BKM Capital Partners

Q1 2026

# LIGHT INDUSTRIAL MARKET UPDATE

MAY 2026


## BKM INTEL

THOUGHT LEADERSHIP SERIES

bkmcp.com

## EXECUTIVE SUMMARY

The U.S. light industrial sector entered 2026 with renewed momentum, supported by resilient small-bay fundamentals, improving capital markets activity, and durable long-term demand drivers. While broader commercial real estate sectors continue to navigate elevated interest rates and economic uncertainty, multi-tenant light industrial has remained one of the most fundamentally sound and operationally resilient asset classes in the market. In particular, multi-tenant light industrial properties continue to outperform larger warehouse product across nearly every key metric—from availability and rental growth to leasing demand and investor interest.

Demand remains firmly concentrated in the small-bay segment, where tenants continue to prioritize flexibility, infill proximity, and operational efficiency. Buildings under 100,000 square feet are maintaining materially tighter availability levels than larger-format product, while leasing activity continues to skew heavily toward smaller spaces. At the same time, limited new construction in the small-bay segment continues to reinforce supply constraints, creating a favorable backdrop for rent growth and long-term occupancy stability.

The industrial sector is also benefiting from a broader shift in the U.S. economy toward businesses supported by durable physical infrastructure and lower technological obsolescence. Across this market, investors are increasingly gravitating toward “HALO” businesses—Heavy Asset, Low Obsolescence operators whose long-term relevance depends on tangible operations, logistics networks, and mission-critical industrial space. This trend is further strengthening the outlook for light industrial real estate, particularly as these HALO businesses develop discipline to fast track expansion and enhance operational scale.

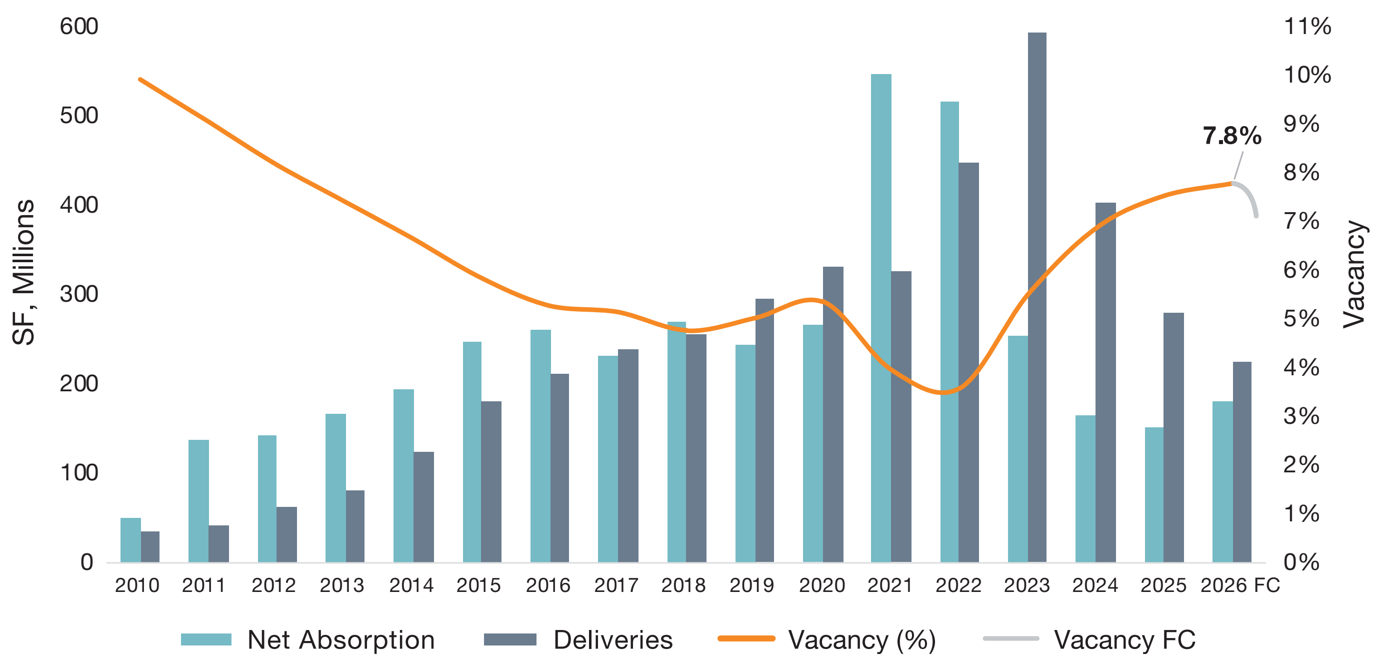
Capital markets have also begun to stabilize after more than two years of pricing disruption. Industrial also remains the only major CRE sector still experiencing value appreciation relative to prior market peaks, while cap rate expansion moderates as buyers and sellers regain pricing clarity. Although near-term volatility may persist, the long-term conviction behind light industrial remains firmly intact—driven by structural demand tailwinds, constrained supply, and the sector’s increasingly attractive risk-return profile.


