



BKM CAPITAL PARTNERS

Annual Letter

2022



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A Letter from the CEO

Ten years ago, I had a vision of building a premier fund management company with a superior operating platform that would provide entry into the niche light industrial asset class for institutional investors. That idea became BKM Capital Partners. What started as a two-person operation has since become a robust investment platform for institutional capital. With nearly \$3 billion of industrial transactions completed, we invest capital on behalf of sophisticated institutional clients around the world, currently investing on behalf of the third fund in our value-add series.

2022 was another successful year for BKM. Not only did we grow our team and establish a new office in Portland, Oregon, but we also focused on expanding our company infrastructure to serve us better as we continue to grow. We founded our independent advisory board to bring their expertise and fresh perspectives to our investment strategy. We expanded our joint venture partnerships and had record-breaking performance and execution on our assets while also pursuing environmentally sustainable business practices. To promote our dedication to diversity and inclusion, I proudly signed the CREW Network Pledge for Action, and we established the BKM's Women's Network to provide support, mentorship, and training to our employees.

Our success could not have happened without the dedicated, experienced, and passionate people here at BKM, and I can never express enough gratitude to them for what they helped build. Our vertically integrated platform and the team's deep CRE expertise have proven ideal for value creation throughout the investment life span—from sourcing, repositioning, intensive leasing and management, to growing NOI and cash flow for an institutional exit. The management-intensive light industrial asset class depends on this hands-on approach our teams deliver every day.

Myself, our executive committee, and our advisory board look forward to the year ahead and remain committed to our responsible investment strategies—financially, strategically, and ethically.

Brian Malliet, Founder & CEO



COMPANY HIGHLIGHTS

2022 Highlights

We acquired **five new properties** in three different markets this year, totaling **\$137.9M in transactions** and **597,000 SF**.

- + Riverside Junction, Portland OR
- + Raymond Twenty-Sixth, Portland OR
- + Mesa Ridge Business Park, Mesa AZ
- + Pacific Industrial Park, Marysville, WA
- + Pecos Commerce Center, Mesa AZ

These acquisitions bring our active properties to **46 assets**, spanning **8.6M square feet** across six states.

Our Property Management and Leasing teams were able to execute over **500 leases** and deliver over **150 move-in-ready units** this year, all while maintaining **98% occupancy** across our portfolio.

We added a new office in Portland, Oregon, bringing us to a total of **13 offices** across **six different states**. Each office houses a branch of our in-house management platform, where we perform the onsite management and maintenance of each of our properties.

We hired **14 new employees**. We strongly believe that we have one of the best teams in the industry, allowing us to compete aggressively in the industrial space and retain top talent.



EXPANDING ESG / DEI EFFORTS

To advance our ESG and DEI initiatives, we took concrete steps to incorporate these principles into our operations.

- + Formed our first independent advisory board
- + Signed the CREW Network Pledge for Action
- + Established the BKM Women's Network
- + Installed Solar Panels on three of our assets, **reducing carbon emissions by 400 tons annually**
- + Installed water-saving Xeriscaping at all assets
- + Water Conservation Project at Hughes Airport Center, **reducing water usage by 75%** and saving **50% in water costs**

RECOGNIZED IN THE INDUSTRY

Throughout 2022, BKM won **nine** awards from various prestigious organizations recognizing the best in the industry:

- + Inc. 5000 List of Fastest Growing Companies for both Regional and National (for the 4th time)
- + Los Angeles Times Orange County Visionary Award 2022
- + Orange County Business Journal's Best Places to Work 2022
- + GlobeSt Best Bosses Award
- + GlobeSt Women of Influence
- + GlobeSt Influencers in Industrial
- + TOBY Building of the Year Award for Havana 37 in Denver, CO
- + TOBY Building of the Year Award for Lionshead Landing in San Diego, CA





BKM SINCE INCEPTION

Founded
2013

Newport Beach,
California



\$2.9B
In Transactions



\$990M+
Commitments



14.1M
Square Feet



74
Properties



3000+
Tenants



6
States

CURRENT COMPANY SNAPSHOT



46 Active
Properties



1,926
Active Units



8.6M Active
Square Feet



1700+
Tenants



\$1.9B
Current AUM

BKM This Year

PLATFORM EXECUTION



\$20M

Invested in Capital
Improvement Projects



531

Leases Signed



229

New Leases
Signed



98%

Occupied Units



174

Units Delivered

ACQUISITIONS



5

New
Acquisitions



\$137.9M

In Transactions



597K

SF Acquired

COMPANY GROWTH



14

New Hires



1

New Office



13

Promotions





BKM'S UNMATCHED INDUSTRY EXPERIENCE

Our Proven Expertise

While not everyone can acquire the experience and resources necessary to execute in the operationally intensive light industrial space, it is still possible to access this attractive asset class through a proven operating partner like BKM. This niche property type demands that owners and operators bring decades of experience and hands-on approach that is significantly more complex and involved than the big box industrial facilities that house a single tenant.

