BKM Capital Partners

Unlocking Potential and Driving Innovation in Light Industrial Investments

Value-Add Execution Snapshot

ARROYO BUSINESS CENTER | CARLSBAD, CA

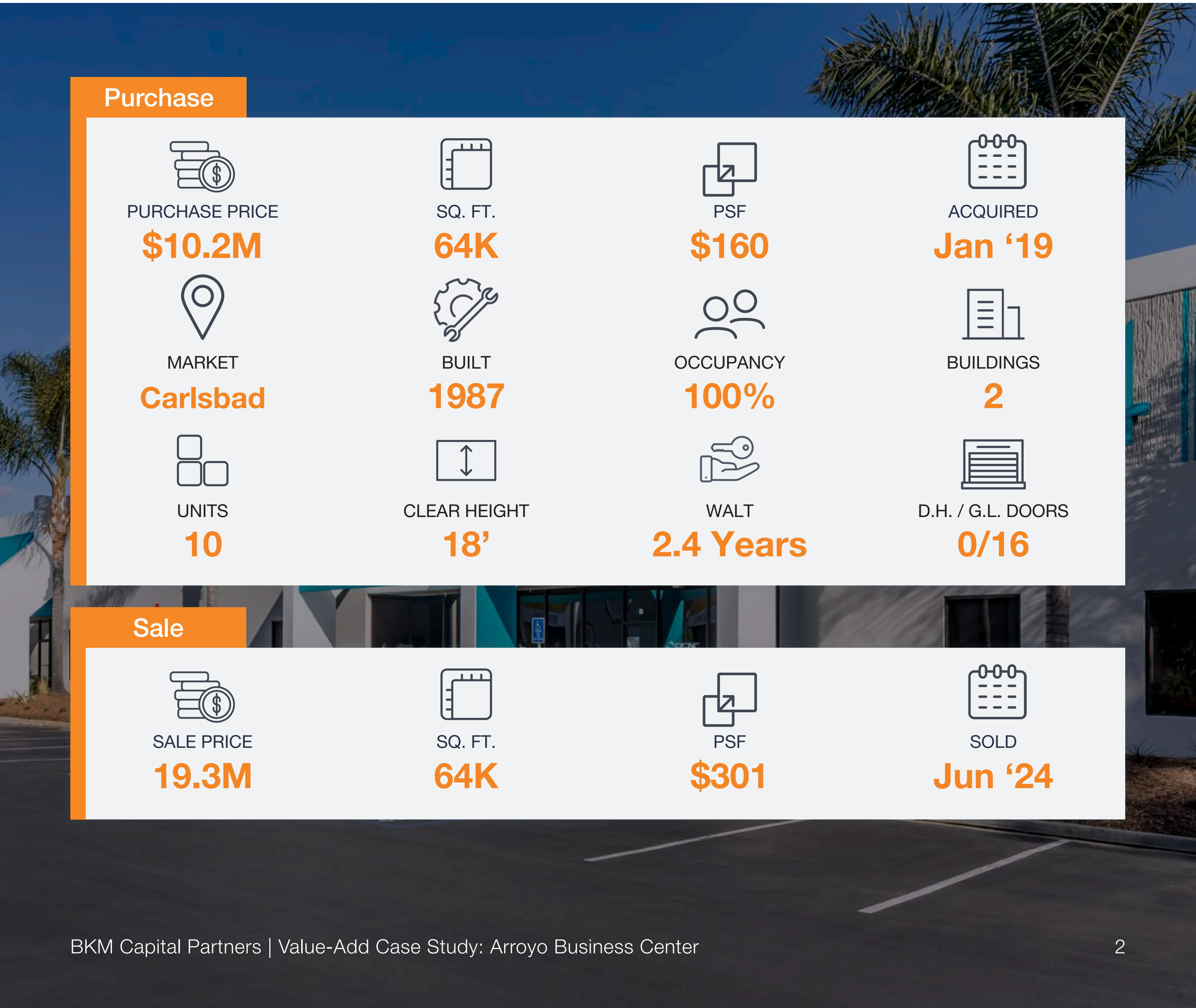
bkm

INTRODUCTION

Purchased in January 2019, Arroyo Business Center is a 63,893 SF multi-tenant light industrial project located in the heart of the Carlsbad industrial submarket. The asset presents a compelling value-add opportunity through a targeted creative-industrial conversion and aggressive mark-to-market leasing program.

PROPERTY OVERVIEW

- Situated just south of Palomar Airport and three miles east of I-5, the property offers superior regional connectivity between Orange County and San Diego, with suites ranging from 4,000 to 12,000 SF and 18’ clear height warehouses built to serve the region’s expanding industrial tenant base.
- Featuring 10 units and a ~50% office buildout at acquisition, BKM recognized an opportunity to modernize dated, passively managed suites and convert them into creative industrial space.