Hannover Industrial Park | Hayward, CA

## BROADER INDUSTRIAL MARKET SET TO MAKE A COMEBACK IN 2026

2025 was a year of recalibration for the industrial sector, which continued to experience a decline in new deliveries while demand rebalanced in response to persistent macroeconomic concerns. Though decision making flatlined in late 2024 and into 2025, occupiers began to re-evaluate space needs in order to prepare for long-term uncertainty, driving measured growth in leasing activity. As supply and demand find equilibrium in 2026, the sector is poised to see improved absorption and declining vacancy, returning to a period of normalization well into 2027.

### U.S. INDUSTRIAL DELIVERIES, NET ABSORPTION, AND VACANCY




*Source: CoStar, Newmark Research, BKM Intel, December 2025.*

Estrella Distribution Center | Phoenix, AZ

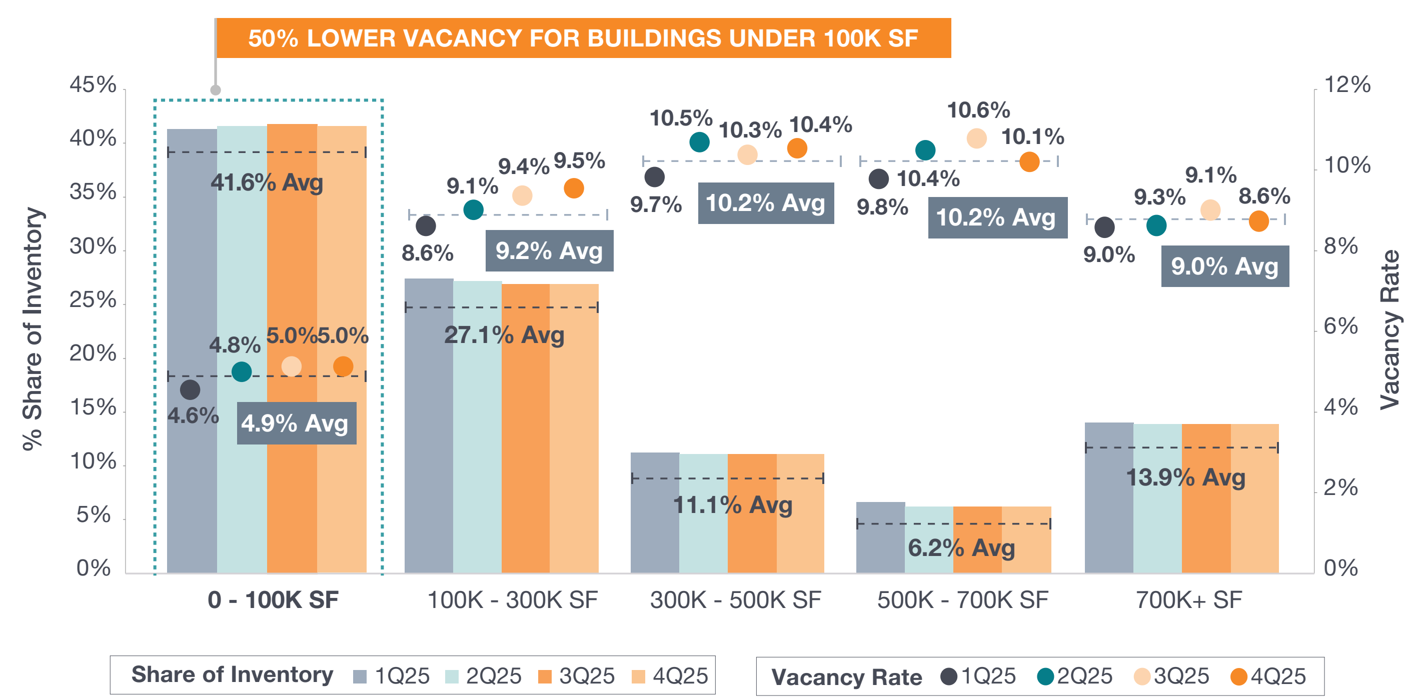
## SMALL-BAY FUNDAMENTALS REMAIN RESILIENT