“We know the product well. This is what we do and it’s all that we do. We are very good at it, we do it diligently, and we’re not distracted by the other asset classes. We are experts in this space.”

Brian Malliet, Founder & CEO

Our Senior Management team averages over 28 years of real estate investment and operating experience, while our advisory board averages over 30 years of experience. The tenure of our leadership team and our deep knowledge of the light industrial asset class allows us to excel as the leading multi-tenant light industrial operator in the Western United States.



BKM'S LEADERSHIP TEAM



Brian Malliet

Founder and CEO

35

Years Experience



Bill Galipeau

Chief Financial Officer

26

Years Experience



Harry Hedison

Senior Managing Director, Capital Markets & Investor Relations

35

Years Experience



Rob Sistek

Senior Managing Director, Investments

23

Years Experience

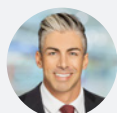


Susan Rounds

Managing Director, Operations

24

Years Experience



Brett Turner

Senior Managing Director, Acquisitions & Dispositions

18

Years Experience



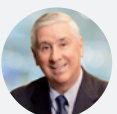
Rene Velasquez

Managing Director, Asset & Property Management

38

Years Experience

BKM'S ADVISORY BOARD



Paul Dolinoy

Chair

45

Years Experience

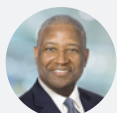


Nicki Livanos

Member

25

Years Experience



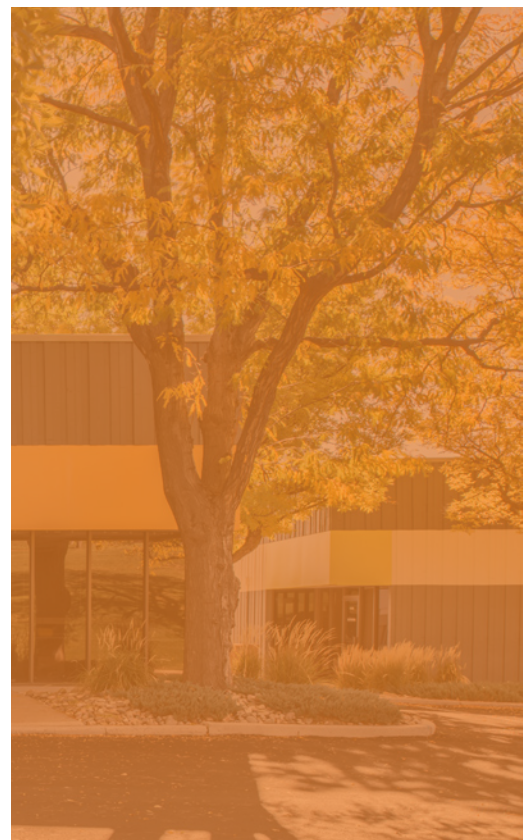
Rodney Johnson

Member

25

Years Experience





Multi-tenant industrial is a management intensive asset class, requiring a vertically integrated operator platform with strong local teams capable of managing the space and relationships of significantly more tenants.

Asset Management | Leasing Management | Property Management
Construction Management | Industry-Leading Technology

FOCUS

Value-add strategy focused exclusively on light industrial and multi-use logistics investments in the Western United States

TECHNOLOGY

Industry-leading/proprietary technology to execute management-intensive product type and optimize decision making.

OPERATIONAL EXCELLENCE

Proven ability to reposition properties and drive NOI growth – consistent top quartile fund performance.

CLIENT SERVICE

Our clients come first, both investors and tenants.



BKM'S INVESTMENT STRATEGY

Light Industrial 101

BKM targets assets that have previously been undercapitalized and undermanaged, allowing us to deliver our value enhancement packages including capital improvements, management, and technology. With this strategy, we can target higher quality tenants, increase demand, and drive steady NOI growth.



