Chart of the Week

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Industrial Real Estate: Smaller is Better?

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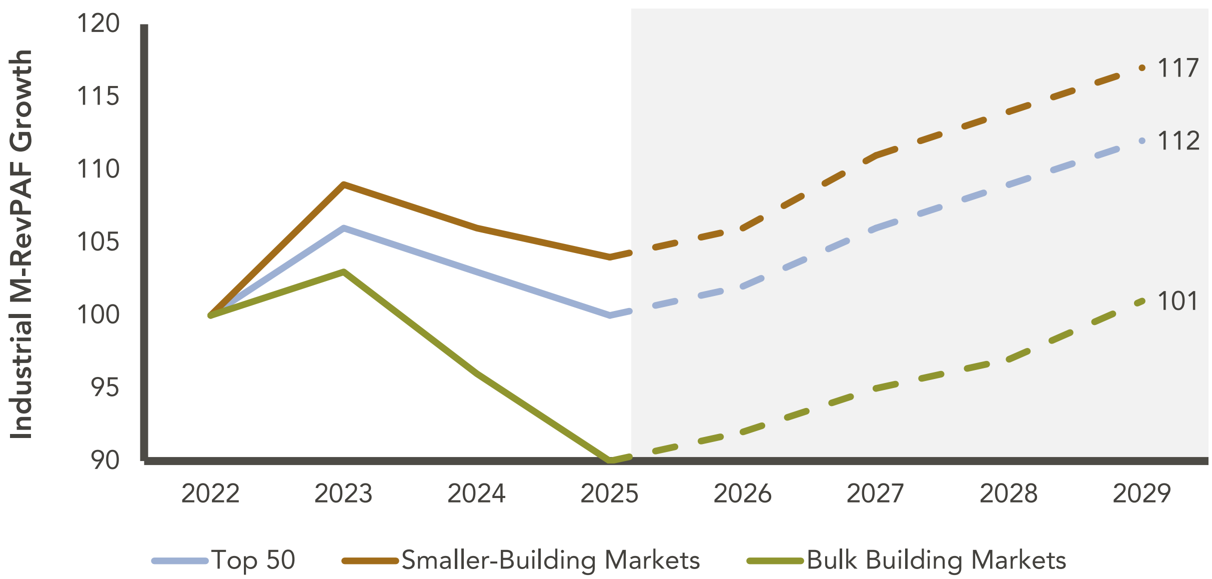
In the coming years, smaller markets may offer stronger rent growth and occupancy resilience within the industrial real estate space



Source: NCREIF, Green Street as of March 31, 2025. Data is indexed to 100 in 2022. Gray shading indicates forecasts.

This week's chart compares realized and expected Market Revenue per Available Foot ("M-RevPAF") growth within the industrial real estate space across three segments: The top 50 markets, smaller-building markets, and bulk building markets. M-RevPAF blends rent and occupancy into a single metric, providing a comprehensive view of market revenue performance.

Over the past several years, elevated new supply in low-barrier bulk distribution markets has pressured occupancy and rents, causing this segment to lag both smaller-building markets and the Top 50 diversified index. That gap is expected to widen further by 2029, as smaller-building markets are projected to deliver roughly five percentage points of additional cumulative revenue growth relative to bulk markets. For instance, smaller-building markets like those in infill and supply-constrained areas such as South Florida are positioned to capture stronger rent growth and maintain higher occupancy rates due to demand dynamics and limited new deliveries. Conversely, bulk distribution markets are still digesting significant deliveries from the 2021-2023 development cycle, which may keep vacancies elevated and rent growth muted for several years.

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These forecasts highlight the potential for a meaningful divergence in performance across industrial subsectors, stressing the need for discipline and precision when it comes to capital allocation by asset managers. Allocations toward smaller markets can help enhance portfolio resilience and capture outperformance relative to bulk distribution markets, where managers should be employing more conservative underwriting (assuming longer lease-up periods, requiring wider exit cap rates to compensate for slower NOI growth, etc.). A diversified approach that combines Top 50 markets with targeted exposures to smaller-building strategies may offer the best balance between growth and stability for investors in the years ahead.

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