Small-bay industrial fundamentals remain resilient, supported by strong tenant demand, tight availability, and limited new supply. Leasing activity continues to concentrate in smaller-format spaces as businesses prioritize flexibility, infill locations, and operational efficiency. At the same time, rebounding demand and constrained development pipelines continue to reinforce the long-term strength and scarcity value of the small-bay sector.

- **RATE PREMIUM FOR SMALLER SPACES: 21% rate premium** for properties under 150K SF compared to larger properties over 150K SF.[1]
- **DEMAND CONCENTRATED IN SMALL-BAY: 80% of all industrial leasing activity** in Q4 2025 consisted of leases under 50K SF.[2]
- **REBOUNDING DEMAND: 62M SF of net absorption nationwide in Q4,** marking the strongest quarter in two years.[2]
- **TOP MARKET MOVERS: Dallas-Fort Worth, Houston, and Phoenix** were major contributors to the uptick in absorption.
- **CONSTRAINED SUPPLY: 7% of total product under construction** consists of buildings under 50K SF, reinforcing supply barriers.[3]
- **TIGHT AVAILABILITY: 4.9% average vacancy** for buildings under 100K SF, 50% lower than buildings over 100K SF.[2]

*[1]Compstak, Faropoint, July 2025. [2]Newmark Research, January 2026. [3]CoStar, March 2026.*

