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Developing, Owning and Operating Shallow Bay Industrial Buildings

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CREDA RESEARCH FOUNDATION
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

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Executive Summary

Shallow bay industrial buildings serve a broad range of local and regional businesses and can be found in most markets across the United States. Although demand for these buildings has grown steadily over time, their supply has been constrained for many years by limited new construction and the demolition of older buildings. Lenders, institutional investors and developers have generally focused on larger single-tenant buildings that can benefit from economies of scale and serve the growing market for e-commerce logistics.

More recently, a limited supply of new shallow bay buildings has resulted in lower vacancies and higher rental rates than for larger-scale buildings. Consequently, lenders and institutional investors have grown more interested in the building type. The Commercial Real Estate Development Association Research Foundation commissioned this report to examine best practices for investing in, operating and developing shallow bay multitenant industrial buildings. The authors interviewed developers, investors, building owners and architects to explore the challenges and opportunities these buildings present. Key findings from this research include:

- Multitenant shallow bay industrial buildings serve a diverse range of local and regional businesses, making them less sensitive than larger logistics facilities to booms and busts.
- Demand for shallow bay space is usually greatest near population centers and transportation thoroughfares. Higher land costs in these locations and higher per square foot construction costs for smaller buildings have limited new construction of this product type.
- Many investors in the shallow bay space focus on buying vintage properties and marking their rents to market or retrofitting them to attract higher rents. Although the volume of new shallow bay construction has been limited, developers report making profitable investments in ground-up shallow bay projects where there is adequate demand.
- Developing strong tenant relationships is particularly important for effectively managing shallow bay properties. Close cooperation between property management and leasing teams can help owners retain tenants and improve decisions on rental rates and capital expenditures.
- To strike the right balance between a project's density, functionality and costs, it is critical for developers of new shallow bay buildings to understand prospective tenant needs. Not all tenants need deep truck courts or 32-foot clear heights, but a denser site plan and lower-cost design can permanently limit a building's marketability.

Introduction

Shallow bay industrial buildings are not a new real estate product type. They have been a fixture in U.S. markets for decades, and their attributes are reasonably well understood. However, investors have recently given these buildings renewed attention, raising interesting questions about the opportunities they present.

This report examines the investment appeal of shallow bay industrial buildings and the steps industry-leading investors are taking to maximize their value. It draws from commercial real estate trade literature, as well as from interviews with over two dozen industry professionals conducted in early 2026. The interviewees included architects, developers, lenders, operators and market analysts. Collectively, their perspectives provide insight into a distinct segment of the industrial real estate sector that has proved to be both economically resilient and profitable over an extended period.

Although the report is not intended as an endorsement of shallow bay industrial buildings, it does suggest they have unique advantages that investors should consider. Further, it offers evidence of best practices investors can adopt to enhance their returns irrespective of whether they are acquiring existing buildings or developing new ones. These themes are unpacked in the sections that follow.

The Product Type

The trade literature describes shallow bay industrial buildings in slightly different ways, and so did the interviewees that participated in this research. Nonetheless, they universally agreed on two aspects. First, shallow bay industrial buildings form a niche within the broader industrial real estate sector characterized by their physical and locational attributes. Second, the niche comprises two related but meaningfully different types of buildings that can be referred to as “vintage” and “modern” for convenience.

Vintage shallow bay industrial buildings hit markets in the latter half of the 20th century. Developers constructed them on the outskirts of metro areas where land was inexpensive and zoning permissive. Designed with flexibility in mind, the bay depths of these buildings allow them to be efficiently subdivided into suites as small as a few thousand square feet, making them ideal for small- and medium-sized businesses in need of warehouse space with a modest amount of office buildout. The buildings proved attractive to tenants when they were built, and they have grown only more desirable with time as urban expansion has brought them closer to population centers.[1]

Common physical features of vintage shallow bay industrial buildings include metal, block or concrete construction, 60- to 120-foot bay depths, 14- to 24-foot clear heights, and 20- to 24-foot column spacings. They often have a combination of drive-in and dock-high doors facilitating the convenient movement of equipment and supplies. Floor-area ratios tend to be low and parking ratios one to two spaces per 1,000 square feet. Their adaptability allows them to serve a wide array of tenants engaging in a wide array of activities.[2]

Vintage Shallow Bay: Brennan Investment Group

Brennan Investment Group has acquired several buildings across the U.S. that can be described as vintage shallow bay. This includes a 10-building, 482,312-square-foot portfolio purchased in early 2026. The portfolio spans Florida, New York, New Jersey and Pennsylvania and is predominately composed of 1980s and 1990s vintage buildings with a combination of dock-high and drive-in doors. Infill locations and convenient access to essential transportation infrastructure provide sources of competitive advantage. With functional clear heights and bay depths under 200 feet, these buildings can accommodate many types of small businesses and enjoy sustained tenant demand.

Images courtesy of Brennan Investment Group.

Modern shallow bay industrial buildings are similar to their vintage peers in many ways yet have several differentiating features that set them apart, including the locations where they are typically found. Largely developed after the turn of the 21st century, they tend to be farther from population centers and sited to accommodate convenient access to transportation arteries. They compete on quality and cater to tenants that care about contemporary design, best-in-class amenities and technology-enabled functionality.

