

BKM Capital Partners



The Industrial Evolution:

BAY DEFINING SUCCESS IN SMALL-TH TS AND MID-BAY INVESTMENTS AND

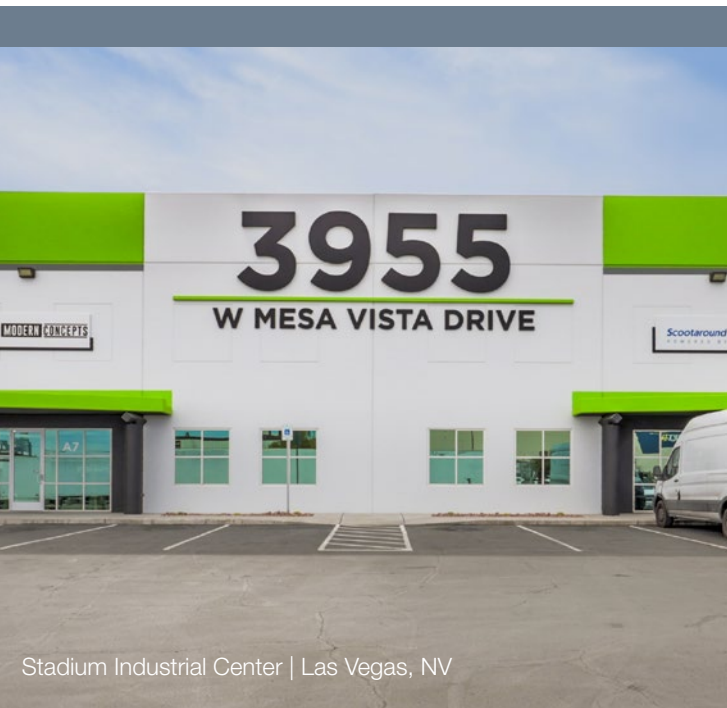
Olympic Industrial Park | Seattle, WA



BKM INTEL

THOUGHT LEADERSHIP SERIES

Redefining the Industrial Sector.




Stadium Industrial Center | Las Vegas, NV

Industrial real estate was once widely considered an undifferentiated asset class, though in recent years has grown into a highly nuanced and segmented sector of commercial real estate. In the post-COVID investment landscape “small-bay industrial” grew as a household term, gaining popularity among investors for its economic resilience and alignment with growth industries like e-commerce, manufacturing and technology. Despite this growing interest the segment still remains unclear to many, largely due to a lack of available small-bay data and the operational complexity required to manage large small-bay portfolios—creating very few new entrants to the space.


At the same time, mid- and large-bay industrial assets have continued to evolve separately, each offering distinct characteristics, risk profiles, and use cases. Together, these segments form the modern industrial landscape, differentiated by building size, unit configuration, and tenant composition.