### QUARTERLY INDUSTRIAL VACANCY RATE BY BUILDING SIZE



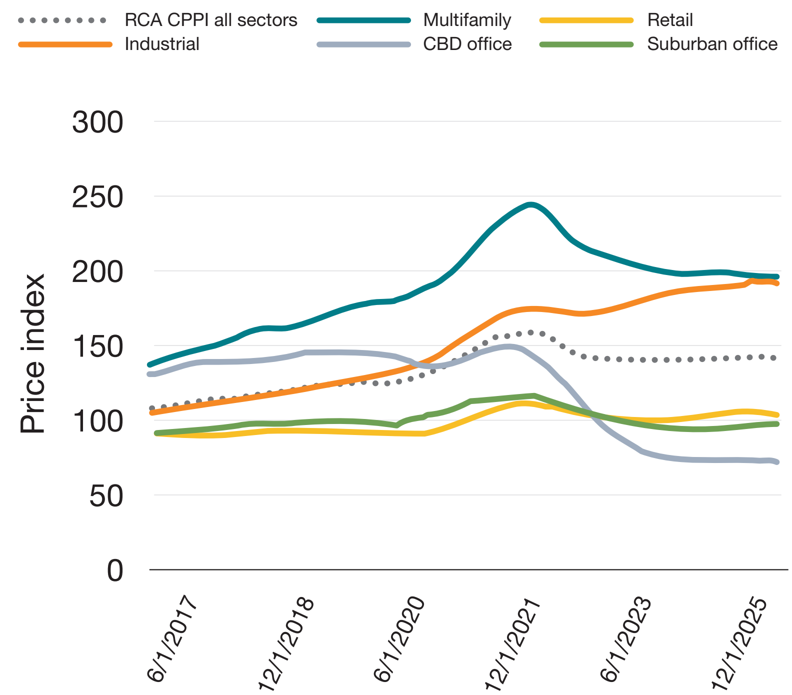

*Source: CoStar, Newmark Research, December 2025.*

## CAPITAL MARKETS REBOUND

- **$104B in industrial sales volume in 2025,** up 15% year-over-year.[1]
- **73% of investment sales volume consists of deals under $100M over the last four quarters,** compared to a long-term average of 62%.[1]
- 18 bps increase in the industrial price index since the peak in 2022—**the only sector to still be appreciating in value despite the elevated cost of capital.**[2]
- **6.2% national industrial cap rate** is plateauing after more than two years of expansion, signaling a rebalancing of fundamentals and the onset of price discovery.[3]

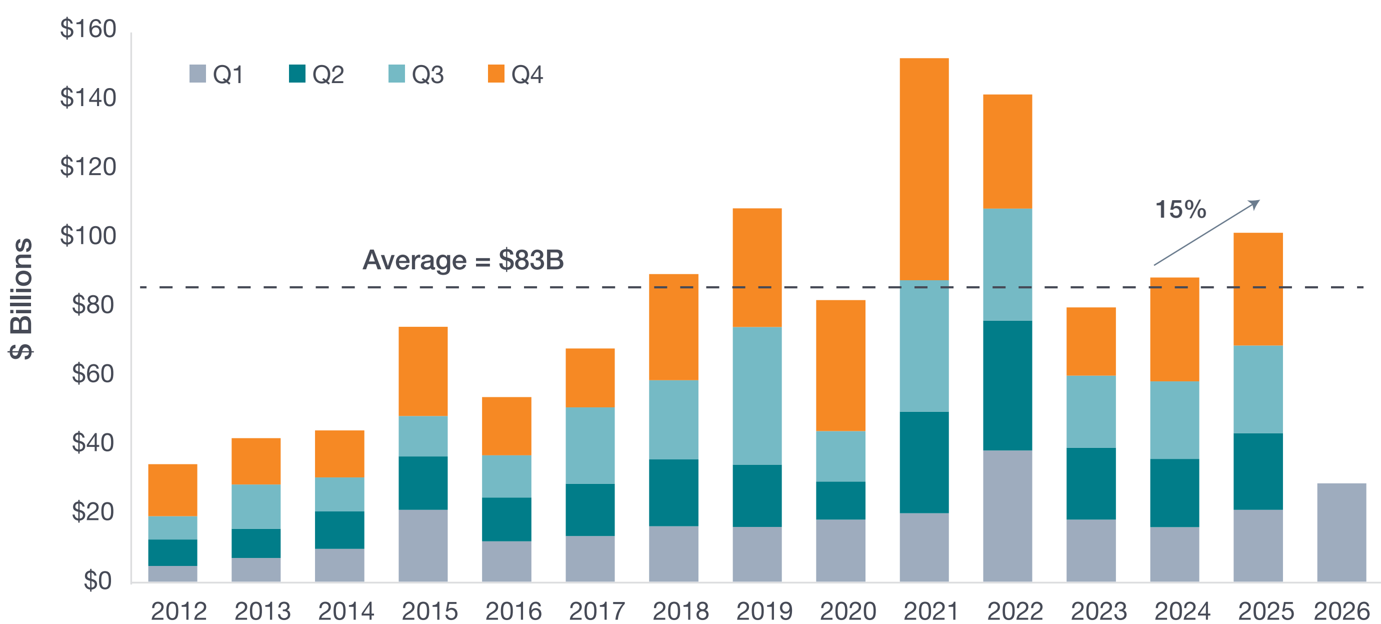
*[1]Newmark Research, 4Q 2025. [2]Avison Young, MSCI Real Capital Analytics, Q4 2025. [3]First American, 1Q 2026.*