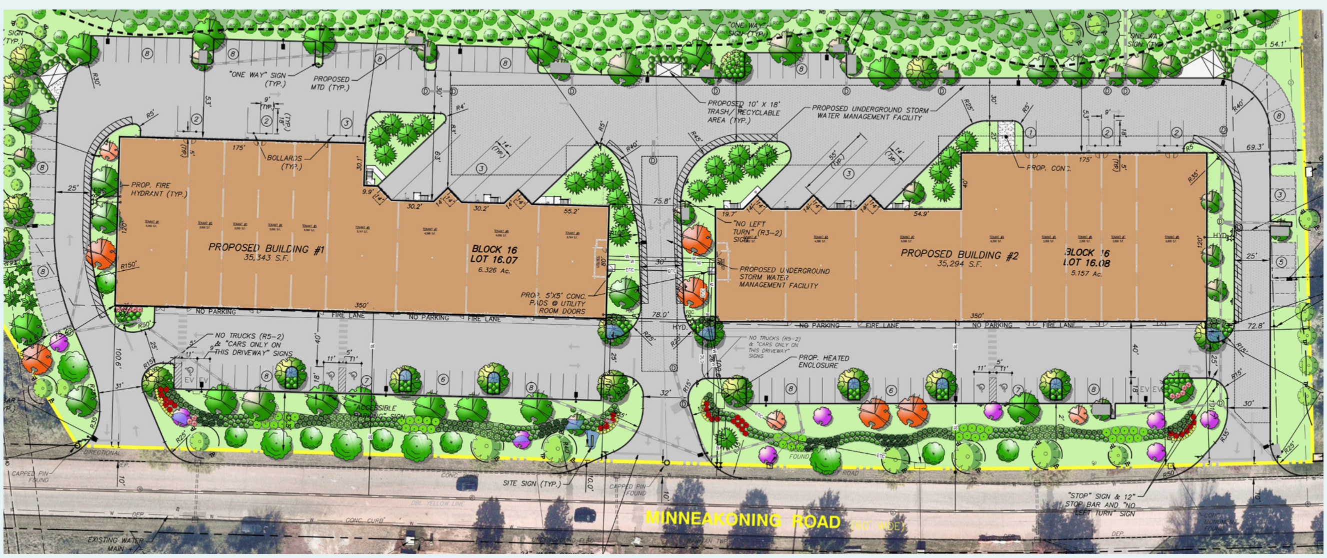
Tilt-wall construction and 28- to 32-foot clear heights are standard in modern shallow bay industrial buildings, as are drive-in and dock-high doors serving each tenant bay. Other distinguishing features may include solar-capable roofs, clerestory windows, LED lighting, energy efficient HVAC systems and insulation, ESFR sprinklers, prebuilt office space, trailer parking, high-capacity electrical service, and thoughtfully designed truck courts accommodating many types of vehicles. The largest buildings in the class can have 200-foot bay depths and 50- to 60-foot column spacings, straddling the line between shallow bay and mid-bay product.

Today, shallow bay industrial buildings — both vintage and modern — serve many types of tenants, often on short-term leases ranging from one to five years in length. Contractors, service providers, light manufacturers and last-mile distributors can be found on rent rolls, as can more distinctive types of businesses ranging from breweries and churches to production studios and trampoline parks.[3] Chuck McShane, senior director of market analytics at CoStar, noted that unlike so-called flex buildings, shallow bay industrial buildings usually devote less than a third of their total square footage to office buildout, and unlike larger logistics facilities, they primarily accommodate the needs of tenants operating locally or regionally rather than nationally.

Modern Shallow Bay: Flemington Junction Business Center

Flemington Junction Business Center is a shallow bay industrial development in Flemington, New Jersey, that is owned and operated by Larken Associates. The first two phases were developed between 2022 and 2025, with a third phase scheduled for delivery in early 2027. At completion, the project will include 270,000 square feet of space spread over seven buildings with 31- to 32-foot clear heights, bay depths ranging from 80 feet to 125 feet, and column spacings ranging from 25 by 50 feet to 41 by 50 feet. Dock-high doors with dock levelers can be found in all the buildings, along with strategically located drive-in doors catering to the needs of service-oriented tenants. Other notable features include LED motion sensor lighting, ESFR sprinkler systems, and heavy power and floor load capacity. The site plan accommodates 360-degree circulation of all buildings, and flexible zoning allows for a host of uses, such as distribution, manufacturing, research and recreation. Despite high construction costs, strong market demand for shallow bay industrial space, coupled with the developer's relatively low basis in the land, made the development financially feasible.

Images courtesy of Larken Associates.



Growing Interest Among Institutional Investors

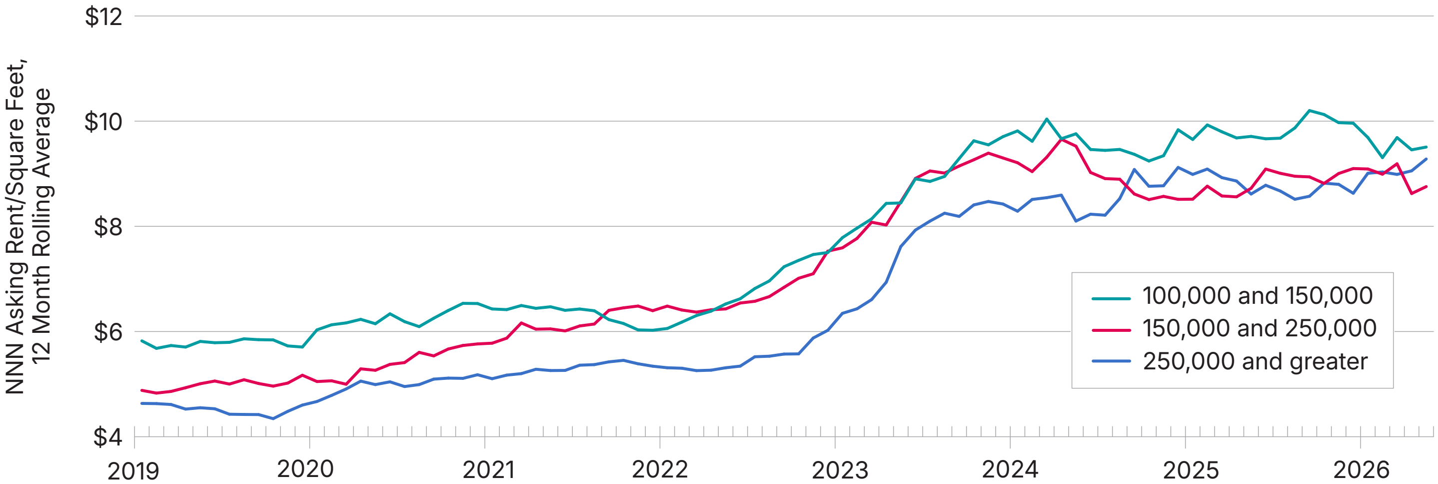
While shallow bay industrial buildings were once the domain of local investors, interviewees argued that this is changing.[4] Guthrie Stanback, senior associate at Corebridge Real Estate Investors noted that institutions are moving into this segment of the industrial real estate sector in search of attractive risk-adjusted returns. Data back the assertion up, with industry research reports showing a notable uptick in institutional investment in the product type since the early 2020s.[5] Blackstone, Brookfield, Kayne Anderson and TPG are a few of the companies that have acquired shallow bay portfolios, and others are joining their ranks.[6] The trend is due in part to favorable supply and demand fundamentals in the market for shallow bay industrial space that have put upward pressure on rental rates and occupancy levels in metro areas across the United States.[7]

