4Q 2024
CASE STUDY

BKM Capital Partners

Unlocking Potential and Driving Innovation in Industrial Investments

Value-Add Case Study

PACIFIC BUSINESS CENTER | LAS VEGAS, NV

bkmcp.com

INTRODUCTION

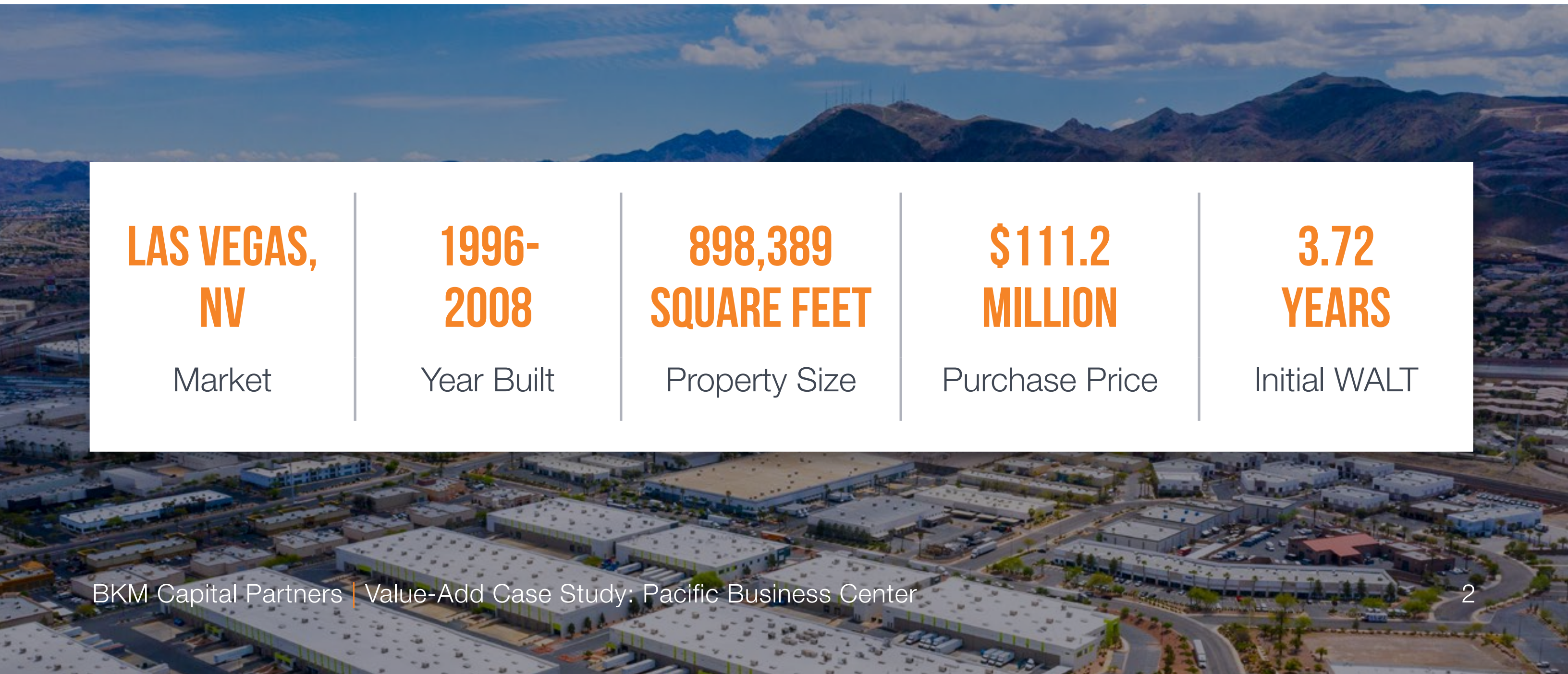
Sitting on 48 acres of prime industrial-zoned land in Henderson, Nevada, Pacific Business Center represents a cornerstone of the thriving Las Vegas industrial market. With its strategic location in one of the fastest-growing industrial hubs in the Southwest, this property embodies a vision of modern industrial innovation and growth.

Henderson and the greater Las Vegas area serve as critical logistics and manufacturing hubs, capitalizing on their proximity to major population centers, port cities, and regional transportation corridors. The market's robust industrial demand spawns from industries such as e-commerce, distribution, light manufacturing, and renewable energy, all prime catalysts for long-term growth. Pacific Business Center offers a unique opportunity for tenants seeking high-quality, functional industrial space tailored to meet the needs of today's dynamic business landscape, a feat accomplished through BKM's industry-leading expertise in value-add execution and active management.