Less Than **200,000** SF



20-200 Tenants



25-30% Office, **70-75%** Warehouse



4-10 Buildings



1-3 Year Lease Terms



3-10 Miles from Consumers, Businesses, & Key Infrastructures



BKM's Value-Add Strategy

EXTERIOR IMPROVEMENTS

At Acquisition



Completed Improvements



INTERIOR IMPROVEMENTS

At Acquisition



Completed Improvements



Reduce
Office %

Updated
Restrooms

Polished
Concrete

Accent Walls &
Carpet Tiles

Divide Units

Improved
Lighting

“For originators and developers, success in this climate will come down to market expertise, a deep knowledge of the tenant base, and deployment of a strong value-add strategy. Knowledge of real estate fundamentals will favor the most talented originators and operators, helping to steer them through uncertain periods.”

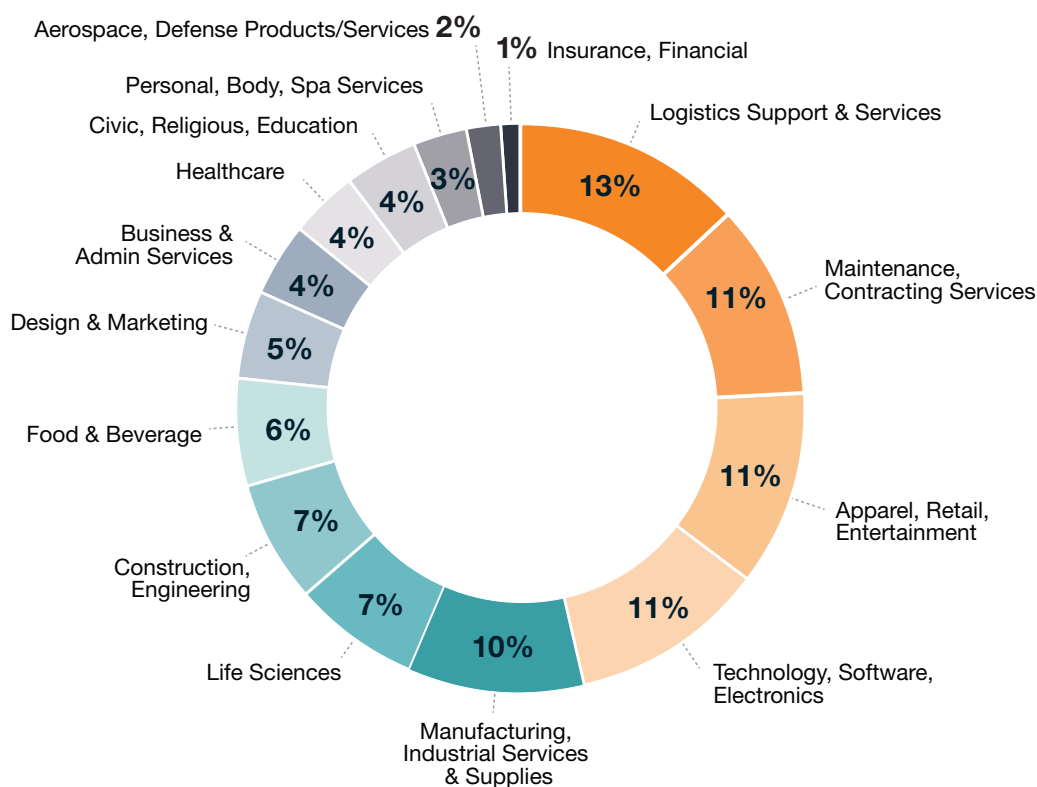
Adam Candler, Associate Director, Debt Capital Markets



BKM'S TENANT BASE

Light industrial offers industry diversification which reduces risk and provides income security.

TENANT BREAKDOWN BY INDUSTRIAL SECTOR



BKM benefits from having a diversified tenant base for a multitude of reasons:

- + **Multi-tenant properties provide a diversified rent roll.** As fluctuations in the economy occur, changes in one industry that may negatively affect businesses will not greatly affect BKM's overall portfolio, as that industry only makes up a small portion of the rent roll. Overall cashflow for the property will subsequently be less affected than it would be if there were only a few tenants at the property.
- + **Sustainability of current interior and exterior finishes.** Utilizing move-in ready units allows BKM to reduce its tenant improvement costs, and streamline the leasing process.
- + **Sustainable vacancy rates and cash flows.** Having multiple leases for one property provides protection against heavy dents in vacancy rates when leases expire over time, and prevents cash flow gaps as a result of high vacancy rates.
- + **Ability to adjust rents to market more quickly.** Due to shorter lease terms, BKM can adjust rents more often during lease renewals than if the leases renewed every 5-10 years for larger tenants.



