3Q 2024

BKM Capital Partners

# Unlocking Potential and Driving Innovation in Industrial Investments

## Value-Add Case Study


PDX ACTIVITY CENTER | PORTLAND, OR

bkmcp.com

## INTRODUCTION

Sitting on just over 17 acres of coveted infill industrial-zoned land in Portland's NE Columbia Corridor, PDX Activity Center (formerly known as Airport Business Center) boasts an impressive vision of BKM's signature value-add strategy, turning what was once a mudane business park into a vibrant and thriving center of commerce at the heart of the state's most densely populated city.

Portland is home to a bustling industrial sector, providing a key logistics hub for the West Coast and sharing close proximity to major employment hubs in the Pacific Northwest. With major exposure to industries ranging from distribution and light manufacturing to tech and green industries, this market remains ripe with opportunity for a diverse set of tenants looking to occupy high-quality, functional industrial space.

### PROPERTY OVERVIEW

Situated less than two miles from Portland International Airport (PDX) on NE Alderwood Rd. and NE 78th Ct., this 228,518 SF industrial property comprises 11 buildings and 42 units and was purchased for $37.3M. Originally constructed between 1980-1986, the property stood in mundane condition at acquisition, showing signs of significant deferred maintenance that required immediate attention. At time of purchase, the asset was 93% leased to 34 tenants in a 76% warehouse/ 24% office build-out configuration.

Upon acquisition, the asset presented a prime opportunity for revitalization due to the property changing hands several times over a 20 year span. This fragmented ownership history allowed BKM the opportunity to develop a remarkable capital improvement plan, turning the asset into a premier multi-tenant light industrial park that stands out distinctly amongst competitors in the broader Portland industrial market.

# OPPORTUNITY


## Aesthetic Vision

- Despite lack of initial curb appeal, the BKM team visualized the property with significant aesthetic potential.
- The team created a comprehensive capital improvement plan to include new landscape design, a modernized paint scheme, bold signage, roof and HVAC repairs, and speculative tenant improvements on vacant units.

## Financial Vision

- The property presented a prime opportunity to capture significant financial value and outperform its competitors in the market.
- Rental rate corrections would remedy the 24% below-market rates, capitalizing on the market's strong economic growth potential.
- The repositioning of the property's interior and exterior will create sustained value for both tenants and investors.

BKM has a long-standing history of investing in multi-tenant light industrial properties in the Portland market, having transacted on over $170M and 1.4 MSF of industrial space since the company's inception in 2013. Having a deep understanding of the market, the firm was well positioned with the expertise and tenure to take on yet another investment opportunity in the area, bringing its current holdings in the region to $147M and 1.2 MSF across six properties with the purchase of PDX Activity Center.