The demand side of the story is closely linked to the versatility of shallow bay industrial buildings.[8] Since these buildings serve a wide array of tenants, demand tends to remain persistently high across economic cycles. This is particularly true for vintage buildings in infill areas that offer proximity to customers, suppliers and labor pools. Despite some tenants having weak credit, Heather Kreiger, regional research director at Lee & Associates, said they "pay and stay" because they are operationally dependent on their real estate; even when they move out, there is usually another tenant waiting to move in. Periodic tenant turnover doesn't tend to compromise the ability of these buildings to cover their operating expenses and debt service because individual tenants rarely occupy more than 10% of the total rentable space.[9]

As for the supply of shallow bay industrial buildings, what real estate developers haven't done over the past decade is more important than what they have done. Eric Tsang, director of research and valuation at Prologis, succinctly made this point: "Shallow bay's success in recent years is more attributable to supply constraints than increasing demand. There just hasn't been much built." He and other interviewees explained the phenomenon as a product of myriad factors. These include community opposition to industrial development, developers' inability to realize economies of scale on relatively small projects, the crowding out of shallow bay industrial development by data centers and bulk distribution facilities, and the challenges associated with finding shallow bay development opportunities large enough to attract institutional capital.

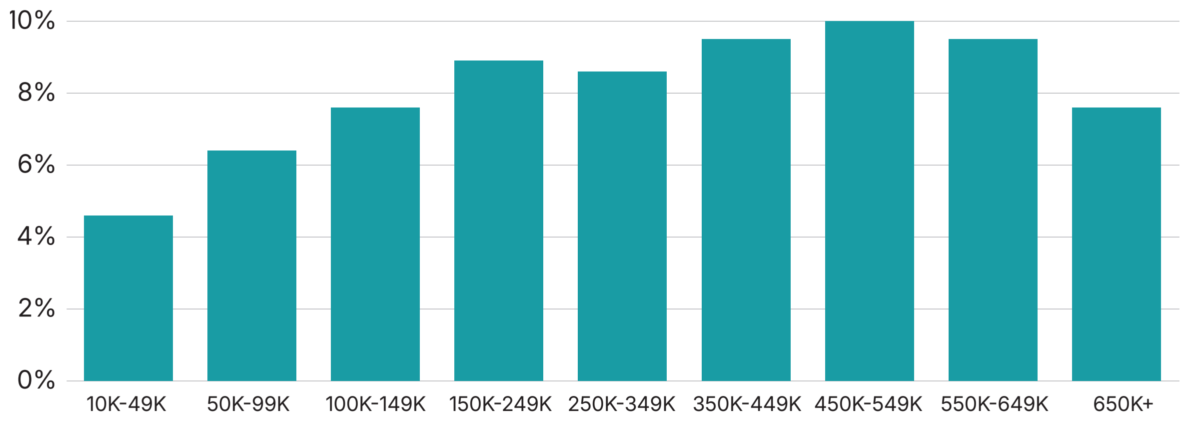
Supply constraints, coupled with stable demand, have arguably created market environments where existing shallow bay industrial buildings are positioned to thrive.[10] This is perhaps most evident in rent growth and vacancy in comparison with larger logistics buildings.

Figure 1: Rental Rates in U.S. Logistics Buildings



Source: CoStar Group, data through the first quarter of 2026.

Figure 2: Vacancy Rates in U.S. Logistics Buildings



Source: CoStar Group, data as of the first quarter of 2026.

Several interviewees, including Lisa DeNight, head of North American industrial research at Newmark, opined that the imbalances between supply and demand that have contributed to surging rental rates are unlikely to be resolved fully anytime soon and may even be exacerbated in markets where a significant number of shallow bay buildings are being demolished to make way for other land uses. This begs the question of what real estate investors can do to take advantage of the situation.

Alternative Investment Strategies

Jamil Harkness, senior research analyst at Newmark, suggested that although the market for shallow bay industrial buildings is often described as divided between vintage and modern assets, the investment strategies pursued within it are more usefully understood as falling into three categories: 1) acquiring vintage buildings and marking rents to market, 2) acquiring vintage buildings and revitalizing them, and 3) developing modern buildings from the ground up. Interviewees emphasized that these strategies differ significantly in their capital requirements, management demands and risk profiles.

Multiple interviewees stated that pure mark-to-market plays have become increasingly scarce due to intense investor competition for shallow bay industrial complexes in major metros. To overcome the problem, Christopher Tulimieri, head of U.S. industrial investments at Corebridge Real Estate Investors, encouraged prospective buyers to consider assets small enough to be off institutional investors' radar. He also espoused the benefits of building close relationships with the brokerage community, including leasing brokers who are often in direct and continuous communication with property owners, to get a look at off-market deals. Other promising sources of buying opportunities that interviewees identified included buildings offered for sale by long-term owners uninvolved in the day-to-day management of their assets or by owner-occupants in the process of closing their businesses.

Mark-to-Market: Mid Atlantic Micro Bay Portfolio

Silverman Group's acquisition of the 1.4 million-square-foot Mid Atlantic Micro Bay Portfolio in late 2025 serves as an excellent example of a mark-to-market investment opportunity covering the Maryland and Northern Virginia markets. This off-market transaction was arranged by Newmark and facilitated by the buyer's strong industry reputation and efficiency in due diligence for this real estate product type. The portfolio includes more than 600 tenants occupying spaces ranging from 500 to 10,000 square feet, many of whom were on short-term leases paying below-market rents. As a result, Silverman Group was positioned to reset rents quickly and at a manageable cost given that many of the 1980s and 1990s vintage buildings were well maintained and configured to meet the needs of small, service-oriented users in the region.

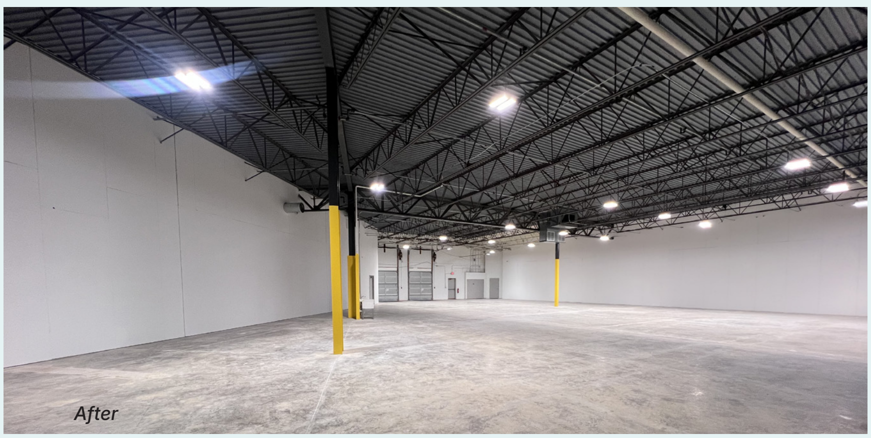
Image courtesy of Silverman Group.

