SMALL BAY, **BIG THINKING**

Most industrial developers are chasing a product type that's oversupplied. The real opportunity is in small bay — and it's been hiding in plain sight.

METHOD
architecture

WHY BIGGER STOPPED BEING BETTER

For the better part of a decade, industrial real estate chased one metric above all others: size. Bigger clear heights. Bigger footprints. Bigger logistics deals. The race to build half-million-square-foot distribution centers defined the cycle, and for a while, the math worked.

It doesn't anymore. The same capital that funded the big-box boom is now sitting on 7–9% vacancy in many markets while the building type next door hasn't cracked 4%. Pandemic-era supply came online just as demand softened. Small bay, meanwhile, sits near historic lows — under 4% nationally, sub-3% in some corridors of the Sun Belt region. The numbers below tell the story. Most institutional capital is still chasing the product type that's oversupplied.

WHY NOW: FOUR FORCES CONVERGING

Small bay industrial has existed for decades. What's changed isn't the product type — it's the intensity of demand now converging from four directions at once.

Tariffs, Reshoring, and the Return of American Manufacturing

Trade policy has made offshoring less attractive and manufacturing is gaining momentum — now accounting for 20% of new industrial leasing in the Southeast and Central U.S., up from 13% pre-pandemic. The real story isn't the Fortune 500 headlines. It's the thousands of smaller manufacturers and fabricators that make up 98% of all U.S. manufacturing companies. They're coming back, and they need modest, flexible footprints close to customers and suppliers.

Section 179 and the Equipment Investment Wave

The One Big Beautiful Bill Act expanded Section 179 expensing, allowing small manufacturers to fully deduct large equipment purchases in the year of acquisition — CNC machines, welding systems, fabrication equipment, specialty tooling. The equipment investment follows the tax incentive. The space to put it in follows the equipment.

Aging Inventory That Can't Keep Up

Much of the existing small bay stock was built in the 1980s and 1990s. These buildings routinely lack the power infrastructure, data connectivity, clear height, and operational layout that today's tenants require. New purpose-built product isn't competing against modern alternatives — it's replacing obsolete stock the market has been tolerating for years.

The Tenant Pool Is Enormous

98% of U.S. manufacturing companies are classified as small businesses. Add trade contractors, food and beverage packagers, showroom-warehouse operators, and last-mile logistics users — and the addressable tenant base dwarfs what any single big-box building can accommodate. That's not a weakness. It's a vacancy hedge.

Metric	**SMALL BAY** (<50K SF)	**BIG BOX** (250K+ SF)
National Vacancy	<4%	7%-9%+
Typical Lease Term	1-5 years (Faster Resets)	7-10 Years
Tenant Improvement	$15-$40 / SF	$60-$100 / SF

SMALL BAY, BIG THINKING

THE PERFORMANCE GAP

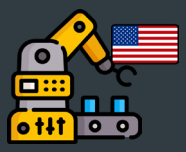
<4% VACANCY RATE

BIG BOX VACANCY (7-9%)
Small bay vacanacy sits near hisstoric lows while large-format vacancy has climbed.

<0.3% NEW SUPPLY

New small bay construction accounts for <1% of total existing national stock.

DRIVERS OF THE SMALL BAY SURGE



20%
OF NEW LEASING IS MANUFACTURING

Up from 13% pre-pandemic, driven by trade policies and American reshoring.

98%
SMALL BUSINESS TENANT BASE

Almost all U.S. manufacturers are small businesses, creating a massive, diversified addressable market.

50%
OF INVENTORY IS OBSOLETE

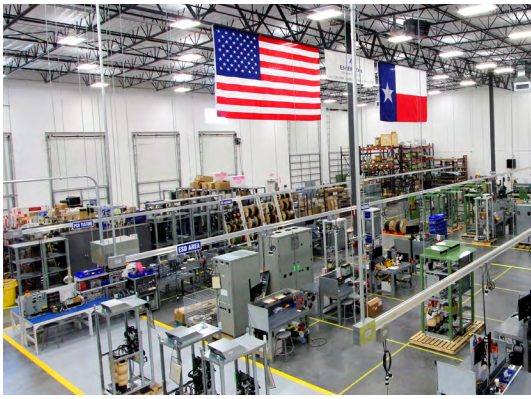
Half of existing stock was built pre-1990 and lackss modern power and data infrastructure.

