The Case for Small- and Shallow-Bay

Durable Demand, Limited Supply, and Long-Term Growth

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INTRODUCTION

Over the past 15 years, industrial real estate has been a standout performer among real estate classes, delivering an annualized return of 12.0%—significantly higher than multifamily and the broader commercial real estate market.[1] This strong performance has been largely fueled by the rise of e-commerce and the growing demand for faster deliveries to consumers. Within the industrial sector, small- and shallow-bay assets (SSB) are uniquely positioned for long-term growth, playing a crucial role in fulfilling consumers' needs while benefiting from tight supply, steady demand, and high barriers to entry. These factors not only support sustained rental rate growth and value creation, but also help mitigate risks, making SSB a particularly compelling investment opportunity.

At Rectangle, we have exclusively focused on SSB industrial assets since our inception. We continuously refine our strategy to capture value up and down the risk spectrum. Over multiple cycles, we have successfully acquired, built, and managed SSB properties, strengthening our expertise and our conviction in the asset class.

WHAT IS SMALL- AND SHALLOW-BAY?

Small- and shallow-bay assets are smaller-scale, often multi-tenanted industrial properties usually under 75,000 square feet, though the subset can include larger buildings that have shallow building depths. These buildings can be split into spaces that meet the velocity of tenant demand. Unlike large bulk distribution facilities (i.e., massive Amazon or FedEx buildings) located in more rural locations with ample space for new development, SSB properties are often located in densely populated areas close to urban centers (i.e., "infill" or "last mile" locations). These infill or last-mile locations provide businesses with fast and convenient access to their customer and employee base, increasing logistics efficiency and minimizing expensive last-mile delivery costs.

While SSB properties share some physical characteristics with larger bulk industrial facilities—such as modern clear heights, functional warehouse configurations, and ample truck loading capabilities—they offer distinct investment advantages. Understanding these differences is key to appreciating the unique value of this specialized industrial asset class.

Small- and Shallow-Bay Buildings vs Bulk Distribution Buildings

Bulk Distribution Buildings

Larger buildings (often 150,000+ square feet) that cater to third-party logistics providers or national tenants for storage and/or distribution of large volumes of goods.

Small- and Shallow-Bay Buildings

Buildings typically smaller than 75,000 square feet with smaller unit sizes ideal for local last-mile distribution and service hubs, close to clients and employee talent pool.

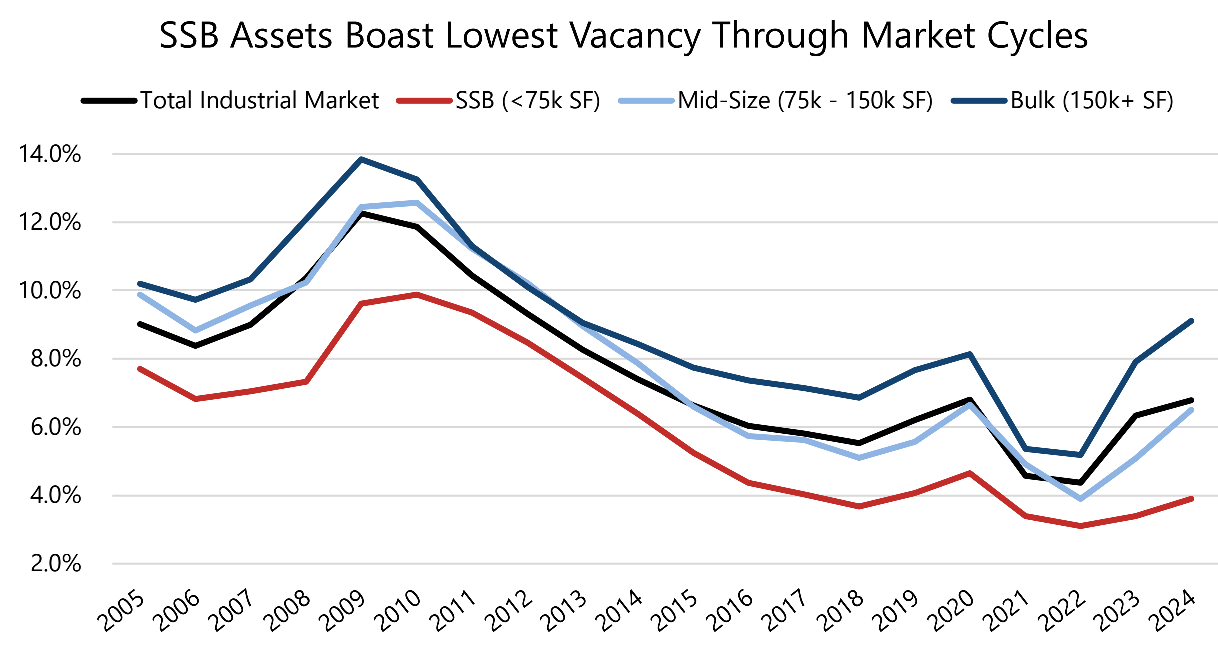
Rectangle owns the 40,000 square foot SSB asset located in the Phoenix, AZ market.

