



The Industrial Renaissance

Capitalizing on
Multi-tenant Opportunities



Are You Missing an Opportunity?



Industrial real estate is experiencing a renaissance.

Consumer behavior has shifted in the past few years—younger consumers are demanding a greater variety of goods delivered to their door at a faster pace than ever before. Simultaneously, administrations are demanding goods be made closer to home or face high tariffs.

At the same time, a wave of residential real estate investments aimed at capitalizing on many of these same consumers using the multifamily model has rushed in, resulting in overdevelopment and oversupply. This saturation—coupled with falling rates of return—has left many investors looking for alternatives.

At Hanson Capital, we've spotted the next opportunity to generate reliable returns from these shifting trends:

Multi-tenant Industrial.

These properties, also commonly referred to as "small bay industrial," are smaller, multi-tenant industrial parks, typically located in infill locations near more significant consumer markets. Each "bay" is essentially a warehouse with some office space attached, usually encompassing somewhere between 1,000 to 25,000 square feet.

Currently, these spaces are used by smaller local or regional businesses, such as HVAC or pool contractors, specialized product companies, or other firms that use the space for inventory or small manufacturing needs. These smaller companies benefit from the properties' proximity to the markets they serve and the relatively low rents they pay to their longtime owners.

So what makes multi-tenant industrial so compelling? We'll explain more, but put simply, it is the **right type of opportunity at just the **right** time.**



Experts saw a
61% decrease in
multifamily
investment in 2023

The Amazon Effect

Bigger trends drive new potential

We're particularly excited about this opportunity because it's driven by **massive** societal trends that show no signs of letting up.

Call it the “Amazon effect.” Recent studies show that 78% of consumers prioritize having their purchases delivered within two days. This standard—a mainstay of consumer retail for years—was solidified during the pandemic, when the shift to online shopping compressed a decade of growth into just a few months. As a result, businesses were forced to adapt by developing localized fulfillment strategies like micro-fulfillment centers, which stock high-demand items closer to urban areas to reduce delivery times.

Demand for this “last mile delivery” is projected to increase 78% worldwide by 2030. Meanwhile, companies are innovating with more sustainable options like electric vehicles and autonomous delivery technologies. Major retailers like Walmart have already completed over 10,000 drone deliveries, showing how autonomous solutions are beginning to play a role in meeting these new standards.



78%
increase in last mile
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This is more than just an interesting business trend—this shift in consumer preferences has a massive impact on real estate development. Like it or not, consumers now expect faster, more efficient delivery of goods; speed is now a key differentiator for Amazon and anyone that wants to compete with it. Smaller companies feel pressured to keep up to keep customers satisfied.

This has led to increased demand for industrial spaces near urban centers, where goods can be stored and dispatched for last-mile delivery. At the same time, the physical spaces that facilitate this last-mile delivery trend have been underbuilt. That's why we believe the need for smaller, well-positioned industrial properties will only continue to grow.

This is just one of the many factors that make multi-tenant industrial a unique and overlooked opportunity. For example:

Re-shoring and Other COVID Lessons: Companies are actively working to avoid extended disruptions like the ones that occurred due to COVID. Many have responded by bringing production closer to home to minimize risk and reduce reliance on far-flung suppliers. This shift creates renewed demand for flexible industrial spaces that can accommodate distribution, light manufacturing, and logistics functions all in one location.

The Rise of AI, 3D Printing and Automation: The rise of advanced automation, 3D printing and robotics are increasingly transforming how goods are produced, stored, and transported. Modern industrial spaces need to be adaptable and able to house sophisticated manufacturing equipment and digital infrastructure, not just for mammoth companies but for the small businesses that generate much of the economy's growth.

Vacancy rate for multi-tenant properties under 25k square feet:

2%

Why Now? 5 Reasons

Indicators of multi-tenant as the right choice at the right time

Historically, many investors have overlooked multi-tenant industrial, drawn instead to the large, high-profile distribution centers that command more media attention. However, the consumer shifts we mentioned (along with other long-tail factors) have created a rare opportunity to capitalize on a sector that offers strong fundamentals, attractive yields, and scalable growth opportunities. These facilities can support everything from last mile e-commerce fulfillment centers to advanced manufacturing facilities that require less physical space but more technological sophistication.