## Nearby BKM Properties

Tigard Business Park


Riverside Junction

PDX Distribution Center

## WHY WE LOVED THIS DEAL

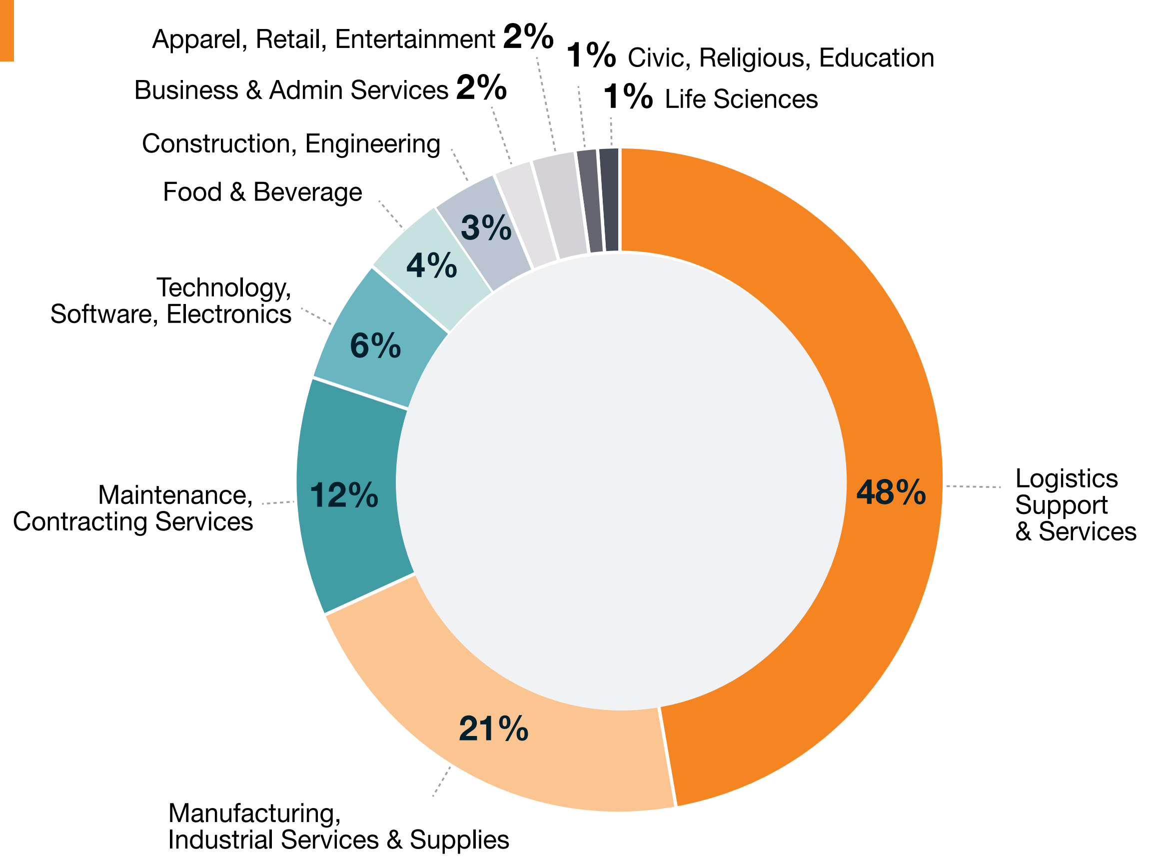
With the intent of revitalizing and uplifting Portland's existing industrial stock, BKM set out to uncover the untapped potential within this 228,000 SF asset. Numerous factors led BKM to pursue the deal, allowing the team to formulate a comprehensive cap-ex plan that would delicately balance a feasible budget with the resources necessary to create a top-tier multi-tenant light industrial park.

The property presented numerous functional and financial benefits that would not only satisfy the needs of a variety of industrial tenants, but also provide appealing cash flow opportunities for key stakeholders. The property features 83 dock high and grade level doors, with 74% of the NRA having access to dock high loading. It also features a wide array of suite sizes that can accommodate a variety of tenants, with unit sizes ranging from 1,125-40,000 SF. Additionally, with a WALT of only 1.9 years, the initial cash flow stability would deliver the potential to fully realize rental upside during the hold period, marking all in-place rents to market well ahead of exit.


A key realized benefit to pursuing investments in the Northern Portland region has to do with the location and constrained supply dynamics seen in the market. The introduction of new competitive supply in the market is uncommon, with high construction material costs and Oregon's Urban Growth Boundary set to insulate the market from any major supply shocks. As a result, acquiring Class A infill assets remains a coveted investment opportunity for owners and operators looking to capitalize on the current market fundamentals. In addition, PDX Activity Center is strategically situated 5 minutes from Portland International Airport and the I-205 freeway, as well as 20 minutes from the Port of Portland and BNSF rail yard, providing tenants with access to the entirety of the West Coast's population hubs within a day's shipping distance.