ADAPTABLE SPACE ATTRACTS BROAD TENANT BASE, DRIVES LOW VACANCY

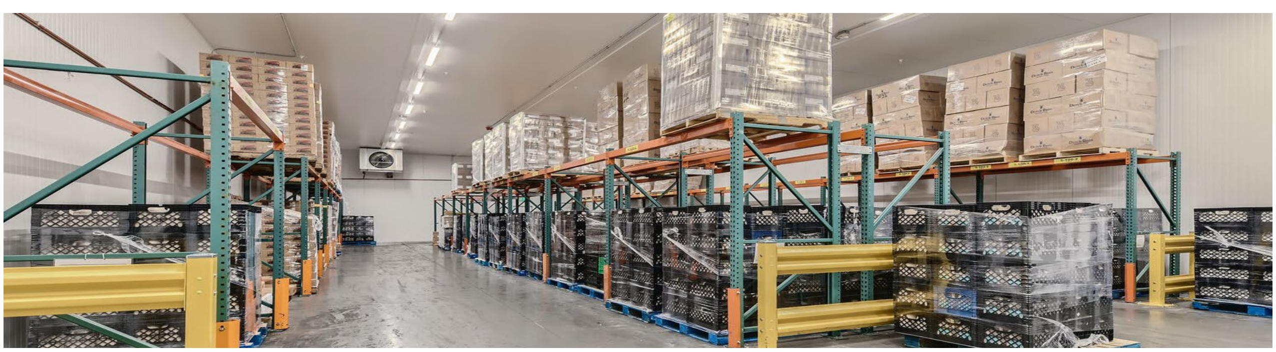
SSB properties offer highly adaptable spaces serving a diverse tenant base. Tenants include wholesalers, service providers, and last-mile logistic companies operating in a wide range of industries varying from local and regional businesses to national credit tenants. SSB properties typically feature limited office space with flexible, reuseable layouts that can be easily subdivided. This flexibility enables buildings to cater to current or future tenant requirements. Agile building configurations and the ability to quickly accommodate tenant requirements reduces downtime between leases and creates an opportunity to grow rents. Combined, these diverse SSB traits limit investor risk and offer long-term value upside.

Beyond their appeal as last-mile locations, infill SSB properties provide investors with additional optionality through potential "higher-and-better-use" exit scenarios—such as conversions to multifamily—should zoning and market demand allow.

SSB properties have historically demonstrated resilience, averaging 117 basis points (1.17%) lower vacancy rates than the overall industrial market since 2005[2]



Source: CoStar (Q2 2024; excludes owner-occupied buildings)



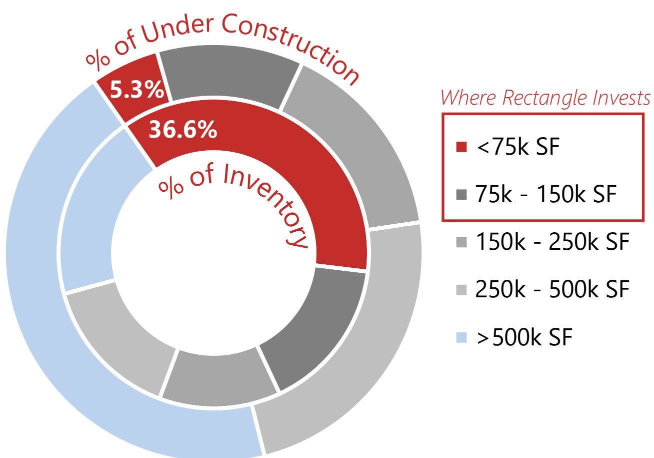
Distribution facility developed by the Company servicing the local stores for a national coffee retailer.

Part of a two-building 194,538 square foot development in Central Denver by the Company. The project was 100% leased by six tenants within three months of completion.

SUPPLY CONSTRAINTS AND HIGH BARRIERS TO ENTRY LIFTS EXISTING ASSET VALUE

We believe one of the most compelling reasons to invest in SSB assets is their limited supply and the significant barriers to new development, creating strong long-term tailwinds for high occupancy and continued rent growth.