PROPERTY OVERVIEW

Acquired in July of 2019, BKM completed the purchase of Pacific Business Center for $111,250,000. Situated less than 9 miles from Harry Reid International Airport and nestled a mere 13 miles from the Las Vegas Strip, this 898,389 square foot property comprised 13 buildings across its two hemispheres, which includes six larger distribution buildings on the south side, and seven small-to-mid-bay buildings in the northern half. With 44 individual suites and an office buildout of just 13%, the property offered an attractive balance of flexibility and functionality for tenants at the time of purchase. Rents were 24% below market rates, and the property was acquired at a 26% discount to replacement cost, highlighting its significant value-add potential.

Previously owned by a national financial advisory firm, the property faced challenges related to centralized decision-making that limited the effectiveness of on-site management. Despite these hurdles, the property was well-maintained, requiring minimal structural capital investment. BKM sought to re-brand the asset as Henderson's premier industrial park, leveraging its strategic location near major transportation corridors and enhancing its marketability to maintain the signature BKM look and feel.



LAS VEGAS, NV	1996-2008	898,389 SQUARE FEET	$111.2 MILLION	3.72 YEARS
Market	Year Built	Property Size	Purchase Price	Initial WALT

OPPORTUNITY

Aesthetic Vision

- The property was well-kept prior to sale but lacked a unique and modern design concept, giving BKM the opportunity to transform it into a highly visible industrial park.
- Plans for exterior repositioning included a comprehensive new paint scheme, brand new signage, and light landscaping to reflect BKM's meticulous brand standards.
- On the interior, larger suites would be parceled into smaller warehouses, providing functional yet versatile spaces to meet the needs of the local tenant base.