As might be expected, interviewees perceived revitalization plays to be more readily available than mark-to-market plays, while also being more capital- and labor-intensive. Mason Waite, managing director of asset management at BKM Capital, noted that revitalization plays involve significant capital improvements — often at costs approaching 5% to 10% of the price investors originally paid for buildings — and robust leasing programs. He added that roof replacements, parking lot resurfacing, enhanced signage, augmented landscaping, and interior and exterior painting frequently play a role in these strategies, along with efforts to push rental rates to the top of the market, even if that approach results in a considerable amount of tenant churn. Interestingly, proposed sources of revitalization opportunities included both local and regional owners who don't fully appreciate the upside potential of their assets and institutional owners willing to part ways with noncore assets before going through the time and expense of overhauling rent rolls.

Revitalization: ALP West Palm Beach and Minneapolis

Arden Logistics Parks has revitalized several shallow bay industrial buildings across the U.S. Two interesting examples can be found in West Palm Beach, Florida, and Minneapolis, Minnesota. In West Palm Beach, the company acquired a three-building, 195,533-square-foot portfolio for $43 million. After making nearly $3 million in capital improvements, it was able to increase rents more than 50% on approximately 80,000 square feet of renewals and new leases. The improvements included investments in painting, signage, HVAC units, parking lots, roofs and speculative office buildouts. In Minneapolis, the company followed a similar strategy in the revitalization of a three-building, 361,428-square-foot portfolio acquired for $37.5 million. However, in this case, a significant portion of the $1.5 million capital improvement budget had to be spent on reducing the amount of office space in several vacant bays to make them more attractive to prospective tenants. The result of these market-driven capital improvements was a 37% rent increase on 73,000 square feet of renewals and a 20% rent increase on 12,319 square feet of new leases.

Before



After

Images courtesy of Arden Logistics Parks.

Cautious optimism surrounded ground-up development projects given that many of the best sites for shallow bay industrial buildings are already occupied or cannot be acquired/entitled at a reasonable price. Interviewees suggested that population growth and population density aren't always needed to make shallow bay development work, but one of the two is generally necessary. They warned against being the first mover in wholly unproven markets and chasing development opportunities in remote areas beyond the urban fringe simply because land is available. Elizabeth Holder, senior research analyst at JLL, encouraged those gambling on remote sites in the path of progress to answer two questions: "Where are the gaps in the market, and what tenants aren't being adequately served by existing buildings?"

Ground-up Development: Springs Business Park

The versatility of shallow bay industrial space is on full display in Springs Business Park, a four-building, 119,642-square-foot complex located on 12 acres of land in Concord, North Carolina. Developed by Fortius Capital Partners between 2022 and 2024, it serves a diverse array of businesses operating in the Charlotte-Concord-Gastonia metropolitan area, including contractors, distributors and experiential retailers. Bay depths of the rear-loaded masonry buildings range from 85 feet to 150 feet and clear heights from 17 feet to 21 feet, all of which are appropriate for the desired tenant mix. Other features contributing to the buildings' broad market appeal include suites from 2,125 to 27,000 square feet in size, a 1.7 per 1,000 square feet parking ratio, and a combination of 28 drive-in doors and 14 dock-high doors.

Images courtesy of Fortius Capital Partners.

Availability of Debt Financing

Fortunately for equity investors interested in moving into the market for shallow bay industrial buildings, debt financing appears to be readily available. Interviewees indicated that banks, debt funds, life insurance companies and many other types of lenders are underwriting the asset class favorably and structuring loans with borrower-friendly terms. This is particularly true for stabilized assets that appear to be financeable at rates on the low end of the ranges presented for industrial loans in the CREDA Research Foundation's Q1 2026 Debt Market Survey.[11]

"Leased shallow bay is the easiest industrial product type to finance at the moment," said Hunter Wood, senior director at Berkadia, "It is hot as a firecracker. There is a ton of capital out there for it as long as a borrower can show tenants have a long history and operational dependency on the real estate. LTV (loan-to-value) ratios can approach 70% and spreads from 170 to 220 basis points over the Treasury benchmark."

Scott Williams, managing director at Aline Capital, echoed these sentiments, arguing that many characteristics of shallow bay industrial buildings that once kept lenders away are no longer a deterrent. "There is tremendous appetite for leased shallow bay product at the moment," he said, "even when it isn't leased to credit tenants. Lenders are buying into the narrative that multitenant buildings can maintain their occupancy due to strong demand and limited supply, and they are offering debt on investment grade terms. Life insurance companies and pension funds are doing a lot of the larger, nonrecourse deals, and regional banks and credit unions are stepping up to do the smaller, recourse or partial recourse deals."

Permanent Financing: Dallas-Fort Worth Portfolio

Newmark recently assisted Mapletree Investments in the sale of a 1.4 million-square-foot shallow bay industrial portfolio heavily concentrated in the Dallas-Forth Worth metropolitan area. It also helped arrange acquisition financing. The portfolio proved attractive to debt providers because the buildings had strong infill locations, in-place rents approximately 10% below market and a weighted average lease term under four years, allowing revenue potential to be realized quickly. Further, the buildings in the portfolio were marketable to prospective tenants because they were configured to accommodate a variety of uses, had an average clear height of 22 feet, and had an average office buildout under 25% of the leasable space. These factors, among others, encouraged Wells Fargo to finance the portfolio for five years at an LTV over 70%.

Gordy Trainor, associate director at Pacific Life Investments, added that portfolios of shallow bay industrial buildings have proved extremely attractive to institutional lenders because they offer the benefits of scale and diversification. Such deals tend to be underwritten based on cash flow in place, with mark-to-market opportunities viewed as "gravy rather than the basis for the loan," he said. Further, he noted, lenders often overlook short weighted-average-lease terms and individual buildings that are "old, ugly and leased" when portfolios have strong operating histories and experienced sponsors.

When asked about repositioning projects and development projects, interviewees suggested that debt financing options are more limited than they are for stabilized projects but nonetheless available. They noted that loan-to-cost ratios ranging from 55% to 65% are common, as are reserves for tenant improvements and other leasing costs. Credit spreads observed in the market were roughly 200 to 350 basis points for fixed-rate loans priced off Treasury benchmarks and 300 to 450 basis points for floating-rate construction loans priced off the Secured Overnight Financing Rate, with pricing varying based on leverage, sponsorship, recourse and execution risk. These spreads are generally consistent with those presented in the CREDA Research Foundation's Q1 2026 Debt Market Survey.