SEGMENT CHARACTERISTICS

SMALL BAY

LESS THAN 200,000 SF  20-200 TENANTS

AVG. UNIT SIZE: 1,000 - 15,000 SF




MID BAY

200,000 - 500,000 SF  5-15 TENANTS

AVG. UNIT SIZE: 15,000 - 75,000 SF



LARGE BAY

500,000 - 1,000,000 SF  1-2 TENANTS

AVG. UNIT SIZE: 75,000+SF

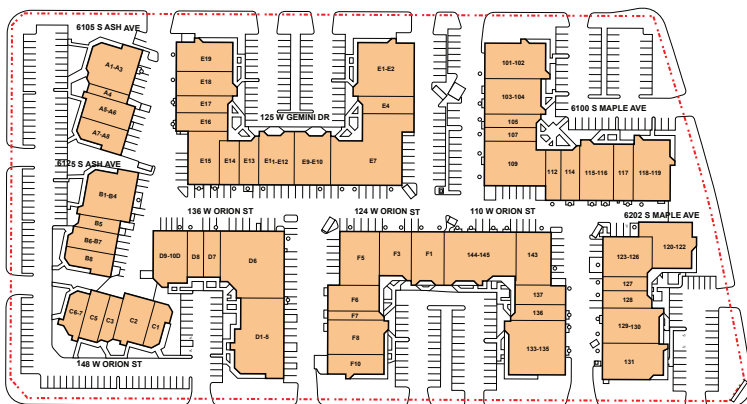


Small-Bay Industrial

PRODUCT TYPE CHARACTERISTICS

- 4-10 buildings in a single asset
- 20-200 industrial units/tenants
- 1,500-15,000 sq. ft. unit sizes
- 70-75% warehouse space, 25-30% office space
- Zoning: light industrial zoning
- Tenants stay an average of 8 years at the property
- On-site management to address all tenant needs
- Expansion or contraction of multiple unit sizes facilitates tenant relocations to accommodate changing business requirements, increasing retention rates and lowering tenant rollover costs
- Located closest to city centers, 3-10 miles from consumers, businesses and key infrastructures
- 1 to 3 year typical lease at acquisition; upon ownership, BKM renews at 3 to 5 year terms

SITE PLAN EXAMPLE



FLOOR PLAN EXAMPLE



SEGMENT CHARACTERISTICS

Mid-Bay Industrial

PRODUCT TYPE CHARACTERISTICS

- 4-10 buildings in a single asset
- 5-25 industrial units/tenants
- 10,000 to 30,000 sq. ft. bay sizes
- 80-90% warehouse, assembly, or manufacturing space
- 10-20% of sq. ft. is comprised of office space
- Combination of dock-high and grade-level loading
- Zoning: light industrial zoning
- Tenants stay an average of 8 years at the property
- On-site management to address all tenant needs
- Expansion or contraction of multiple unit sizes facilitates tenant relocations to accommodate changing business requirements, increasing retention rates and lowering tenant rollover costs
- Located closest to city centers. Typically 3-10 miles from consumers, businesses and key infrastructures
- 3 to 5 year typical lease at acquisition; upon ownership, BKM renews at 5+ year terms

SITE PLAN EXAMPLE



FLOOR PLAN EXAMPLE



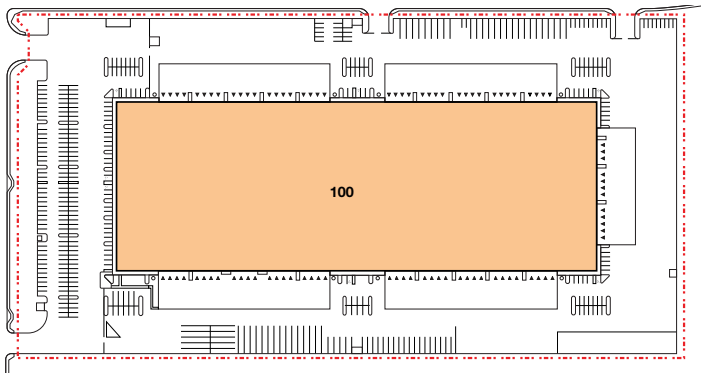
SEGMENT CHARACTERISTICS

Large-Bay Industrial

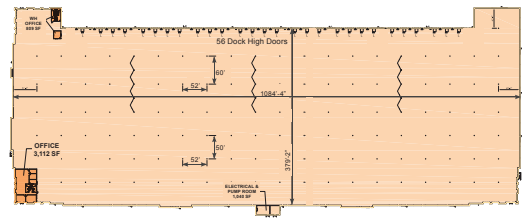
PRODUCT TYPE CHARACTERISTICS

- Typically one stand-alone building
- Buildings larger than 500K SF
- 1-2 industrial units/tenants
- 7-15 year typical lease-terms
- Zoning: heavy industrial
- Large, contiguous spaces designed for high-volume distribution and logistics
- 85-95% warehouse space, with minimal office buildout
- Clear heights typically between 32'-40'+ for racking and automation
- Predominantly dock-high loading with extensive truck courts and trailer parking
- No on-site management. Typically operated by large REITs or other institutional owners
- Located in major logistics hubs with access to highways, ports and railways. Often located on the outskirts of major population centers
- Less flexibility with unit reconfiguration and higher tenant concentration risk due to limited number of tenants per asset

SITE PLAN EXAMPLE



FLOOR PLAN EXAMPLE



Office Warehouse

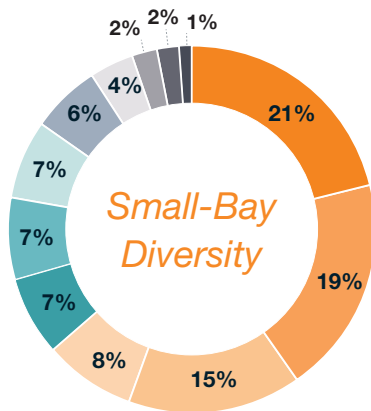
Power in Diversification.