Limited SSB New Construction Relative to Share of Inventory



Source: CoStar Research Q1 2025

While SSB industrial properties account for a significant portion of the existing U.S. industrial market—comprising over 36% of total industrial square footage and driving more than 70% of leasing activity—they account for only about 5% of industrial space currently under construction.[3]

Several key challenges make new SSB development difficult, including land availability and construction costs. Unlike more greenfield areas with ample and low-cost developable land, infill locations face limited developable land, zoning limitations, and competition from existing commercial properties such as multifamily and retail/showroom. Additionally, SSB properties are inherently more expensive to build due to their smaller scale, preventing developers from achieving the economies of scale found in large bulk industrial projects. These constraints drive up existing SSB lease rates and values, limiting new development.

As a result, existing SSB assets benefit from strong rent growth and reduced competition from new supply, making them a resilient and attractive investment compared to bulk industrial properties which do not share the same development challenges.

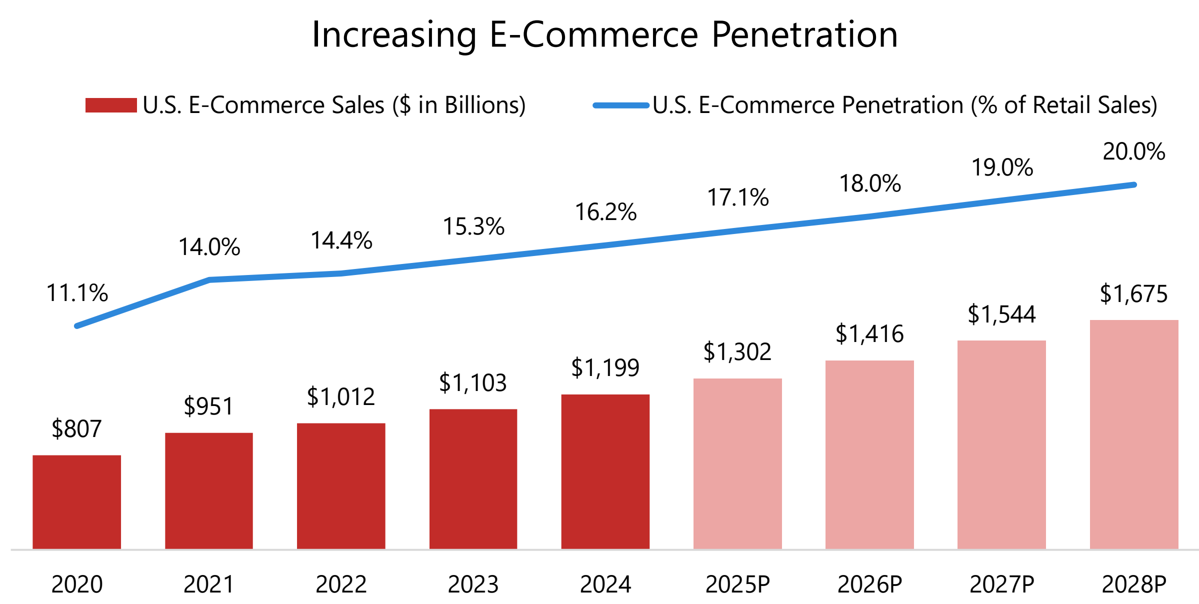
INCREASING DEMAND VIA E-COMMERCE EXPANSION

E-commerce plays an outsized role in the demand for industrial space, as an online sale requires 3x the warehousing footprint of a traditional retail sale.[5] Therefore, the industrial real estate sector thrives when e-commerce sales increase, whether due to economic expansion or increased penetration of retail sales.

Over the past 10 years, e-commerce sales have grown at an average annual rate of 14%, with online sales now accounting for 16% of total U.S. retail sales as of 2024.[5] This share is expected to rise to 20% by 2028.[5] However, the U.S. still significantly lags behind key Asian markets, where e-commerce accounts for 47% of retail sales in China and 30% in South Korea.[6]

If U.S. e-commerce penetration were to match China's current levels, an estimated 2.8 billion additional square feet of industrial space would be needed to support the increased demand.[7]

Overall demand for last-mile distribution and service locations continues to rise, with more than 86% of U.S. consumers expecting same-day or next-day delivery.[8] Given last-mile delivery accounts for 53% of total shipping costs[9], companies are increasingly prioritizing locations closer to the end consumer to reduce costs and enhance operational efficiency. These powerful demand drivers support high occupancy and long-term value appreciation for SSB properties.