Construction Financing Considerations

Lenders evaluating proposed shallow bay industrial developments use traditional underwriting metrics to evaluate the financial strength of the sponsors and the merits of the proposed projects. Beyond that, they frequently seek answers to the following questions:

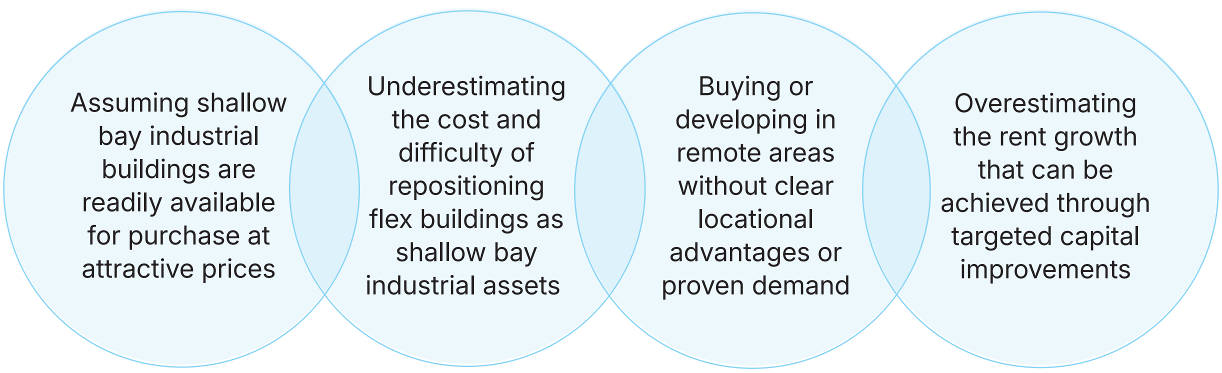
- Is there a small business ecosystem in place in the market or submarket, as well as demonstrated demand for suites ranging from 1,000 to 20,000 square feet in size?
- Does the market or submarket offer locational advantages such as access to customers, suppliers, labor pools and transportation networks?
- Are there notable barriers to entry in the market or submarket that prevent competitive buildings from being delivered in the future?
- Can the proposed buildings easily accommodate multiple tenants engaged in a diverse array of economic activities, thereby reducing leasing risk?
- Does the sponsor have experience with the product type and the ability to implement a high-volume leasing and management strategy appropriate for multitenant assets?
- Is there likely to be significant capital market demand to refinance or acquire the proposed project once construction is completed and it reaches a stabilized occupancy level?

Acquisition Perils and Pitfalls

Despite the widespread availability of debt financing, interviewees warned investors against pursuing existing shallow bay industrial buildings indiscriminately. They expressed concern that the same factors attracting lenders to the product type — e.g., constrained supply, stable demand, strong investor interest — are making compelling acquisition opportunities harder to find. Given rising asset prices and moderating rent growth in many markets, Juan Arias, national director of U.S. industrial analytics at CoStar, encouraged investors to avoid doing deals based on overly aggressive underwriting assumptions and to refrain from establishing equity funds dedicated exclusively to shallow bay industrial buildings that may ultimately lead to ill-advised deployment of capital. He expressed optimism about the product type overall, while noting that it may better serve intermediate- to long-term investors with patient capital rather than those who need to flip properties quickly to hit their targeted returns.

Approaching investments in a disciplined manner is especially important when evaluating properties that loosely fit the shallow bay thesis. Interviewees such as Graham Stoneburner and Bo McKown, senior vice presidents at Thalhimer, put forth flex buildings as an example. They stated that while it might seem easy to convert flex buildings into shallow bay because of their similar size and configuration, it is difficult in practice because the former often lack the truck courts, circulation areas and number of loading doors that shallow bay tenants desire. Removing excess office space, reworking loading areas and adapting sites for more operationally intensive users can also be expensive. For these reasons, they argued that investors should approach flex-to-shallow bay conversions cautiously and with an eye toward understanding whether buildings can support the activities shallow bay tenants need to perform.

Acquisitions Missteps



Location poses related risks. Much of the appeal of shallow bay industrial buildings comes from their proximity to population centers. Assets located in infill areas often benefit from limited competing supply and strong demand from locally oriented users that need to remain close to the markets they serve. Thus, location is as important to the shallow bay story as the physical characteristics of the buildings that fall into the class. Frank Forte, chief investment officer and managing partner at Lucern Capital Partners, contended that investors misread the product type when they acquire buildings in remote areas and assume they will perform like their peers in tighter, more centrally located submarkets.

Investors should also be careful not to overestimate the rent premiums associated with capital improvements.[12] Shallow bay tenants value well-maintained properties; visible reinvestment in roofs, paving, signage, landscaping, lighting and painting can help demonstrate ownership's commitment to an asset. However, interviewees argued that "beauty is in the eye of the beholder" and "not all improvements matter to tenants equally." Contractors, service providers, light manufacturers and local distributors often care more about access, loading, clear functional space, parking, security, and proximity to customers or labor than about cosmetic upgrades. Improvements that enhance functionality or solve operational problems may support tenant retention and rent growth. By contrast, investments aimed primarily at aesthetics may have limited payoff if they do not help tenants operate more efficiently. Thus, one should not assume that making something "pretty" automatically translates into higher rents.

Taken together, the perils and pitfalls that interviewees pointed out suggest the advantages of shallow bay industrial buildings are real but not universal. They manifest themselves fully only when investors are selective about the assets they pursue, the prices they pay and the capital improvements they make. The richest rewards tend to go to investors who make decisions in each of these areas not only with an understanding of how tenants use their space but also how those use cases influence their bottom line. Thomas Wilkinson, senior associate at Matthews, said investors should start thinking about these considerations during due diligence, not after closing, if they hope to effectively mitigate their risk exposure.

Leasing and Management

Post-acquisition, the financial success of shallow bay industrial buildings hinges on effective leasing and management.[13] This led interviewees to offer both tactical and strategic recommendations for doing these things well. Most focused on strengthening relationships with tenants, aligning interests, facilitating lease compliance and limiting rent roll risk through careful lease administration.