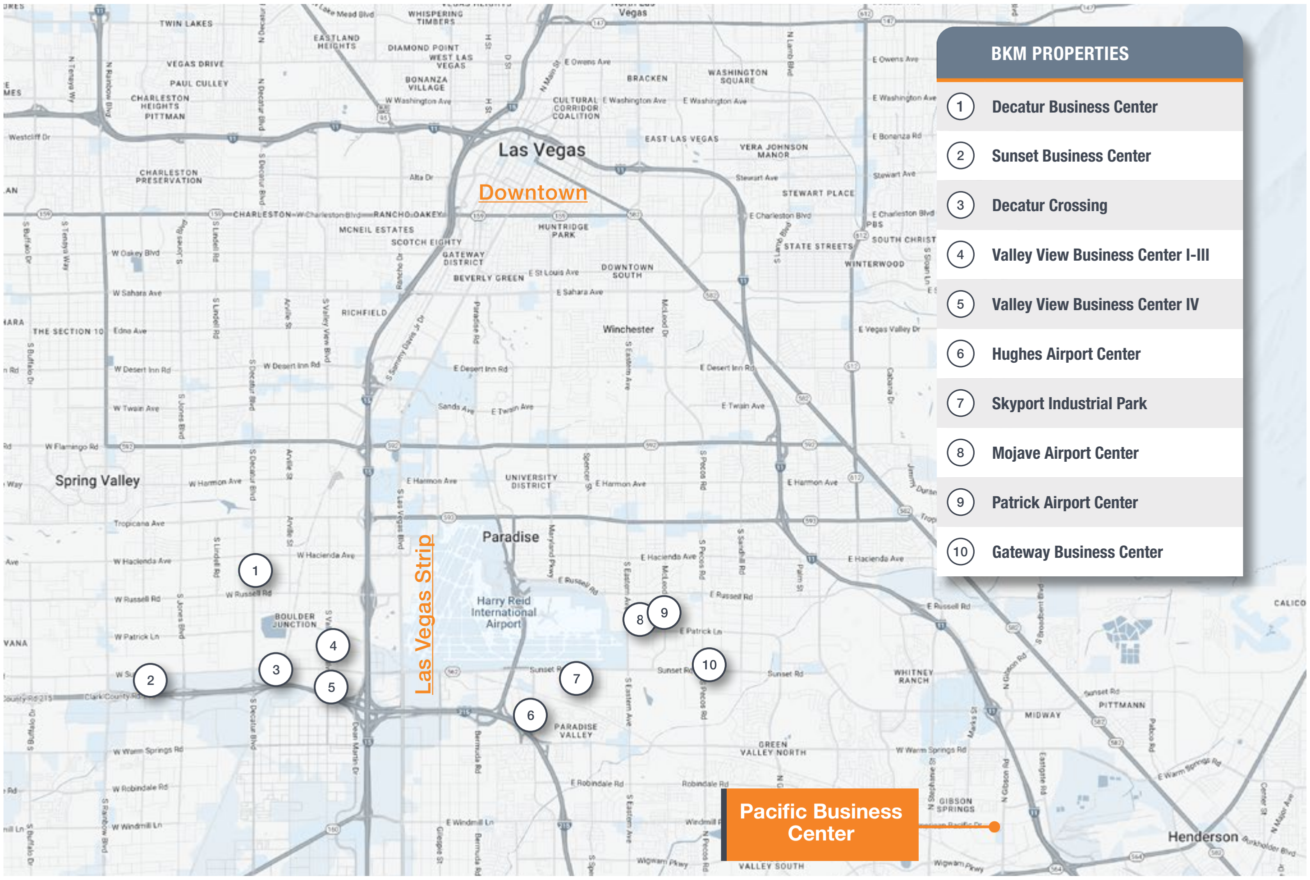
Financial Vision

- The property delivered stable in-place cash flow and possessed substantial upside potential, including the opportunity to lease almost 140,000 square feet of vacancy in a submarket with a 2.3% vacancy rate.
- Additionally, in-place lease rates, which sat 24% below-market at purchase, presented a lucrative opportunity for rent growth.
- With robust owner/user demand, BKM planned to capitalize further by selling three single-tenant owner/user buildings at a premium to investment sale value.

Las Vegas has long been one of BKM's most expansive regions of influence, with its current Las Vegas portfolio boasting an impressive 3.3M square feet across 13 projects, or about 1/4 of its total U.S. light industrial portfolio. The team's regional market expertise and established property management infrastructure are effectively leveraged to maximize operational efficiencies, facilitating the successful execution of high-velocity lease plans.

NEARBY BKM PROPERTIES

KNOWLEDGEABLE MARKET OWNER



WHY WE LOVED THIS DEAL

» Over 90% of the property's rentable area has dock-high loading access, with 68 grade-level doors and 106 dock-high doors.

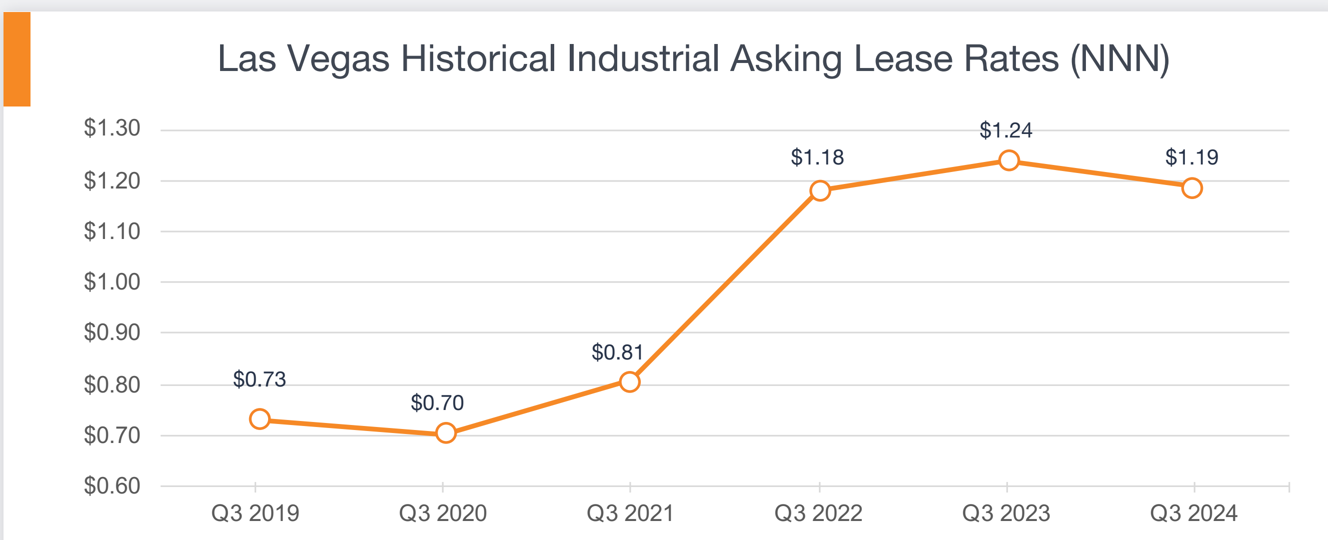
» The property had benefited from over $12.4 million in capital improvements in the hands of prior ownership, including upgraded roofs, HVAC systems, LED lighting, and modernized office finishes.