ACCESS THE FULL ARTICLE & SOURCES ONLINE

WHO'S IN THESE BUILDINGS

Small bay attracts a fundamentally different tenant profile than bulk distribution. These users don't need 130-foot loading courts and cross-dock configurations. They need practical, well-located space with the right power, grade-level access, and room to make it their own. The table below captures the primary tenant types and the key design requirement for each.

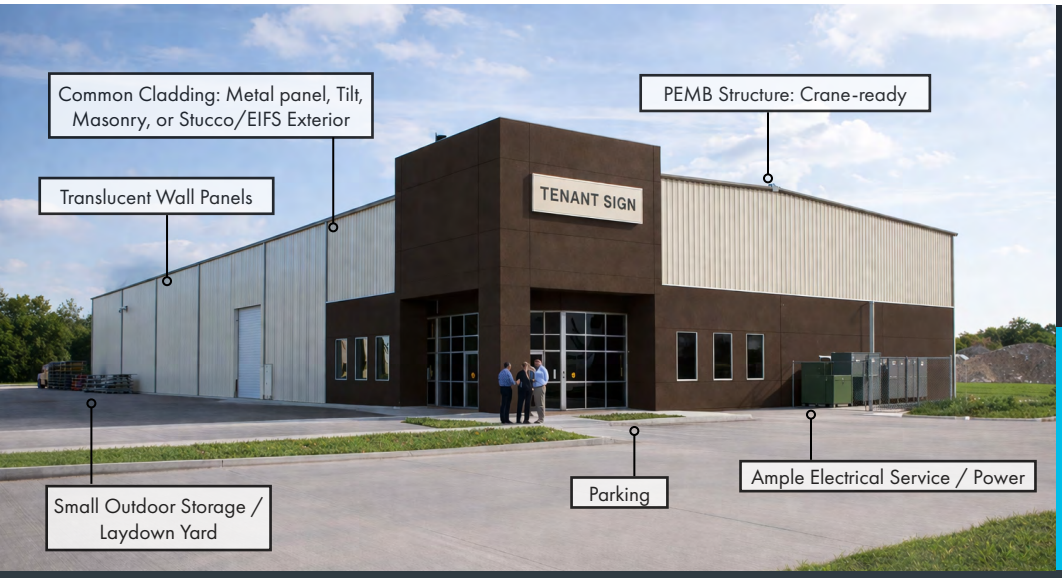
TENANT TYPE	TYPICAL SF	KEY DESIGN NEED
Light Manufacturers & Fabricators	10,000-25,000 SF	Crane-ready structure Heavy power Grade-level loading Laydown yard
Trade Contractors	5,000–15,000 SF	Grade-level doors Yard storage Easy vehicle access Flexible office
Machine & Welding Shops	8,000–20,000 SF	480V 3-phase Crane-ready Ventilation Sealed slab
Food & Beverage Packaging	20,000–35,000 SF	Dock option Floor drains Enhanced utilities Climate consideration
Showroom / Warehouse Combo	5,000–15,000 SF	Corner wrap entry Glazing at office Front parking Grade-level access
Specialty E-Commerce / Last Mile	5,000–12,000 SF	Grade-level loading Data/fiber Flexible floor plan Proximity to density
Auto, Custom Fab & Creative Users	5,000–15,000 SF	Oversized grade-level doors Flexible utilities Yard access



THE DESIGN PLAYBOOK

This is where most market commentary stops — at the macro opportunity — and where Method starts. Small bay design is deceptively nuanced. Get the specs wrong and you'll lease slowly and re-tenant expensively. The table below reflects what's working in the market right now.

