

Small to Mid-Sized Industrial Properties: An Attractive Opportunity in Floating Rate Bridge Loans

Key Takeaways:

- Small to mid-sized industrial properties (100-300k SF) represent an attractive opportunity for floating-rate bridge loans, with favorable entry points and strong repositioning potential
- The \$10–60 million loan range is less competitive, allowing for more favorable loan structures, disciplined underwriting, and strong sponsor alignment
- Limited new supply, high tenant absorption, and e-commerce-driven demand contribute to strong performance in this asset class
- Industrial loans have historically demonstrated the lowest delinquency and loss rates across CRE sectors, reinforcing their credit stability
- Key headwinds include tariff-related trade uncertainty, localized oversupply in select markets, and broader macroeconomic pressures

Amid recent shifts in the U.S. commercial real estate (CRE) landscape following Liberation Day, the industrial sector continues to show resilience and structural demand, making it a compelling sector of commercial real estate debt. While significant investor focus has been on large-scale facilities, less crowded but equally attractive opportunities can be found in financing transitional, small to mid-sized industrial properties through floating-rate bridge loans.

Shelter Growth Capital Partners (SGCP) focuses on this niche and sees attractive opportunities in these loans, which typically range from \$10–60 million and are secured by properties between 100,000 and 300,000 square feet. These “middle to lower middle-market” loans are often collateralized by properties with:

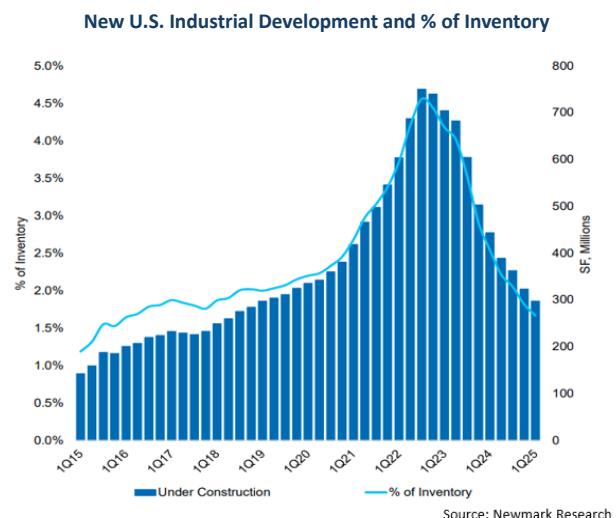
- Functional clear heights of 15–35 feet
- Locations in strategic areas, often characterized by dense populations or proximity to transportation infrastructure such as highways or ports
- Experienced sponsors who specialize in repositioning underperforming, undervalued assets

When purchased, these industrial properties are often older, under-managed, and partially vacant. Repositioning these assets generally requires less capital than ground-up development, and experienced sponsors can acquire them at a lower price point, facilitating leases at more competitive rates. Unlike mega-scale industrial facilities, these smaller properties do not rely on landing “mega tenants” (~1 million square feet) to make the project work. Instead, they are typically leased to a mix of two to three tenants that tend to be last-mile delivery, regional manufacturers, and local warehouse users. These tenants are typically looking for functional space at a reasonable rental rate.

Favorable Underlying Fundamentals

Limited New Supply, Healthy Absorption

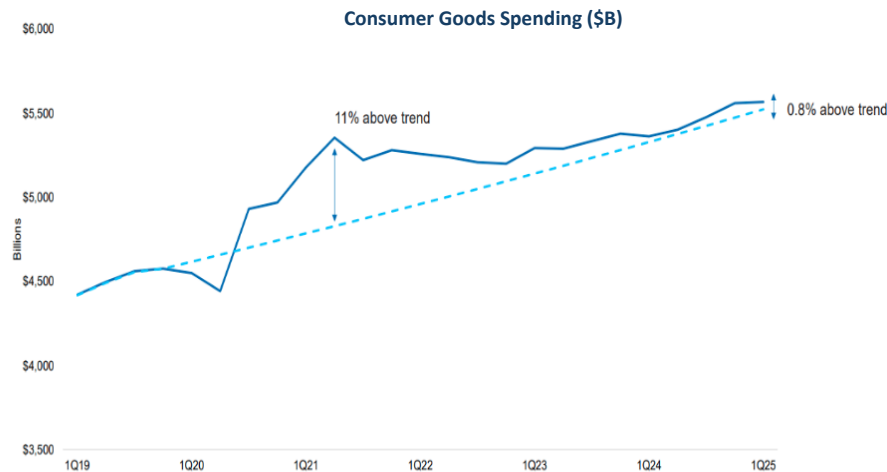
The new development pipeline for industrial facilities has fallen dramatically year-over-year, now returning to levels last seen in 2019. New developments continue to focus primarily