ESG / DEI

BKM's ESG Initiatives

BKM Capital Partners believes that incorporating ESG factors into the investment lifecycle and management processes positions our assets to capitalize on competitive advantages that garner strong tenant demand with the potential to contribute to long-term performance and risk reduction.

We are dedicated to improving and implementing environmental sustainability, social engagement and transparent governance initiatives. We believe that incorporating ESG factors into the investment lifecycle and management processes positions our people and our properties to maximize impact and deliver value to all our stakeholders.



Support
Our
People



Measure
Our
Progress



Reduce
Our
Footprint



Invest in
Our
Communities



Generate
Sustainable
Value

ENVIRONMENTAL

BKM is committed to the conservation of natural resources at both the corporate and investment level through energy management programs and environmentally conscious practices.



30% Decrease
in energy usage from
new HVAC installations



100% LED lighting
and motion sensors
on tenant and spec
improvements



36% Of our portfolio has
completed installations or
repairs for cool or reflective
roofing



100% Of new
landscaping projects
have drought tolerant
landscaping

CASE STUDIES

DROUGHT PROOFING HUGHES AIRPORT CENTER


As part of efforts to reduce water consumption in areas with drier climates, BKM removed 900,000 square feet of grass from Hughes Airport Center and xeriscaped the remaining landscaping.



90,000
Gallons of Water
Saved Per Year



50%
Reduction in
Water Costs



76%
Reduction in
Water Usage

At Acquisition



Completed Improvements



SAVING ENERGY AT SHORELINE BUSINESS CENTER

At numerous Northern California assets, BKM has installed solar panels on the roofs of the properties, helping to conserve energy while saving our tenants resources.



400
Ton Reduction in
Carbon Emissions



1.4M
KWH Savings Per
Year



18M
Car Miles Saved
Per Year

Shoreline Business Center



Cherry Commerce Center



SOCIAL

BKM is committed to cultivating a positive culture and community for our investors, tenants, and employees by investing time and resources into developing our talent, enhancing a diverse, equitable, inclusive work environment, and encouraging volunteerism and charity across our workforce.

TENANT RELATIONS



Tenant Events



Tenant Surveys & Newsletters



Tenant Appreciation Program

BKM VOLUNTEER PROGRAM



35% Employee Participation



192 Hours Worked





BKM has an extensive set of programs designed to optimize employee success, allowing the chance for our talent to continue growing as they advance themselves and their careers. These include:

- + Training and development with BKMedu and Emerging Leaders programs
- + Education reimbursement
- + Bias trainings
- + Onsite company training events
- + Access to industry conferences and training
- + Access to AllVoices anonymous reporting and survey platform

BKM CHARITABLE PARTNERSHIPS



GOVERNANCE

For businesses, governance isn't just about compliance. It's a system of rules and methods to protect against risk while promoting best practices in decision-making. At BKM, protecting our assets is one of our core values, meaning we expect all of our stakeholders to be good stewards and proactive in safeguarding our property and reputation. Along with the recent formation of the BKM Advisory Board, we are continuously implementing effective control functions to help keep our business running smoothly and safely as we head into 2023.

"It is ingrained in the roll up your sleeves attitude of BKM that we are business partners with the people we work with, they are not just mere financial instruments, like how most people would look at real estate investing. We have this longevity and this understanding of these customers at a more unique level."

Brett Turner, Senior Managing Director, Acquisitions



Valuation
Committee &
Policy



Cybersecurity
Policy



Comprehensive
Compliance
Manual



Disaster
Recovery Plan



Distribution
Committee



ESG & DEI
Committees



Employee
Handbook



Acquisition
Policy

BKM's DEI Initiatives

For companies and leadership teams, the ability to retain, recruit, and advance women and minority groups should be part of their culture and one that both current and future employees should notice and experience. DEI has increasingly become a crucial part of not only a successful company culture, but also a successful business.

BKM Capital Partners focuses on employee engagement starting with a robust onboarding program. Once team members have adjusted to their new role, we ensure that they clearly understand their position and the significance of their contribution to the company's overall success. We offer self-guided training platforms, as well as mid-level manager and Emerging Leaders training programs.

We created the BKM Women's Network in 2022 to support women at BKM through mentorship, community, and educational events. Together with our ongoing DEI initiatives, these programs contribute to a diverse culture where every voice is valued and every employee feels like they belong.

