



BKM Capital Partners

Q3 2025

LIGHT INDUSTRIAL MARKET UPDATE

▶ ▶ OCTOBER 2025



BKM INTEL | THOUGHT LEADERSHIP SERIES

INTRO

The U.S. light industrial sector continued its steady performance through the third quarter of 2025, outperforming broader commercial real estate segments amid ongoing market recalibration and economic uncertainty. Limited new construction in sub-100K SF product has preserved historically low vacancy levels, sustaining pricing power and rental growth across Tier 1 and Tier 2 markets. With supply constrained and tenant demand steady, small- and mid-bay assets remain among the most resilient and sought-after industrial property types.

Investor sentiment deepened further in Q3, supported by an improving lending environment and consistent capital flows into the small-bay segment. Transaction activity under \$100 million once again dominated sales volume, while cap rate compression reflects the depth of institutional interest in this asset class. Light industrial's resilient fundamentals—diverse tenant bases, shorter lease terms, and location flexibility—continue to provide a durable hedge against broader market volatility.

At the operational level, leasing activity remained healthy across BKM's portfolio, with demand concentrated in functional, infill properties that support logistics, e-commerce, and manufacturing users. Strong rent growth and disciplined underwriting continue to drive performance, positioning the light industrial market for measured yet sustained expansion into 2026.



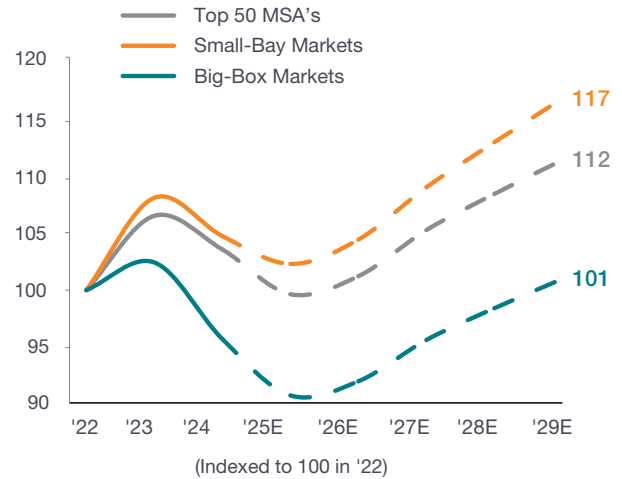
SMALL-BAY INDUSTRIAL OUTPERFORMS BULK SEGMENTS

Light Industrial fundamentals present ripe opportunity for strategic investment and capital deployment, differing significantly from bulk warehousing. Construction of warehouses under 100K SF is scarce, keeping vacancy rates stabilized and contradicting headline news stories concerning the rising industrial vacancy rate. Occupancy and rent trends are expected to continue upward as a result of this supply barrier and continued demand from logistics and warehousing tenants.

- » **Cumulative supply growth across small-bay markets from 2019-2022 was 2.3%**, while aggregate supply growth in big-box markets was 10%.¹
- » The current construction pipeline is shrinking, with **starts down 33% annually since 2023**.²
- » **Vacancy for buildings under 100K SF has been 50% lower than all other size segments over the past four quarters**, averaging 4.5% since Q3 2024 vs 9.4% for buildings above 100K SF.²
- » **Small-bay markets are projected to grow significantly over big-box markets between now and 2029**, outpacing growth in the top 50 markets.¹

¹Green Street, Q2 2025. ²Newmark Research, 2Q 2025.

