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Small-Bay Industrial

The Investable Truth Behind the Headline

By Jason Probert, Founder · SpanVor · June 2026
SpanVor | Industrial Property Intelligence

The Headline and the Truth

I've learned to be wary of any single number that's asked to describe a whole market. “Industrial real estate” is one of those numbers. By now the headline is familiar: the boom has cooled, supply has caught up, rent growth has slowed, tenants have choice again. All of that is true — and almost all of it is a story about big boxes, the giant distribution centers that have been opening faster than tenants can fill them.

Underneath that headline sits a different market, and it behaves almost the opposite way. The small, infill buildings that local businesses actually rent — the contractor's shop, the parts distributor, the cabinet maker — stay tight, rarely get built, and trade hands quietly among private owners. The opportunity in 2026, as I see it, isn't to “buy industrial.” It's to find the scarce, functional, infill space that local tenants keep taking and that almost nobody is building. What follows is the case for that — and, because I think candor is what makes a case worth reading, the honest limits of it. One more thing: stay with me to the end, where there's a small thank-you waiting for readers who go the distance — call it a down payment on the patience this sector rewards.

What the market says	What I think is actually true
Industrial is oversupplied	The oversupply is concentrated in big-box logistics, not sub-100,000-SF product
Rent growth has stalled	Small-bay and light-industrial availability stays tight in most metros
Institutional capital owns the sector	Most small-bay stock is privately held, fragmented, and under-managed
The good deals are already picked over	The hardest part isn't competition — it's finding the universe at all

1. The Thesis, in Brief

Let me state the claim plainly, and then spend the rest of the memo trying to earn it. Small-bay industrial is the smaller-unit end of the industrial market. Instead of one 500,000-SF box leased to a single national credit tenant, a small-bay property might hold ten, twenty, or fifty tenants in suites running from a few thousand square feet to roughly 50,000. The tenant base is the working economy: contractors, distributors, light manufacturers, trades, local logistics firms, e-commerce operators, food users, auto suppliers, equipment-repair shops, and specialty fabricators.

It is also a large universe in its own right. JLL puts the multi-tenant shallow-bay stock — buildings of roughly 20,000 to 150,000 SF — near 4.9 billion SF nationally as of 2024, a figure that squares with Newmark's read that sub-100,000-SF buildings are about 40% of all U.S. industrial space. It is a deep, fragmented base that has never been institutionalized the way big-box has. I find that combination — large, essential, and overlooked — hard to ignore.

The thesis is simple, and I think it holds up under pressure. Demand is broad, local, and recurring. New supply is genuinely hard to build economically. Existing assets are fragmented, privately owned, and under-managed. Rents reset more often than in long-term big-box leases. And good infill locations are hard to replace, because land is scarce, industrial zoning keeps shrinking, and neighbors resist new industrial development. None of that is a secret. What's missing is a way to see the opportunity clearly — and I'll come to that.

> **THE BOTTOM LINE:** This is not a smaller version of big-box logistics. It is a fragmented, locally driven, operationally intensive segment where replacement-cost scarcity, tenant granularity, and hands-on management create durable value — but only for investors willing to underwrite functionality, zoning, tenant quality, and capex with discipline. The rest of this memo is about how to tell the difference between the two.

A fair question at the outset: if the case is this clear, why isn't everyone already doing it? My answer runs through the next few sections. The short version is that the sector is hard to *see* and hard to *operate* — and those two frictions are exactly what protect the returns for the people willing to do the work.

2. What Do We Mean by “Small-Bay”?

It's worth being precise about language, because loose definitions lead to loose underwriting. There is no single universal definition, but the market clusters around a few categories:

- **Micro-bay —** units often below 5,000 SF.
- **Small-bay —** suites or buildings commonly below 50,000 SF.
- **Light industrial / flex —** industrial space with an office, showroom, lab, service, or production component.
- **Multi-tenant industrial —** a building or park demised into many smaller spaces.
- **IOS (industrial outdoor storage) —** yards, equipment and container storage, truck parking, and contractor staging.

A note on how I use the term in this memo — and how the SpanVor platform defines the universe: “small-bay” means the full family of industrial property under 200,000 square feet. Every category above lives inside that line — micro-bay, small-bay proper, shallow-bay and multi-tenant product, light industrial, warehouse, and flex. Where a statistic below refers to a narrower slice (sub-100,000 SF, sub-50,000 SF), I say so.

Sometimes the clearest way to define a thing is to say what it isn't. Small-bay is not self-storage; it is operational space where businesses work, receive, ship, park, repair, assemble, fabricate, and serve customers. And it is not big-box logistics. The tenant base, the physical specs, the leasing process, the operating model, the capex profile, and the demand drivers are all different. That is precisely why the headline industrial number — the one built mostly on big boxes — is the wrong lens for it. (If any of the terms in this memo are unfamiliar, there's a short glossary at the end.)

3. Why the Sector Exists — and Why No One Builds It

Start with the demand, because it's the part people underrate. A business outgrows a garage, a storage unit, or a retail back room long before it needs a 100,000-SF warehouse. What it needs instead is specific: drive-in or dock-high loading, clear height for racking or equipment, three-phase power, parking for trucks and trailers, maybe a yard, a little office or showroom, zoning that permits real industrial use, and a lease term a small business can live with. That need is constant, local, and largely non-discretionary.

