INFILL INDUSTRIAL • REPORT

The Denominator Problem: Why Infill Industrial Supply Can't Catch Up

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Infill industrial land is priced the way most scarce assets are: by the capital allocated to it divided by the acres entitled to hold it.

$$\text{Price} = \frac{\text{Capital Allocated}}{\text{Entitled Supply}}$$

Most industrial commentary focuses on the numerator: e-commerce, reshoring, and the next tenant wave. We think the denominator is the more durable story. Infill supply isn't set by how much land exists. It's set by how much is entitled, and entitlement runs through two gates that rarely open: **zoning** and **impervious surface**. When the denominator can't grow, every new dollar allocated pushes price higher.

The numerator: capital allocated

Capital follows tenants, and infill tenants have to be close to customers. That means contractors, fleet operators, equipment dealers, drayage, and last-mile users. Their footprint is

small. Roughly 70–80% of industrial leases are for spaces under 50,000 SF, yet those spaces make up only 31% of national inventory (CRE Daily, citing CoStar).

Investors have followed them. Institutions now account for an estimated 35–45% of IOS acquisitions, up from about 25% four years ago. IOS cap rates have tightened from 150–200 bps over Class A industrial in 2023 to 75–150 bps today (CORA Advisors). Capital allocated to the sector keeps rising, and tenant rent growth keeps justifying it.

Gate one: zoning shrinks the denominator

Industrial zoning in growing cities only moves one way. Between 2001 and 2018, Austin rezoned about 1,846 acres of industrial land to other uses. One redevelopment plan alone took more than 1,000 acres (Austin Monitor). The pattern repeats wherever housing and mixed-use projects are worth more per acre than a truck yard.

The land that keeps industrial zoning often doesn't allow the use. In Raleigh, open contractor storage for equipment, pipe, steel, or lumber is allowed only in the Heavy Industrial (IH) district. It has to sit at least 15 feet off the right-of-way behind a landscaped street yard (Raleigh UDO Sec. 7.5.3). Lighter districts cap outdoor storage at 12 feet in height and require full screening.

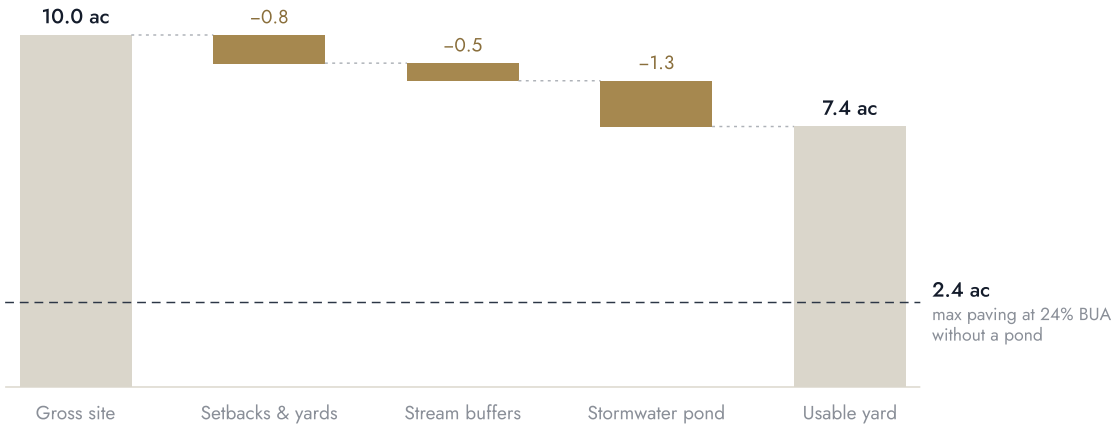
IOS rents are up 123% since 2020 (REJournals, citing Newmark), against about 60% for bulk warehouse (CORA Advisors). That gap is the cost of a permitted use that municipalities rarely create and routinely remove.

Gate two: impervious surface caps what's left

A zoned site still has to be paved to work as a yard, and stormwater rules limit how much can be paved. In North Carolina, a project stays "low density," with no engineered pond, only up to 24% built-upon area. Anything above that needs structural stormwater controls. Those controls must capture the first inch of rain and remove 85% of suspended solids (Henderson County, NC).

A 10-acre NC infill site nets about 7.4 usable acres, or 2.4 without a stormwater pond

Illustrative site, acres. Deductions are typical assumptions; brass = acres lost, grey = totals.



Titan Capital Advisors illustration. 24% low-density BUA cap per NC post-construction stormwater rules; setback, buffer and pond deductions are assumptions.

The pond, buffers, and landscape yards all come out of the same acres a tenant would rent. Each new stormwater rule pushes the usable share of a new site lower, and that raises the value of yards already paved and permitted.

What it means for buyers

When the denominator is fixed, price is a function of capital allocated. Buyers should underwrite infill industrial that way.

- **Underwrite the entitlement, not the dirt.** A by-right permitted use and existing surfaced area are the scarce inputs, and they deserve a premium. Raw acreage that still needs a rezoning or a new stormwater permit does not.
- **Count usable acres, not gross acres.** Two 10-acre parcels can differ by 3x in what they can actually hold.
- **Look for grandfathered surface.** Sites paved and permitted under older rules carry capacity that new development can't replicate.

- **Expect replacement cost to keep rising.** Every rezoning and every stormwater revision lifts the floor under existing yards.

Industrial land: they're not zoning any more of it. The buyers who win will be the ones who can see, parcel by parcel, where the gates are already open.

Sources

- CRE Daily: Small-Bay Industrial Outperforms in Q2 2026 Recovery (citing CoStar)
- CORA Advisors: IOS Financing 2026
- REJournals: Demand still on the rise for industrial outdoor storage (citing Newmark)
- Austin Monitor: City studies changes in Austin's industrial land use
- Raleigh UDO Sec. 7.5.3: Outdoor Storage
- Henderson County, NC: Stormwater standards explained