Purchase

PURCHASE PRICE	SQ. FT.	PSF	ACQUIRED
$10.2M	64K	$160	Jan ‘19
MARKET	**BUILT**	**OCCUPANCY**	**BUILDINGS**
Carlsbad	1987	100%	2
UNITS	**CLEAR HEIGHT**	**WALT**	**D.H. / G.L. DOORS**
10	18’	2.4 Years	0/16

Sale

SALE PRICE	SQ. FT.	PSF	SOLD
19.3M	64K	$301	Jun ‘24

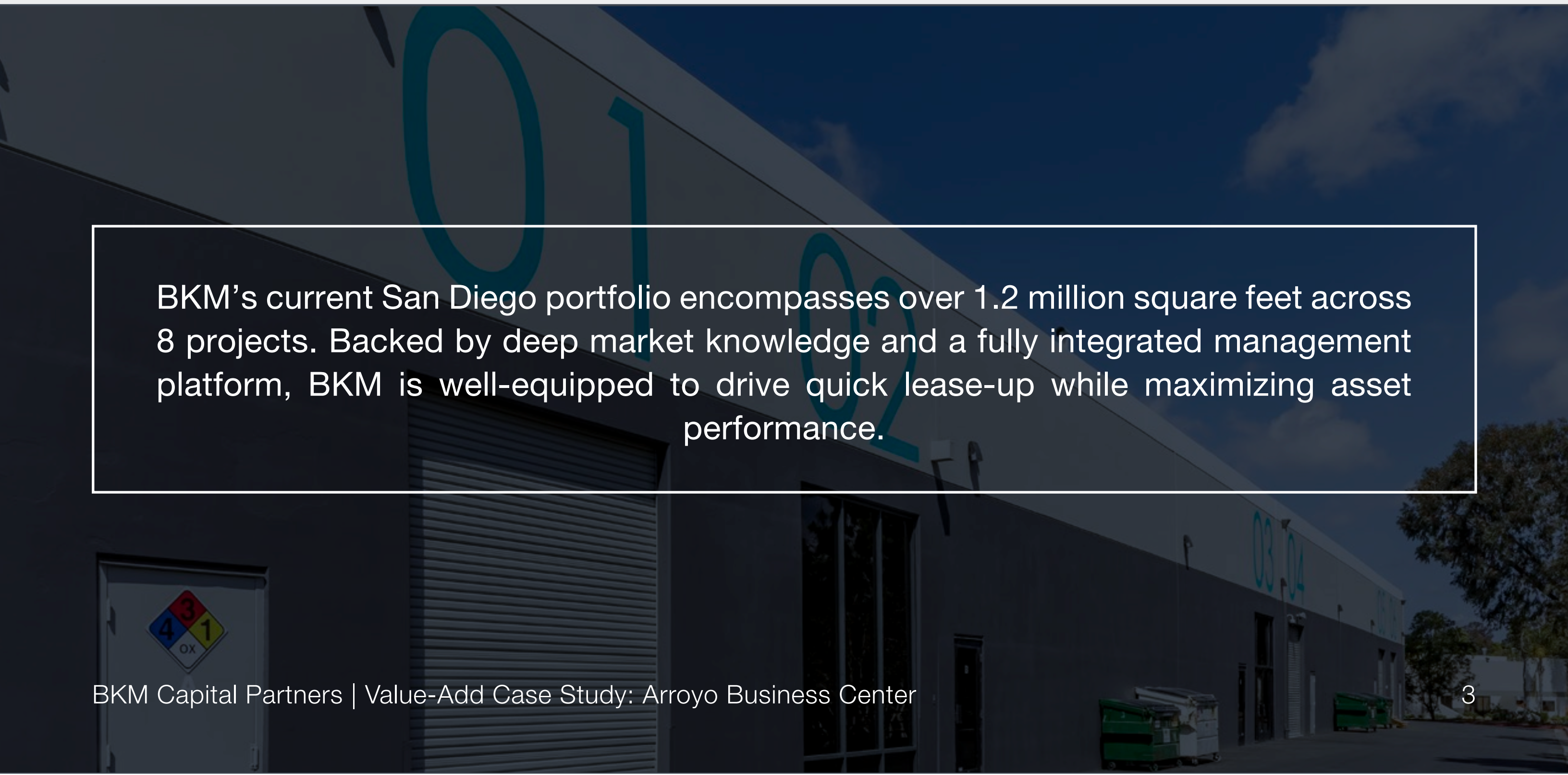
OPPORTUNITY

Aesthetic Appeal

- Expansive parking enhances curb appeal and suite-level accessibility.
- Limited prior capital investment unlocks immediate value creation through BKM's signature exterior improvements package.
- High office concentration offers flexibility to reconfigure units and meet evolving tenant demand.