### RCA COMMERCIAL PROPERTY PRICE INDICES




*Source: Avison Young Market Intelligence, MSCI Real Capital Analytics.*

### HISTORICAL INDUSTRIAL AND LOGISTICS TRANSACTION VOLUMES




*Source: JLL Research, 1Q 2026, BKM Intel.*

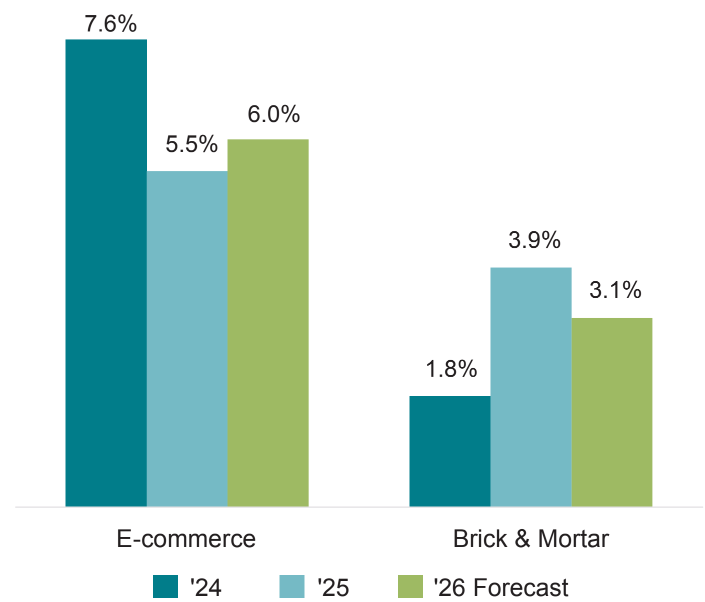
## DEMAND DRIVERS: E-COMMERCE

E-commerce continues to be a major driver of industrial real estate demand, as retailers and logistics providers expand distribution networks to meet rising consumer expectations for speed and convenience. Unlike traditional brick-and-mortar retail, e-commerce requires approximately three times more logistics space to support inventory storage, fulfillment, and last-mile delivery operations, accelerating demand for warehouse and light industrial facilities. As online shopping adoption continues to grow, the sector is expected to remain a key catalyst for industrial leasing activity and long-term absorption.

- **$316.1B in U.S. retail e-commerce sales** in Q4 2025, up 1.7% quarter-over-quarter and 5.5% year-over-year.[1,2]
- **25% of new leasing in 2026** expected to be driven by e-commerce, as global online sales approach 20% of total retail.[3]
- **+32M new U.S. e-commerce users** projected by 2029, representing ~10% growth.[4]
- **31% projected growth in e-commerce revenue** from 2025–2029, reaching nearly $1.6T.[5]
- **8.7% CAGR** expected for e-commerce between 2025-2028.[6]

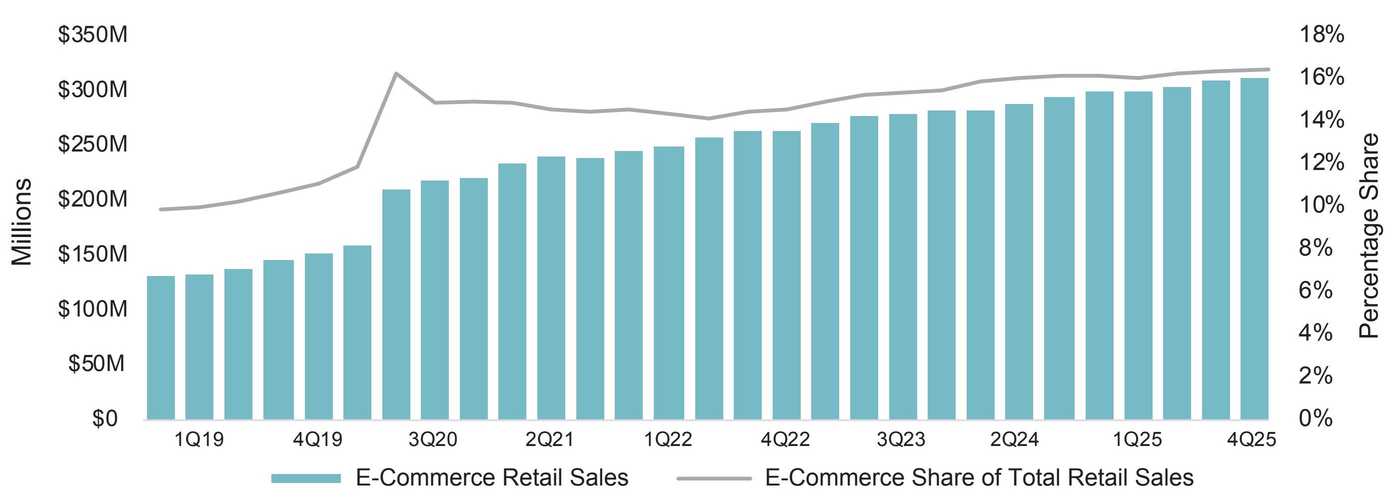
*[1]US Census, March 2026. [2]Green Street,1Q 2026. [3]Prologis, Nov 2025. [4]Statista, July 2025. [5]ECDB, March 2026. [6]Newmark Research, 4Q 2025.*