Now the supply side — and here I want to be two-handed, because developers aren't behaving irrationally. They prefer larger projects for good reasons: big buildings spread fixed costs over more square footage, attract better-known tenants, and finance more easily. Small-bay carries more demising walls, more doors, more utilities, more tenant improvements, and more management per square foot, and per-SF construction cost on small units can run well above bulk distribution. Faced with that math, capital does the sensible thing and builds big. The shortage of small-bay isn't a market failure; it's a rational outcome that happens to create a durable scarcity.

3.1 The under-build is now measurable

For years this was an argument by anecdote. It no longer has to be. Only about 23 million SF of small-bay (sub-100,000-SF) space was under construction nationwide in late 2025 — less than 0.3% of total industrial stock (NAIOP, Spring 2026). Sub-50,000-SF product is roughly 7% of everything under construction (BKM Capital Partners, Q1 2026). And the existing stock is correspondingly old. Across SpanVor's national census of the under-200,000-SF universe, the median small-bay building was built in 1982; only 7.3% has been built since 2015, and nearly half predates 1980. CBRE's narrower sub-100,000-SF read points the same direction — about 5% built since 2010, with more than 80% predating 2000 (CBRE, March 2026).

I'd dwell on that last set of numbers, because it's the thesis in physical form. When the newest 5% of a category was built fifteen years ago, you are not looking at a market that new supply can flood. You're looking at one where the existing buildings — the older, infill, awkward-to-replace ones — become more valuable precisely because they can't be reproduced at today's land and construction costs.

3.2 Why it stays hard to build

The constraints stack on top of each other: land near population centers is expensive; industrial zoning is scarce and often shrinking as cities chase residential, retail, or mixed-use tax base; small-unit construction costs are high; lenders and developers favor larger, simpler, single-tenant deals; multi-tenant requires more doors, walls, utilities, HVAC, office pods, and restrooms; and older infill sites carry environmental, drainage, access, and truck-circulation headaches. Each one is surmountable. Together they explain why the pipeline stays thin year after year.

> **THE BOTTOM LINE:** In most markets the best small-bay inventory is older, infill, and effectively irreplaceable — and the scarcity is structural, not cyclical. That's good news for whoever already owns it, and a sourcing-and-diligence problem for whoever wants to. The buyer's first challenge, before price, is simply finding the inventory before it's marketed.

4. The Split Market of 2026

Let me concede the bear case before I argue with it, because it's real. Broad industrial has moved out of the pandemic shortage years into a more balanced phase — more tenant choice, slower rent growth, and a large supply pipeline in the big logistics corridors. Cushman & Wakefield's Q1 2026 MarketBeat put national asking rent near $10.20/SF with 2.1% year-over-year growth and positive annual rent growth in about 60% of tracked markets, alongside a pipeline heavily weighted to very large facilities — two-thirds of the build-to-suit pipeline sits in buildings of 500,000 SF or more. New-supply pressure, in other words, is genuine. I'm not going to wave it away.

But here is the turn. That pressure is not evenly distributed, and it lands almost entirely on the big boxes. Underneath, the sub-100,000-SF segment is measurably tighter than the headline. Sub-100,000-SF vacancy ran about 4.9% in Q4 2025 — roughly half the rate of larger facilities — and shallow-bay vacancy has tracked about 2.5 points below the overall industrial rate (BKM; CBRE, 2026). Roughly 80% of Q4 2025 industrial leasing involved spaces under 50,000 SF, and product under about 150,000 SF has commanded around a 21% rent premium over larger industrial (BKM). Same headline; two opposite markets. The cooling makes underwriting more selective, not less attractive.

Why Small-Bay Behaves Differently

Small-bay is closer to neighborhood business infrastructure than to a logistics commodity. A 5,000-to-20,000-SF suite can house an HVAC contractor, a cabinet maker, an auto-service supplier, a specialty distributor, a food-service operator, an e-commerce fulfillment shop, an equipment-repair business, a medical or lab user, or a light manufacturer. These tenants need access, doors, power, parking, a yard, and a practical commute far more than they need a trophy building — and, importantly, they generally cannot run their business from an office, a retail box, or a home. The space is essential to them, which is what makes the demand sticky.

That gives the sector real defensive characteristics:

- Demand is local and service-driven, not entirely tied to national goods movement.
- Rent rolls are granular, so one move-out usually affects a small share of income.
- Suites re-lease faster than big boxes — provided the property is functional.
- Shorter leases create more frequent rent resets in inflationary or supply-constrained markets.
- Replacement supply is genuinely hard, and gets harder as infill zoning, parking, and loading keep tightening.

> **A WORD OF CAUTION:** None of this means "buy any small building." A higher-vacancy big-box metro can still hold excellent small-bay assets — and a strong metro still produces bad deals when the building is functionally obsolete, over-rented, underpowered, poorly parked, or somewhere tenants have better options. The whole discipline of this sector is separating durable small-bay utility from generic industrial exposure. I'll keep returning to that distinction, because it's where money is made and lost.

