



BKM Capital Partners

Opportunities Abound in Multi-Tenant Light Industrial Facilities

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INTRO

The Overlooked Power of Small-Bay Industrial

Industrial real estate has become a key pillar of modern investment portfolios, valued for its capacity to deliver stable income and adapt to shifts in the global economy. Within this asset class, however, much of the attention has been directed toward large logistics hubs and distribution centers. While these facilities are vital to global supply chains, there exists a lesser-known but equally compelling segment of the market: multi-tenant small-bay industrial properties, commonly referred to as light industrial.

Small-bay facilities are characterized by their smaller unit sizes, a diversified tenant base, and strategic proximity to urban centers. These attributes make them uniquely suited to address the rising demand for last-mile logistics, flexible manufacturing, and research and development (R&D) spaces. As e-commerce growth accelerates and supply chain networks continue to evolve, the relevance of these properties has only increased. For investors, the opportunity lies not just in the immediate cash flow stability but also in the long-term potential for rent growth and capital appreciation.

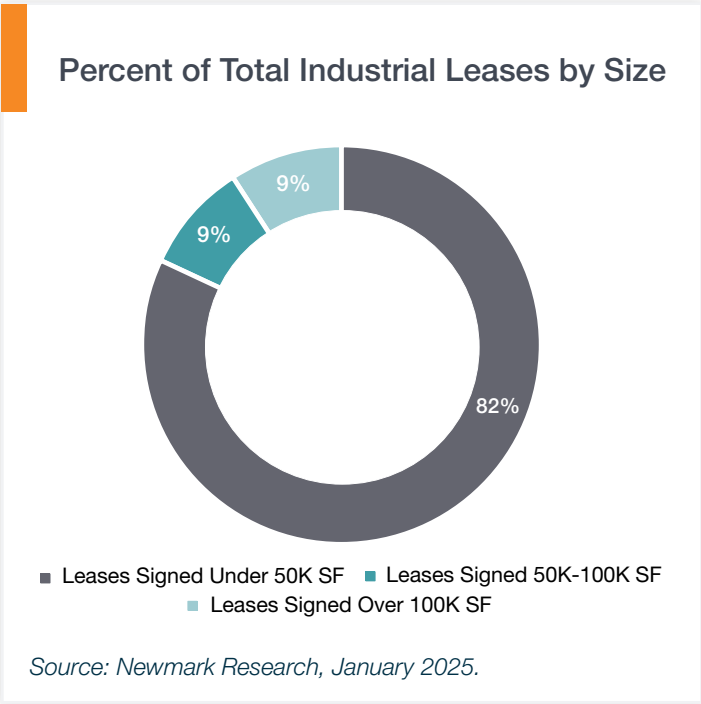
This paper explores the dynamics driving the small-bay industrial market, the competitive advantages these assets offer, and how firms like BKM Capital Partners exemplify strategic investment practices in this space. Through a detailed analysis of market data and tenant trends, we aim to provide a comprehensive understanding of why small-bay industrial properties are positioned for enduring success.