» Pacific Business Center's diverse tenant base, where no single occupant exceeded over 8% of the NRA at acquisition, offered stability, while nationally credited tenants accounted for 38% of the leased space.

» Positioned with immediate access to the I-215 and US-95 (I-515) freeways, the property is strategically located to serve the region's booming tenant demand, driven by trends in e-commerce, manufacturing, and population growth.

MARKET DYNAMICS

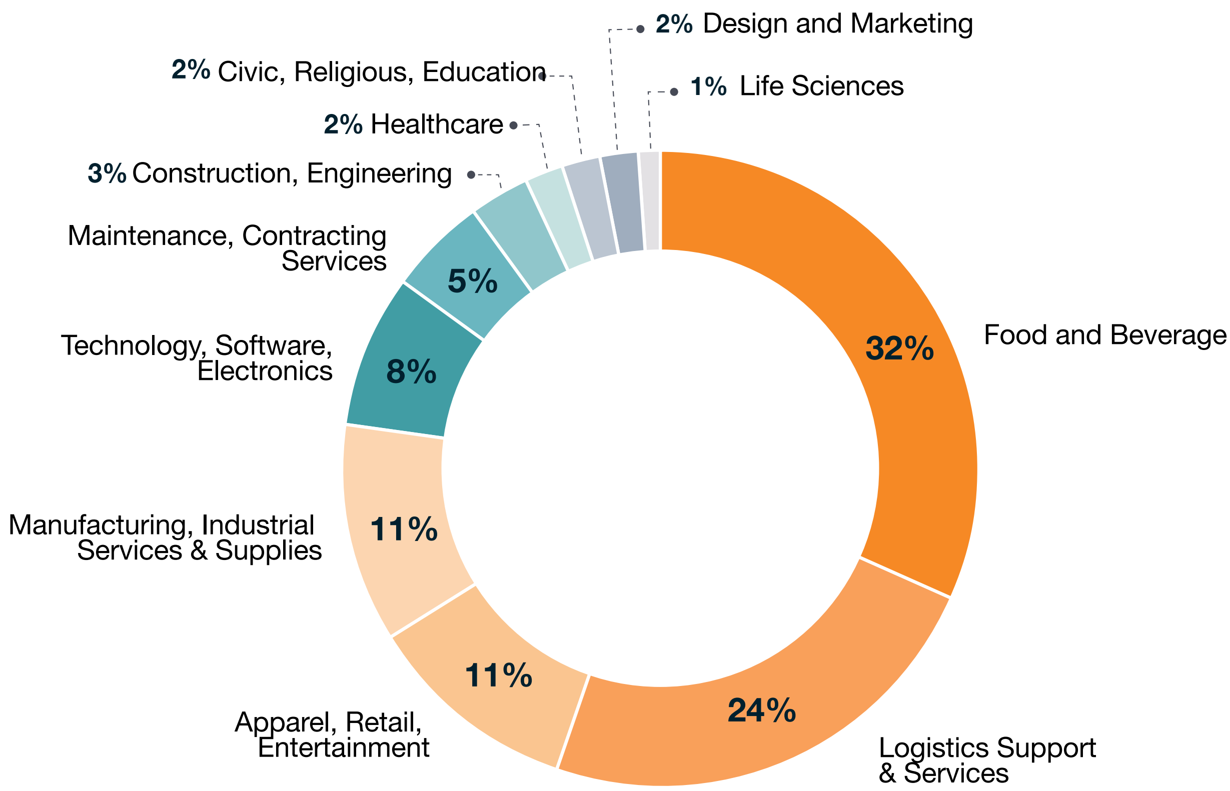
- The Las Vegas market absorbed approximately 1.5M square feet of industrial space as of Q3 2024, despite the influx of recent industrial deliveries.
- Asking rates reached a weighted average of $1.19/SF on a NNN basis as of Q3 2024. This is 65% higher than the average asking rate of $0.72 in Q4 2019 when the asset was purchased.
- Rates hover near $1.21/SF - $1.25/SF for light industrial and incubator units in the Henderson submarket, representing the high demand for space in that particular submarket and the ability to command rental premiums for small-bay product.
- The vacancy rate in the Henderson market sits just below 3%, despite the broader Las Vegas market experiencing rates upwards of 7%.