5. Where It Matters Most — With a Caveat About Averages

Small-bay is most relevant where three forces overlap: strong local business formation, constrained infill industrial land, and a deep installed base of older properties that can be improved, re-tenanted, subdivided, or simply operated more professionally. The regions below stand out to me now. But I'd ask you to hold the table loosely, because the real opportunity always lives at the submarket and asset level, never at the metro average. A metro number is exactly the kind of single figure I warned about on the first page.

Region	Why small-bay matters now	How I'd play it
Florida / Southeast	South Florida stays land-constrained and trade-connected even as big-box vacancy normalizes. Atlanta remains a strategic hub, but leasing is selective and infill/shallow-bay is holding up better than oversupplied big-box corridors.	Infill service corridors, contractor and port/airport-adjacent tenants, shallow-bay near population growth, and older assets priced below replacement-cost economics.
Philadelphia / S. New Jersey / Mid-Atlantic	Dense legacy stock, port and logistics demand, high-cost infill, and meaningful older-building vacancy. Colliers' Q1 2026 work shows uneven conditions — higher vacancy in Southern New Jersey, big-box vacancy in Philadelphia County — while purchase demand is constrained by limited available buildings.	Underwrite by size and functionality. Well-located 20,000-to-100,000-SF assets win when they offer loading, parking, power, clear height, and access the older stock lacks.
Columbus / Indianapolis / Midwest belt	Columbus posted strong Q1 2026 absorption at a 5.19% vacancy rate; Indianapolis vacancy fell to 6.8% at year-end 2025 with asking rents up more than 5% year over year. Both lean on logistics, manufacturing, affordability, and business-friendly costs.	Smaller industrial near labor, interstates, suppliers, and residential growth — the ecosystem of trades, fabricators, and regional distributors around the big anchors, not just bulk distribution.
Texas (DFW, Houston, San Antonio, Austin)	DFW and Houston remain demand engines — CBRE reported 4.1M SF of DFW net absorption in Q1 2026; Houston stayed active despite rising vacancy from new deliveries, with small-bay construction still limited even as big-box supply expands.	Separate headline vacancy from suite-level demand. Infill DFW, Houston service corridors, and Austin/San Antonio-adjacent markets reward conservative basis, access, parking, and rollover assumptions.
Phoenix / Mountain West	Phoenix carries elevated headline vacancy from a big development cycle, yet rent growth stayed positive into 2026 and trailing-year absorption was solidly positive; Matthews notes infill small- and mid-bay has drawn capital because it's more insulated from new supply.	Treat bulk oversupply as a pricing opportunity, not a reason to skip the market. Prioritize infill, small-suite, yard-capable, service-oriented product serving population growth.
California (LA, OC, IE, San Diego, Bay Area, Sacramento)	Different cycles, one common logic: scarcity. Orange County vacancy rose to about 5.1% in Q1 2026 but stays low by national standards, and land constraints make new small-bay supply hard.	Be disciplined on basis and tenant risk, but don't confuse big-box softness with the value of irreplaceable infill. Favor flexible suites, legal industrial use, loading, and yard or parking utility.
High-growth Sun Belt + inland logistics	Charlotte, Raleigh-Durham, Nashville, Las Vegas, Salt Lake City, Reno, Greenville-Spartanburg, Savannah, Charleston, and the broader Carolinas/Tennessee corridor benefit from population growth, manufacturing investment, ports, and small-business formation.	Especially fertile for discovery, because so much sits outside institutional datasets — owner-occupied buildings, older flex parks, zoning pockets, yard-heavy parcels, and fragmented multi-tenant assets.

Market statistics are attributed to the third-party research sources listed at the end. Figures reflect Q1 2026 reporting and may be revised by their publishers.

Resiliency Comes From Granularity

Here is the part I find most reassuring as an underwriter. A multi-tenant small-bay property might serve ten, twenty, or fifty businesses across different end markets. Some are cyclical, but they rarely all react to the same shock at the same time — one tied to homebuilding, another to municipal work, another to medical equipment, another to auto repair, another to e-commerce. The rent roll behaves less like a single credit exposure and more like a diversified basket of local operating businesses. That diversification is quiet, unglamorous, and genuinely protective.

That resiliency is not free, and I don't want to pretend it is. Small-bay is more management-intensive than a single-tenant box: frequent renewals, small tenant improvements, parking and loading disputes, signage, collections, local leasing. But that operating burden is where the alpha lives. Professionalizing an under-managed asset — cleaning up leases, marking rents to market, improving signage and circulation, adding security, enabling yard use, carving a large space into smaller suites — can lift income materially without needing a macro boom. The work is the moat.

6. What You're Actually Buying

The core thesis	Best fit	The main watch-out	Where SpanVor helps
Scarce local-business infrastructure with recurring demand and constrained replacement supply.	Operators who can underwrite functionality, zoning, tenant quality, and capex.	Small assets can look cheap while hiding obsolete layouts, weak tenants, or deferred maintenance.	Map the universe, score functionality, infer demand, and surface opportunity signals before the market sees them.

