MAYHUGH COMMERCIAL ADVISORS

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BIG INDUSTRIAL, BIG VACANCY

A MARKET IN TRANSITION, NOT IN TROUBLE

A SURGE IN SUPPLY

Over the past six years, Southwest Florida has experienced a significant wave of industrial development, mirroring trends seen across the United States. Much of this new inventory has been large-scale, dock-high distribution product—typically 100,000 square foot buildings designed with ±25,000 square foot bays.

During the post-COVID boom from 2021 through early 2023, demand kept pace with supply. Tenants were routinely leasing 50,000 square feet and, in some cases, upwards of 250,000 square feet. With strong demand and limited availability, developers responded aggressively.

THE SHIFT IN DEMAND

By 2024, the market began to recalibrate.

Tenant demand pulled back from larger footprints, with fewer users willing to commit to spaces exceeding 50,000 square feet. By 2025, even 25,000 square foot bays became more difficult to lease.

Today, the majority of demand is concentrated in the 5,000 to 15,000 square foot range—marking a clear shift toward functionality over scale.

WHAT THE VACANCY RATE REALLY SHOWS

At a headline level, vacancy sits at approximately 8.9%, following nearly 1.7 million square feet of new deliveries over the past 12 months.

But that number alone doesn't tell the full story.

Vacancy is heavily concentrated in recently delivered, speculative developments—primarily modern, large-format buildings. Meanwhile, older and smaller properties are performing significantly better.

- Small bay industrial and standalone buildings under 15,000 SF remain tight
- Leasing velocity is strongest in spaces under 50,000 SF
- Larger blocks are seeing fewer transactions and longer absorption timelines.

A PRODUCT MISMATCH

What we're seeing today is not a lack of demand—but a mismatch between product and user needs.

Many newer developments were designed with ±25,000 square foot bays. While efficient on paper, these layouts often lack flexibility. Subdividing them can create long, narrow configurations that don't align with how most tenants operate.

The result: slower lease-up and limited adaptability in a market now favoring smaller, more functional space.

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THE "DEVELOPMENT HANGOVER"

Since 2019, Southwest Florida has delivered a substantial amount of industrial space—much of it on a speculative basis. This has created what can best be described as a "development hangover."

As noted by CoStar, the influx of modern inventory has introduced new competitive dynamics, pushing vacancy higher as the market works through newly delivered space—particularly in larger formats.

A MARKET ALREADY CORRECTING

The good news: the market is already adjusting.

Development activity has slowed considerably, signaling a natural period of recalibration. With fewer projects breaking ground, supply pressure is expected to ease—allowing demand to gradually catch up.

STRONG FUNDAMENTALS REMAIN

Despite near-term challenges in large-format space, the long-term outlook remains highly positive.

- Southwest Florida continues to benefit from:
- Strong population growth
- Strategic regional connectivity
- Ongoing demand for logistics and distribution space

Institutional capital remains active, with continued interest in high-quality, modern industrial assets.

WHAT THIS MEANS GOING FORWARD

Large-format industrial space is facing longer lease-up timelines—but this is not a structural issue. It's a timing issue.

The space will be absorbed. It may simply require:

- More time
- Greater flexibility
- Creative leasing strategies

In the meantime, smaller bay product continues to outperform—reinforcing a key takeaway for developers and investors alike:

Flexibility and functionality matter more than ever.

A HEALTHY CORRECTION

Big industrial may be facing big vacancy today—but this is ultimately a healthy correction, not a cause for concern.

As supply slows and demand stabilizes, Southwest Florida is well positioned to return to a more balanced, sustainable industrial market in the years ahead.

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