Industrial buildings serve a wide array of use cases, which vary depending on property characteristics such as bay size, clear height, and location. Consistent across both the small- and mid-bay tenant base, however, is one common theme: these industrial units serve operationally critical small businesses that comprise over 99% of all businesses in America, forming the backbone of the American economy.

Additionally, small- and mid-bay assets benefit from a highly diverse tenant mix, which protects operators from industry volatility and creates more stabilized cash flow throughout the hold period. Typical large-bay properties only have one or two major tenants, while small- and mid-bay assets may host up to 200 tenants in one park, offering greater flexibility while also requiring significantly more management expertise.

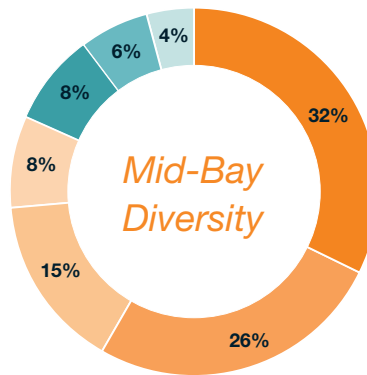


¹Small Business – US Small Business Administration. ²US Chamber of Commerce.



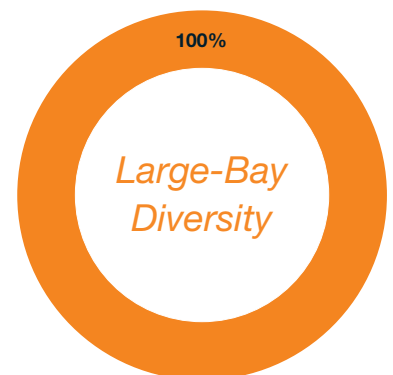
Tenant types include:

- » Maintenance, Contracting Services
- » Construction, Engineering
- » Technology, Software, Electronics
- » Apparel, Retail Warehousing
- » Manufacturing/Ind Services & Supplies
- » Logistics Support & Services
- » Design and Marketing
- » Business & Admin Services
- » Healthcare
- » Insurance, Financial
- » Life Sciences



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TENANT USE CASES



Small-Bay Tenant (1K-15K SF)

- » **Business Type:** Local service providers, specialty trades, small-scale fabricators, and last-mile operators
- » **Space Requirement:** Flexible, efficient suites with grade-level loading and varying office buildouts
- » **Use of Space:** Inventory storage, light assembly, dispatch operations, and customer servicing

Example: A plumbing contractor operating a fleet-based business, using the space for parts storage, equipment staging, and daily dispatch, requiring proximity to dense population centers and immediate access to road networks.

Mid-Bay Tenant (15K-75K SF)

- » **Business Type:** Growing regional distributors, light manufacturers, and tech-enabled production users
- » **Space Requirement:** Increased clear height, power capacity, and functional office / warehouse mix
- » **Use of Space:** Assembly, light manufacturing, warehousing, and regional distribution
- » **Example:** An advanced robotics company operating both manufacturing and R&D functions under one roof, requiring heavy power connectivity, warehouse space for fabrication lines, and supporting office / lab space for product development.

Large-Bay Tenant (75K+ SF)

- » **Business Type:** Scaled e-commerce distributors, advanced manufacturers, and logistics operators
- » **Space Requirement:** High throughput functionality including dock-high loading, significant power, and ample truck and trailer parking
- » **Use of Space:** Fulfillment, distribution, advanced manufacturing, and supply chain logistics

Example: An e-commerce fulfillment company operating a regional hub, with racking systems, packing stations, and outbound logistics—requiring efficient loading, clear height, and access to major transportation corridors.

Unlocking

Opportunity.



INVESTMENT CHARACTERISTICS

Small- and mid-bay industrial assets offer a differentiated investment profile driven by their structure, tenancy, and location within the broader industrial landscape.