Strip it down and the best small-bay assets share a profile: local essential-business demand, tenant diversification across many small users, shorter leases that allow rent resets, low dependence on any single corporate tenant, infill scarcity value, functional utility that's expensive to replicate, rent upside where mom-and-pop ownership has under-managed pricing, and aggregation potential in a fragmented ownership base. For an investor, the value proposition isn't only yield. It's the chance to buy an inefficiently managed, under-institutionalized asset and create value through better leasing, service, pricing, maintenance, capital planning, and market selection.

6.1 What the Returns Look Like — and What I Can't Tell You

I want to be straight about pricing, because this is where I see primers oversell. Reliable transaction data in small-bay is thin — the deals are smaller, more private, and less reported than big-box — so anyone quoting you a precise cap rate is claiming to know something the market doesn't really disclose. I'd rather give you the honest shape of it than false precision.

From what I've seen in the market, small-bay generally trades at a discount to institutional big-box — a higher cap rate — precisely because it's smaller, more management-intensive, and less institutional. Where a high-quality bulk asset might trade around a 5.5% cap, comparable small-bay often prices closer to 6.5% — call it 50 to 100 basis points wider. The exception is the smaller subset with real value-add upside, which buyers will bid to a 4%-to-5% going-in cap on the strength of the mark-to-market story. And as institutional capital moves into the space, that discount has been narrowing — all-industrial cap rates sat in the mid-5% range in late 2025 (Newmark, via NAIOP), and capital has tilted toward smaller deals, with transactions under $100M roughly 70%-plus of 2025 industrial sales volume (NAIOP; BKM).

> **SO WHAT:** The small-bay return case rests less on a low entry cap rate than on what you can do after you own the asset — reset rents at rollover, capture operational and expense-recovery upside, and hold something that can't be rebuilt at your basis. If your underwriting only works because you assumed an aggressive going-in yield, you're buying the wrong thing. Underwrite the plan, not the headline number.

7. Where the Demand Comes From

It's easy to talk about “demand” in the abstract. I find it more useful to name the tenants, because once you can picture who rents the space and why, the real estate gets much easier to underwrite. Small-bay demand is rooted in the physical backbone of the local economy:

- **Local services and trades —** HVAC, plumbing, electrical, roofing, landscaping, fire protection, telecom, and maintenance firms need space for crews, inventory, vans, and equipment. Many serve population growth and replacement demand, not discretionary spend.
- **Last-mile distribution —** smaller distributors and e-commerce operators need to be close to customers. Not a million-SF fulfillment center; a practical bay with loading, parking, and access.
- **Reshoring and light manufacturing —** not every reshoring user is a giant factory. Component makers, assemblers, packagers, food producers, and machine shops need power, loading, and functional layouts more than aesthetics.
- **Entrepreneurship and business formation —** businesses graduate from homes, garages, and self-storage into real operational space, which is exactly where micro-bay and co-warehousing models fit.
- **Service-economy physical needs —** even digital-heavy economies depend on installers, repair firms, food logistics, medical supply, events, restoration, and specialized contracting.
- **IOS and outdoor industrial use —** many users need yards, truck parking, equipment or container storage, or fleet staging. IOS offers high utility and low building capex, but zoning and entitlement risk sit at the center of every deal.

8. Five Ways to Play It

There's no single right strategy — only the one that fits your capital, your appetite for operations, and your tolerance for risk. Five approaches cover most of the field. I'd note that risk rises as you move down the list, and so does the reward for getting it right.

Strategy	What you're buying	Best fit	Primary risk
Stabilized yield	Occupied multi-tenant industrial with durable demand and modest mark-to-market.	Conservative, cash-flow-focused local operators.	Overpaying for income that leans on deferred maintenance or

Strategy	What you're buying	Best fit	Primary risk
			unsustainable tenant economics.
Value-add rent reset	Under-managed assets with below-market rents, short leases, weak leasing, or neglected upkeep.	Operators with leasing discipline, comfortable with turnover.	Assuming every small tenant can absorb a rent increase.
Physical repositioning	Functional upgrades — doors, lighting, power, striped yards, roofs, circulation, security, signage.	Hands-on investors with construction capability.	Capex surprises, code issues, utility constraints, tenant disruption.
Portfolio aggregation	Many small assets in one metro, scaled through centralized leasing, maintenance, and financing.	Institutional or programmatic buyers.	Buying low-quality assets just to manufacture scale.
Micro-bay / co-warehousing & IOS	Very small flexible units with shared services, or yard-oriented outdoor-storage land.	Operators willing to run a hospitality-like product, or with entitlement discipline.	Higher operating complexity, shorter commitments; for IOS, zoning and permitting are everything.

From Property Condition to Investment Thesis

The framework below — and the two playbook matrices that follow — translate raw property conditions into possible value-creation moves. I'd stress the word *possible*. These are thesis starters, not conclusions; they tell you what to diligence next, not what to believe. A signal is an invitation to look, never a verdict.