While acknowledging that leasing agents and property managers should understand tenants' needs in all sectors of the real estate industry, interviewees argued this is particularly important with shallow bay industrial buildings because of the diverse array of tenants they serve. To better identify these needs, interviewees suggested engaging in site visits, doing informal check-ins and asking questions about tenants' workflow, customer base, labor pool, equipment, delivery patterns and plans for the future. Interviewees stated such interactions serve as more than a customer service exercise when they help operators identify problems before they become disputes and realize opportunities that might otherwise be overlooked.

One of the most frequently cited ways of strengthening tenant relationships was ensuring close integration of property management and leasing teams. Interviewees noted that tenants are better served when the individuals responsible for lease negotiations, renewals, maintenance and day-to-day communication are aligned and regularly sharing information. They anticipated integrated service delivery would reduce the amount of frictional vacancy in shallow bay industrial buildings and help operators make better decisions about tenant improvements, expansion opportunities and rent increases. These are critically important outcomes when buildings are leased to a significant number of small tenants on short-term leases.

Nonetheless, property owners should not assume collaboration between property managers and leasing agents is a foregone conclusion. “It is foolish to think you can close your eyes and trust property management and leasing teams to talk,” said David Greek, managing partner at Greek Real Estate Partners. “You have to make it happen. It has to be a priority for asset management.” He and other interviewees argued that vertical integration is advantageous when it comes to shallow bay industrial buildings because it provides tenants with a single point of contact and mitigates principal-agent problems that can arise when the management and leasing are outsourced.

Promoting Collaboration Between Leasing and Management Teams

Shallow bay industrial buildings can be more management intensive than other industrial real estate products due to the characteristics of their tenant base. Operational efficiency requires close collaboration between property managers and leasing professionals guided by the following principles:

- Organizational commitment to communication among management and leasing personnel.
- Information sharing designed to identify both emerging problems and potential opportunities.
- Ongoing efforts to build relationships with tenants from lease execution through renewal.
- Comprehensive understanding of how tenants use their space to achieve business objectives.
- Efforts to make lease provisions understandable and lease compliance as easy as possible.

To avoid unnecessary conflict with tenants, interviewees also offered suggestions for making lease compliance as easy as possible. They described online rent payment portals and standard operating policies as simple ways to reduce lease violations. Further, they posited that consistently enforcing clearly defined rules is essential when working with small tenants that may not fully understand their leases, particularly when it comes to matters such as parking, loading, trash disposal and permitted uses. Collectively, interviewee comments indicated that effective management of shallow bay industrial buildings depends less on any single tactic than on creating an operating environment in which tenants understand expectations and believe ownership is working with them rather than against them.

Limiting rent roll risk through thoughtful lease administration was another top-of-mind concern among interviewees. They called on operators to stagger lease expirations and maintain a mix of tenants whose business cycles do not move in tandem. They also encouraged operators to preserve flexibility in buildings to the extent possible, putting small- and medium-sized tenants in a position to expand, contract, take on temporary space or relocate in response to their evolving business needs.

Site Planning and Building Design for Ground-up Development Projects

Investors who wish to engage in the ground-up development of shallow bay industrial buildings have more challenges to contend with than those who acquire preexisting assets. "Land and construction costs are the biggest deterrents [to new development]," said Thomas Johnson, senior market intelligence analyst at Avison Young. "A lot of deals just won't pencil out." These costs may be very high on a per square foot basis relative to other types of industrial development given that small buildings are at a disadvantage when it comes to economies of scale.[14] Yet there are developers who are finding sites, managing construction costs and delivering new shallow bay industrial buildings to the market in a profitable manner.

CREDA and HPA, Inc.'s ***Rules of Thumb for Distribution/Warehouse Facilities Design*** provides a useful foundation for thinking about shallow bay industrial development. It states that as industrial buildings get smaller, efficient design becomes more important to combat evaporating economies of scale. It also emphasizes the importance of striking a balance among functionality, construction cost, site yield and community acceptance.

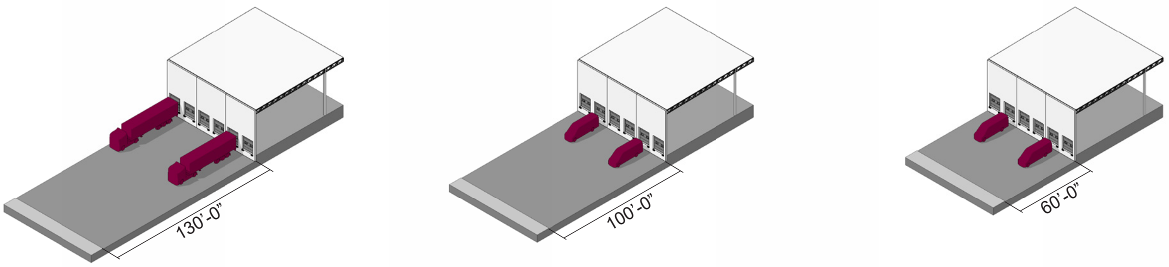
The push-and-pull factors shallow bay industrial developers contend with are perhaps most evident in site coverage decisions. Working within the confines of existing regulatory requirements, developers must attempt to spread land costs across as much rentable square footage as possible without taking project density to the point where it results in unduly tight truck courts, inadequate parking, awkward loading areas or conflicts between passenger vehicles and service vehicles. Interviewees noted that being overly conservative in site coverage can leave money on the table by underutilizing expensive land, while being overly aggressive can result in the same outcome when density compromises rentability. Thus, when it comes to density, questions about "how much is too much" can be answered only when developers know their expected tenant mix and how those tenants are likely to move around the site.