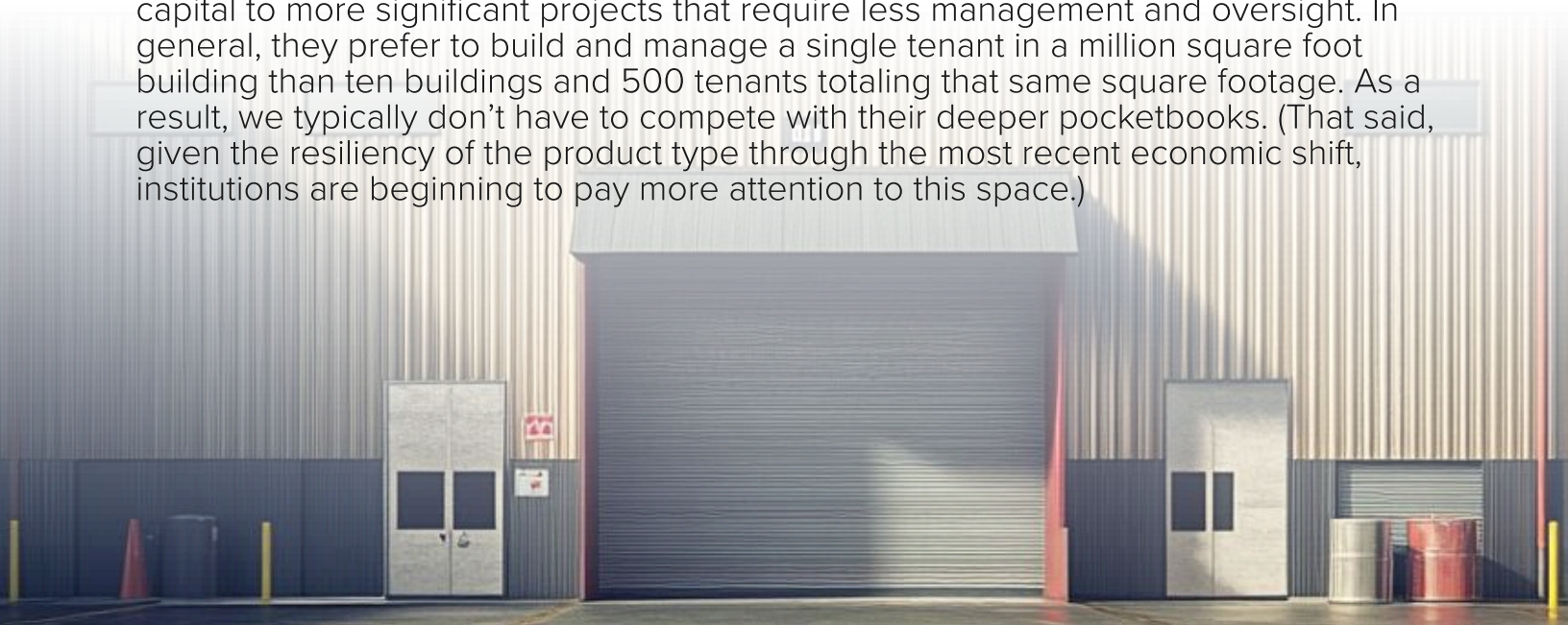
But why now? 5 reasons.

1 Scarcity of supply

Despite the recent momentum, there's simply not much inventory out there. Vacancy rates across the sector remain historically low—in Q2 2024, shallow bay (characterized as space below 25,000 sf) enjoyed a vacancy rate of only 2%. This is less than half the average of all industrial segments, and starkly contrasts with some of the larger industrial properties that have rates exceeding 9%. Little new multi-tenant inventory has been created in recent years, and in some locations supply is even getting torn down and used for other purposes, like infill apartment communities. In growth markets demand is increasing, leading to an overall supply squeeze that will likely remain for at least several years, if not a decade or more.