Source: Colliers Research, 2019-2024.

FOCUS ON GROWTH - SIC CODES

The BKM team has successfully curated a diverse set of tenants at the property in alignment with its strategy involving SIC (Standard Industry Classification) code growth and diversification, mitigating risk in times of economic distress and acting as a hedge against potential industry downturns.



Data as of September 30, 2024.

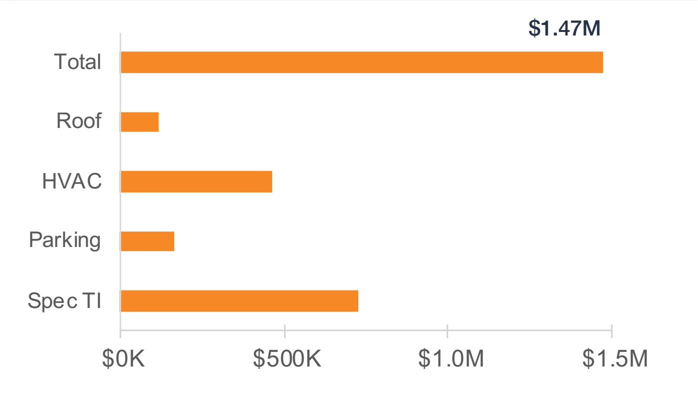
EXECUTION PLAN

To achieve stabilized occupancy at the property while addressing tenant feedback and preferences, BKM devised a $4.5M CapEx budget, allocating $421,000 for cosmetic improvements, $1.47M for structural improvements, and $2.67M for other expenses.

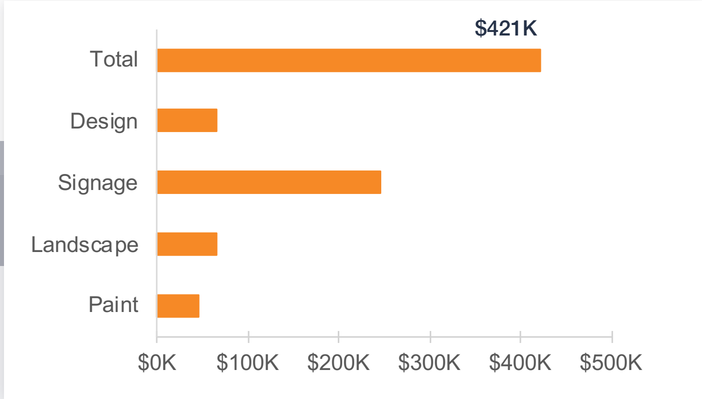
In order to maximize the asset's rent growth potential, the team needed to roll the existing under-market leases, allowing for streamlined value capture. The original business plan called for rolling 668,669 square feet, or 74% of NRA, to market rates during the hold period. This strategy could only be achieved with the implementation of a comprehensive value-add strategy, bringing refreshed life to the asset and providing justification for rental rate premiums.

Plans for this asset also called for the sell-off of three out of 13 single-user buildings upon lease expiration, providing immediate outsized returns for key stakeholders as well as tactical liquidity within the longer term.

Structural Improvements



Cosmetic Improvements



EXTERIOR IMPROVEMENTS

Signage: BKM crafted a fully reimagined signage package at the asset, including modernized monument signs, striking new building signs, and bigger, bolder tenant signs. Initial conversations with existing tenants revealed a desire for greater branding opportunities within the park, prompting the creation of a unique tenant signage program featuring fully customized layouts tailored to each individual business's preferences. In addition, the implementation of large stenciling on the property's dock doors created a unique aesthetic appeal while enhancing the visibility of each tenant's space.

Paint: To help redefine the park's identity, the team replaced the monotone color palette with vibrant pops of color. This bold choice not only enhances the park's visibility but also incorporates sleek, modern design elements that align with the preferences of today's tenant base.

