



BKM Capital Partners

Q2 2025

LIGHT INDUSTRIAL MARKET UPDATE

▶ ▶ JULY 2025



BKM INTEL | THOUGHT LEADERSHIP SERIES

INTRO

The U.S. industrial real estate sector continues to demonstrate structural resilience despite persistent macroeconomic headwinds. Since 2020, cumulative rent growth across the top 25 metro areas has been extraordinary, with cities like Miami, Baltimore, and the Inland Empire seeing increases of 80% to over 100%. This trend reflects sustained tenant demand, a tightening development pipeline, and a broader shift toward smaller, more flexible logistics facilities. Small-bay properties have outperformed their larger counterparts, maintaining sub-5% vacancy rates, well below the national average. Meanwhile, new supply in this category has diminished, with average annual growth under 0.5%, reinforcing upward pressure on rents.

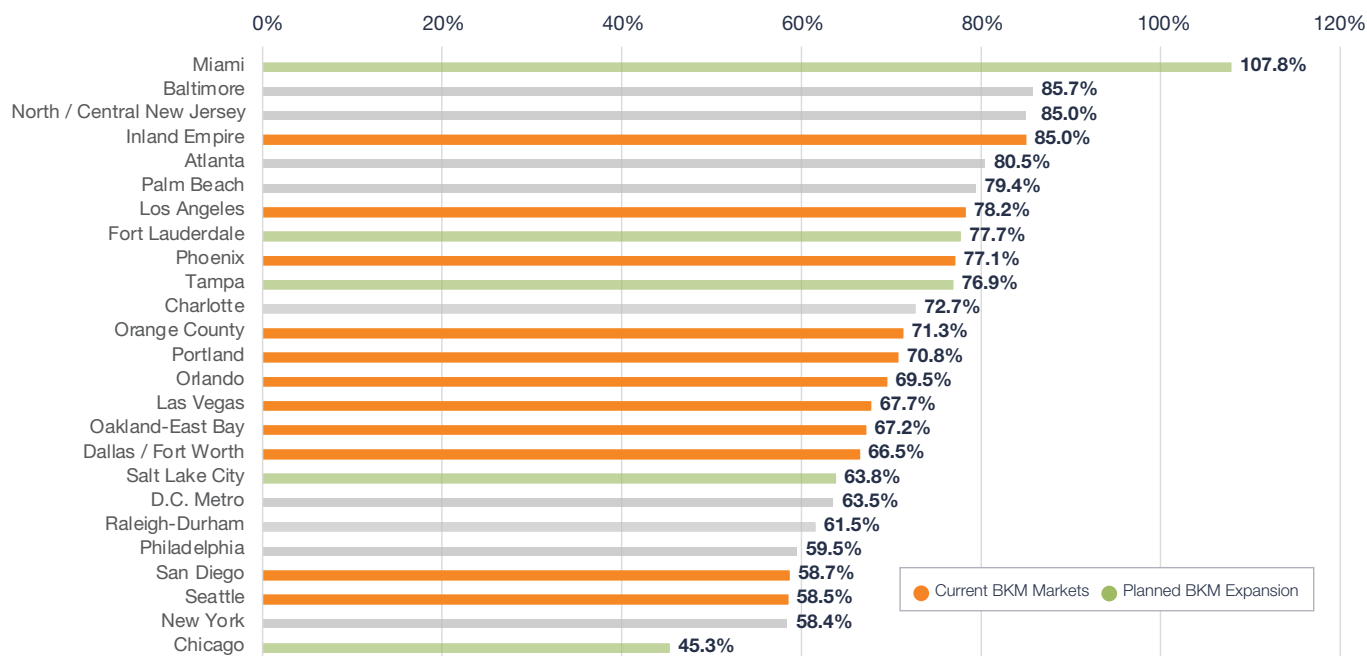
The sector's momentum is underpinned by powerful secular drivers. E-commerce accounted for more than half of retail goods sales growth in 2024, reinforcing the need for localized distribution space. At the same time, reshoring and advanced manufacturing have propelled a resurgence in domestic industrial activity, supported by over \$600 billion in commitments and hundreds of thousands of new jobs. These dynamics have contributed to a record-high pace of construction spending and a notable uptick in leasing from service-oriented and logistics users. Despite uncertainty from global volatility, historical precedent suggests that periods of disruption often create entry points for long-term industrial outperformance.