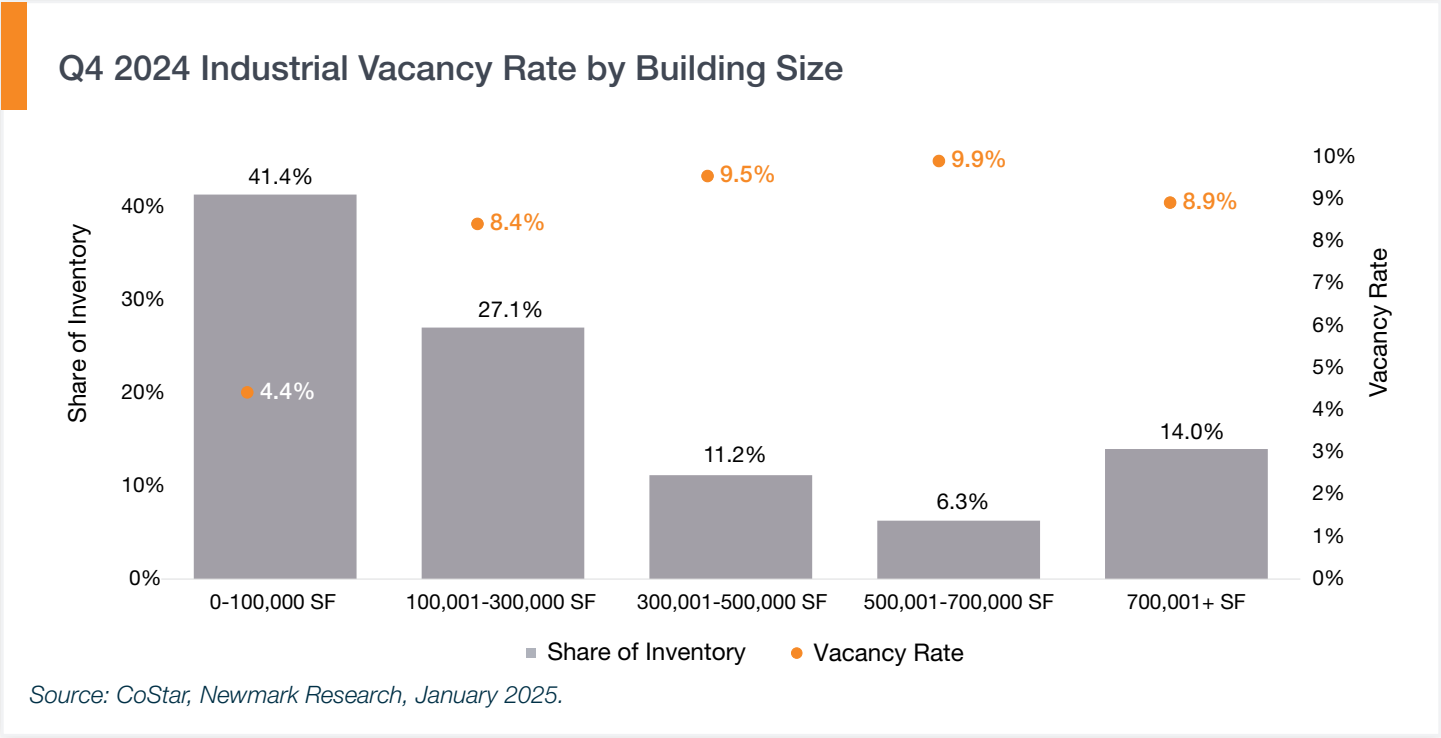
MARKET DYNAMICS AND INVESTMENT THESIS

Big Demand for Small Spaces: The Market's Untapped Potential

Small-bay industrial properties are an essential yet underappreciated part of the industrial real estate market, and the segment's outsized performance is a testament to its resilience and adaptability. Even as the broader industrial sector faces challenges, small-bay assets continue to show robust metrics, driven by structural demand and limited supply. According to Cushman & Wakefield, 2024 industrial leasing activity (excluding renewals) totaled nearly 130 million square feet, with overall vacancy at 6.7%. With smaller leases accounting for a significant share of this activity, warehouses of less than 100,000 square feet ended last year with a 3.9% vacancy rate.



The supply side of the equation further underscores the appeal of small-bay properties. Despite their outsized role in the industrial ecosystem, buildings smaller than 25,000 square feet account for less than 2% of the current construction pipeline, according to CoStar. Similarly, Cushman & Wakefield reports that less than 8% of new product built last year was for product less than 100,000 square feet. As of YE 2024, nearly 70% of the construction pipeline consisted of properties greater than 100,000 square feet. This contrasts sharply with larger industrial facilities, where overdevelopment has led to softness in certain markets.