Landscape: Prior ownership's landscape care left a need for only mild intervention. BKM allocated a small portion of the exterior budget to address these shortfalls, maintaining the widely popular Nevada desertscape that adorns most buildings in the area. This Xeriscape method is a typical play in BKM's value-add strategy, which reduces utility costs and conserves resources.

INTERIOR IMPROVEMENTS

REDUCE OFFICE %

DIVIDE UNITS

ACCENT WALLS/ CARPET TILES

POLISHED CONCRETE

IMPROVED LIGHTING

NEW/UPDATED RESTROOMS

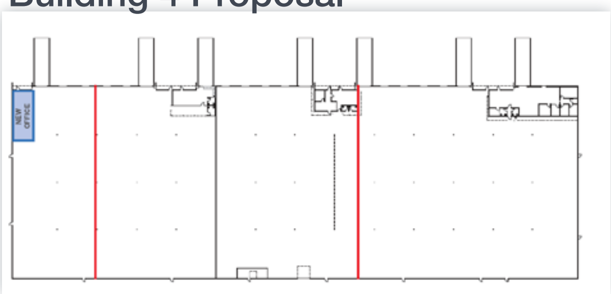
Aligning with typical spec TI plans, BKM invested over $700,000 to subdivide units into 15 smaller, small-bay configurations to better meet the needs of local tenants, accelerate lease absorption, and boost rental rates.

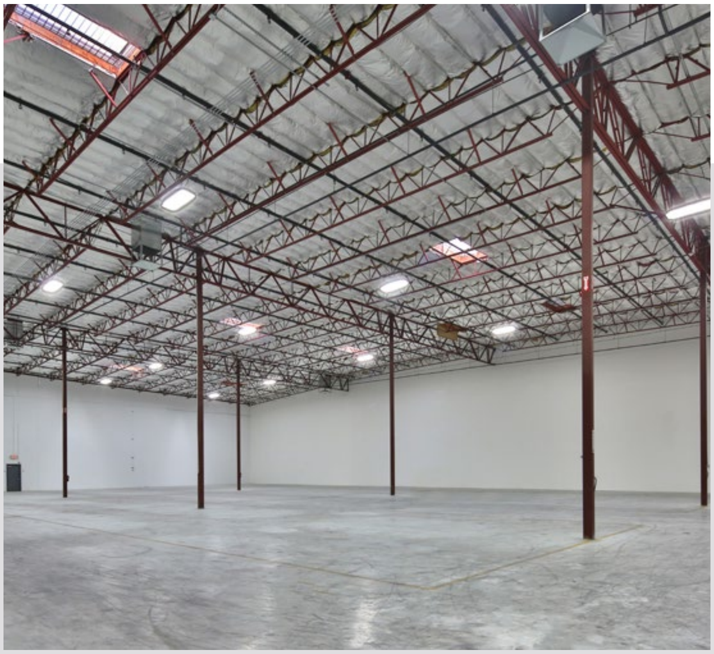
» **Building 9:** BKM budgeted $236,824 to convert two of the units into two 5,600-square-foot spaces, one 10,000-square-foot space, and one 5,500-square-foot space, complete with new offices, restrooms, and grade-level doors.

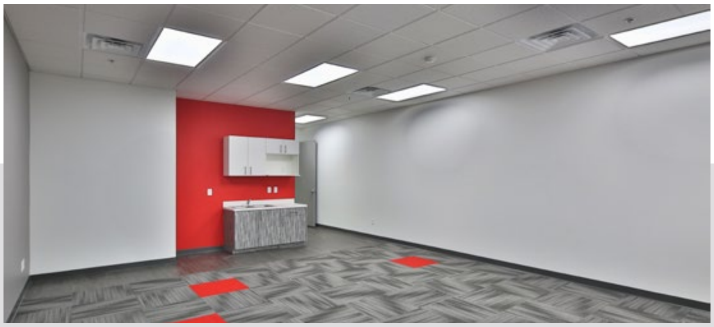
» **Building 4:** BKM allocated $480,440 to divide the building into four distinct units: one at 40,000 square feet, another at 31,000 square feet, and two additional units at 20,000 square feet each. These spaces feature approximately 5% office buildout, LED lighting, and white-box warehouse finishes.

