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Industrial Space Hard to Find in Tight Markets Worldwide

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Across the industrial product types, levels of vacant space remain very low. This has allowed landlords to increase rental rates and decrease concessions over the past decade. What does the future hold for industrial space occupiers? It depends on product type.

Development of new, high clear height industrial buildings has been occurring for many years. These properties are typically 24' clear or higher and at least 100,000 square feet in size (but are often 250,000 square feet up to 600,000 square feet). In some primary distribution markets, 1,000,000 square foot buildings are often the norm. The pipeline of new logistics buildings under construction is pretty full despite the pandemic, so space occupiers that need this type of space will have some options to choose from—but not a lot. It is also possible that there will be competition for these buildings with other space occupiers.

Flex buildings are often great options for businesses that need 25% or more of office space, some tech or lab space areas, and maybe a little warehouse. These buildings are more expensive to build because they have a higher percentage of finished space inside, require more parking spaces, and often have a higher level of exterior finishes. Vacancy rates in this product type have continued to decrease in most markets over the past five years, however some sublease opportunities are available due to the pandemic. New development is limited in this product type because of the cost of construction. A large portion of the new building construction over the past seven years has been build-to-suit projects where one tenant occupies the entire building. Looking forward, space occupiers will have options for direct or sublease space options in many markets, but as economies recover post-pandemic, vacancy levels are expected to decline.

Tenants leasing space in small-to-medium-sized warehouses have been and will continue to face headwinds in extremely tight market conditions. These properties generally have tenants ranging from 1,500 square feet up to 25,000 square feet with 15% to 25% finished office space and the balance being warehouse. Rental rates tend to be the lowest in the market for this space type given the buildings are all generally older stock with lower warehouse clear heights. Demand for this type of space has been strong for a decade, but new development is quite rare because the rental rates in many markets have not yet reached the levels needed to justify new construction. As construction costs continue to spiral upward, the likelihood that developers will build smaller bay industrial buildings remains low. Tenants should expect space options of this product type to remain quite limited in most markets with increasing rents and limited concessions probable.



Having an experienced real estate advisor is a tremendous value when markets are tight and your company is competing for space. ITRA Global advisors have access to all the commercial market listing systems and are often aware of sublease spaces and off-market opportunities. When your business needs a new industrial space or has a lease coming up for renegotiation, contact ITRA Global—we can help your company make informed decisions.