Source: eMarketer

CONCLUSION

We believe SSB properties represent an attractive investment opportunity in today's competitive real estate landscape. With robust demand fueled by e-commerce growth coupled with limited new supply, these assets offer a compelling risk-return profile well-suited for long-term investors. Unlike large bulk assets, SSB properties benefit from structural supply constraints—limited available land, high development costs, and restrictive zoning—making new construction challenging and further enhancing the value of existing assets.

By capitalizing on these supply constraints and strong tenant demand for smaller, well-located infill spaces, investors in SSB industrial properties can acquire assets below replacement cost while mitigating future competition. Additionally, the flexible, single or multi-tenant nature of these properties allows for diversified cash flow, reducing leasing risk and enhancing income stability.

SSB properties offer a strong investment opportunity due to e-commerce-driven demand, limited new supply, and structural constraints that enhance their value. Their flexible, infill locations provide stable cash flow, reduced competition, and long-term rent growth, making them a resilient asset in the evolving real estate market.

Multi-tenant project developed by the Company.

SOURCES

[1] NCREIF, Clarion Partners Investment Research, Q2 2024
[2] CoStar Research
[3] CBRE Research, CoStar Research
[4] CBRE Research
[5] Oberlo, eMarketer
[6] Oberlo
[7] RIM Research, CBRE Research, eMarketer
[8] CapitalOne Shopping Research (Q4 2024)
[9] Capgemini Research Institute

ABOUT RECTANGLE

Rectangle is part of the Comunale Properties Group, a privately owned, vertically integrated industrial real estate platform based in Denver, Colorado. Rectangle acquires, develops, and manages last-mile industrial assets near population centers and major transportation hubs in high-growth markets.

44
Assets

6
States with Assets

2005
Founded

1.4M
Square Feet

99%+
Occupancy

20+
Team Members

INVESTMENT MANAGEMENT

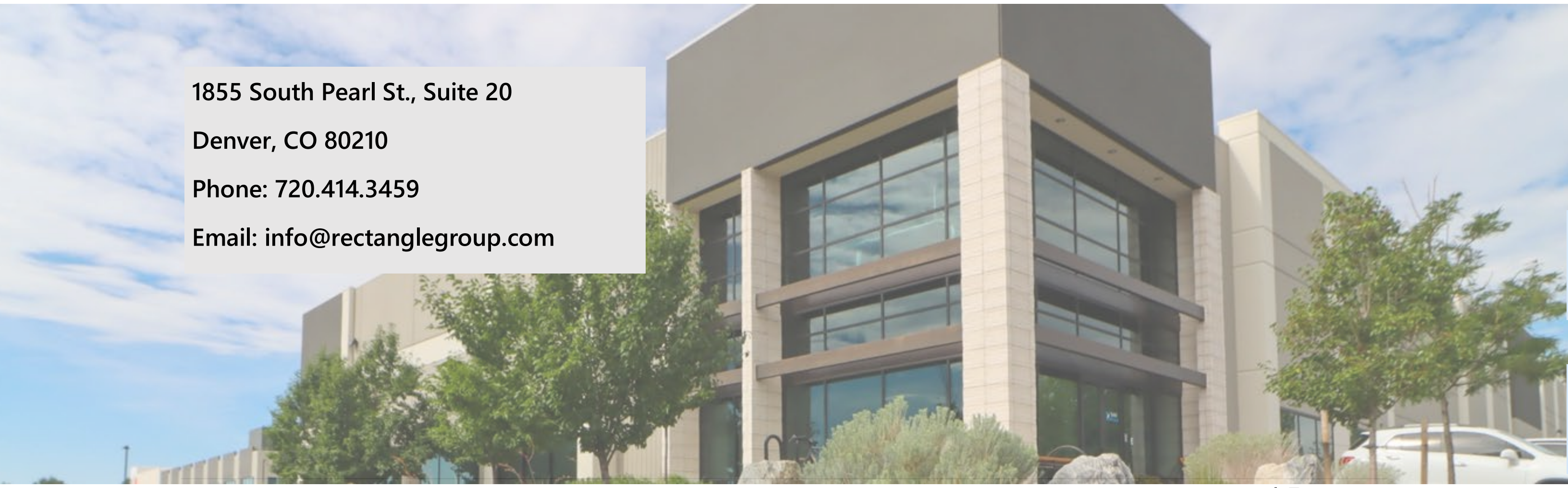
DEVELOPMENT

CONSTRUCTION

PROPERTY & ASSET MANAGEMENT

By combining expertise across every stage of the real estate lifecycle, we deliver seamless execution and maximize value for our investors.

CONTACT US



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