- » **Fragmented Ownership:** A large portion of the market remains held by local or private owners, creating opportunities for institutional operators to drive value through professional management and scale.
- » **Infill Locations:** Typically located near dense population centers, providing proximity to labor, customers, and infrastructure, supporting long-term demand and rent growth.
- » **Operational Intensity:** Multi-tenant configurations require active leasing and management, but this complexity creates a barrier to entry and allows skilled operators to unlock value.
- » **Mark-to-Market Opportunity:** Shorter lease terms enable more frequent rent adjustments, allowing owners to capture market growth and drive income over time.
- » **Lower Credit Risk Through Diversification:** With a high volume of tenants, income streams are highly diversified, reducing exposure to any single tenant or industry.
- » **Resilience Across Cycles:** Demand is driven by a broad base of essential, service-oriented businesses, supporting stable occupancy even during periods of economic uncertainty.
- » **Flexible Space Design:** Units can be easily reconfigured, allowing tenants to expand or contract within a property and enabling landlords to adapt to evolving demand.



PDX Distribution Center | Portland, OR

Demand built for Growth.

Havana 37 Business Center | Denver, CO

SECULAR DEMAND DRIVERS

E-Commerce

As delivery expectations accelerate, businesses require smaller, infill facilities to support last-mile logistics, positioning small- and mid-bay industrial assets as critical touchpoints in modern distribution networks.

- » U.S. retail e-commerce sales in Q4 2025 (seasonally adjusted) reached 316.1 billion dollars, **up 1.7% QoQ and 5.3% YoY.**¹
- » **25% of new leasing in 2026 will involve e-commerce** as the proportion of goods sold online rises to almost 20% globally by YE.²
- » **The number of users of e-commerce in U.S. is expected to grow 10% between now and 2029,** representing over 32M new users.³

¹US Census, March 2026.

²Prologis, Nov 2025.

³Statista, July 2025.

Technology / Innovation

As advanced technologies become more accessible, small- and mid-sized businesses can produce more output in less space—shifting demand toward highly functional, smaller-footprint industrial facilities.

- » Industrial robot costs have declined from **~\$47K (2011) to ~\$11K projected in 2025–2026.**¹
- » **Robotics-as-a-Service (RaaS) models have reduced upfront costs by 50–60%,** enabling adoption by small businesses.²
- » **12% YoY growth in U.S. industrial robot installations between 2023–2024,** signaling increased adoption by both experienced robotics users and new market entrants.³

¹EY Global, 4Q 2023.

²Future Market Insights, September 2025.

³2025 World Robotics Report.

Manufacturing / Reshoring

Large-scale “mega-plant” investments are creating dense regional supplier ecosystems in a “halo effect”, creating networks of small and mid-sized businesses that operate in nearby industrial space.

- » Total construction spending on manufacturing has nearly tripled over the past decade, **reaching more than \$230B in 2024.**¹
- » 500+ major U.S. project announcements since 2020, **equating to \$772B in investment and pledging 400K+ new jobs.**²
- » Reshoring is heavily influenced by high-tech industries, with **88% of 2024 reshoring jobs in sectors like semiconductors, EV manufacturing, and AI.**³

¹Federal Reserve Bank of St. Louis, 4Q 2025.

²Newmark research, 4Q 2025.

³Reshoring Initiative, 1Q 2025.

Creating Value.



PERFORMANCE DRIVERS

Value creation in small- and mid-bay industrial is driven by a hands-on, operationally focused approach that capitalizes on market inefficiencies and structural supply constraints.

1

ACQUIRE UNDERPERFORMING ASSETS

Value-add opportunities often arise from fragmented ownership, where assets may be mismanaged, functionally outdated, or have below-market rents.

2

DRIVING CASH FLOW

Targeted capital improvements like upgraded exteriors, structural upgrades, and suite optimization enhance usability, attract high-quality tenants, and increase rental income.

3

LEASE OPTIMIZATION

Shorter lease terms allow for frequent mark-to-market adjustments, enabling owners to capture rent growth and improve overall portfolio performance.

4

BARRIERS TO ENTRY

Limited new development and rising construction costs reinforce the value of existing assets and supporting long-term rent growth.

5

STRATEGIC REPOSITIONING

Assets undergo thoughtful rebranding programs designed to create a modern identity, refine the tenant mix, and reintroduce the property to the broader market to unlock demand and drive value.

