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## Pricing Reset in Small-Cap Property Sector Well Underway

The small-capitalization property sector appears to be firming up, with sales volumes increasing across the board last year.

Boxwood Means, which closely tracks the sector, said sales volumes jumped by 18.7% last year when compared with 2024. At the same time, cap rates have increased—except for industrial properties—by 20 to 30 basis points. Industrial property cap rates were 20 bps lower.

The elevated sales volumes coupled with higher cap rates indicate that repricing has occurred in all property types—perhaps except for industrial—facilitating sales activity.

The Stamford, Conn., valuation and consulting company noted that, like the large-cap property sector, the small-cap sector reached its peak in terms of property values in 2021. Then came a years-long value reset, driven by higher interest rates and tighter credit underwriting. Property sales volumes peaked in the small-cap sector in 2022 at more than \$200 billion. In the large-cap sector, they peaked in 2021 at \$808.71 billion.

Then the great reset got underway. Sales volumes plunged in 2023 in both the small- and large-cap sectors. In the latter, volumes declined by 51%.

According to Boxwood Means, the reset in sales volumes, pricing, and cap rates indicate “the small-cap (commercial real estate) market has moved through a full boom-reset cycle.” The company defines small-cap properties as those

having 50,000 square feet or less, or between five and 50 apartment units. Such properties typically trade for prices of \$5 million or less.

Prices for retail properties were largely flat at \$305/sf last year, while sales volumes increased by 22.3%. Cap rates were up 30 basis points to 5.9%.

Cap rates for multifamily properties were up 20 bps to 5.7%, while sales volume was up 28% from 2024. The office sector, however, continues to struggle, driven by less available liquidity—investors and lenders still aren’t comfortable with the sector’s risks, particularly on the small-cap side. Sales volumes were up only 4.6% from 2024, while cap rates were up 20 bps to 6.9%.

The industrial sector saw cap rates recede by 20 bps to 6.5%, as prices increased by 7.3% to \$199/sf. But sales volumes were up only 9.1%.

A price index that Boxwood Means developed shows that the retail, office, and industrial sectors are at levels on top of or exceeding 2021 levels. The multifamily index, however, remains just below its peak. Cap rates are uniformly at higher levels, while sales volumes are well below the 2021 record levels.

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