One of the key drivers of demand for small-bay properties is the ongoing e-commerce evolution. Online retail has been eating up a larger share of overall retail sales since the pandemic, accounting for 16.1% of the U.S. market in 2024, up from 15.3% in 2023, according to the U.S. Census Bureau. E-commerce sales grew 8.1% in 2024, significantly outpacing traditional retail, which grew just 2.8% during the same period.

These dynamics have created unprecedented demand for logistics facilities capable of supporting last-mile delivery—a role perfectly suited to small-bay industrial properties. The reshoring of manufacturing, fueled by federal incentives like the CHIPS Act and Inflation Reduction Act, has spurred additional demand for industrial space near major population centers.

BKM Capital Partners has positioned itself at the forefront of this trend, leveraging its expertise to acquire, refurbish, and manage small-bay properties across the Western United States. Its portfolio, which spans over 10 million square feet across seven states, exemplifies how strategic investment in this asset class can generate robust returns.



DEMAND DRIVERS

What's Fueling the Surge in Small-Bay Industrial?

The demand for small-bay industrial properties is being shaped by long-term shifts in consumer behavior, business operations, and supply chain strategies. These trends continue to drive strong leasing activity and sustained investor interest, reinforcing the importance of this asset class. The popularity of small-bay properties in particular can be attributed to several interrelated trends, including:



E-Commerce & Consumer Expectations

The rise of e-commerce has fundamentally altered supply chain logistics, prioritizing speed and proximity to consumers. For every \$1 billion in e-commerce sales, Newmark reports approximately 1.2 million square feet of logistics space is required, with much of this demand concentrated in smaller, urban facilities. The shift toward same-day and next-day delivery further amplifies the need for light industrial spaces near population centers.



Urbanization & Infill Logistics

Urban infill locations are critical for reducing the cost of transportation and meeting delivery expectations. Small-bay facilities, typically located within 10 miles of city centers, are uniquely positioned to serve these needs. BKM's investments in infill markets like San Diego and Las Vegas demonstrate how these properties can thrive by catering to the logistics needs of densely populated areas.



Manufacturing Reshoring

The reshoring of manufacturing operations, spurred by geopolitical factors and legislative incentives, has created additional demand for small-bay industrial properties. Manufacturing spending reached \$124.4 billion in 3Q 2024, nearly double the pre-pandemic average, Newmark reports. Small-bay facilities are ideal for accommodating light manufacturing, assembly, and R&D, often serving as critical support hubs for larger industrial operations nearby, further solidifying their role in the reshoring movement.



Tenant Diversification

Small-bay industrial properties cater to a wide range of industries, from technology and life sciences to logistics and retail. This diversity not only enhances cash flow stability but also insulates these assets from sector-specific downturns. BKM's portfolio exemplifies this diversification, with over 2,000 tenants ranging from logistics firms to tech companies and manufacturers. As of YE 2024, no single industry accounts for more than 15% of BKM's overall portfolio.



COMPETITIVE ADVANTAGES AND OPPORTUNITIES

Built to Perform: The Small-Bay Advantage

Small-bay industrial properties offer a range of advantages that set them apart from other asset classes. Their main characteristics are also what present opportunities for investors looking to take advantage of demand drivers and current conditions.

1 Space That Adapts to Tenant Needs

Multi-tenant small-bay properties offer exceptional adaptability, accommodating a wide range of uses such as warehousing, assembly, light manufacturing, R&D, and office space. This operational flexibility makes them highly attractive to tenants across various industries, from logistics and e-commerce fulfillment to technology startups and specialty trade businesses. Because these properties can be easily reconfigured to suit different operational needs, landlords benefit from higher occupancy rates, reduced downtime between tenants, and the ability to cater to shifting market demands. This versatility also provides greater resilience during economic downturns, as landlords can appeal to a broad tenant base rather than relying on a single industry. For instance, BKM's portfolio includes a diverse mix of logistics providers, manufacturers, and tech firms, each leveraging small-bay industrial space tailored to their specific operational requirements.