### E-COMMERCE VS BRICK AND MORTAR SALES GROWTH




*Source: Green Street, 1Q 2026.*

### U.S. E-COMMERCE SALES AND SHARE OF TOTAL RETAIL SALES




*Source: Newmark Research, U.S. Census Bureau, 4Q 2025.*

## DEMAND DRIVERS: AI & ADVANCED TECHNOLOGY

Advancements in AI, automation, and manufacturing technologies are reshaping industrial space demand by enabling more efficient, flexible operations. Technologies such as 3D printing reduce labor requirements, eliminate complex assembly processes, and lower setup costs, allowing businesses to operate within smaller, more adaptable footprints. As a result, demand for small-bay industrial product continues to grow, particularly among technology-driven manufacturers, logistics users, and light production tenants seeking scalable, infill space.

+ **AI-enabled micro-fulfillment centers are expected to drive demand for small-bay product** through extensive infill supply chain networks, allowing product to reach consumers faster.[1]
+ AI-driven productivity gains are projected to increase U.S. commercial real estate demand by approximately 12% over the next decade, **adding roughly 300 million square feet of occupied industrial space.**
+ **GDP growth in the first half of 2025 was almost entirely made up of tech and AI investment,** underscoring AI's importance in contributing to a growing economy.[3]
+ Prologis estimates that by 2035, **roughly half of modern logistics space could incorporate some level of automation,** primarily through flexible and modular systems rather than fully automated facilities.

*[1]NAIOP Research Foundation, 3Q 2025. [2]Cushman and Wakefield, 2Q 2026. [3]U.S Bureau of Economic Analysis, 2Q 2025.*

### EVOLUTION OF TECHNOLOGY AND INNOVATION

| Manual Assembly | Early Automation | 3D Printing and Automation |
| --- | --- | --- |
|  |  |  |

Stonecrest Business Park | Houston, TX

# DEMAND DRIVERS: MANUFACTURING

+ **8 new jobs are created for every 1 manufacturing job,** increasing demand for smaller industrial facilities near manufacturing hubs.[1]

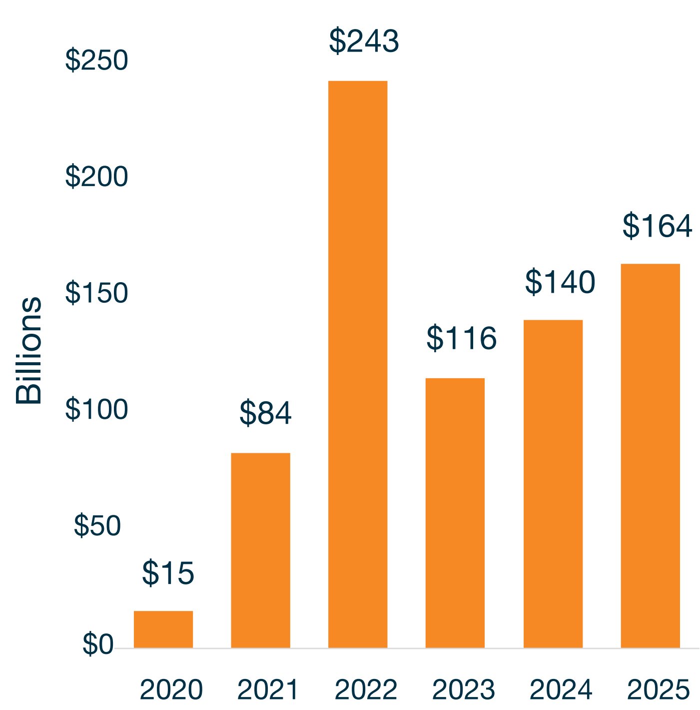
+ **170% increase in manufacturing construction spending** since 2021, reaching $200B at YE 2025.[2]