UNPRECEDENTED RENT GROWTH

- + Historical rent appreciation in the top 25 MSA's averaged **70% growth between 2020 and 2023**, indicating sustained demand for the product type.

4-YEAR CUMULATIVE INDUSTRIAL RENT GROWTH - TOP 25 MSAs (2020-2023)¹



¹Green Street M-RevPAF Analysis. The M-RevPAF growth combines changes in effective rents and occupancies into a single measure.



SMALL-BAY SUPPLY CONSTRAINTS FUELING RENT GAINS

Heightened Big Box Vacancy: Small-bay industrial fundamentals largely outperform larger size segments, with big box vacancy rates more than double that of buildings under 100K SF.

Diminishing Vacancy for Smaller Buildings: Vacancy in small-bay properties remains below 5%, 28% lower than the national average for all industrial segments.^{1,2}

Limited Small-Bay Supply: Average supply growth between 2020 and 2024 was 0.4% for small-bay properties, over 90% less than the 5% annual growth for the big box space.¹

Industrial Development Slowing Pace: Only 1.7% (352.9M SF) of stock is currently under construction, down from 3.1% in Q3 2023.³

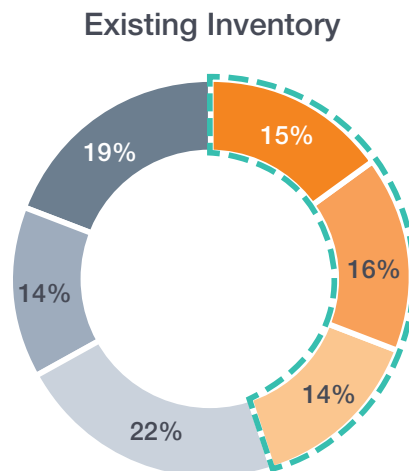
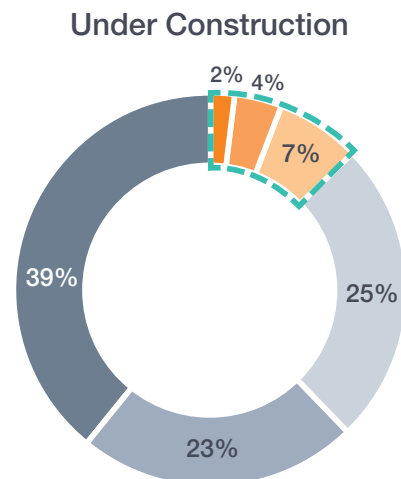
Limited Multi-Tenant Pipeline: Multi-tenant light industrial comprises just 13% of development activity, signaling positive future absorption trends.¹

¹CoStar, April 2025.

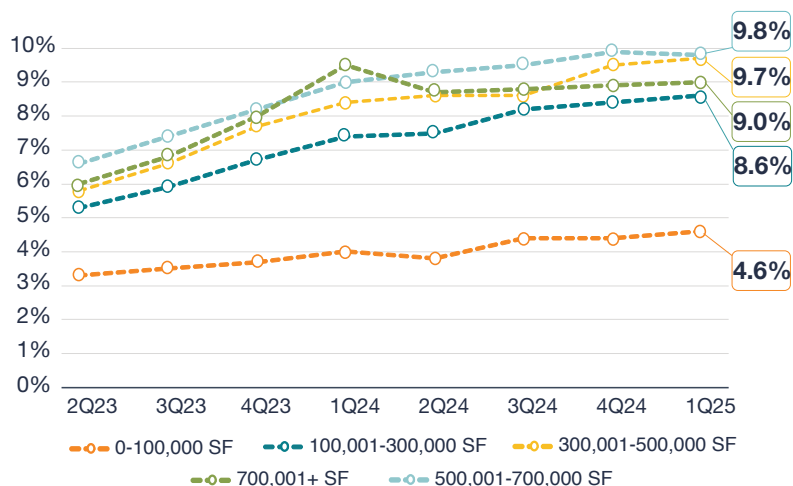
²Colliers, Q1 2025.