on large properties, over 500,000 square feet, leading to limited new inventory within the 100,000 – 300,000 square foot segment range. Even after record levels of new industrial development in 2022-2023, new supply has been absorbed without a meaningful decrease in rents. This indicates a healthy sector and supports a favorable outlook for rent growth.

Strong Structural Demand

Demand drivers for industrial absorption remain strong, with e-commerce acting as a primary driver. Consumer goods spending has returned to pre-pandemic levels, exceeding the 10-year trend line and expected to grow further.



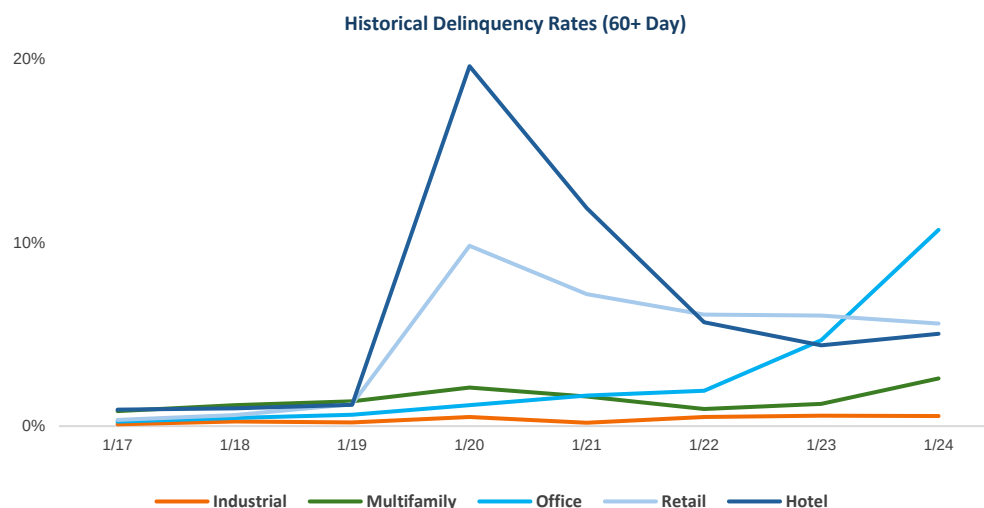
Source: St. Louis Federal Bank, Ipsos, Newmark Research

Millennials, the leading cohort of e-commerce consumers, are now entering their peak spending years, which is expected to further drive demand for industrial space over the next 20 years. Additional structural shifts such as nearshoring and supply chain diversification are also driving demand for regional distribution and manufacturing hubs.

Less Crowded Lending Landscape

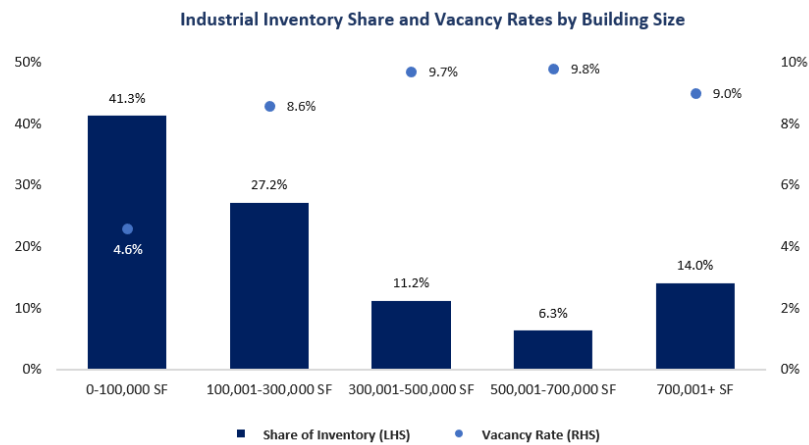
In the \$10-60 million segment of the bridge loan market, competition among lenders is more limited. Publicly traded mortgage REITs and large asset managers continue to concentrate on larger transactions of \$100 million or more, creating a more selective lending environment for middle-market lenders. Thus, lenders in this smaller segment of transactions, between \$10 - 60 million, have greater control over loan terms without compromising credit standards or pricing on industrial bridge loans.