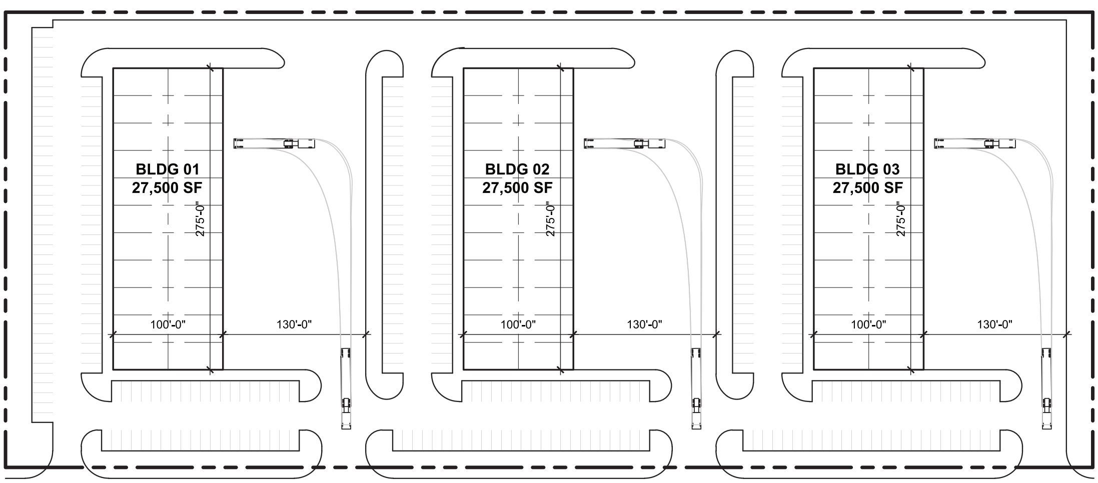
Given that tenants occupying shallow bay industrial buildings are often more varied in their on-site business activities than those occupying larger distribution facilities, interviewees said concerns about tractor trailer maneuvering should not dominate site planning discussions, as other considerations may matter to tenants just as much, if not more. Site plans should protect truck movement, recognizing that some tenants rely heavily on dock-high deliveries, while others use vans, box trucks and small trailers to carry out essential business functions. Likewise, shallow bay industrial buildings have unique parking requirements that differ from both office buildings and larger industrial facilities. Adequate parking that does not impede truck circulation must be provided for customers, employees and service vehicles if developers hope to enhance building functionality and tenant satisfaction.

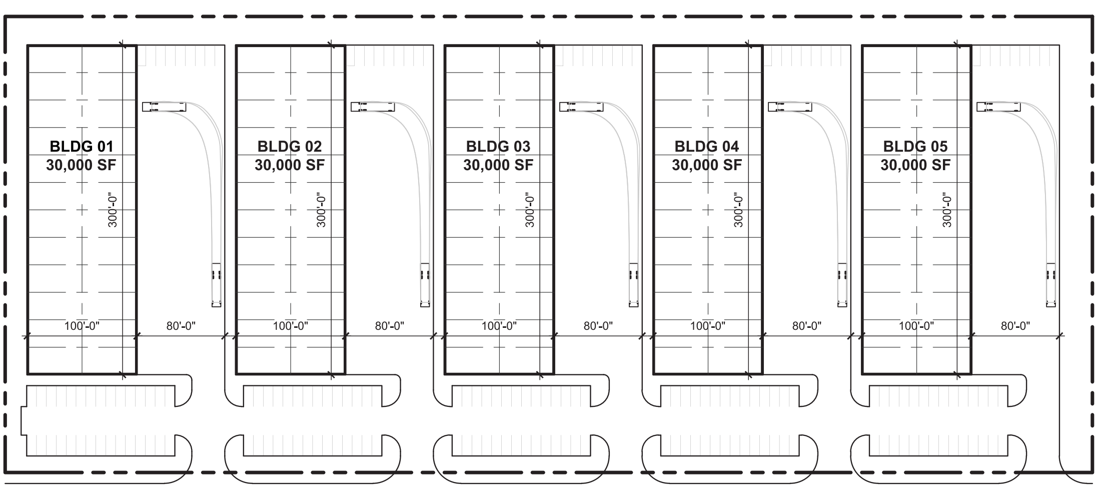
Density Trade-offs

These illustrations demonstrate the importance of understanding tenants' needs when making site planning decisions. While a shallow bay industrial building regularly accessed by tractor trailers may require a truck court 130 feet in depth to be functional, that number can fall to 100 feet for buildings accessed primarily by box trucks, or even 60 feet for buildings primarily accessed by vans. The additional project density achieved by taking this into account can be significant. Nonetheless, developers should weigh the benefits of greater project density against precluding tenants that require service by larger trucks from their buildings in perpetuity.

Images courtesy of Powers Brown Architecture.