BKM AT A GLANCE

53%

Women



vs Industry
Average of 40%

34%

BIPOC



vs Industry
Average of 27%

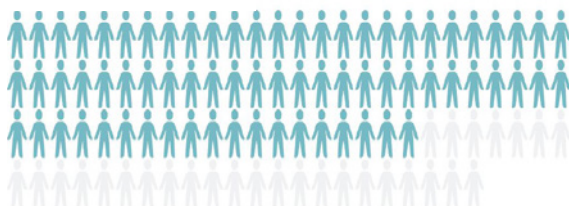
38%

of Employees
in Leadership
Programs



71%

Diverse Overall





07

MARKET OUTLOOK

Current State of the Market

“Light industrial, being a resilient asset class, creates a compelling risk-reward in today’s uncertain investment environment. Annual rent increases help protect investors from inflation and there continues to be strong secular demand for industrial space. The infill nature of light industrial also helps create an element of downside protection for investors.”

Rob Sistek, Senior Managing Director, Investments

Market fundamentals remain strong in the multi-tenant light industrial space, despite the high interest rate environment and looming talk of a recession. The highly uncertain macroenvironment will consequently lead to low debt capital markets activity, and this lack of liquidity may slow deal flow and affect property values well into 2023. Despite this, there is a strong buying opportunity still present for experienced operators.

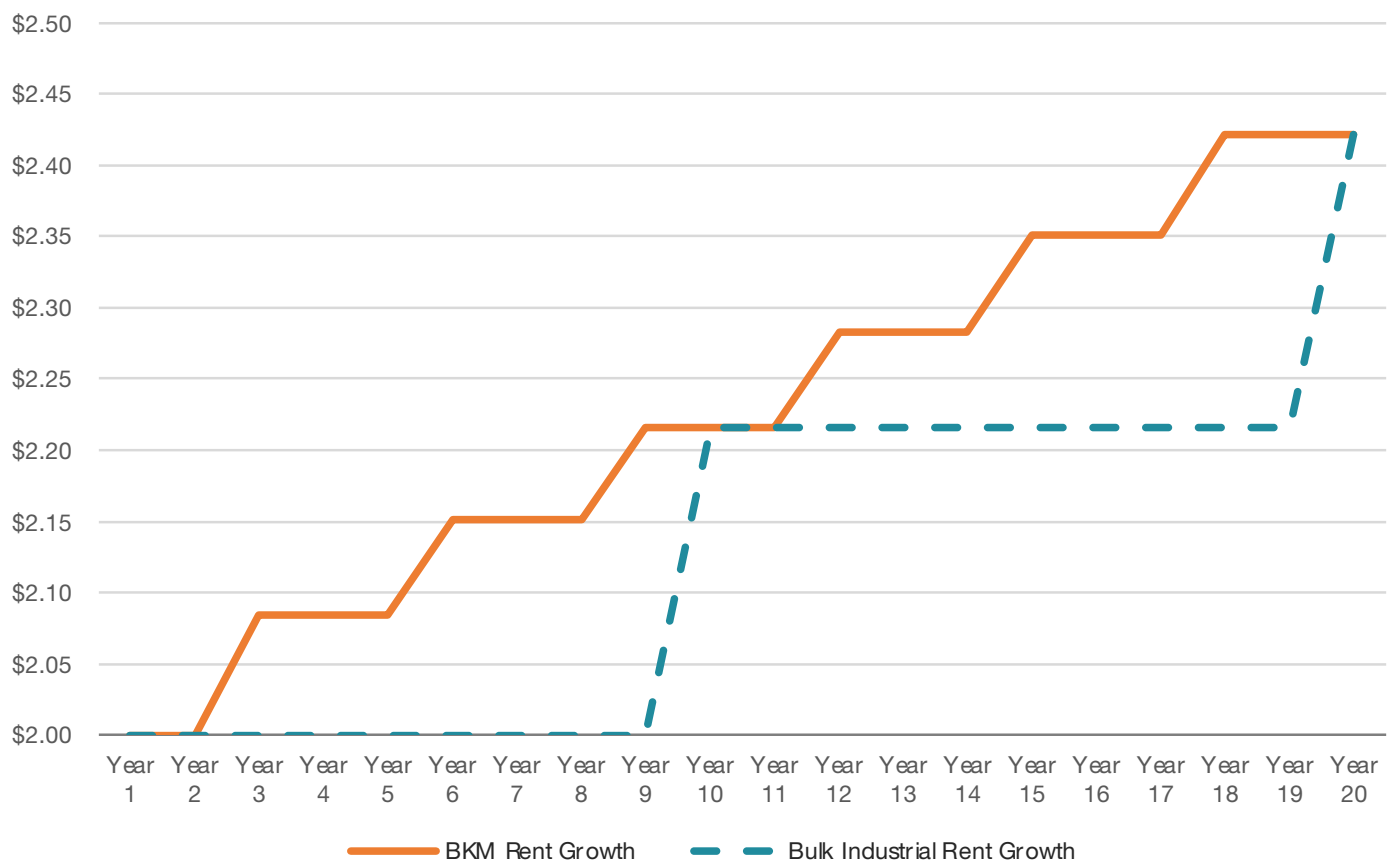
Ecommerce, tech and innovation, onshoring, and supply chain transformation will continue to drive demand for industrial space in 2023, as these secular changes rely heavily on the need for warehouse space. Coupled with the low available supply as a result of high barriers to entry and construction halts from the end of 2022, we will plan to see yet another year of double digit rent growth for the sector.