+ **$772B of investment across 500+ U.S. projects since 2020,** supporting 400K+ new jobs.[3]

+ **2M+ job announcements since 2010** as a result of reshoring, with an estimated 1.7M jobs already realized, representing 13.6% of all current manufacturing jobs.[4]

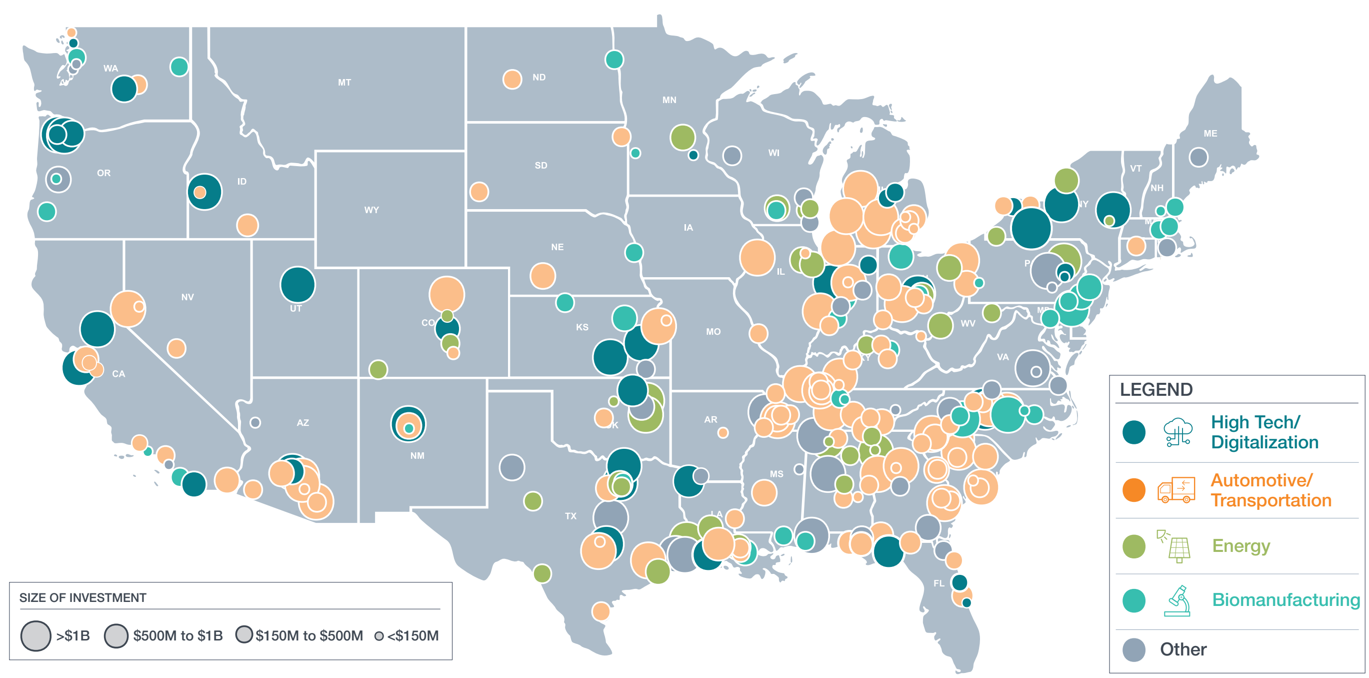
*[1]Emsi, Camoin Associates. [2]Federal Reserve Bank of St. Louis, 4Q 2025. [3]Newmark Research, 4Q 2025. [4]The Reshoring Initiative, 2Q 2025, National Association of Manufacturers, 1Q 2026.*