## FOCUS ON TENANT GROWTH

- BKM's strategy seeks to re-tenant its business parks to include high growth tenants, maintaining an overall higher credit profile at each property while minimizing risk.
- While the property held a relatively diverse mix of tenants at acquisition, a large concentration of the tenancy was focused on high growth industries such as logistics and manufacturing.
- Maintaining a degree of variation in the tenant mix is beneficial by providing a hedge against the potential consequences of an economic downturn.




# ACTION PLAN

To sustain stabilized occupancy and push market rental rates while maintaining financial feasibility, the target budget for this project sat at $5.4M, with $2.4M allocated for exterior improvements and $1.4M allocated for tenant improvements and spec work on vacant units.

In order to maximize value creation through both cosmetic enhancements and a robust leasing strategy, BKM's leasing teams devised a plan to roll 40,000 SF of the property's tenancy during the first 12 months of the hold period, allowing for immediate value capture while increasing the curb appeal through strategic capital improvements. In doing this, the team can correct the 24% deficiency to market while increasing overall property value.

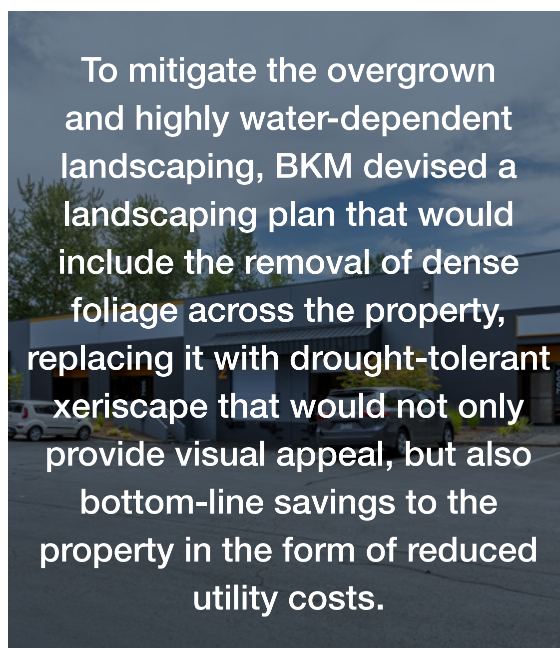
For the remainder of the hold period, BKM plans to continue rolling vacant suites and upgrading interiors as seen fit, with the goal of renovating between 30-35% of the suites prior to disposition (assuming 75% renewal rate). This execution strategy will allow BKM to steadily accrue value over the life of the asset, simultaneously transforming the available space at the park to create the highest caliber experience for our industrial tenants that will endure past BKM's ownership of the asset.


## EXTERIOR IMPROVEMENTS

BKM developed a highly visible and sleek paint scheme to completely transform the exterior facade of the asset, utilizing bold pops of color to liven up the standard base layer. In addition to a new layer of paint, new coating was applied to the metal, wood, and concrete surfaces of the buildings to breathe life into the previously deteriorated fixtures.

In addition to the fresh paint and new color scheme, both the monument signs and building address signage received significant upgrades. Key visual elements were utilized to enhance the wayfinding aspects of the property, turning them into visually pleasing focal points at the property entrances.

In terms of structural improvements, the majority of BKM's capital budget was allocated towards roof repairs, ensuring that adverse weather would not negatively affect the property in the winter months. In



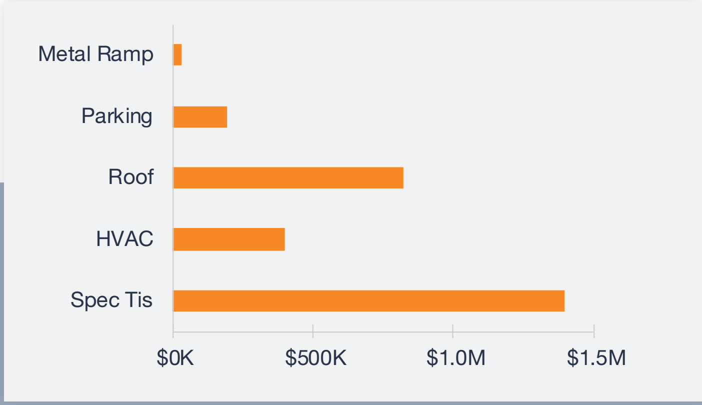
**To mitigate the overgrown and highly water-dependent landscaping, BKM devised a landscaping plan that would include the removal of dense foliage across the property, replacing it with drought-tolerant xeriscape that would not only provide visual appeal, but also bottom-line savings to the property in the form of reduced utility costs.**