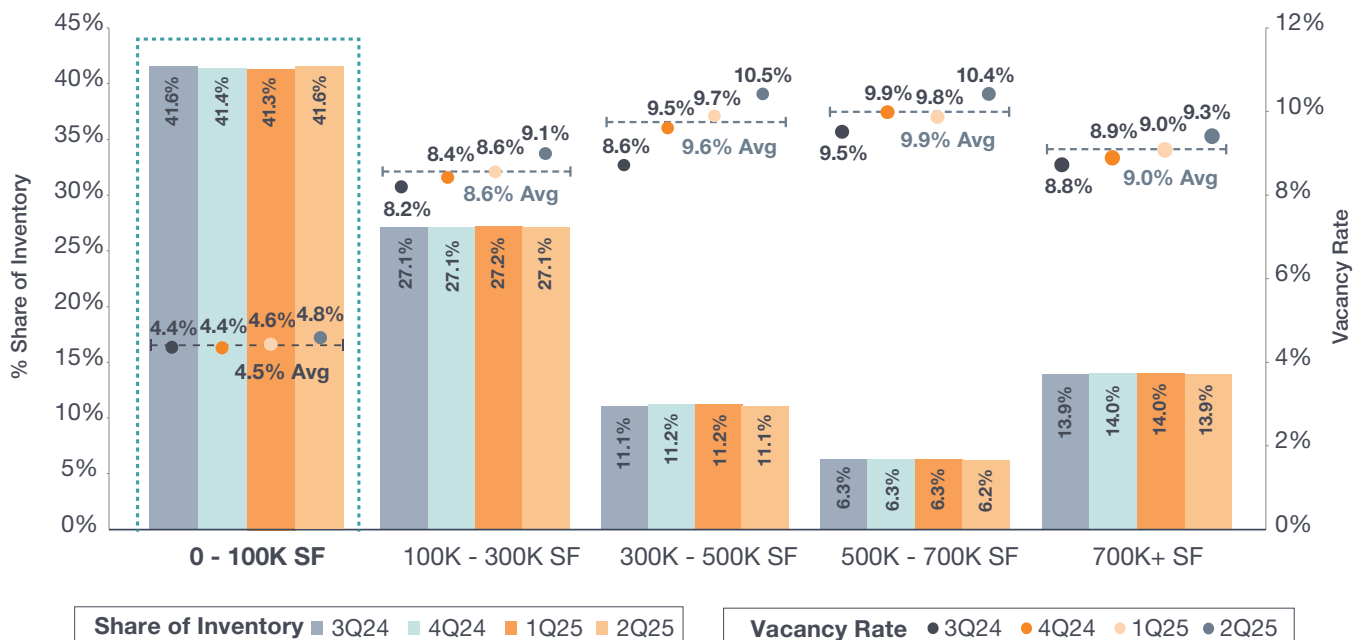
INDUSTRIAL RENT AND OCCUPANCY



Source: Company Filings, INTEX, NCREIF, RealPage, and Green Street.

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

QUARTERLY INDUSTRIAL VACANCY RATE BY BUILDING SIZE



Source: CoStar, Newmark Research, August 2025.

MARKET CHANGES THROUGH H1 2025

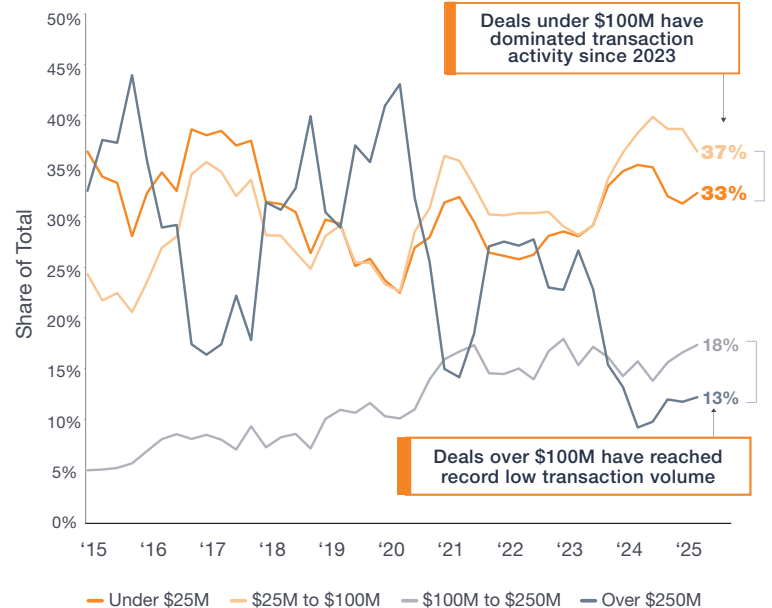
The commercial real estate investment market is showing renewed momentum as we enter the second half of 2025, with investors are doubling down on small-bay industrial as a preferred investment strategy. Rising cross-border trade and Chinese investment in Mexico are reshaping industrial markets, with Mexico now the U.S.'s top trading partner and demand surging for inland, rail-served logistics hubs as supply chains regionalize.

- » **Deals under \$100M accounted for 70% of investment sales volume in the last four quarters, with a long term average of 60%.** Small-bay sales in Q2 remain elevated 29% over pre-pandemic benchmarks.¹
- » **Small-bay cap rates have converged with, and often trade at a premium to, bulk industrial.** This compression supports strong investor demand and recognition of small-bay as a core industrial asset class.²
- » **CRE debt origination saw a strong start in 2025, with sale financing up 59% YoY as of H1** — signaling an improved lending environment and continued confidence in the sector.¹

¹Newmark Research, Q2 2025.

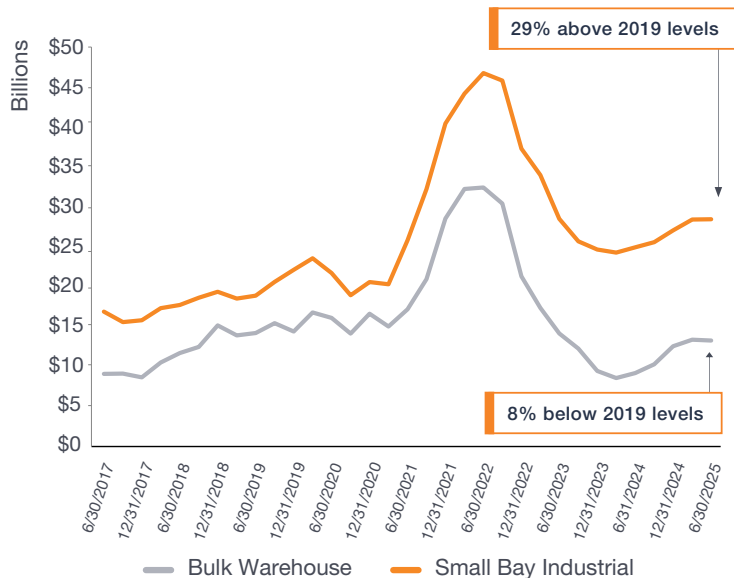
²Trepp, 2025.