³Commercial Edge U.S. Industrial Market Report, Q1 2025.

INDUSTRIAL UNDER CONSTRUCTION BY BUILDING SIZE



VACANCY RATE BY BUILDING SIZE



Source: Newmark Research.

Building Size SF

- Under 20K
- 20K-50K
- 50K-100K
- 100K-250K
- 250-500K
- 500K+

..... Light Industrial Segment

Source: CoStar, April 2025.

MARKET SNAPSHOT - HOUSTON, TX

Population, Employment, and GDP

- + Metro population of 7.5M, growing at 2.5% annually—making it the **third-fastest growing U.S. metro**.¹
- + **140,000+ new jobs added** between 2021-2023.²
- + **Regional GDP hit \$696B in 2024**, with sector contributions spread across Energy, Healthcare, Logistics, and Tech/Manufacturing.³

Key Economic Drivers

- + Home to the world's largest life science complex, which **employs over 106,000 people**.⁴
- + The port of Houston is ranked **#1 in U.S. foreign waterborne tonnage**, as well as **#2 in U.S. total foreign cargo value**.⁵
- + Significant air connectivity, with **250+ different nonstop destinations via IAH and Hobby**.⁶

Industrial Sector Strength

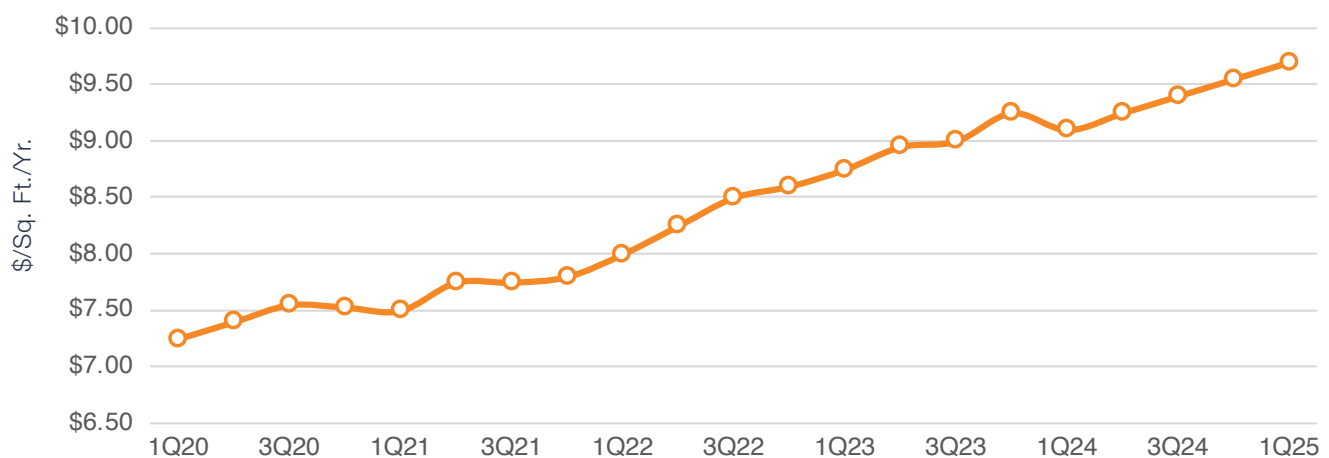
- + Major **expansions by Tesla, Red Bull, and Apple** in the past 12 months.
- + On a five-year basis, **rents have climbed 33 percent**.¹
- + **4.2% vacancy** for buildings sub-50K SF.⁷
- + **Leasing activity in small and mid-size bays drove Q1 2025 absorption**, as service-based tenants prioritize location over scale.

Outlook

- + Tenants in the region will continue to prioritize **highly functional, well-located product** with access to local transportation routes.
- + Strong population growth, coupled with economic momentum from corporate expansion, supports a **favorable long-term outlook**.

¹Greater Houston Partnership, April 2025. ²CoSar, Feb 2025. ³Federal Reserve Bank of St. Louis. ⁴Visit Houston Texas. ⁵Port Houston. ⁶Houstonia, Jan 2025. ⁷CBRE Research, Q1 2025.