Strategy	What you're buying	Useful SpanVor signals
Core	Durable, stabilized functional utility.	Modern or well-maintained improvements, clean zoning, strong location, low risk flags, stable ownership, limited nearby substitute supply.
Core+	Stabilized income with modest upside.	Older building in a strong submarket, no major recent permits, private ownership, moderate underutilization, nearby permit or sales momentum.
Value-Add	Controllable improvement through leasing, capex, layout, management, or expense recovery.	Low improvement-to-land value, low lot coverage, long ownership tenure, gross-lease indicators, underbuilt parcels, tenant-demand proxies, zoning flexibility.
Opportunistic	Major repositioning, redevelopment, assemblage, IOS conversion, or highest-and-best-use change.	Very low actual FAR versus allowed FAR, high land-value ratio, obsolete improvements, assemblage potential, distress or motivation flags, active nearby redevelopment.

Value-Add Playbook Matrix

Opportunity	Best property setup	Data signals / platform flags	Value-creation angle
Convert single-tenant warehouse to small-bay	20K–100K SF, good frontage, multiple access points	Large building, low tenant count, multiple doors, strong local service-business density	Create smaller suites, broaden the tenant pool, raise leasing velocity
Split large bays into contractor suites	Older flex with extra office or warehouse depth	Deep bays, grade doors, parking, nearby contractors/home services	Reposition to a higher-demand local tenant base

Opportunity	Best property setup	Data signals / platform flags	Value-creation angle
Add dock or grade-level doors	Functional building with weak loading	Low door count vs. peers, good wall exposure, truck access	Improve tenant fit and leasing/sale appeal
Convert gross leases to NNN	Multi-tenant with separable expenses	Multi-suite layout, separate meters/entrances, private/local owner	Shift tax/insurance/CAM burden, professionalize operations
Raise rents using demand proxies	Stable property in an improving market	Strong tenant demand, low supply, recent nearby leasing/sale activity, long ownership	Mark to market at lease rollover
Monetize excess parking / land	Oversized paved lots, low building coverage	Low building coverage, high paved area, highway access, industrial zoning	Fleet, trailer, and overflow parking or IOS income without new SF
Add small building expansion	Low lot coverage with existing demand	Expansion room, zoning capacity, utilities, access	Increase rentable area
Upgrade power / add HVAC	Light-manufacturing or flex candidate	Industrial zoning, older building, manufacturing tenant density, warm climate	Expand the tenant universe; attract higher-paying users
Professionalize management	Mom-and-pop multi-tenant	Long ownership, private owner, fragmented tenants	Reduce vacancy, improve collections, standardize leases
Re-tenant to better-fit users	Obsolete or mismatched tenant base	Current use below zoning/location potential	Replace weak users with contractors, fleet, logistics, or light manufacturing
Industrial condo conversion	Small-bay/flex in an owner-user market	Many small suites, strong business density, limited ownership supply	Sell units to users at a premium
Sale-leaseback to owner-user	Owner-occupied building	Owner mailing matches property, business occupant, long hold	Unlock owner liquidity, create an investment product

Opportunistic Playbook Matrix

Opportunity	Best property setup	Data signals / platform flags	Value-creation angle
Full redevelopment	Obsolete building on valuable industrial land	High land-value %, low improvement value, old building, low FAR	Replace the outdated structure with modern product
Add buildings on excess land	Large underbuilt parcel	Low lot coverage, unused buildable area, zoning capacity	Create new rentable/salable industrial SF
IOS redevelopment	Older building plus large yard/land	Low building coverage, high outdoor area, industrial zoning	Shift from building-dependent to land/yard value
Assemblage	Adjacent small parcels	Common or similar ownership, contiguous lots	Create a larger redevelopment or IOS site

Opportunity	Best property setup	Data signals / platform flags	Value-creation angle
Rezone / entitle higher use	Transitional industrial area	Nearby rezonings, new development, land-use mismatch	Capture entitlement upside
Roof raise / modernization	Well-located but obsolete warehouse	Low clear height (estimated), strong location, large enough building	Reposition into a higher-utility product class
Cold-storage / food-grade conversion	Suitable building and location	Power, slab, access, food/logistics tenants nearby	High-cost specialty repositioning
Last-mile repositioning	Infill asset near population	Dense population within drive time, highway access, small-parcel scarcity	Capture distribution/service demand
Truck terminal / fleet yard	Highway-proximate site	Large paved area, ingress/egress, low building ratio	Reposition land for fleet/logistics use
Brownfield repositioning	Contaminated/legacy industrial	Environmental flags, urban infill, high land scarcity	Higher-risk redevelopment upside
Distress acquisition / recap	Financially pressured owner	Tax delinquency, foreclosure, loan maturity, deferred capex	Buy complexity at a discount
Public / institutional disposition	Non-core property	Government/utility/corporate owner, low utilization	Acquire under-managed surplus real estate

9. What Makes a Good Small-Bay Asset

If I had to compress the whole sector into one sentence, it would be this: a good asset is not just small — it is *functional*. The features that matter are unglamorous and specific: strong industrial zoning or legal conforming use; convenient highway and arterial access; practical truck circulation; dock-high and/or drive-in loading; adequate clear height for the tenant base; sufficient power; enough parking for vans, employees, trailers, and customers; flexible bay depths; simple demising and expansion options; durable roof, paving, drainage, and utilities; a reasonable office percentage; and a rent roll diversified by tenant and industry, with no single tenant dominating revenue unless its credit and lease structure earn it.

