



Yardi Matrix

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Smaller Properties Step Into Spotlight

- Small-scale industrial properties have emerged as one of the most resilient segments of the sector, positioned for steady growth as supply chains, urban logistics and consumer expectations evolve.
- Small-scale industrial properties serve a wide array of tenants, from local distributors and service providers to light manufacturers and last-mile delivery operations. While demand for smaller, flexible spaces is growing, developers face challenges in delivering new supply, as high land costs and zoning restrictions make infill projects difficult to execute.
- Amid a wide-scale pullback in new-construction starts in recent years, smaller-scale industrial development has been remarkably consistent. Through the first three quarters of 2025, 340 facilities 100,000 square feet or smaller broke ground, an increase of 16% over the same period last year. Small-scale development held up well even during the height of the development frenzy in 2022, when 397 small-scale facilities were started in the first three quarters. By comparison, 600 facilities larger than 100,000 square feet broke ground in the first three quarters of 2025, slightly more than half of the 1,165 started during the same period in 2022. This trend partly stems from urban infill facilities having more hurdles to clear, as well as smaller facilities in general requiring a more deliberate and targeted strategy than large properties built in the exurbs.
- While there is desire to deliver this product type, developers may need to get creative to maintain the current level of activity. High land, construction and labor costs make these projects difficult to pencil out, especially in densely populated areas. Conversions of obsolete office and retail centers could offer one solution, but many of those locations may be better suited to full demolition and rebuilding. The barrier to entry these challenges present, combined with tenant demand for such locations, explains why investors have taken an increased interest in the segment this year. The average sale price for an industrial building smaller than 100,000 square feet increased 10.6% year-over-year, while a property between 100,000 and 1 million square feet has grown just 3.5%.
- We anticipate the small-scale sector to maintain its position as a favored asset type in the coming years, providing challenges and opportunities for investors and developers. Same-day and last-mile delivery services require smaller, urban infill locations close to consumers, and a reshoring of manufacturing will sustain demand for flexible, well-located facilities.