Performance Remains Strong



Source: Bloomberg

Over the past decade, loan performance on industrial-backed loans has recorded the lowest delinquency rates and realized losses across all CRE asset types.



Small and mid-sized segments represent the bulk of U.S. industrial stock at 41% and 27% of total existing square footage, respectively. These assets have shown lower volatility in occupancy, rents, and valuations, serving as a more stable foundation of the industrial market. Recent performance trends affirm the continued strength of the industrial sector, with bridge loans in the mid-market range offering yield with comparatively low credit risk.

Investment Opportunity Highlights

Key characteristics for all three opportunities:

1. Sponsor acquired the property at a low purchase price on a per-square-foot basis relative to stabilized property comparables in the market
2. Asset is well-located within its sub-market
3. Strong market occupancy levels supported Sponsor's rent growth and transition strategy

	Example 1	Example 2	Example 3
Location	Las Vegas, NV	Baraboo, WI	Atlanta, GA
Loan Amount	\$16,310,000	\$57,250,000	\$30,200,000
Loan Amount / Sq Ft	\$143	\$29	\$79
Year Built	2000	1982	1985
Occupancy	78%	67%	61%
As is LTV	67%	60%	61%
Loan Coupon	SOFR + 365	SOFR + 400	SOFR + 400

Potential Headwinds and Considerations

Tariff Uncertainty will Persist

The U.S. imposed tariffs have led to a volatile and evolving trade environment. While the initial market shock has largely stabilized, further and prolonged trade tensions could lead to subdued leasing activity and reduced transaction volumes in the industrial sector. Import/export locations face more potential tariff-related risk, emphasizing the importance of evaluating each location and its specific set of circumstances.

Localized Oversupply

While national construction starts have slowed, select U.S. markets have added a significant amount of new supply in anticipation of continued economic growth. While most of this supply has been in the large property segment (> 1 million SF), these assets are experiencing elevated vacancy levels, increasing the risk of localized oversupply. Analyzing these markets and understanding asset-specific competitive positioning are crucial components of the investment process.

Macroeconomic Pressures

Ongoing macroeconomic uncertainty continues to cloud the outlook of a possible recession on the horizon. While industrial properties are among the most resilient property types to economic cycles, a recession or prolonged slowdown (not our forecast) could have the potential to soften industrial property fundamentals.

Conclusion

Well-structured bridge loans on small to mid-sized industrial properties are an attractive niche within the U.S. CRE lending space. The \$10-60 million loan segment is a less crowded lender landscape, enabling lenders to be more selective with more favorable terms and pricing.

Three key factors that support this strategy:

- **Lender Positioning:** this market segment allows lenders to operate in a less competitive environment, due to limited competition from larger institutional capital
- **Market Dynamics:** The supply/demand balance in the small/mid-sized industrial sector remains favorable, with limited new development and resilient tenant demand
- **Performance:** Industrial loans have consistently outperformed other property types in terms of delinquencies and losses, underscoring the sector's durability

Floating rate bridge loans in this segment offer a strong combination of yield and downside protection, supported by strong supply-demand fundamentals, demographic tailwinds, and performance. These factors position industrial real estate credit as one of the most stable and durable asset classes in the commercial real estate sector, providing attractive reward for the risk taken.

About Shelter Growth:

Shelter Growth Capital Partners (SGCP) is a real estate credit-focused investment manager founded in 2015 by former leaders of Goldman Sachs' mortgage business. Today, SGCP oversees \$2 billion NAV in real estate credit strategies across commingled funds, separately managed accounts (SMAs), and direct lending partnerships. Through its affiliated direct lending platform, SGCP has originated over \$19 billion in commercial and residential assets, and has extensive experience working with clients to deliver customizable, turnkey solutions in the residential and commercial mortgage loan space.

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