2 Location, Location...Logistics

Urban infill locations give small-bay properties a significant edge in the industrial market. Proximity to transportation hubs, such as interstates, seaports, and airports, enables tenants to reduce delivery times and logistics costs. Being close to population centers provides an additional upside in terms of landlord pricing power. A study by Prologis found that transportation accounts for at least 45% of overall supply chain costs, and every 2% in transportation savings increases rent capacity by 20%. **BKM's strategic focus on high-growth Western U.S. markets has enabled it to maintain occupancy rates of over 90% across its portfolio. At the same time, the firm has benefited from the rapid activity in growing markets like the Inland Empire and Phoenix, both of which have seen light industrial rents grow 70% to 90% over the past three years.**

3 Short-Term Leases, Long-Term Gains

Less competition from new small-bay development has created a landlord-friendly environment, where supply constraints allow for consistent rent appreciation. Unlike large-scale industrial properties, small-bay assets typically operate on shorter lease terms, enabling landlords to adjust rents more frequently to align with market conditions and capitalize on rising demand in high-growth areas. In BKM's case, the average WALT across its portfolio is only 2.53 years. This flexibility is particularly valuable in supply-constrained markets, where limited new inventory gives landlords stronger pricing power. By leveraging shorter lease terms and strategically managing tenant rollovers, landlords can continuously optimize rental income and enhance asset performance.

4

Opportunity in Obsolescence

The industrial sector's focus on large-scale logistics hubs has left many smaller, older properties underutilized and outdated, creating a significant value-add opportunity for investors. High construction costs and zoning restrictions have further constrained the development of new small-bay facilities, particularly in dense urban markets where industrial space is scarce. As a result, well-located but obsolete industrial properties present prime opportunities for redevelopment, modernization, and repositioning. Investors who undertake strategic renovations—such as upgrading infrastructure, optimizing layouts, and implementing energy-efficient enhancements—can transform aging properties into highly desirable assets. This approach not only elevates rental potential and tenant demand but also supports long-term asset appreciation in a sector where supply remains limited. This investment strategy is more important now than ever, as tenants are increasingly prioritizing spaces with more modern configurations and competitive amenities to meet their evolving needs.

5

Smarter Management, Better Performance

Managing a multi-tenant industrial portfolio is inherently operationally intensive, requiring hands-on oversight, proactive leasing strategies, and efficient cost management. Having a vertically integrated platform is beneficial in navigating these complexities, ensuring that every aspect of property and asset management is executed with precision. By maintaining direct control over leasing, property operations, and capital improvements, BKM is able to drive strong tenant retention, optimize rental income, and enhance overall asset performance. Access to real-time market data further strengthens this approach, thanks to technological solutions that streamline processes, enhance decision-making, and improve overall asset performance. Specifically, advanced property management platforms enable landlords to optimize leasing strategies, track market trends, and proactively address tenant needs. BKM has developed BKM Intel, a groundbreaking, in-house business intelligence (BI) platform that seamlessly integrates Yardi accounting data, acquisition comp data, leasing metrics, and financial reforecasting models to track detailed insights on over 5,000 multi-tenant industrial buildings along the West Coast. By integrating data analytics, automation, and AI-driven insights, technology helps landlords reduce vacancies, maximize rent potential, and create a more efficient, tenant-friendly environment—ultimately boosting both operational success and investment returns.

6

Sustainable Initiatives Can Enhance Value

Small-bay properties that integrate energy-efficient systems, EV infrastructure, and other green initiatives are becoming increasingly attractive to both tenants and investors seeking sustainable real estate solutions. As environmental regulations tighten and corporate ESG commitments grow, properties that prioritize lower energy consumption, waste reduction, and carbon footprint minimization are better positioned to retain high-quality tenants and command premium rents. Investments in solar energy, LED lighting, high-efficiency HVAC systems, and smart building technologies not only align with broader ESG goals but also lead to long-term cost savings, improved operational efficiency, and reduced maintenance expenses. Sustainability enhancements also contribute to a healthier work environment, increased tenant satisfaction, and stronger asset valuation, making them a strategic advantage in today's competitive industrial market.