ASSET REPOSITIONING

EXTERIOR IMPROVEMENTS



NEW PAINT SCHEME



PROJECT SIGNAGE



TENANT SIGNAGE



LOW-DENSITY LANDSCAPING



ROOFS & HVAC



PARKING LOT



North Cabot Industrial Park | Hayward, CA

INTERIOR IMPROVEMENTS



REDUCE OFFICE %



DIVIDE UNITS



ACCENT WALLS/ CARPET TILES



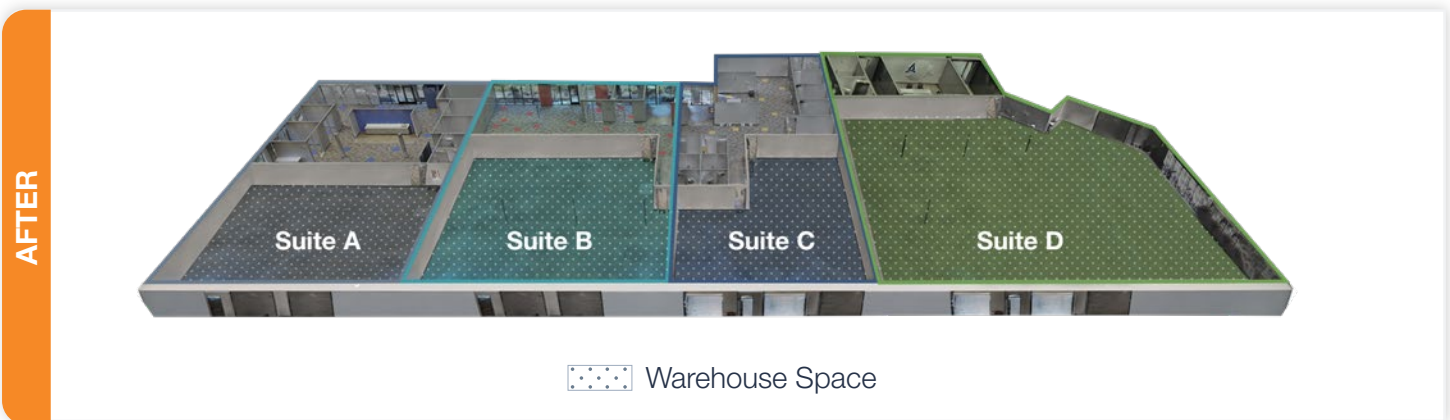
POLISHED CONCRETE



IMPROVED LIGHTING



NEW/UPDATED RESTROOMS



Warehouse Space

CONCLUSION

The industrial sector is no longer a one-size-fits-all asset class, but a dynamic and segmented landscape shaped by evolving tenant needs, technological advancement, and continued shifts in the global economy.

Within this framework, small- and mid-bay industrial stand out as essential infrastructure—serving the diverse, operationally critical businesses that power local economies and modern supply chains. Compared to larger, single-tenant industrial assets, these properties benefit from greater tenant diversification, reduced vacancy risk, and shorter lease durations that enable consistent mark-to-market rent growth. Their infill locations and flexible configurations further support tenant retention and allow businesses to scale within the same property over time—an advantage not often possible in large-bay investments.

Supported by durable demand drivers, supply constraints, and a highly fragmented ownership base, small- and mid-bay assets offer a compelling combination of resilience, income durability, and operational upside that positions them advantageously within the broader industrial sector. As industrial continues to evolve, small- and mid-bay properties are increasingly positioned at the center of that transformation, creating opportunity for the future generation of industrial users.



ABOUT THE AUTHOR

BKM Capital Partners is a proven real estate fund manager and operator focused exclusively on investing in small- and mid-bay light industrial properties in the United States. Headquartered in Newport Beach, CA, with more than 150 employees in 17 offices, BKM implements a value-add strategy targeting under-managed and under-capitalized assets. Since 2013, BKM has invested over \$6 billion in 175+ small and mid-bay light industrial properties comprising over 30 million square feet. Its approach includes the acquisition, refurbishment, repositioning and active management of these industrial properties to drive NOI growth and generate a strong IRR and multiple on invested equity. BKM's foundation is built upon Focus, Operational Excellence, Technology, and Client Service.



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