SPECIFICATION	SWEET SPOT
Total Building Size	15,000–30,000 SF per building
Building Depth	80–140 feet
Bay Spacing	25 feet on center
Clear Height	20–28 feet (varies by tenant profile and market)
Structure	PEMB frame with metal skin; hybrid tilt-wall or masonry at entry
Loading	Grade-level as standard; single dock option available
Office Buildout	1,500–2,500 SF spec — restroom/ready, open plan for tenant customization
Entry Feature	Corner wrap entry with glazing — curb appeal matters at this scale
Crane Ready	10–20 ton capacity, 20-foot hook height; structure and bay spacing designed in — crane procured by tenant at occupancy
End Walls	Expandable — designed from day one for future bay additions
Outdoor Storage	Laydown yard/outside storage included as standard
Power	480V 3-phase, 600–800A minimum per building; expandable capacity at panel
Data / Fiber	Conduit infrastructure spec'd in — tenant selects provider at occupancy
Park Configuration	5–10 buildings; individual parcels sized for separate sale or portfolio hold



A NOTE ON POWER

Power is where aging inventory consistently fails modern tenants. Older buildings commonly deliver 200-400 amp service - inadequate for CNC equipment, welding systems, and specialty fabrication.

AMPING UP CAPACITY

New spec small bay should deliver 480V 3-phase with 600–800A minimum and a clear path to expansion. The cost delta at construction is modest. The leasing advantage over competing older product is significant.

THE CAMPUS MODEL

Small bay is rarely a single building play. The most effective format is the mini business park: 5–10 buildings on a shared circulation spine, with individual parcels designed to be sold separately or held as a portfolio. This gives developers real exit flexibility — lease and hold, individual building sale to owner-occupants, or package for portfolio sale.

The condo and parcel sale model has gained significant traction in Texas and Sun Belt markets as small business owners seek equity rather than indefinite leasing. Get the master plan right early — traffic flow, fire access, shared detention, utility easements — and individual building permitting follows cleanly from there.

MAKING THE NUMBERS WORK

Institutional capital has been slow to embrace small bay — smaller per-building returns, tighter debt markets, longer hold periods. These are real friction points. But the risk profile tells a different story. Sub-4% vacancy means fast absorption and low re-leasing exposure. Shorter lease terms (1–5 years vs. 7–10 for big-box) allow more frequent rent resets in a market where small bay rent growth is outpacing bulk industrial. Lower TI per tenant and a diversified roster reduce the single-tenant concentration risk that makes big-box painful when demand softens.

The TI math also favors small bay. A typical small bay tenant buildout runs $15–40/SF (office/warehouse blended total rate) — mostly demising walls, restroom finish, and minor MEP connections. Big-box distribution finish-out for a sophisticated user can run $60–100/SF or more once you factor in dock equipment, automation rough-in, and specialty power. Lower per-tenant TI exposure spread across a diversified roster is a fundamentally different risk profile. The individual parcel/condo sale model adds an exit lever that big-box simply doesn't have. Owner-occupant buyers in Texas and Sun Belt markets (Southern California, Southern Nevada, Arizona, New Mexico, Texas, Louisiana, Alabama, Mississippi, Georgia, and Florida) regularly pay premiums above replacement cost — because for a small business owner, buying your building is a balance sheet move, not just a real estate one.

THE DEVELOPER'S ADVANTAGE
Sub-4% vacancy = fast absorption, low re-leasing risk
Short lease terms (1–5 yr) allow faster rent resets in a rising market
Small bay rent growth outpacing bulk industrial (CompStak, 2025)
Lower TI per tenant vs. big-box distribution users
Diversified tenant base hedges against single-tenant vacancy risk
Individual parcel sale model — an exit lever big-box doesn't have
Federal tax incentives driving tenant demand for new product

GETTING THE REGION RIGHT

Small bay is a national opportunity, but a one-size-fits-all spec is a leasing liability. The design decisions that produce a 95% leased project in Houston are not the same ones that work in Charlotte or Chicago.