For many of these assets, the real value isn't the building at all. It's the combination of location, zoning, loading, parking, yard, and flexible occupancy — and the simple fact that replacement cost sits meaningfully above the purchase basis. When you own something that couldn't be rebuilt for what you paid, time tends to be on your side.

10. The Risks — Stated Plainly

I've always believed that being honest about risk strengthens a case rather than weakening it. Investing means bearing uncertainty intelligently, and the small-bay risks are real and specific. Here they are without softening:

- **Tenant credit —** tenants are often private, small, and unrated, with thin financials. Personal guarantees matter; a diversified roll helps, but poor tenant selection creates collection and turnover headaches.

- **Operating complexity —** more tenants means more leases, service calls, move-ins, signage, disputes, and small repairs. This is a hands-on business.
- **Capex —** older buildings hide expensive problems: roofs, paving, drainage, electrical, HVAC, fire/life-safety, ADA, environmental, and office buildout.
- **Functional obsolescence —** some cheap industrial is cheap for a reason: low clear height, weak power, shallow truck courts, poor loading, bad access, or too much office.
- **Zoning and entitlement —** industrial use may hinge on zoning, permits, legal nonconforming status, or outdoor-storage rights, especially for IOS, contractor yards, auto, and heavier uses.
- **Recession sensitivity —** local service tenants can be resilient, but some small tenants fail quickly. Underwrite collections, downtime, and leasing costs realistically, not hopefully.
- **Expense leakage —** gross leases, weak CAM language, poor metering, and informal owner practices quietly erode NOI.
- **Exit liquidity —** institutional demand is growing, but many assets remain too small or idiosyncratic for large buyers. Liquidity depends on scale, market, quality, and rent-roll cleanliness.
- **Data quality —** the market is fragmented and far less standardized than big-box. You have to build your own intelligence and verify every claim at the property level. That difficulty, I'd argue, is also the opportunity.

11. A Diligence Checklist

Before you commit capital, your diligence should be able to answer the following. If it can't, you don't yet know what you're buying.

- **Market —** What is vacancy for comparable small units, not the whole industrial market? How many competing units sit within 3, 5, and 10 miles? What rents are signed leases actually achieving? Are tenants expanding or contracting? Is realistic new small-bay supply coming? Are municipalities protecting or rezoning industrial land?
- **Property —** Is the current use legal and conforming? What's allowed by right? Are outdoor storage, vehicle repair, fleet parking, manufacturing, or contractor uses permitted? What are the clear heights, loading, bay sizes, office percentage, power, sprinkler, and parking ratios? What capex is required over 1, 3, and 5 years? Any environmental red flags? Are utilities separately metered?
- **Rent roll —** Who are the tenants and what do they serve? How long have they occupied? Rent versus market? NNN, modified gross, or gross? Are CAM and insurance recoveries clean? How many leases roll in 12, 24, and 36 months? Which tenants can actually absorb an increase?
- **Financial —** What is true stabilized NOI after normalized repairs and reserves? What capex is deferred? What downtime and leasing commissions are realistic? Is the going-in yield attractive relative to rates and capex? What is replacement cost, and could new supply undercut the asset? Which buyer wants this at exit?

12. What to Like — and What to Watch

Like the sector if you believe local industrial demand stays durable; that small businesses need operational space near customers; that industrial zoning stays scarce; that replacement cost stays above the basis for good existing assets; that better operations improve rent, retention, and recovery; and that fragmented ownership creates a sourcing inefficiency you can exploit. This is a sector where local knowledge and good data can matter as much as capital — which is unusual, and worth something.

And watch for the one mistake that matters most: buying “small” without buying “functional.” Avoid cheap buildings with bad access or obsolete layouts; assets where zoning doesn't support the tenant base; over-office'd flex with weak industrial utility; yard use that isn't legally protected; rent rolls full of marginal tenants at unsustainable rents; capex-heavy assets bought at stabilized pricing; markets where small-bay supply is actually abundant; and the lazy assumption that the national industrial headline applies to your submarket. In small-bay, the spread between a great asset and a mediocre one is wide — even when the two look identical in a spreadsheet. That gap is the entire game.

13. A Practical Way In

If you're new to the sector, I'd resist the urge to do everything at once. The safest path I know is to pick one or two markets rather than the whole country; build a complete inventory of the small-bay and light-industrial assets in them; study actual rent rolls, not just asking rents; focus on functional, infill, multi-tenant assets with diverse demand; avoid heavy redevelopment until the sector is familiar; underwrite capex and downtime conservatively; use zoning and tenant-demand data to avoid false positives; treat data signals as a way to prioritize diligence, not replace it; and build operating capability before you scale.

Above all, learn the tenant base first. If you understand who occupies the space and why they stay, the real estate becomes much easier to underwrite. The buildings are simple; the businesses inside them are the thing worth studying.

> **THE THESIS IN ONE SENTENCE:** Small-bay industrial is a fragmented, operationally intensive, supply-constrained niche where the best assets provide scarce local-business infrastructure, frequent rent-reset potential, replacement-cost protection, and aggregation upside — but only for investors who underwrite functionality, zoning, tenant quality, capex, and ownership motivation with discipline.