## TOTAL U.S. MAJOR MANUFACTURING INVESTMENTS




*Source: Newmark Research, 4Q 2025.*

## MAJOR MANUFACTURING ANNOUNCEMENTS - 2020-2025




*Source: Newmark Research, Green Street, 4Q 2025.*

## DEMAND DRIVERS: “HALO” BUSINESSES

- Traditionally, capital has flowed towards asset-light, tech-enabled businesses that promise rapid expansion and efficient scale. While imperative to the economy and industrial real estate, a new category has emerged that demonstrates significant resilience across economic cycles.
- Many of the most sought-after middle market businesses are in heavy asset, low obsolescence (“HALO”) segments, which share two characteristics: they are built on meaningful physical assets, and they face relatively low risk of technological obsolescence.
- While many owners still describe themselves as contractors or service providers, investors are increasingly viewing these companies as infrastructure operators with durable asset bases and long-term relevance.
- These HALO businesses reinforce a core demand driver of multi-tenant light industrial, increasing the need for functional space that supports the growing networks of these resilient, low-obsolescence operators.
- As these HALO businesses expand, they also amplify the manufacturing multiplier effect—driving broader economic activity and further deepening demand for strategically located light industrial space.

### EXAMPLES OF “HALO” BUSINESSES

| | |
|---|---|
| 1 | Electrical Contractors |
| 2 | HVAC Services |
| 3 | Fire and Life Safety |
| 4 | Specialty Manufacturers |
| 5 | Elevator Maintenance Providers |
| 6 | Waste and Route-Based Services |

*Source: Align Business Advisory Services.*

# FUTURE OUTLOOK

## NEAR-TERM NOISE, LONG-TERM CONVICTION

+ Tenants now have greater clarity around tariff expectations, which is expected to resume decision making and bring deals off the sidelines.
+ Structural demand drivers remain intact, while geopolitical dynamics may continue to influence near-term rate volatility.
+ Tailwinds from e-commerce, manufacturing, and last-mile logistics are expected to support demand normalization in 2026.

## DEVELOPMENT OF LARGER FACILITIES MAY RE-EMERGE IN 2026

+ Industrial supply has declined 70% from 2023 levels. As existing deliveries are absorbed, we expect new big-box development to gradually re-emerge to meet demand.
+ Stabilized cap rate spreads will provide developers with more confidence to re-evaluate projects and resume development, especially in the later half of the year.

## LIGHT INDUSTRIAL IS CRE'S LATEST GOLDRUSH—AND ITS HERE TO STAY

+ An uptick in new, unsophisticated entrants to the space has quickly exposed the operational intensity of the sector, leading to increased M&A activity and allowing experienced operators to shine.
+ Low stabilized vacancy rates and attractive mark-to-market potential provide light industrial with an enticing risk-return profile, drawing capital into the space and driving unprecedented demand for the product type.


Gateway University Park | Phoenix, AZ

## ABOUT THE AUTHOR

Headquartered in Newport Beach, California, BKM Capital Partners is the largest institutional fund manager and operator of multi-tenant light industrial properties in the United States. BKM's singular focus, market knowledge, decade-long track record, and institutional approach provide a platform for investors to access a traditionally fragmented asset class through an experienced partner with the expertise to execute. BKM's platform drives significant ROI in this niche asset class through active hands-on management with an experienced investment and operations team. Since its inception in 2013, BKM has successfully acquired nearly 40 million square feet of light industrial projects valued at nearly $8 billion. The firm continues to grow its investment management business through strategic joint ventures, institutional investor funds and separate account equity capital.


Baker Exchange | Denver, CO

## CONTACT US

949.566.8800
investorrelations@bkmcp.com
bkmcp.com

**Headquarters**

1701 Quail Street, Suite 100
Newport Beach, CA 92660