TRIPLE NET ASKING RENTS, HOUSTON INDUSTRIAL MARKET



Source: Partnership analysis of CoStar data.

3 KEY DRIVERS: LIGHT INDUSTRIAL DEMAND

1

E-COMMERCE

- + In 2024, e-commerce accounted for 56% of overall retail goods sales growth, an **8% increase year-over-year**.¹
- + **Amazon's \$15B logistics expansion and 13M SF of new leases**, including 30+ rural delivery stations, signals long-term tailwinds for light industrial.^{2,3}

2

INNOVATION AND TECHNOLOGY

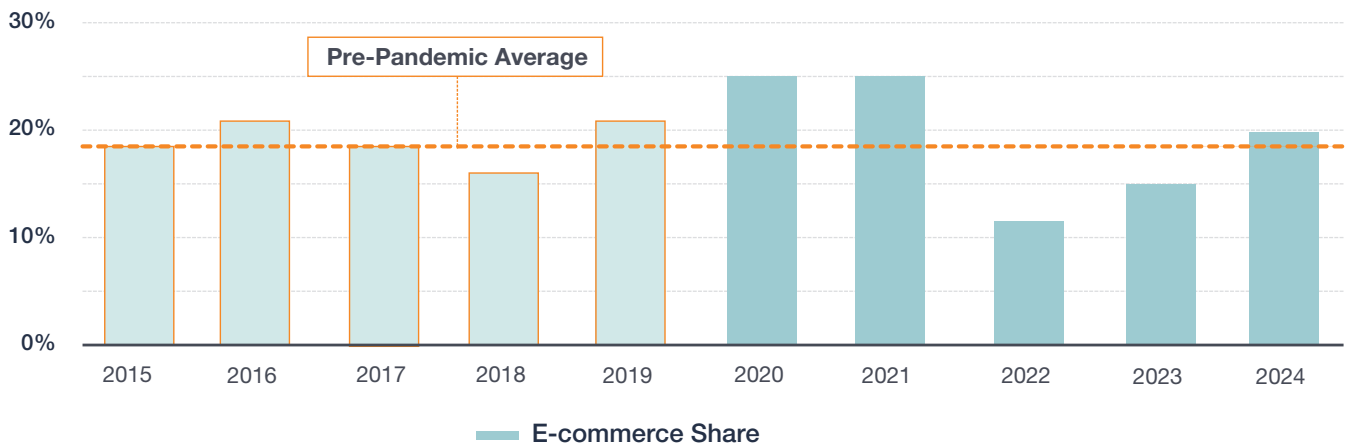
- + EV manufacturing is boosting industrial demand, **supported by \$312B in incentives from federal programs**.⁴
- + **Each \$1 spent in manufacturing adds \$2.64 to the U.S. economy**, and **every \$1 in manufacturing wages generates \$3.92 in total economic impact**.^{5,6}

3

MANUFACTURING RESURGENCE

- + In the past decade, manufacturing **vacancy has hovered below 6%** and **asking rents have risen 67%**.⁷
- + **Construction spending hit \$121.7B in Feb 2025**, nearly double pre-pandemic levels, and **\$640B in investments and 270,000+ jobs** have been pledged thus far.⁸
- + **Since 2020, manufacturing requirements have increased 50% per year on average**, reaching nearly 124M SF in 2024.⁹

E-COMMERCE SHARE OF NEW LEASING - GLOBAL



Source: Prologis Portfolio Data, March 2025.

¹U.S. Census, Prologis, March 2025. ²Yardi Matrix, as of Q4 2024. ³Green Street, May 2025. ⁴EV Hub, August 2024. ⁵NAM calculations using 2023 IMPLAN data. ⁶Made in America. ⁷Cresa Advanced Manufacturing Real Estate and Labor Outlook. ⁸Newmark Research, Q1 2025. ⁹JLL Research, 2024-2025 Industrial Tenant Demand Study.

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 100 employees in 15 offices, BKM implements a value-add strategy targeting under-managed and under-capitalized assets. Since 2013, BKM has invested nearly \$5 billion in over 130 small and mid-bay light industrial properties comprising 25 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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