14. Where SpanVor Fits: Signals, Not Claims

Everything I've argued so far points to one practical problem: the opportunity is real, but it's hard to *see*. So let me be clear about what SpanVor does and, just as important, what it doesn't. Its edge is not having more records than everyone else. It's converting fragmented parcel, owner, zoning, permit, business-personal-property, market, and hazard data into credible opportunity signals — and being honest about the line between what the data proves and what it merely suggests.

That honesty is the whole point, and I'd hold the company to it. If SpanVor doesn't have an actual lease, it doesn't claim a property has below-market rent. What it can do is identify rent-upside proxies, repositioning signals, underutilized sites, capital-investment gaps, zoning-supported expansion potential, highest-and-best-use mismatches, ownership-motivation signals, and market momentum. The product isn't saying “this property is cheap because the rent is wrong.” It's saying “this property shows evidence of controllable upside or strategic scarcity that deserves underwriting.” That distinction is exactly what makes a signal trustworthy enough to act on — and why I'd trust it.

14.1 The Signals That Do the Work

Derived signal	Why it matters
ownership_tenure_years	Long holds can indicate embedded basis, relationship-sale potential, succession issues, or passive management.
years_since_major_permit	A proxy for deferred capital investment or an un-modernized asset.
improvement_to_land_value_ratio	Low ratios can point to redevelopment, expansion, IOS, or repositioning potential.
land_value_pct_of_total	High land value can mean the site matters more than the current building.
actual_far / allowed_far / far_utilization_pct	Measures unused zoning capacity.
lot_coverage_pct	Surfaces yard, parking, expansion, or excess-land opportunities.
nearby_permits_12_36mo	Captures market momentum around the asset.
nearby_sales_velocity	Indicates liquidity, buyer interest, and price discovery.
assessed_value_vs_neighbors	Flags assessment lag, mispricing, or underinvestment.
owner_type / absentee_owner_flag	Distinguishes institutional, private, trust, government, owner-user, and out-of-area ownership.
flood_or_hazard_flag	Separates real upside from risk that should be priced or avoided.
zoning_use_mismatch	Highlights repositioning, redevelopment, or legal-use risk.

For small-bay specifically, the most useful features are average suite size, building count and multi-tenant likelihood, estimated clear height, nearby service-business density, contractor and trade demand, grade-level loading, yard potential, last-mile access, owner-user suitability, and whether the asset could still be built today at anything close to its current basis.

14.2 How It Turns Into Action

The best product isn't a database dump — it's an opportunity-detection system that turns messy public and semi-public records into a clear reason to underwrite, call, watch, or avoid a property. It helps you answer five plain-English questions about any building: What is this asset? Who owns, occupies, or controls it? How is it physically configured? What opportunity exists? And who should care right now?

Module	Investor value
Industrial Fit Score	Scores whether a building is functionally useful for industrial demand — zoning, loading, access, yard, parking, power, building age, and surrounding demand.
Tenant Fit Engine	Matches likely tenant categories to property features, surfacing contractor, auto, logistics, light-manufacturing, wholesale, and owner-user demand.
Multi-Tenant Conversion Score	Flags buildings that could plausibly split into smaller contractor or service suites.

Module	Investor value
Yard / IOS Potential Index	Identifies parcels where excess land, low lot coverage, access, and zoning may support outdoor storage, fleet parking, or equipment yards.
Functional Obsolescence Detector	Flags low clear height (estimated), poor loading, excessive office, weak truck access, awkward parcel shape, or outdated improvements.
Replacement-Cost / "Can This Be Built Today?" Score	Compares existing utility against likely replacement cost and zoning barriers to measure scarcity.
Owner Sophistication & Succession Signals	Uses entity type, tenure, mailing address, and portfolio clustering to flag owners who may be under-managed, aging out, or relationship-sale candidates.
Deal Friction Score	Surfaces reasons a deal may be hard — environmental risk, zoning uncertainty, tiny parcel, poor access, fragmented ownership, or flood exposure.
Opportunity Tags & Deal-Thesis Generator	Produces evidence-backed tags and a short memo explaining why a property deserves attention.

The highest-value output is a reasoned call list — a watchlist that says, in effect: here are the owners worth calling this week, and here's the property-specific reason for each call. Tags make the reasoning legible:

Tag family	Example tags	What they suggest
Site and land	excess-yard-potential, expansion-pad, low-coverage-industrial, parking-monetization, assemblage-candidate, zoning-upside	The site may have more utility than the current building shows.
Building	small-bay-conversion, contractor-suite-fit, loading-upgrade, office-reduction, functional-obsolescence, owner-user-sale-fit, below-replacement-cost	Physical changes may create better tenant fit or stronger exit value.
Lease and operations	gross-to-nnn, mark-to-market-proxy, management-upside, tenant-repositioning, lease-up-candidate, expense-recovery-upside	The asset may improve through better operating discipline.
Ownership and timing	long-hold-owner, absentee-owner, private-local-owner, succession-signal, recent-permit-trigger, nearby-momentum	There may be a reason to call now rather than wait for a marketed sale.

Different users read the same data through different lenses. Investors want mispricing, underutilization, replacement-cost gaps, ownership motivation, and momentum. Owners and operators want capex priorities, tenant demand, competitive context, and leasing watchlists. Brokers want call reasons, buyer/tenant matching, owner-contact enrichment, and one-click property reports. Lenders want collateral quality, functional obsolescence, environmental and climate risk, and exit-use optionality.