Financial Appeal

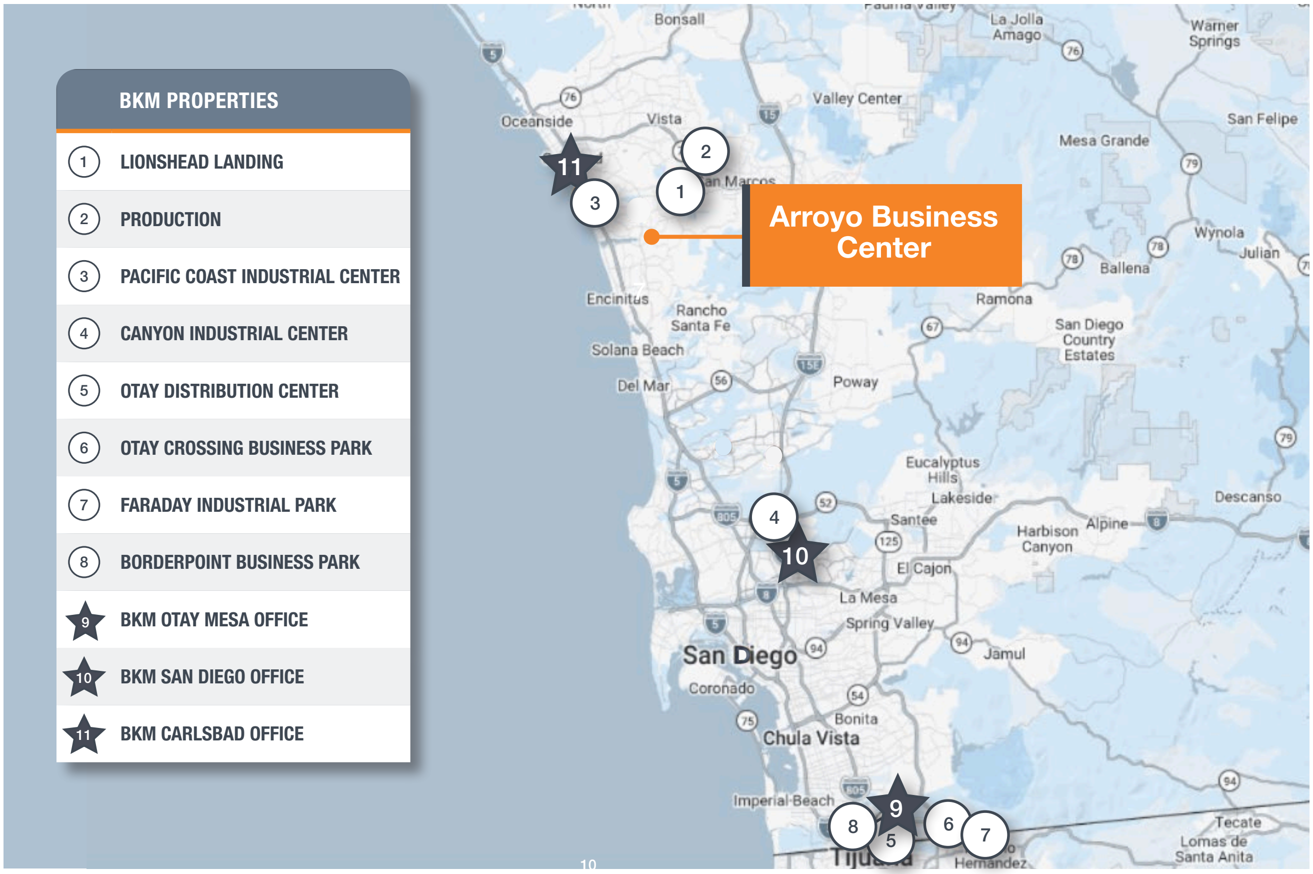
- Acquired at a 39% discount to replacement cost, with in-place rents 20% below market at $0.97 PSF NNN.
- With 87% of rentable SF expiring during the hold, BKM had a clear runway to drive rental rate growth of 12–22%.
- Underwritten at a 19.6% levered IRR and 1.9X equity multiple, with a projected exit of $15.1M.



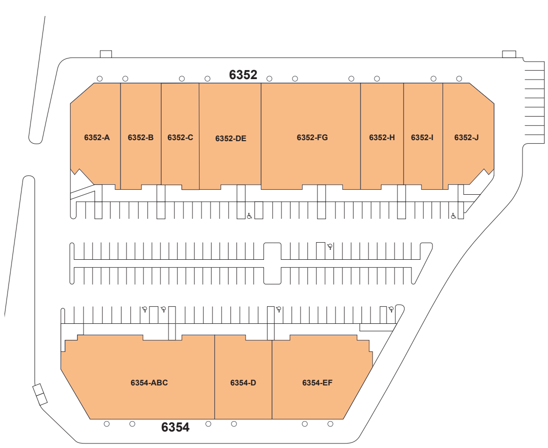
BKM's current San Diego portfolio encompasses over 1.2 million square feet across 8 projects. Backed by deep market knowledge and a fully integrated management platform, BKM is well-equipped to drive quick lease-up while maximizing asset performance.