INVESTMENT PERFORMANCE AND FINANCIAL METRICS

Winning Big with Small-Bay Industrial

Small-bay industrial properties offer investors the opportunity to achieve outsized performance and financial returns due to their unique characteristics and favorable market conditions. These assets, often underutilized or in need of modernization, provide strong potential for NOI growth, yield optimization, and capital appreciation when managed with a strategic, value-add approach.



NOI Growth & Yield Optimization

- » Many older small-bay properties suffer from functional obsolescence, deferred maintenance, or inefficient space utilization, but with the right capital improvements, landlords can increase occupancy rates, attract higher-quality tenants, and drive rent growth. These enhancements—ranging from energy-efficient upgrades to modernized layouts—result in higher tenant satisfaction and retention, reducing vacancy risk while improving asset valuation.
- » BKM has leveraged this strategy successfully across its portfolio, identifying assets with strong location fundamentals but underutilized potential and then implementing targeted renovations and operational improvements to unlock NOI growth. **As a result, BKM has maintained an impressive 92% portfolio-wide occupancy rate, demonstrating sustained tenant demand in its properties. At the same time, the firm increased its same-store NOI by over 16.5% from 2023 to 2024.**



Leveraging Market Momentum

- » The leasing dynamics of small-bay industrial assets provide another powerful tool for maximizing income and asset value. With relatively short WALTs, landlords can capitalize on market rent appreciation by proactively managing tenant turnover and replacing below-market leases with stronger-credit tenants at higher rental rates. Additionally, multi-tenant assets inherently reduce the risk associated with a single tenant vacating a space, further supporting consistent income streams.
- » By executing an aggressive leasing strategy, BKM has successfully corrected rental deficiencies across its portfolio, achieving 20% rent premiums on newly leased space. In highly supply-constrained markets where new small-bay development is limited, landlords have greater negotiating leverage. **This allowed BKM to achieve re-leasing spreads above 30% for the past several quarters, including a record-high spread of 38% in Q1 2024, reflecting the sector's strong pricing power.**





CapEx Considerations to Drive NOI

- » Investing in small-bay industrial assets requires a disciplined approach to underwriting capital expenditures (CapEx). Unlike large distribution centers, where capital investment is often concentrated in large-scale logistics infrastructure, small-bay facilities require a different value-add strategy focused on modernizing outdated assets. These improvements may include anything from upgrading HVAC and electrical systems to meet modern industrial requirements, enhancing parking and loading capabilities to accommodate changing tenant needs, to implementing sustainability initiatives such as LED lighting, solar panels, and drought-resistant landscaping to reduce operating expenses.
- » Strategic CapEx investments not only improve tenant retention and reduce long-term maintenance costs but also drive significant ROI through increased rental income and property valuations. Value-add investments inherently require more allocated capital and therefore a more disciplined underwriting approach to maximize returns, an approach done successfully only by the most sophisticated operators. With demand far outpacing new supply in small-bay industrial, well-executed capital improvements create long-lasting value in markets where high-quality industrial space remains scarce.



RISK ANALYSIS & MITIGATION STRATEGIES

Risk Management Strategies for Sustainable Growth

While small-bay industrial properties present compelling investment opportunities, they are not without challenges. Investors and operators must navigate market, operational, and investment risks while proactively planning for long-term sustainability and adaptability. The most successful industrial strategies recognize that risk mitigation is not about avoiding challenges altogether but rather, about structuring portfolios and asset management strategies in ways that minimize exposure and enhance resilience.

Regulatory & Zoning Challenges

Navigating zoning, entitlements, and permitting is a major hurdle for small-bay properties. Strict municipal zoning often limits where and how these assets can be developed—especially in dense urban areas where residential use is prioritized.

Investors must collaborate with local governments and land-use experts to secure approvals and unlock value in constrained markets. Sourcing underutilized properties can help avoid adding to a community's local industrial footprint.