Building 9 Proposal

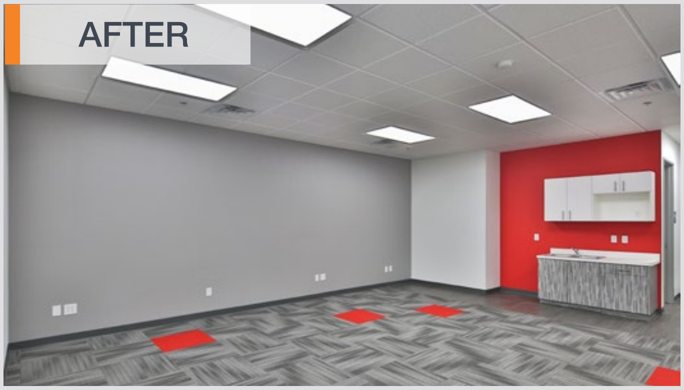
Building 4 Proposal







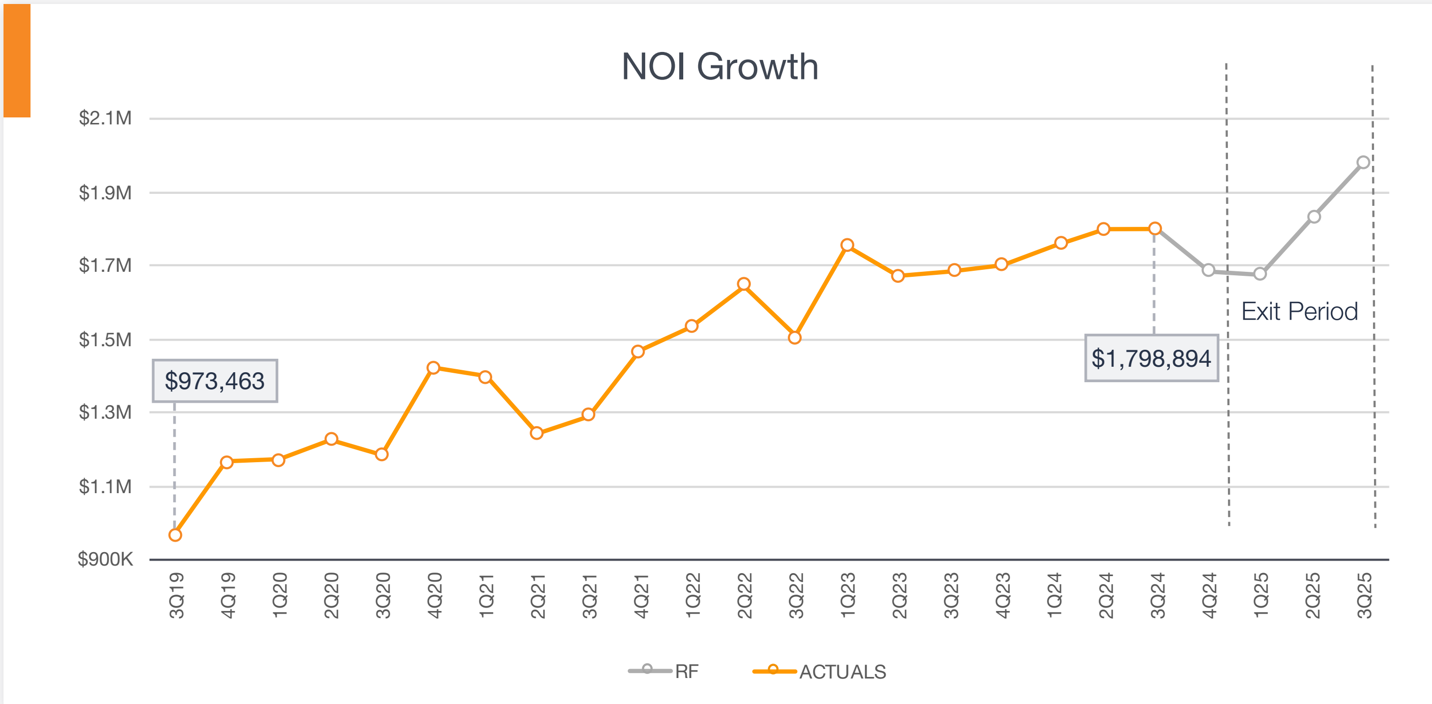
PROPERTY TRANSFORMATION



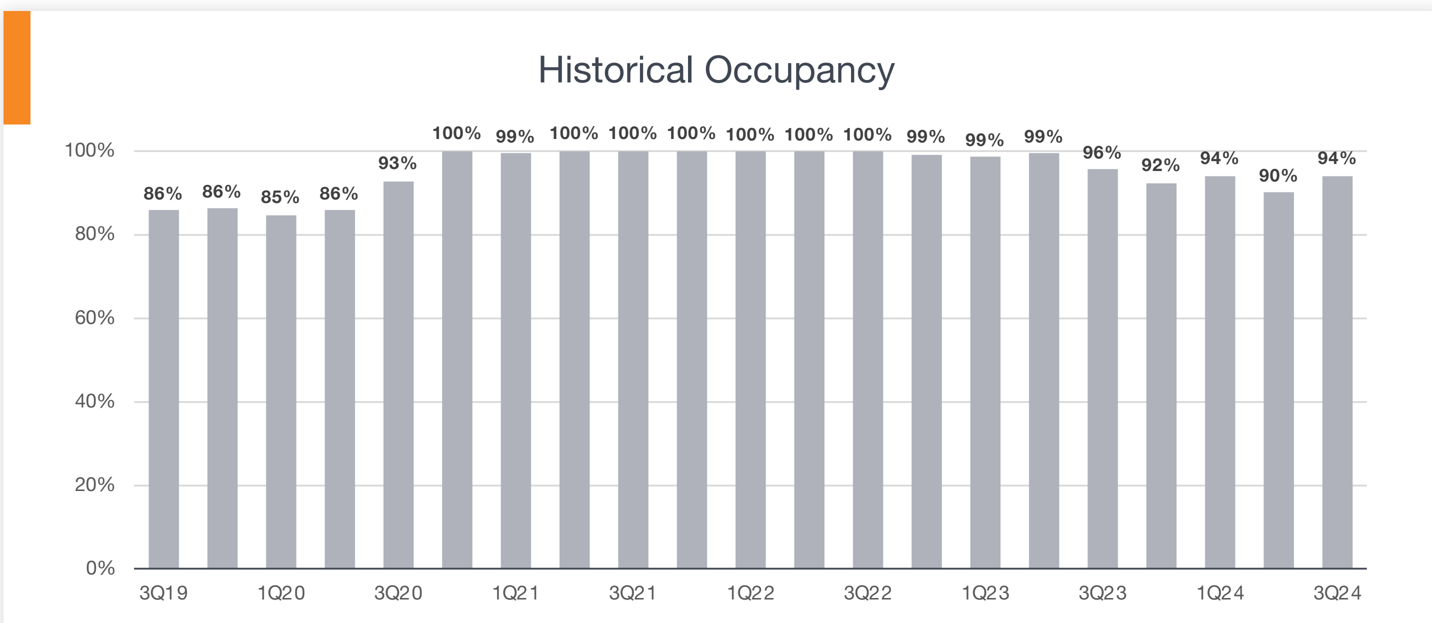
RESULTS

BKM's comprehensive value-add strategy has produced stellar operating and leasing results at Pacific Business Center, demonstrating proper execution of the business plan and BKM's superior ability to produce outsized returns for its investors.

84.7% NOI growth between 3Q 2019 and 3Q 2024.



Maintained stable average occupancy of 98% throughout the hold period as a result of a robust leasing strategy. Also achieved **8% net increase in occupancy** since acquisition.



RESULTS HIGHLIGHTS

- **Rolled 26 out of 44 spaces,** or 60% of the property's units as of Q3 2024.
- **Lease renewal rates averaged about 90% between 2020 and 2023,** deferring the need to roll available units.
- **1.04 months average downtime** for vacant units at the property between time of purchase and 2Q 2024.
- **31.6% average leasing spreads** between Q1 2020 and Q3 2024.
- **84% increase in overall lease rates,** with an average of $0.76/SF in 2020 to $1.40/SF today.
- **100% of NRA** has been signed at or above market rents.

SINGLE ASSET SALES

1060 MARY CREST

Sale Date: 2/3/2021

Price: $9,289,005

SF: 56,297

Price / SF: $165

1080 MARY CREST

Sale Date: 7/12/2021

Price: $7,551,000

SF: 40,817

Price / SF: $185

1110 MARY CREST

Sale Date: 8/17/2021

Price: $8,922,960

SF: 52,488

Price / SF: $170

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