means small-bay produces a wider range of operating outcomes.

A diversified park can refill one suite at a time, but it also creates more occasions for vacancy, collections issues and unbudgeted work. A large building can be simpler for years and then experience one enormous vacancy. These risks arrive differently, and an average can hide both.

NNN is not small-bay—and single-tenant is not automatically NNN

A size-only definition mixes operating models that should not be compared as though they were the same product.

In the A1-linked subset alone, at least 530 properties below 200,000 square feet were confirmed single-tenant or at least 90% concentrated in one tenant. That does not make all 530 NNN. A single tenant can still leave real costs with the landlord, and multi-tenant parks can use NNN leases. But it proves that “below 200,000 square feet” is not a tenancy model.

The detailed top-loan filings make the problem visible:

- **Precise Space in Rhome, Texas** is a genuine operating property. Its users include commercial-van, utility, pickleball, baseball, CrossFit and custom-automotive businesses. That tenant diversity is recognizably small-bay.
- **540 Tech Center in Raleigh** is a 111,000-square-foot flex property with three actual tenants. In-place rents were around \$19 to \$20 per square foot against an appraisal market indication of roughly \$21. That is a visible, understandable mark-to-market opportunity.
- **2000 Corporate Center in Thousand Oaks** is approximately 105,000 square feet, but two tenants—ALE USA and Tesla—occupy roughly half apiece. It is smaller flex, not a granular small-bay rent roll.
- **FedEx Distribution Center in New Jersey** contains approximately 170,000 square feet with FedEx occupying roughly 78%. The building is below 200,000 square feet; the operating model is still concentrated distribution.
- **Fresh Edge Portfolio in Indianapolis** reports 100% occupancy and no operating expenses in the extracted underwriting summary. That demands a net-lease classification review, not automatic inclusion in small-bay.
- **1301 Rocky Point Drive in Oceanside** shows an approximately 97% underwritten NOI margin—another strong indication that lease structure matters more than total area.

The eventual public framework should have three real operating categories: operating small-bay/flex, single-tenant or net-lease industrial, and large-format industrial. Properties without enough evidence should remain unresolved rather than being forced into whichever size bucket is convenient.

The present tape supports a strong confirmed-tenancy subset, but not yet a complete national NNN comparison. Lease structure appears inconsistently in the standard filing and more often in the detailed exhibits for large loans. That is enough for case studies; it is not enough to label the entire warehouse.

The markets are not behaving the same

The operating-small-bay annual panel has sufficient observations to identify several useful state-level patterns. State comparisons are presently cleaner than metro rankings because CMBS city labels still need to be normalized into consistent metro definitions.

Market cut	Properties	Median revenue growth	Median expense growth	Median NOI growth
Nevada	12	8.8%	5.7%	8.5%
California	58	4.8%	3.2%	5.2%
Texas	35	4.6%	5.7%	4.1%
Florida	48	3.3%	6.7%	1.1%
Illinois	14	2.7%	8.8%	0.5%

Nevada is the most striking result, driven largely by Las Vegas, but twelve properties are not enough for a sweeping market claim. It is a strong lead for a case-study follow-up.

California and Texas are the cleaner outperformers. Both produced strong revenue growth and converted enough of it into NOI growth to matter.

Florida and Illinois tell the opposite story. Revenue generally rose, but expenses rose much faster. In Florida, median small-bay revenue grew approximately 3.3% while expenses grew about 6.7%. In Illinois, the expense number approached 9%.

Those markets did not lack rent-and-revenue opportunity. They struggled to keep it.

What should an investor do with this?

The tape does not argue against small-bay. It argues against underwriting small-bay as passive industrial.

If I were reviewing a small-bay acquisition, I would spend less time debating whether market rents can rise by another dollar and more time asking what it costs to collect that dollar:

- Which expenses are truly recoverable, and how quickly do reimbursements reset?
- Are leases using accurate pro-rata shares?
- How much of the insurance and tax increase reaches tenants?
- What does a routine suite turnover actually cost after paint, HVAC, doors, office buildout and leasing commissions?
- Is the property staffed and managed for forty small relationships, or underwritten as though it has four?
- How many leases roll before the rent mark can be realized?
- Does the debt leave room for the uneven path between today's occupancy and the business plan?

For large-format industrial, the questions shift. The operating statement is simpler and the margin is better, but tenant concentration dominates the risk. One renewal decision can matter more than an entire year of expense management.

Same sector label. Different machines.

The bottom line

This CMBS comparison strengthens the small-bay thesis by making it more honest.

Operating small-bay produced approximately 70% more NOI per building square foot. Property revenue grew faster than it did at known large industrial buildings. The opportunity was real.

So was the cost.

Expenses grew faster, NOI margins were lower, occupancy results were more dispersed and the weak-DSCR tail was materially larger. Some of that dispersion is the price of value-add opportunity. Some of it is simply what happens when an operating-intensive property is bought with too little cushion or managed without enough control.

Small-bay is not miniature big-box industrial. It should not be defined by a size ceiling, valued like a passive warehouse or operated as though forty tenants behave like one.

It is a dense income machine. The revenue premium is the opportunity. The expense line is the job.

About the data

This analysis uses public SEC Form ABS-EE, Exhibit 102 commercial-mortgage asset data and the more detailed Annex A exhibits assembled in SpanVor's CMBS warehouse. The current performance snapshot contains 3,449 industrial properties and extends through July 13, 2026. Detailed A1 property descriptions extend through July 9, 2026; the current A3 top-loan set extends through June 22, 2026.

Operating small-bay/flex requires an affirmative operating signal: flex classification, average building area below approximately 75,000 square feet, average tenant area below approximately 30,000 square feet, granular tenant concentration, smaller component properties or a small-bay door configuration. Total collateral size is not capped. Known large-building industrial requires no positive small-bay signal and building-count evidence showing average building area of at least 200,000 square feet.

Current operating measures have lower coverage than property counts. Growth results exclude implausible values and require comparable financial observations. “Property revenue” can include rent, reimbursements, occupancy changes and other income; it is not presented as a pure contractual-rent series. Detailed tenancy and lease-structure coverage is strongest for top loans and incomplete across the full tape.

CMBS data does not consistently disclose acquisition equity, later capital expenditures, distributions or sale proceeds. This report evaluates operating and credit performance, not investor IRR or total return. It is research and commentary, not investment advice.

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