Multi-tenant industrial product's short lease-terms coupled with growing institutional favorability of the asset class make for a strong hedge against the typical decreasing of returns during high inflationary periods, providing more income stability.

Despite the lack of current liquidity in the debt capital markets (and consequently the challenges associated to pursue attractive investments), as more market participants get clarity on the pace of rate hikes, debt capital markets are expected to re-open for experienced investors and operators first.

20-YEAR RENT GROWTH (\$2.00/SF RENT)



There has also been a large shift in focus to more direct and robust ESG and DEI programs in CRE, paving the way for a more inclusive and sustainable industry. With a clearer focus on incorporating these principles into an overarching business strategy, we expect to see a large shift towards environmentally conscious initiatives, as well as more opportunities for women and minorities to advance within the industry. Lenders and investors are also expected to include ESG and DEI requirements in their lending and investment criteria moving forward, providing a more authoritative hand to guide these principles into practice as they become more commonplace.

2023 Outlook

As we begin to peer into the long term future for 2023, it is important to consider the upcoming opportunities and threats that may lie ahead, and how BKM will respond to these uncertainties. We asked ourselves 3 important questions with regard to our 2023 outlook:

1

WHAT ARE YOUR VIEWS ABOUT 2023? WHAT IS THE BIGGEST OPPORTUNITY YOU SEE AHEAD IN THE COMING YEAR?

With the talk of a potential recession comes with a renewed focus on the **resiliency of light industrial in comparison to the other asset classes**. BKM is well positioned to take advantage of buying opportunities that may arise as a result of increased defaults and lower property values during this time. A new paradigm of industrial tenants involved in growth segments of the economy will also provide further protection for BKM's portfolio as the technology and innovation industries continue to experience productive growth trends.

2

WHAT CONCERNS DO YOU SEE OVER THE HORIZON?

During the last decade, U.S. investors experienced historically easy monetary policy. Today, the rapid reversal to a restrictive monetary policy environment means that **alpha and active management are critical**. New investments in 2023 will require and highlight an operator's disciplined underwriting, asset management execution, and strategic portfolio management. Investment managers and operators that deliver on those capabilities should stand apart and emerge as true industry leaders.

3

WHAT STRATEGY DO YOU THINK WILL BEST NAVIGATE THROUGH 2023 AND WHAT APPROACH WILL BKM TAKE?

BKM is committed to utilizing our effective acquisition criteria to continue buying throughout 2023, relying on our deep breadth of knowledge and industry experience to guide us through turbulent times. As sellers search for liquidity, BKM will be provided with the unique opportunity to identify and pursue compelling deals that match our investment criteria. In addition to being bullish in the market, BKM is focused on maintaining a creditworthy tenant base in order to provide protection against a potential recessionary period and to drive steady NOI growth.

Contact Us

As we continue into 2023, it is with great pleasure and gratitude that we look back on the successes our company has experienced over the last 12 months. Despite shifting real estate dynamics, BKM saw continued growth in 2022, demonstrating the resiliency of our proven investment strategies and continued passion to pursue sustainable and equitable business practices.

If you are interested in partnering with BKM, please reach out to **Harry Hedison**, Senior Managing Director, Capital Markets and Investor Relations at hhedison@bkmcp.com or **949.301.9257**.





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