addition to roof repairs, BKM planned to repair and replace a large majority of the HVAC systems at the property, providing more efficient energy usage that would provide benefits for both BKM and the tenants. Finally, BKM engaged a contractor to remove and replace all damaged curbs and concrete at the property, increasing the curb appeal of the property while reducing environmental impact through groundwater contamination prevention.

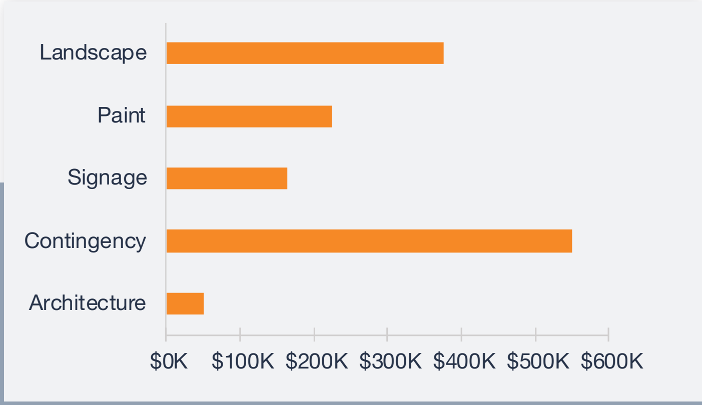
## INTERIOR IMPROVEMENTS

In order to further boost the caliber and usability of the property, BKM allocated a portion of the cap-ex budget towards speculative tenant improvements for the vacant spaces at the property, in addition to ad-hoc tenant improvements. These interior improvements involve reducing office build out, updating fixtures, installing LED lighting, and freshening up the flooring and paint. These top-of-the-line improvements attract the market's premier incubator tenants while allowing an increase in property cashflows and NOI through robust rent growth measures.