Operational Hurdles

The NIMBY movement frequently challenges industrial development in cities, citing traffic, noise, and environmental concerns. These can be addressed through sustainable site planning, green infrastructure, and sound-reducing designs.

Urban infill locations also present access and labor constraints, but rehabbing existing properties helps meet demand without the delays of new construction approvals.

Investment & Portfolio Risks

Unlike single-tenant warehouses, small-bay assets reduce risk through tenant diversification. Still, localized disruptions and tenant defaults remain concerns. To mitigate this, investors should diversify across geographies and sector, and no industry should dominate portfolio revenue.

Flexible lease structures allow landlords to adapt to market shifts. BKM actively manages expirations and re-leasing to maintain occupancy and optimize rents in supply-constrained markets.

Resilience Planning

Future-proofing small-bay assets requires integrated tech and sustainability. AI, IoT, and automation tools are transforming property management—from smart energy systems to predictive maintenance. BKM's proprietary platform, BKM Intel, enhances tenant retention and leasing performance through real-time data insights.

Tenants increasingly prioritize sustainable spaces. Green initiatives such as solar and EV infrastructure reduce costs, attract tenants, and support long-term asset value while aligning with ESG goals.

Managing multi-tenant assets is operationally intensive, requiring a vertically integrated platform to handle leasing velocity and asset complexity. BKM's in-house management structure enables consistent execution and efficiency.

STRATEGIC VISION

The Path Forward: Investing in Industrial's Next Chapter

Small-bay industrial properties continue to stand out as a resilient and adaptable asset class, supported by long-term structural trends such as e-commerce expansion, reshoring of manufacturing, and growing demand for well-located industrial space. Despite fluctuations in broader economic conditions, the fundamentals of this sector remain strong, driven by constrained supply, diverse tenant demand, and the necessity of urban logistics hubs.

Looking ahead, acquisition opportunities in the small-bay industrial sector are expected to increase, particularly as fragmented ownership structures, tightening capital markets, and shifting portfolio strategies create new openings for well-positioned investors. Many owners may seek liquidity amid financial pressures, while others—particularly multi-asset portfolio holders—may look to re-balance their industrial holdings. These conditions could lead to more investment activity, particularly from groups with deep market knowledge and the ability to unlock value in underutilized assets.

In addition to acquisitions, the role of operational efficiencies, technology, and sustainability will continue to shape the future of small-bay industrial investments. As tenant needs evolve, landlords will need to modernize and optimize their portfolios to remain competitive. Enhancing property functionality, integrating energy-efficient infrastructure, and leveraging technology to improve asset performance will be key factors in maintaining long-term value.

For investors unfamiliar with industrial real estate, navigating this sector effectively requires a deep understanding of market dynamics, asset repositioning, and operational efficiencies. Unlike other property types, small-bay industrial investments require hands-on management, a value-add mindset, and strong relationships with tenants and local markets. As a result, many institutional investors and capital partners alike are choosing to align with specialized industrial investment firms that have a track record of sourcing, optimizing, and managing these assets for strong risk-adjusted returns.

Overall, the outlook for small-bay industrial remains strong, particularly in high-growth, supply-constrained markets where demand continues to outpace new development. Investors who focus on strategic acquisitions, adaptive asset management, and long-term resilience planning will be best positioned to capture opportunities in this evolving landscape.



ABOUT THE AUTHOR

BKM Capital Partners is a proven real estate fund manager and operator focused exclusively on investing in multi-tenant light industrial and multi-use logistics properties in the Western United States. Headquartered in Newport Beach, CA, with over 100 employees in 14 offices, BKM Capital Partners implements a value-add strategy targeting under-managed and under-capitalized assets. The team has invested over \$5 billion in over 130 small and mid-bay light industrial properties since 2013. Its approach includes the acquisition, refurbishment, repositioning, and active management of these industrial properties to drive NOI growth and generate a strong IRR and multiple on invested equity. BKM's foundation is built upon Focus, Operational Excellence, Technology, and Client Service.



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