LOCATION AND SITE PLAN

BKM REGIONAL PRESENCE



SITE PLAN

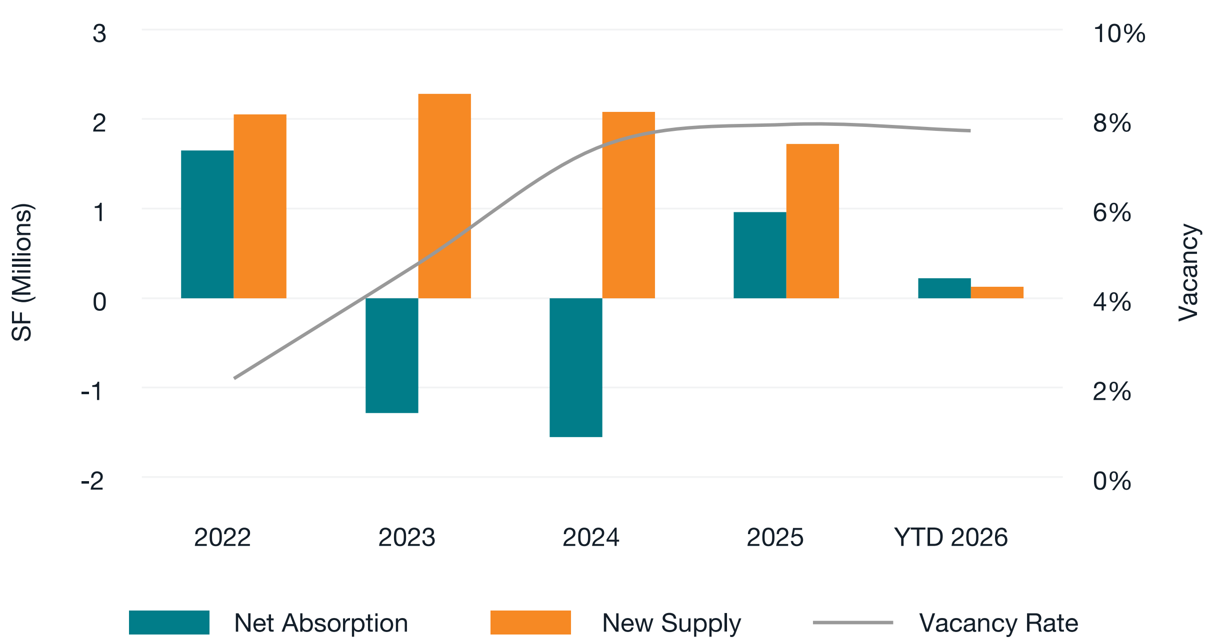


MARKET DYNAMICS

- **5.3% vacancy for small-bay properties in San Diego,** which is 43% lower than the general market vacancy for the region.[1]
- **Industrial rents have grown nearly 40% since 2020,** with forecasts expecting another 10-15% of growth over the next four years.[1]
- **Leases for spaces under 10K SF dominate total leasing in the greater San Diego region, capturing 80% of total leases signed in 2025**—the highest share in over five years.[2]
- **San Diego's proximity to the U.S.–Mexico border, combined with its role as a major tourism destination,** supports long-term regional economic activity and cross-border logistics demand.[2]
- **Over 45% of residents hold a bachelor's degree**, supporting a highly educated workforce.[1]
- **Net absorption rebounded significantly between 2024-2025,** with the upward trajectory expected to continue in 2026 as vacancy stabilizes and the market recalibrates.[3]

[1]CoStar, Q2 2026. [2]CoStar, Q1 2026. [3]JLL, Q1 2026.

HISTORICAL SUPPLY AND DEMAND, SAN DIEGO

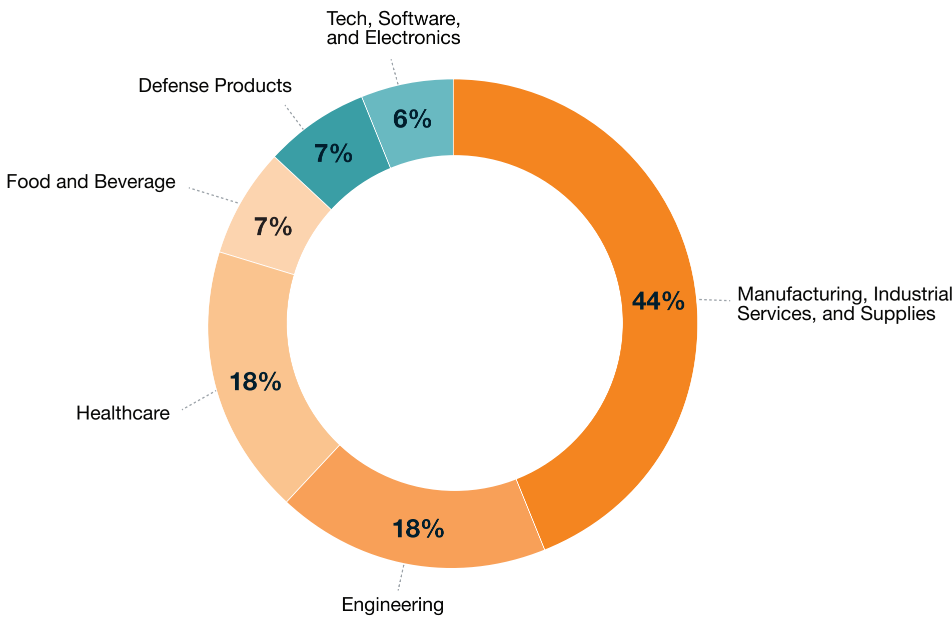


Source: JLL, Q1 2026.