### Structural Improvements




### Cosmetic Improvements



## PROPERTY TRANSFORMATION








## RESULTS

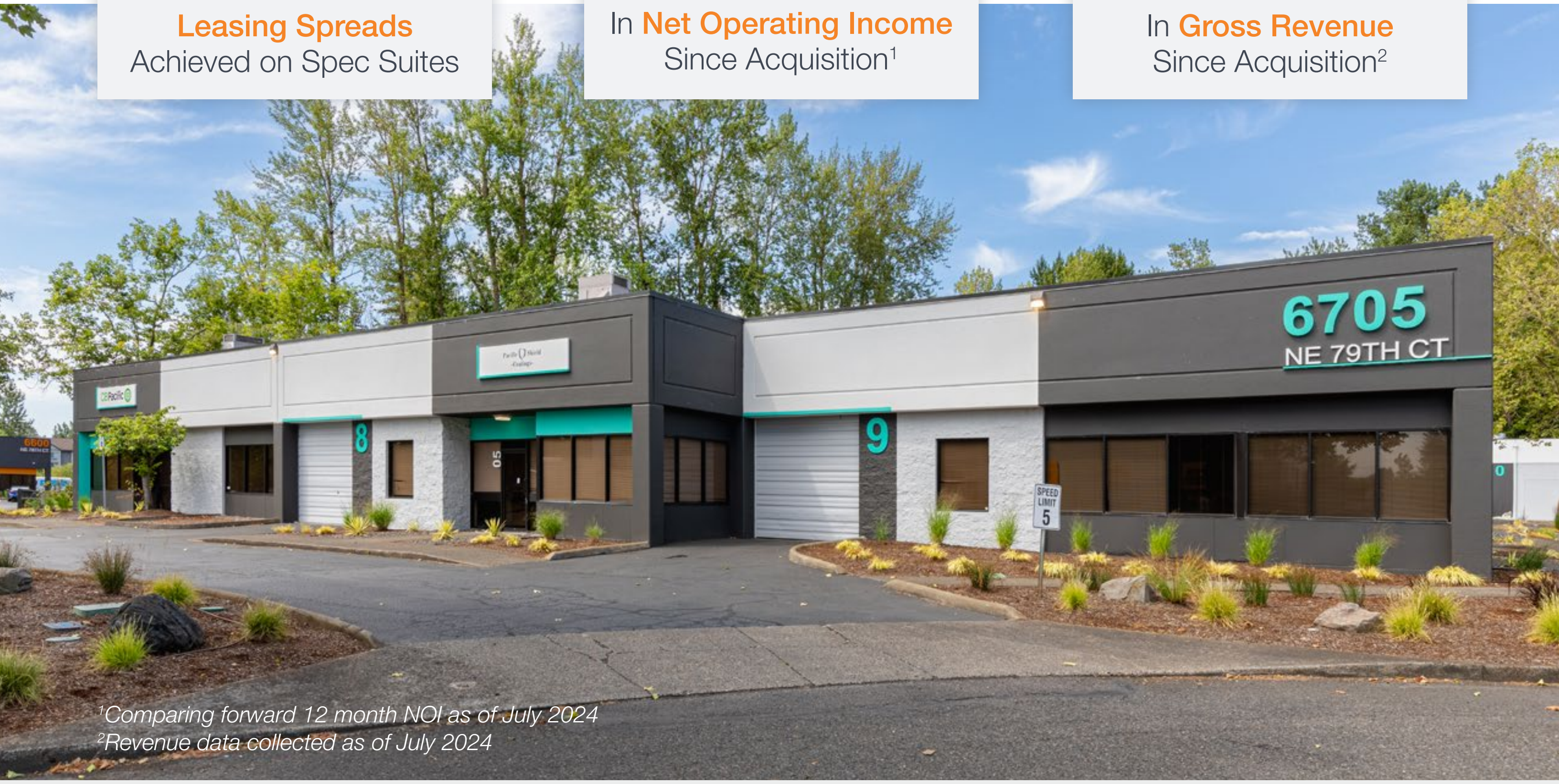
BKM's comprehensive value-add strategy has quickly led to leasing and operational success at PDX Activity Center, positioning the asset for future growth and maintaining its competitiveness in the market.

- **40,000 SF of space was repositioned within the first year of ownership**, including 10 interior projects that include speculative improvements, full unit rollovers, and tenant improvements.
- **96,000 SF of leases, or 42% of NRA,** were signed at or above market rates in the last year.
- **46.8% leasing spreads** achieved on average for the spec suites, highlighting BKM's superior ability to offer high-quality spaces and a white-glove approach to management.
- **88% of the 9 leasable units that underwent renovation at the property have been occupied**, with the remaining unit expected to lease within 60-90 days of entering the market.
- **57% of new suites had a contract signed before construction was completed**, serving as a testament to the desire for move-in-ready spaces that provide modern amenities.
- BKM's spec suites spend **28% less time on the market** than other similar spaces for lease in the area.
- **23% increase in NOI** since acquisition.[1]
- **28% Increase in gross revenue** since acquisition.[2]

**46.8%**
**Leasing Spreads**
Achieved on Spec Suites

**23%** Increase
In **Net Operating Income**
Since Acquisition[1]

**28%** Increase
In **Gross Revenue**
Since Acquisition[2]




[1]*Comparing forward 12 month NOI as of July 2024*
[2]*Revenue data collected as of July 2024*

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