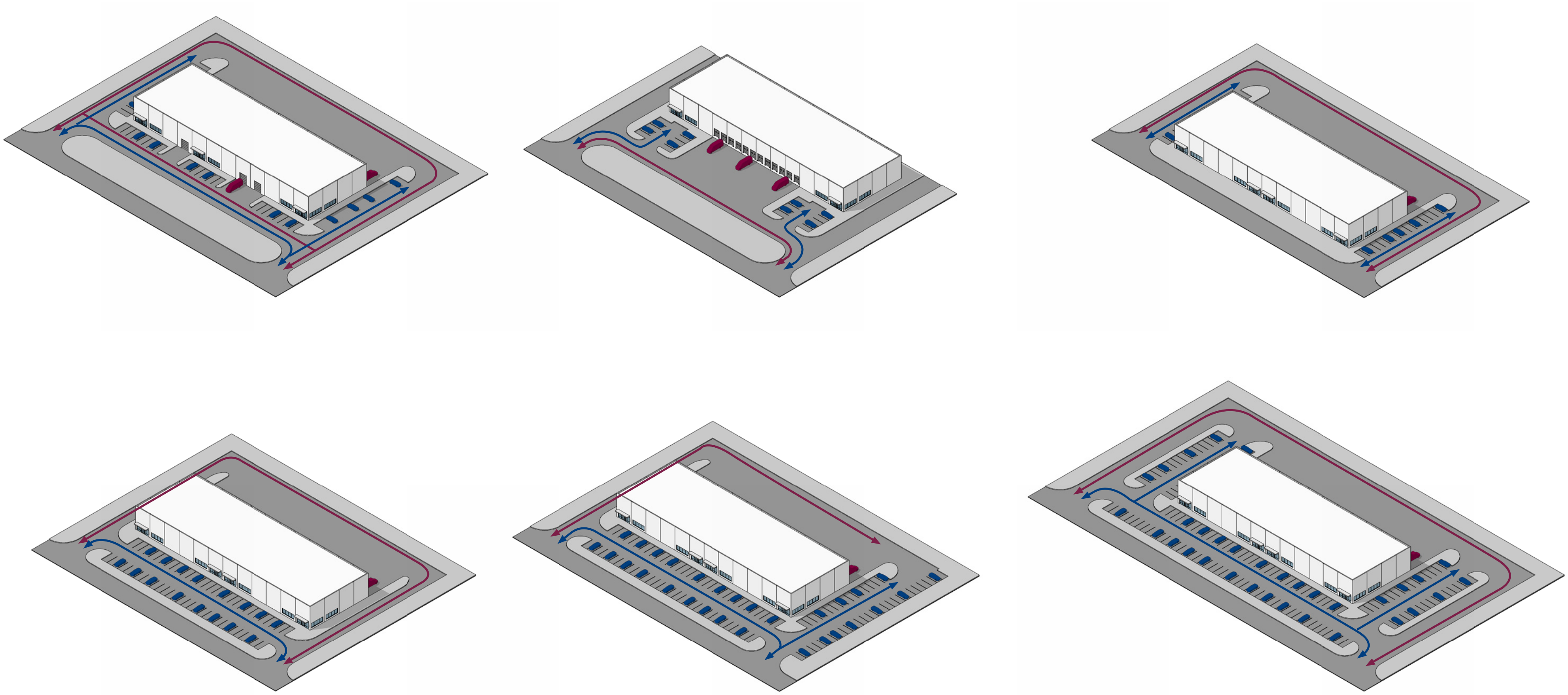




Parking and Circulation

A variety of design strategies can be adopted to segregate parking areas from areas needed for truck circulation. Which strategy is most appropriate depends largely on parking requirements, site conditions and whether a building is front-loaded or back-loaded. Each of the site plans depicted may therefore be advantageous in the right circumstances.

Images courtesy of Powers Brown Architecture.



Industrial building market standards for clear heights, bay depths, column spacings, slab widths and building systems can provide useful guidance for shallow bay building design, but developers should avoid treating specifications as ends in themselves. Daniel Levison, chairman and CEO of CRE Holdings, spoke directly to this issue. He argued that not all tenants want, need or will pay for specifications commonly associated with large-format distribution facilities, adding that his firm has found success offering a more affordable product to tenants comprised of pre-engineered metal buildings with clear heights of 22 to 24 feet. On the other end of the spectrum, James Breeze, global head of industrial research at CRBE, noted there are tenants who will gladly pay for tilt-wall construction, 32-foot clear heights, ESFR sprinklers and three-phase power, among other modern amenities. Neither of the interviewees put forth design specifications to imply they are ideal but rather to suggest that shallow bay industrial buildings come in different forms and that developers must have a clear understanding of the segment of the market they plan to serve.

Madison Business Center

Madison Business Center is a shallow bay industrial complex in Madison, Georgia, located on 13 acres of land in a free trade zone less than a half mile from the Interstate 20/Highway 441 interchange. At completion, it will include three rear-loaded buildings with a total of 114,000 square feet of space. CRE Holdings is developing the project with affordability and functionality in mind. All the clear span, pre-engineered metal buildings will have multiple dock-high loading doors, 22- to 24-foot clear heights, and bay depths ranging from 110 to 130 feet so they can serve tenants of various sizes. They will also have brick facades, 1.5 per 1,000 square feet parking ratios, and electric vehicle charging stations for employees' cars. For tenants reliant on EV trucks, the buildings will boast the advantage of being prepared to handle Level 3 DC charging.

Image courtesy of CRE Holdings.

Mount Juliet Logistics

Mount Juliet Logistics is a building currently being developed by Greystar and Whitman Peterson on 12 acres of land in a high barrier to entry submarket of the Nashville metropolitan area. The rear-loaded facility will include 183,971 square feet of space and 194 parking spaces upon completion. Notable features include 200-foot bay depths, 32-foot clear heights, tilt-wall construction, and 26 dock-high doors with the potential to add another 24 upon demand. The facility also has two drive-in doors, four trailer parking spaces, 75,000 square feet of outdoor storage space and a configuration allowing divisibility into tenant suites as small as 20,000 square feet. The development team elected to include 2,200 square feet of speculative office space in one endcap to make it move-in ready and has already obtained permits for additional office buildout should prospective tenants request it.

Image courtesy of CBRE.

Above all else, interviewees called on developers to focus on flexibility and functionality over form. Cameron Trefry, regional vice president at Ware Malcomb, said this is particularly important when shallow bay industrial buildings are not preleased: "The name of the game in speculative development is being everything to everyone, delivering highly flexible buildings that are capable of accommodating multiple tenants engaged in different activities." Some of the things that can be done with this in mind include keeping bay depths shallow enough to accommodate tenants ranging in size from 2,000 to 20,000 square feet; limiting the amount of office buildout; offering a mix of dock-high and drive-in doors; designing parking and truck circulation areas for multiple types of vehicles; providing clear heights of 24 feet or higher to preserve adaptability; and designing buildings with repetitive, separately metered, structural bays that can be easily divided or combined.

To maximize flexibility and functionality, Nazir Khalfe, principal at Powers Brown, offered developers one simple recommendation: "Ask the design team to draw all the options — the good ones and the bad ones — to see what is truly feasible. Some [options] will yield more square footage, but it might not be the right type of square footage for the market. Even so, seeing the options helps understand the trade-offs."

Conclusion

Shallow bay industrial buildings have become more attractive to investors not because they are exciting but because their long-standing strengths have become more visible in a constrained and increasingly competitive industrial market. Their appeal rests on a combination of broad tenant demand, limited new supply, flexibility, functionality and locational advantages. Irrespective of whether these buildings are 50 years old or newly constructed, they tend to attract tenants by satisfying their operational needs, including proximity to population centers, in a cost-effective manner. As a result, debt and equity providers have newfound appreciation for the product type that is unlikely to change anytime soon.

Yet the findings of this report also lead to the conclusion that not all investments in shallow bay industrial buildings have a high probability of outsized returns. Yields have compressed as capital has flown into this segment of the industrial real estate sector, making disciplined underwriting more important than ever. Investors must resist the temptation to assume all opportunities in the asset class are compelling and exercise prudence when deciding which opportunities to pursue. The most successful investors are likely to be those who understand not only the physical characteristics of the buildings they acquire or develop, but also the practical ways tenants use those buildings to run their businesses.

The same lesson applies to leasing, management and development. Shallow bay industrial buildings require active and informed ownership. Because they often contain numerous small tenants on relatively short leases, their performance depends on close coordination between leasing and property management, regular communication with tenants, thoughtful lease administration and visible reinvestment that improves functionality rather than merely appearance. For ground-up projects, the best designs are not necessarily those with the highest specifications on every dimension. They are the projects that balance flexibility, construction cost, tenant usability, circulation, parking, loading and entitlement realities.

Ultimately, the renewed interest in shallow bay industrial buildings reflects a broader recognition that smaller, locally oriented industrial assets can offer compelling risk-adjusted returns when they are acquired, financed, designed, leased and managed with discipline. Their staying power comes from the essential nature of the businesses they house and the difficulty of replacing well-located industrial land. Moving forward, they are likely to reward sophisticated operators with patient capital who are willing to devote both time and resources to careful deal selection and thoughtful deal execution.

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