FOCUS ON GROWTH - SIC CODES

BKM is committed to maintaining a diverse array of tenant industries across its portfolio, providing insulation from industry downturns and reducing overall credit exposure.

» The park provided a diverse array of tenant industries at acquisition, with no single sector exceeding 44% of NRA, **anchored by a healthy mix of manufacturing, healthcare, engineering, and defense tenants**.



Data at acquisition, as of January 2019.

MAJOR TENANT PROFILES

GTR ENTERPRISES, INC.

11,893 SF

GTR Enterprises, LLC provides high quality CNC Machining and Mechanical Assembly services to customers in local markets and customers from Alaska to Texas and Missouri. Internationally they do business in Mexico and Asia. They use the latest in state-of-the-art CNC Milling and Turning technology. Utilizing a combination of Computer Numerical Control (CNC) equipment and process techniques. GTR leads the industrial re-revolution by offering high quality manufactured parts to an array of industries including, commercial, aerospace, defense, medical, and more.

DIAGNOSTIC CONSULTING NETWORK

11,500 SF

Diagnostic Consulting Network (DCN) develops point of care assay systems. The development of rapid diagnostic tests is at the core of what they do. DCN's space at Arroyo Business Center houses research, testing, and manufacturing capabilities. Alongside housing the offices for the consulting arm of DCN, this integral consulting service offers its products for applications such as medical diagnostics, veterinary diagnostics, consumer diagnostics, biowarfare/biodefense, food and beverage testing, agriculture, forensics, and nucleic acid lateral flow. DCN's headquarters is located at the Arroyo Business Center property.

EXECUTION PLAN

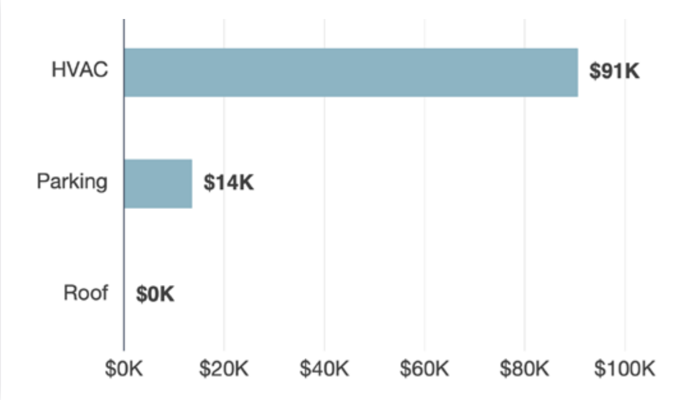
» **Total CapEx:** $1.2M (~$19 psf) improvement program focused on enhancing functionality, tenant experience, and long-term asset performance.

» **Tenant Improvements:** Suite configurations were modernized and reconstituted to attract a stronger, higher-quality tenant base while justifying rental increases.

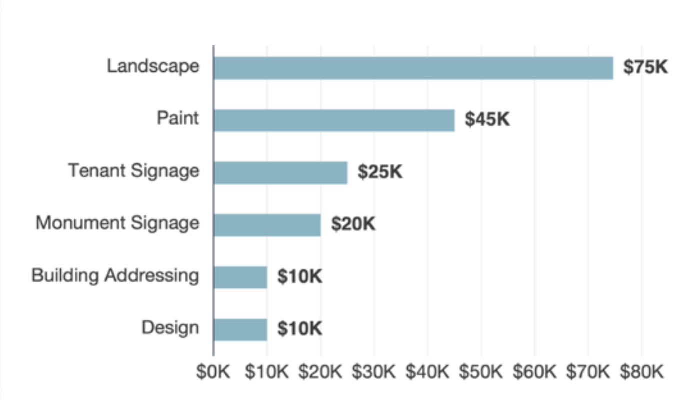
» **Building Systems:** Capital was strategically deployed across building systems to address deferred maintenance, improve operational reliability, and support sustained occupancy throughout the hold period.

» **Cosmetic Upgrades:** Significant cosmetic enhancements were made to elevate the property's physical presentation, transforming a neglected private-owner asset into an institutionally repositioned business center competitive within the Carlsbad industrial submarket.

