

SMALLER WAREHOUSE, BIGGER PERFORMANCE

Shallow bay properties stand out as one of the highest-performing, most attractive assets for investment

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VANTAGE POINT

WHAT YOU NEED TO KNOW

Since the beginning of 2023, 965 million square feet (sf) of new warehouse facilities have been delivered nationwide, with 80% of that being speculative construction. This, combined with cooling demand and tenant consolidations, has led to an increase in vacancy. By the end of 2024, the U.S. warehouse vacancy rate reached 7.9%.

However, shallow-bay multitenant warehouses (those less than 150,000 sf) have experienced the lowest vacancy rates, finishing 2024 at just 4.8%, up 120 basis points annually. In contrast, big-box warehouses (250,000 sf and larger) have seen a significant rise in vacancy (+250 bps year-over-year) due to the influx of new supply, ending 2024 with a vacancy rate of 10.8%.

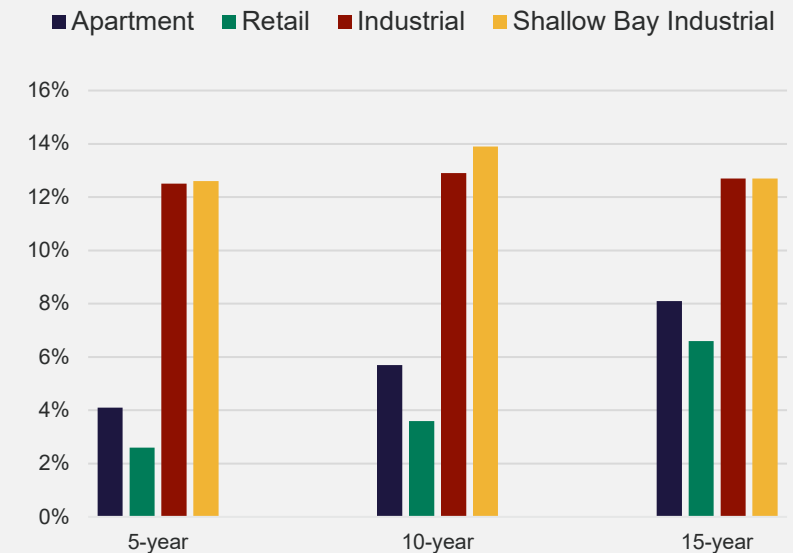
Shallow-bay facilities tend to cater to smaller local or regional tenants, commonly offering spaces from 5,000 to 50,000 sf with lease terms of three to five years. They typically feature ceiling heights of 24 to 32 feet, building depths of 120 to 200 feet, some grade-level access, and mainly dock-high loading.

Ample leasing demand and limited supply have positioned shallow-bay warehouses as one of the top-performing segments in commercial real estate for investors, with unlevered returns over five, ten, and fifteen years exceeding those of the broader market.

Tenant demand for shallow-bay space is expected to remain among the strongest in the industrial real estate sector. Buildings located near population centers that facilitate efficient freight movement—thereby reducing the time, distance, and cost of both inbound and outbound transportation—are increasingly recognized as vital nodes for retail supply chains, enhancing online and omnichannel service levels.

Strong rent growth, attractive income returns, and ongoing investor demand are expected to continue driving outperformance of shallow-bay multitenant warehouses. Whether an investor is seeking high returns or protection against losses, shallow bay remains a compelling investment opportunity.

Annualized Total Unlevered Returns



Source: NCREIF, Cushman & Wakefield Research

CONTACTS

Jason Price

Head of Logistics & Industrial
Research, Americas
jason.price@cushwake.com

Jason Tolliver

President, Logistics & Industrial
Americas Real Estate Advisory
jason.tolliver@cushwake.com