15. From a Fragmented Universe to a Call List

Let me end where I began. The small-bay opportunity is real, but it's hard to see. The inventory is older and infill; the ownership is fragmented and private; and the data lives in county appraisal rolls, municipal zoning records, permit feeds, and business registries that were never designed to be read together. The investors who win this sector, in my experience, are simply the ones who can map it first. That is the problem SpanVor was built to solve.

The coverage is national and industrial-only. SpanVor maintains a canonical hub of 1.5 million industrial and small-bay parcels nationwide, classified industrial-only — no retail, office, or hotel noise diluting the screen (although one of these types of properties may slip into the coverage from time to time). Each parcel carries the attributes that drive the thesis: value and owner, parcel geometry (connected for the large majority of the hub), building footprints with building-count and a multi-tenant-likely flag, an estimated clear-height read, zoning, sales history, year built, and land and lot metrics.

And that coverage is national. Rather than spotlight a handful of states, the honest way to put it is this: market after market, when you ask "show me every functional small-bay asset in this corridor," the answer is the whole universe, not a sample. It isn't perfectly uniform — some markets are built out to the last parcel, others are still filling in, and we'll tell you which is which — but the breadth is the point. This is a nationwide parcel map, not a stack of one-off market studies.

The intelligence layer turns the map into action. The scoring framework, signals, modules, and tags in Section 14 are how SpanVor converts a parcel list into a reasoned call list — properties with a thesis, a likely tenant base, a risk profile, and a next step. The SpanVor Analyst brings it together conversationally over a broker-research corpus and the hub, and SpanVor Quarterly Market Reports package the read market by market — the same "headline versus investable truth" lens this memo applies, resolved down to submarkets, ZIP codes, owners, and parcels.

> **THE BOTTOM LINE:** The thesis is durable: scarce, functional, infill industrial that local tenants keep taking and almost nobody is building. The hard part was never the thesis — it was finding the assets. SpanVor maps the fragmented universe, scores what actually works for industrial demand, and surfaces the owners and assets worth a call, so you can spend your time underwriting deals instead of assembling a database. That's the whole idea, and I think it's a good one.

See Your Market

This primer is a free resource, and the next step is just as low-friction:

- **See your market.** Tell us the metro or corridor you're underwriting, and we'll show you the small-bay universe we already map there.
- **Request coverage.** Working a market we haven't fully built out yet? Ask us to prioritize it — coverage requests shape the build.
- **Try the Analyst.** Bring a thesis. Ask the SpanVor Analyst where the functional, under-managed, owner-motivated small-bay assets are, and let it return a starting call list.

And if you want to see the lens applied end to end, read the SpanVor Houston Quarterly Market Report — the same "headline versus investable truth" argument, resolved down to submarkets, ZIP codes, owners, and parcels.

Start at spanvor.com. Industrial Property Intelligence — built for the messy middle of the market, where the opportunity actually lives.

If you've read this far, thank you — I don't take your time for granted, and I'm grateful for it. I hope you've found something here worth the read. As a small way of saying so, here's a gift: 25% off a Pro subscription, with the code below.

Code: SpanvorPrimer

And feel free to reach me directly — probert@spanvor.com. I'd be glad to hear what you think.

Glossary

Term	What it means
Small-bay / shallow-bay	Smaller industrial suites or buildings, commonly under ~50,000 SF (shallow-bay often ~20K–150K-SF multi-tenant), serving many local-business tenants.
Micro-bay	Very small units, often under 5,000 SF; frequently run as flexible, co-warehousing-style space.
Flex / light industrial	Industrial space combining warehouse with an office, showroom, lab, or light-production component.
Multi-tenant industrial	A building or park demised into many smaller, separately leased suites.
IOS (industrial outdoor storage)	Yards and land for equipment, containers, trucks, and contractor staging — value sits in the land/use, not the building.
Clear height	Unobstructed vertical space inside a building, floor to lowest overhead obstruction; drives racking and equipment use.
Grade-level vs. dock-high loading	Grade-level doors are at ground level (drive-in); dock-high doors are raised to trailer-bed height for docks.
NNN (triple net)	A lease in which the tenant pays property taxes, insurance, and maintenance (CAM) on top of base rent.
CAM (common area maintenance)	Shared operating costs billed back to tenants under net leases.
Gross lease	A lease where the owner covers operating expenses out of the rent — the opposite end of the spectrum from NNN.
Mark-to-market	Resetting an in-place, below-market rent up to current market levels, typically at renewal.
FAR (floor-area ratio)	Building floor area divided by land area; actual vs. allowed FAR reveals unused development capacity.
Replacement cost	What it would cost to build the asset new today; when basis sits below it, that gap is a structural moat.

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Market statistics in this primer are attributed to the third-party research sources above. SpanVor coverage figures describe the SpanVor platform. Cap-rate and market-size figures are approximate and, where noted, drawn from sponsor or dated sources; treat them as directional. This document expresses the views of the author as of the date indicated, is educational and strategic, and is not investment, legal, tax, or financing advice.