Structural Improvements



Cosmetic Improvements



EXTERIOR IMPROVEMENTS

NEW PAINT SCHEME	PROJECT SIGNAGE	TENANT SIGNAGE	LOW-DENSITY LANDSCAPING	ROOFS & HVAC	PARKING LOT

The buildings featured a dated, muted palette of tan and beige stucco. BKM repositioned the asset with a bold color-blocking scheme introducing dark charcoal, bright yellow and teal accent bands, and white upper facades carried through to the monument signage.

EXTERIOR PROPERTY TRANSFORMATION

INTERIOR IMPROVEMENTS

REDUCE OFFICE %

DIVIDE UNITS

ACCENT WALLS/ CARPET TILES

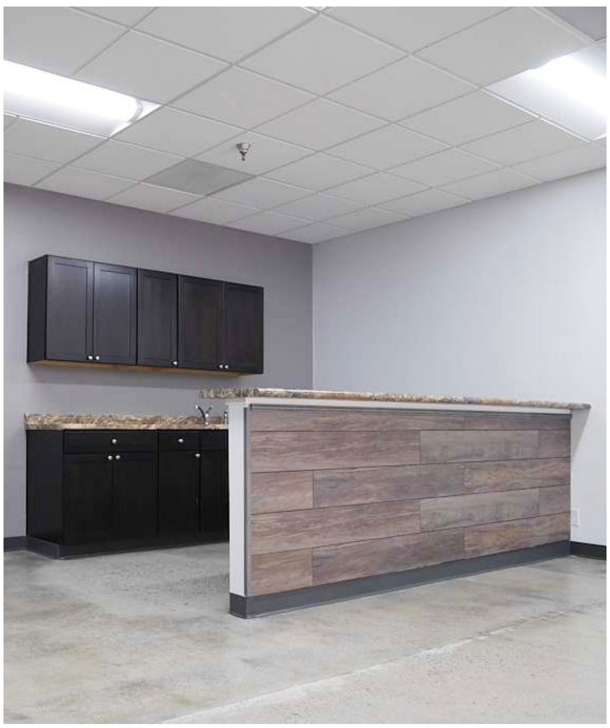
POLISHED CONCRETE

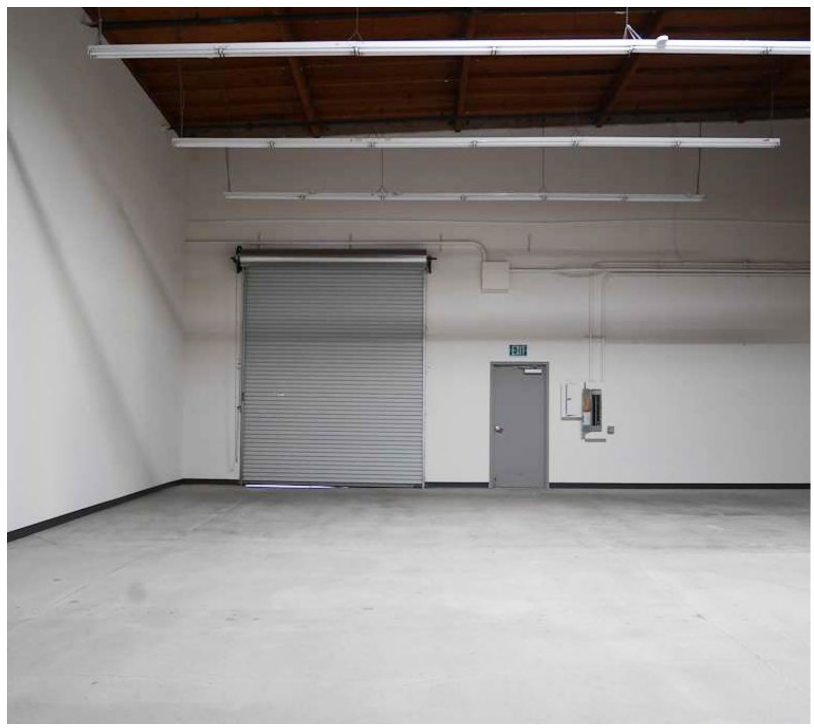
IMPROVED LIGHTING

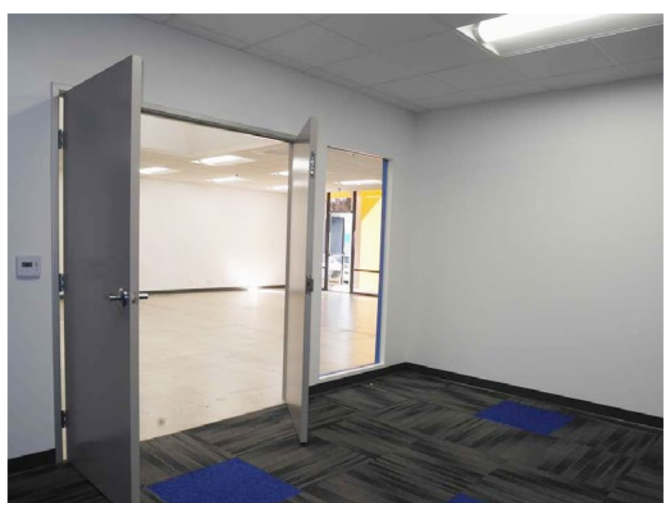
NEW/UPDATED RESTROOMS

During the hold, BKM converted nearly 64,000 square feet of outdated space into modern, flexible office and industrial suites designed to meet evolving tenant demands and drive leasing momentum. Strong leasing execution resulted in 80% of expiring units being successfully rolled, validating tenant demand and capturing mark-to-market rents across the park. Upgrades include office reduction, new warehouse HVAC, and energy-efficient LED lighting—features increasingly prioritized by today's tenants.

