

THE PROPERTY REPORT

Smaller Warehouses Get Harder to Find

BY LIZ YOUNG

Construction boom of past five years has mostly focused on larger facilities

Half Price Books has been looking for a new warehouse in the Minneapolis-St. Paul region for more than a year with no luck. The problem: The Dallas-based discount retailer needs too little space.

Kathy Doyle Thomas, the company's president, said Half Price Books has been searching for a suitable replacement for its 6,000 square-foot warehouse, which its longtime landlord leased to another tenant last year. So far, the used-book seller, which operates more than 110 stores nationwide, has been relying on temporary storage units because "there is nothing on the market," Thomas said.

Half Price Books is among a growing number of businesses that are struggling to find small warehouses to lease, even after years of frenzied warehouse development driven by surging e-commerce demand and a more-recent rise in overall availability of space as consumer spending cooled.



3.9%

Vacancy rate for U.S.
warehouses under 100,000
square feet in fourth
quarter

Beneath a climbing national vacancy rate lies a growing divide between sprawling distribution centers and much smaller warehouses.

The vacancy rate for U.S. warehouses under 100,000 square feet was 3.9% in the fourth quarter, far below the 6.7% overall vacancy rate, according to real-estate services firm Cushman & Wakefield. That was also less

than half the 10.1% vacancy rate for buildings of more than 100,000 square feet. “It’s a tale of two markets,” said Jason Tolliver, head of logistics and industrial real estate at Cushman. If companies are now “looking for small amounts of space, they’re going to have trouble finding it,” he added.

One part of the problem is that over the past five years developers have focused on constructing big buildings of more than 100,000 square feet to accommodate growing ecommerce operations. Smaller warehouses have been less desirable to build, in part because they are often in urban and suburban areas where space is tight and land is expensive.

About 8% of the new warehouses built last year were less than 100,000 square feet, according to Cushman.

“There’s not been virtually any new development in those smaller size segments,” Tolliver said. “Just economies of scale and deal economics, developers are targeting those bigger boxes to maximize their return profiles.”

Industry experts say some companies out looking for space are searching for smaller buildings in part to help keep costs down.

“We have seen a skew over the past several quarters to more and more demand coming for smaller footprints, even from that larger customer base,” said Karl Siebrecht, chief executive of Seattle--based Flexe, which connects businesses to warehouses with extra storage space.

Melissa Nick, chief supplychain officer of e-commerce fulfillment provider ShipBob, said more companies are looking to spread inventory across multiple smaller warehouses to store goods closer to

customers, speed up delivery and cut shipping costs rather than stashing goods at one big, central building.

Half Price Books said its inability to find suitable space in Minnesota prompted the company to start looking for warehouse space in other regions well before its leases are up. The company also is searching for ways to be more efficient and reduce the space it needs, Thomas said.