Commercial RealEstate Direct

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Small-Cap Property Market Turns Around, Sees Lowest Vacancies in 15 Years

The small-capitalization property market turned around handsomely last year, with the national vacancy rate for all property types reaching the lowest level since 2006, according to Boxwood Means.

The small-cap market, defined as properties with 50,000 square feet or less each, saw huge turnarounds in absorption across each of the three major property sectors tracked by the Stamford, Conn., company.

The result was a decline in the total vacancy rate for small-cap office, industrial and retail properties nationwide, to 4 percent from 4.7 percent in 2020.

The office sector, for instance, last year saw 34 million sf of net absorption. That means, 34 million sf of previously vacant space had become occupied - a huge turnaround from 2020, when 30 million sf of previously occupied space had been vacated. As a result, the vacancy rate dropped by 50 basis points to 6.5 percent. The improvement came despite concerns by office tenants about the long-term impact the coronavirus pandemic will have on in-office work.

The improvement in the office sector also resulted in a decline in the amount of space available for sublease, which reduced the overall national availability rate to 8.5 percent, near its all time low posted in 2019.

Boxwood Means, which provides valuations, research and analytics on the small-cap property market, relies on CoStar's database of some 1.1 million buildings, each with 50,000 sf or less.

Much like the large-cap space, the small-cap industrial market is seeing ever-declining vacancies. The national rate dropped by 100 basis points last year to 2.7 percent, its lowest rate ever and a rate that's 300 bps less than the sector's long-term average. A total of 96 million sf was absorbed last year - a seven-year high.

The continued strong demand for space has prompted a sharp increase in the industrial development pipeline, which Boxwood Means said was as large as it's been in the past 10 years.

Even the small-cap retail sector turned around last year as Boxwood Means, citing Coresight Research, noted that more stores were opened last year than were closed. That's the first time that's happened since 2017. As a result, 79 million sf were absorbed last year, the most since 2016. In 2020, in contrast, next to nothing was absorbed. That was despite the sector's 15 million sf of negative absorption during 2020's second and third quarters - the first time since 2009 that the sector had seen two straight quarters of negative absorption.

Properties in the small-cap retail space tend to be free-standing stores, street retail spaces and certain neighborhood or community shopping centers.

Boxwood Means noted that small-business owners - who drive the small-cap property market - are far more optimistic than they were in 2020. It noted that the Small Business Index, which is formulated by MetLife and the U.S. Chamber of Commerce, through a survey of 750 small businesses, was 63 percent at the end of last year, the highest it's been since the start of the pandemic. It was 71.7 percent in early 2020, just before many businesses were forced to shutter their doors for a spell. It had plunged to 39.5 percent in the second quarter of 2020.

But small business owners remain concerned about inflation, worker shortages and supply chain disruptions.