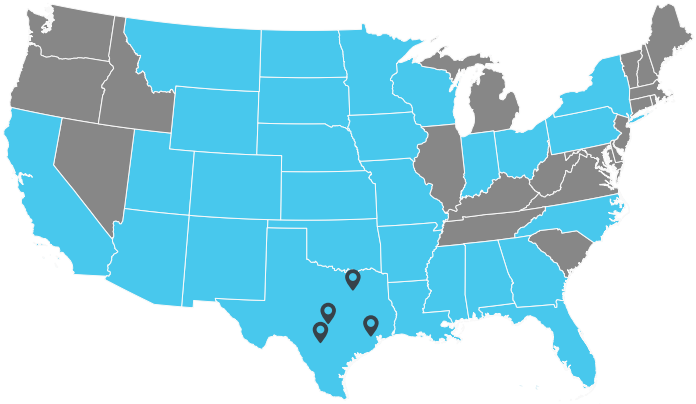
TEXAS	SOUTHWEST	MIDWEST
Strong condo/owner-occupant demand. Outside storage critical. PEMB/tilt-wall hybrid dominant. High growth in Houston, DFW, and Austin.	Manufacturing tenant base growing fastest. Crane-ready increasingly standard. Strong absorption in GA, NC, SC, and TN.	Workforce proximity drives site selection. Deeper mix of trade, assembly, and distribution users. Chicago, Columbus, and Indianapolis lead activity.

Method Architecture operates across Texas and is licensed in 28 states nationwide. Regional fluency is not a nice-to-have. It is the difference between a project that performs and one that struggles.

Campus Design Considerations

- Shared circulation spine with clear truck/auto separation
- Fire access roads serving all buildings (typically 20' wide, all-weather)
- Outdoor storage/laydown yards per building — not shared across parcels
- Individual utility meters per parcel for clean condo/individual sale
- Detention/drainage resolved at master plan level
- Expandable end walls aligned across buildings for phased addition

LOCAL EXPERTISE, NATIONAL REACH



OFFICE LOCATIONS

AUSTIN
2921 E. 17th Street
Unit B, Suite 200
Austin, TX 78702
512.478.0970

DALLAS
6301 Gaston Lane
Suite 1111
Dallas, TX 75214
214.790.7171

HOUSTON
2920 Riverby Road, Suite 200
Houston, TX 77020
713.842.7500

SAN ANTONIO
321 6th Street
San Antonio, TX 78215
210.874.1569

SOURCES

Cushman & Wakefield Industrial MarketBeat Q1 2025

PwC/ULI Emerging Trends in Real Estate 2026

CompStak / Small Bay Industrial Trend Report 2025

CoreBridge Financial – Small Bay Big Play

NAIOP Research Foundation — Manufacturing Growth and Its Effects on North American Industrial Markets

JLL — Adapting to Shifting Trade Policies: 5 Key Predictions for Industrial Real Estate, 2025

Capstone Commercial Real Estate; Industrial Property Loan — Power infrastructure benchmarks, 2025

CRE Daily / Bisnow — Apple, Nvidia, Johnson & Johnson U.S. manufacturing investment announcements, 2025–2026

Method Architecture / ConnectCRE — Micro-Flex Industrial: Small Bay Industrial Comes Into Its Own, 2025

WareCRE — Small Bay Industrial Guide: An In-Depth Look at the Underdog of Industrial Real Estate, October 2025

ACCESS THE FULL ARTICLE & SOURCES ONLINE

METHOD architecture

EGO-FREE ARCHITECTURE

Method Architecture is a full-service architecture firm specializing in ground-up and interiors projects encompassing industrial, retail, office, breweries, and more.

METHODarchitecture.com

EGO-FREE

INNOVATIVE

RESPONSIVE

CLIENT-FIRST