2 Little to no competition

Most institutions aren't participating materially here, preferring instead to allocate capital to more significant projects that require less management and oversight. In general, they prefer to build and manage a single tenant in a million square foot building than ten buildings and 500 tenants totaling that same square footage. As a result, we typically don't have to compete with their deeper pocketbooks. (That said, given the resiliency of the product type through the most recent economic shift, institutions are beginning to pay more attention to this space.)



3 Favorable interest rate cycle

We've all watched commercial real estate values generally decline as cap rates expanded over the recent tightening phase of the interest rate cycle. Now, we should have a tailwind to benefit these investments further. As interest rates and lending conditions ease, we believe this will provide some additional overall appreciation. These conditions are not specific to multi-tenant industrial but to all real estate in general. Put simply, we believe these assets are essentially on sale and should experience some appreciation as interest rates drop.

4 Impending demographic cliff

Boomers, who represent 20% of the population, will turn over close to 40% of the housing market as they pass away. This generational shift is expected to result in a surplus of housing supply, causing housing prices to decline. This potential volatility will leave many investors facing declines in portfolio value; this makes reallocation to a more stable asset class like multi-tenant industrial a smart preemptive move to stay ahead of the curve.



5 New administration impacts

2025 will usher in a new political administration, which is likely to result in substantive changes to the options facing the average investor. For example:

- Current high interest rates remaining elevated in the near term could further pressure housing markets and multi-family investments.
- Lower housing demand due to tighter immigration policies may exacerbate the demographic cliff.
- Returns on other investment vehicles, such as treasuries and bonds, are dropping, making multi-family investments less appealing by comparison. As a result, this is a critical time to reallocate investment into the industrial sector.



Insight: Multi-tenant industrial carries a latent opportunity to boost cash flow and value

As we expand further into this market, we often find many of these multi-tenant properties have below-market rents, typically due to property age and the fact that they are primarily owned by longtime owners. Consequently, raising rents to market levels is an easy win for us and something we often do, often as much as doubling the property value within a few years. This is not always possible with other commercial properties, but it is frequently the case with shallow bay.

When we acquire a property, we can add quick value by freshening it up, which might include inexpensive improvements such as paint, flooring upgrades, landscaping improvements and other cosmetic changes often welcomed by tenants. And given the size of these spaces, the incremental increase in price per square foot of rent does not make a major impact on their total rent cost. So we find tenants are generally happy to spend a bit more in exchange for a nicer place to work.

Best of all, these adjustments can happen no matter what is going on with the economy or interest rates. The reality is that in this business demographic, the rent is usually less than 5% of their total annual costs. Given the overall limited supply and continual increase in demand with population growth, these properties are more insulated from shifts in economic conditions. And with a diversified tenant base (as we'll explore shortly), there's little risk and significant reward.

Eyes to the Future

Comparisons show why shallow bay has long term potential

Resiliency

The recent interest rate cycle has tested many asset classes. Overall, the industrial sector has remained quite resilient in the face of rising interest rates, adding another layer of potential stability for investors. Multi-tenant has, in many regions, done even better than other industrial property types, likely due to the combination of limited supply and increasing demand.

- **Multi-tenant Industrial:** Diverse use cases—from last-mile delivery to light manufacturing—make these properties resilient to market fluctuations. Additionally, limited new supply and historically low vacancy rates (around 2%) ensure strong demand.
- **Multifamily:** Multifamily properties are generally resilient but can face challenges from oversupply in certain markets and rent control legislation.

Diversified tenant base

Multi-tenant industrial properties benefit from a diverse tenant base, ranging from small-scale manufacturers and tradespeople to companies handling urban logistics and last-mile delivery. This tenant diversity minimizes the risk of over-dependence on any single industry or client. Usually, one shallow bay industrial property will have anywhere from five to 50 tenants. No one tenant is critical to the industrial park. Think of it like renting out an entire apartment complex versus one large single family home. Yes, the large home may command a relatively high rent, but if the tenant leaves, you face significant losses. With apartments, the loss of one tenant is not catastrophic.

Contrast this with a property leased to a single large tenant like UPS or FedEx. If that tenant doesn't renew, the project goes from a strong cash-flowing property to financially compromised until a new tenant can be secured.