INTERIOR PROPERTY TRANSFORMATION



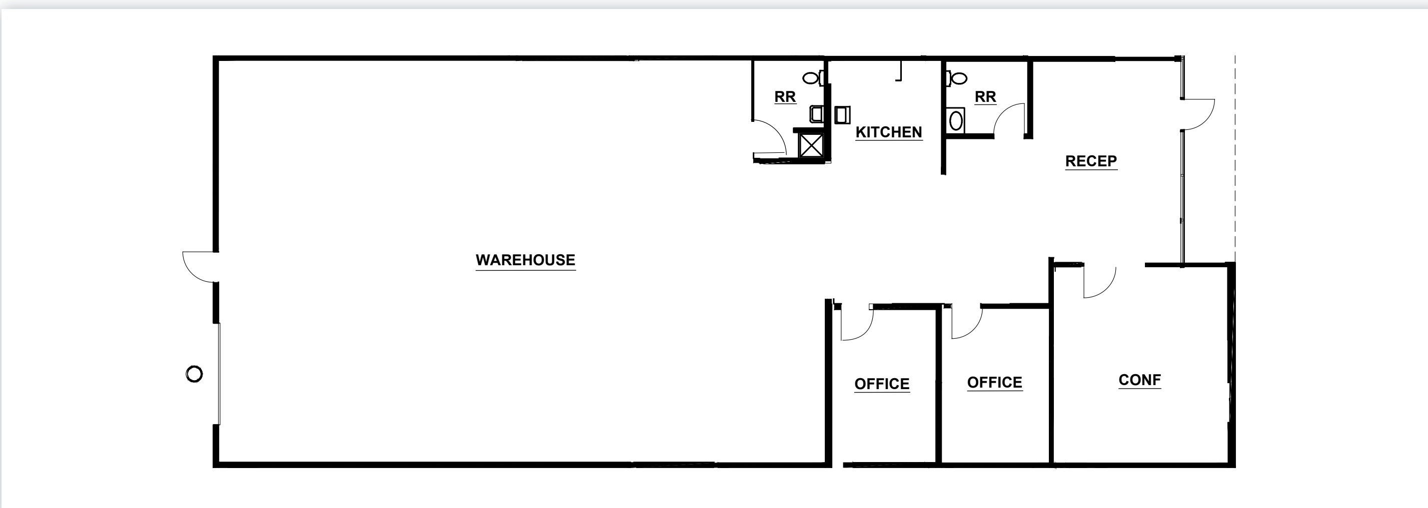




SUITE CONVERSION

AT ACQUISITION

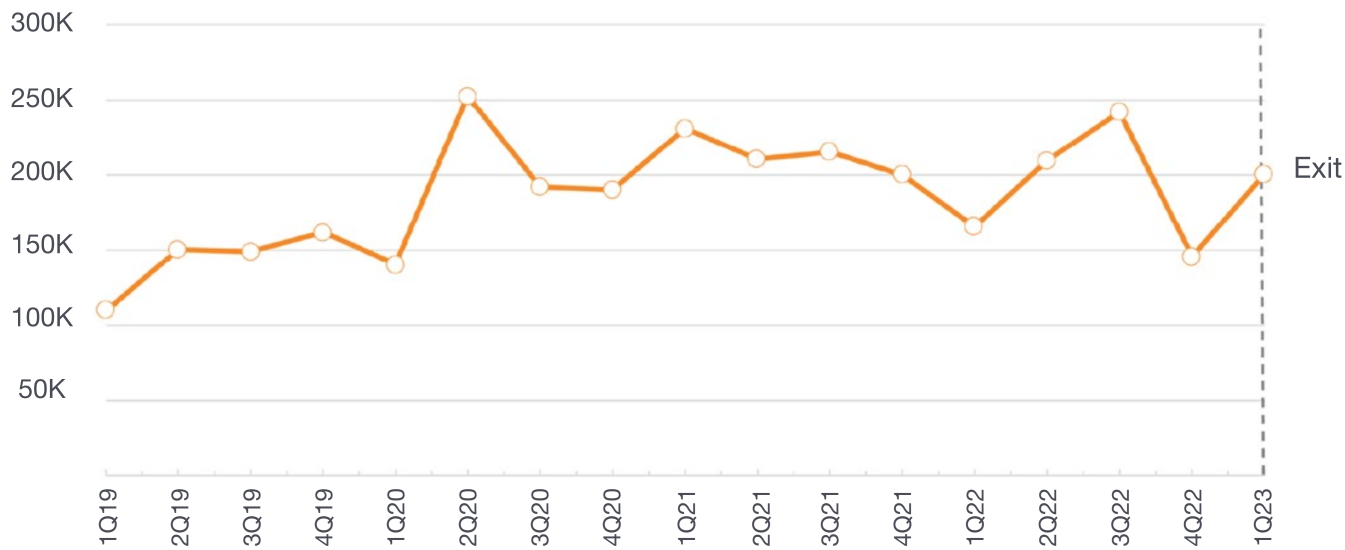
POST RENOVATION



RESULTS

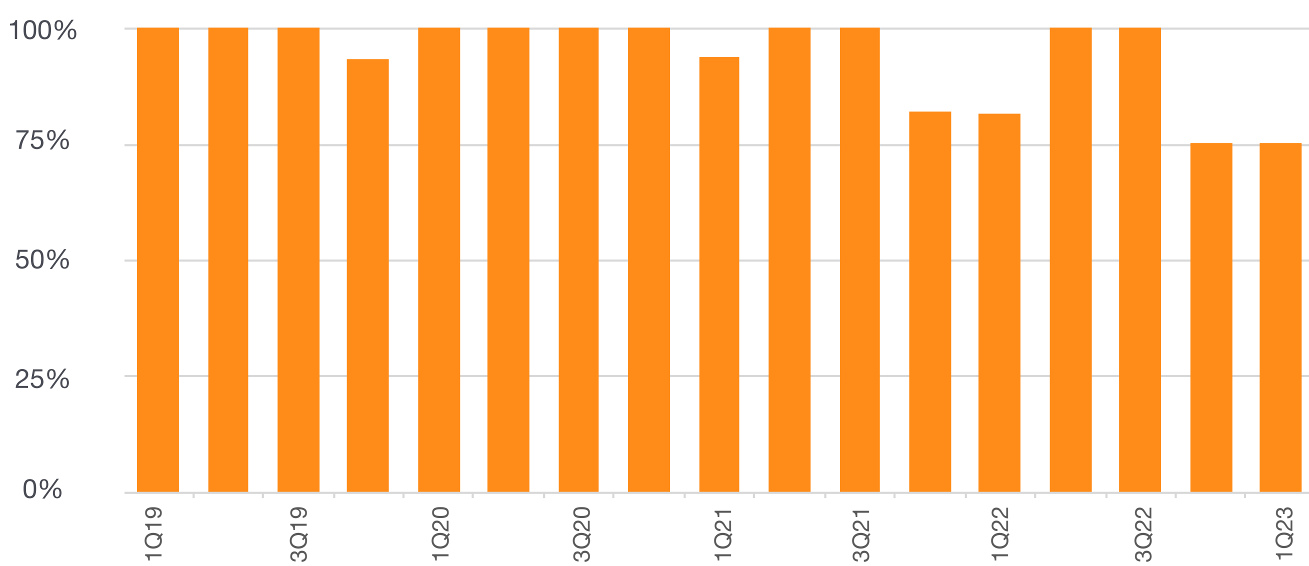
82% growth in NOI, exceeding underwriting for multiple quarters.

NOI GROWTH



Average occupancy of 94% during ownership period.

QUARTERLY OCCUPANCY



OPERATIONAL HIGHLIGHTS

- **Delivering an 89% increase in value over a 4-year hold and exceeding underwriting by 25%,** BKM acquired Arroyo Business Center for $10.2M in January 2019 and sold for $19.3M in June 2024.
- **64% increase in in-place rents between acquisition and disposition,** with average in-place rents of $0.98/ft in 2020 and $1.61/ft in 2023.
- **Mark-to-market potential at disposition was just 3.36%,** down from nearly 17% at acquisition, reflecting BKM's ability to bring leases to market.
- **14 leases executed across the hold period,** reflecting consistent demand and active lease-up throughout BKM's ownership.
- **3-4 month average downtime** for vacant suites during the ownership period.
- **17% average quarterly mark-to-market increases** on lease expirations between 2020 and 2023.

94% Average

Occupancy during the hold period

82% Increase

In **net operating income** over the hold period

89% Increase

In **asset value** at sale

CONCLUSION

Through targeted upgrades and disciplined execution, BKM Capital Partners repositioned Arroyo Business Center into a modern, high-performing industrial asset in Carlsbad's premier North County submarket. By modernizing the property's image and capitalizing on strong tenant demand, BKM drove significant rent growth and sustained occupancy, demonstrating the firm's ability to unlock value across core U.S. industrial markets.

CONTACT US

949.566.8800
investorrelations@bkmcp.com
bkmcp.com

Headquarters
1701 Quail Street, Suite 100
Newport Beach, CA 92660

ARROYO BUSINESS CENTER | CARLSBAD, CA