- **Multi-tenant Industrial:** These properties boast a diversified tenant base, minimizing dependence on any single industry or client. For example, a single property might house 5-50 tenants, reducing the financial impact of tenant turnover. This is analogous to owning an apartment complex versus a single-family rental.
- **Multifamily:** While multifamily properties offer stable income, they often depend on consistent tenant demand in a single market. In recent years, oversupply and aggressive pricing has created increased tenant volatility, especially when coupled with ongoing interest rate shifts.





Higher total rent potential

Typically, multi-tenant properties generate more total rent since you can charge higher rates per square foot for smaller spaces. Given these factors, we see the diversified tenant base is a bonus to an already preferable structure. That's a big contrast to the all-or-nothing nature of leasing to a single tenant.

- **Multi-tenant Industrial:** Tenants typically pay below-market rents due to long-term ownership by “mom and pop” landlords. Hanson Capital's ability to raise rents to market levels and implement efficient property management systems creates significant upside potential. When factoring in the longer term nature of industrial leases, this optimization represents a significant value add to the investment.
- **Multifamily:** Rent growth in multi-family is often capped by regulatory constraints or market saturation, limiting the ability to significantly enhance cash flow. Furthermore, residential rents are typically limited to 12 months, which means they are typically much closer to market value at acquisition.

Too often, firms get caught up in trends and primarily focus on the upside. As we all know, no one has a crystal ball, and we can't control all of life's variables. We want to have our downside protected, too. In a multi-tenant property, if one or two tenants leaves, it's not usually a big financial hit. In fact, it often creates an opportunity. It's likely rents have been rising during those tenants' lease terms. Consequently, it provides an opportunity to lease the spaces for more, creating further cash flow while also increasing the property's value.

More than Theory

How Hanson Capital Added \$10 Million in Value in 24 Months

Now, how does this all pencil out in the real world? While of course every project is different, carries risk and there's no guarantee of outcomes, here is a recent case study of one of our projects.

In May of 2022, it was widely accepted that we were at the peak of this cycle since that was near the first Federal Reserve interest rate hike. Consequently, it was not a good time to buy any commercial real estate. However, we found a deal with compelling economics, so we jumped in despite the conditions.

We bought this Phoenix infill shallow bay property for \$58 per square foot, resulting in a total acquisition price of \$126 million. It was not an attractive property at this point, but we saw that as a positive: there was certainly room for cosmetic improvements. Most importantly, we loved the fundamentals, and the rents were under current market rates.

After the acquisition, we invested approximately \$2 million in improvements. Then, over the next two years, we were able to double the rents to bring them up to market rates. At that time, we were interested in adding additional debt. When we had the property appraised, it came in at \$26,800,000.

With this multi-tenant project, we created \$10 million in value in two years at one of the most challenging times in the interest rate cycle. And there is more room for increases since, at that time, a third of the leases hadn't yet been raised to market. However, the bottom line is that this is not necessarily achievable with other types of industrial properties....but it is possible with multi-tenant projects at this time.



Why Hanson Capital?

Unique Expertise. Unique Approach.



At Hanson Capital, we view private equity through a different lens. Unlike many of our peers, we're not just real estate experts. We have a strong background in lending and property management. And with our high-velocity approach to deal sourcing, we don't just focus on the upside and hope that things follow through as expected. While this means we usually do far fewer deals, our discipline helps protect our capital and our partners' capital over the years.

Here's why we're different:

- We're personally invested in every deal. Nearly 27% of our total assets under management come directly from our founder. As a result, we don't do deals for just fees. Instead, our capital is committed alongside our investors.
- We evaluate deals as if it's our own capital because it is our capital. We pass on far more projects than we accept, valuing deal integrity over simply generating fees.
- With licensed mortgage bankers and an edge in debt structuring, we bring expertise to help protect our collective downside and maximize results.
- Three CPAs and a dedicated in-house accounting team work alongside our principals and property management experts, providing significant synergy and the ability to capture opportunities and avoid blind spots.
- Our unmatched broker network is bolstered by our longtime past lending relationships, giving us an inside track on finding the best deals.

We'd love to talk with you about current opportunities—[contact our team today!](#)