INDUSTRIAL INVESTMENT SALES BY DEAL SIZE



Source: Newmark Research, Real Capital Analytics, July 2025. *Quarterly data

SMALL-BAY VS BULK IND. 4Q ROLLING SALES VOLUME



Source: Newmark Research, July 2025.

RESILIENT LEASING ACTIVITY AMID MARKET SHIFTS

Leasing dynamics across the industrial sector are stabilizing as tenants recalibrate their space requirements to align with shifting operational needs. While overall activity remains steady, most occupiers are taking a measured approach—prioritizing functionality and efficiency over expansion.

Buildings under 100,000 square feet accounted for more than 90% of total leases transacted in the first half of 2025, with the average lease size hovering around 40,000 square feet, according to Newmark. Regional data further underscores this trend: **in Las Vegas, 88% of new leases completed in the second quarter were under 25,000 square feet, and 95% were under 50,000 square feet, highlighting robust velocity in small-bay leasing activity.**¹ This high concentration reflects a strong tenant preference for flexibility, accessibility, and strategic location within major logistics and population hubs.

From a pricing standpoint, fundamentals remain healthy. **BKM's portfolio achieved leasing spreads of 25.25% in Q2 2025**, signaling continued opportunities for rent growth and value capture within well-located, institutional-quality small-bay assets. Broader demand drivers reinforce this momentum: **a record 24.1% of all consumer spending occurred online in Q1 2025, underscoring the persistent need for warehouse and fulfillment space to support e-commerce operations.**² Additionally, **manufacturing space requirements have expanded by an average of 32% annually since 2019, as producers increasingly prioritize customer proximity and supply chain resilience.**³ Together, these factors sustain strong leasing demand and favorable pricing dynamics across the small-bay industrial segment.

¹Cushman and Wakefield, Q2 2025. ²CBRE, Q1 2025. ³JLL, Q3 2025.

LEASE TRANSACTIONS

+ **Over 90% of leasing activity consists of small- to mid-size tenants (under 50,000 SF)**

- » 1,000-10,000 SF - **60%**
- » 10,000-25,000 SF - **24%**
- » 25,000- 50,000 SF - **10%**
- » 50,000+ SF - **6%**

INDUSTRIAL LEASING ACTIVITY BY BUILDING SIZE



Source: CoStar, 2025. Note: This analysis is limited to logistics properties.

ASKING RENTS

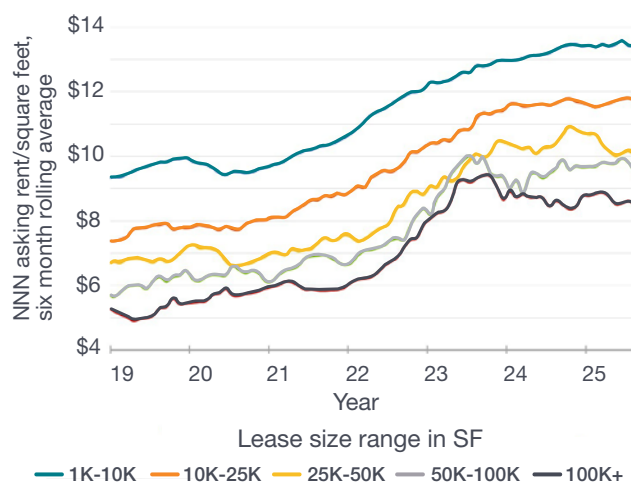
+ **Asking rents have reached record levels**

- » \$13.50 in June 2025 for sub-10,000 SF leases
- » \$11.80 in July 2025 for 10000-25000 SF leases

+ **Sub-25K SF leases have climbed since 2019**

+ **25K SF+ leases have begun declining rents in 2025**

ASKING RENTS BY BUILDING SIZE



Source: CoStar, 2025. Note: This analysis is limited to logistics properties.

MARKET SNAPSHOT - DALLAS, TX

Stemmons/ Valwood

Industrial Stats:
0-100K SF¹

N Dallas/ Garland

Industrial Stats:
0-100K SF¹

15.4M SF

Industrial
Base

18.1M SF

Industrial
Base

6.3%

Vacancy

6.3%

Vacancy

6.8%

Rent CAGR
Since 2015

6.6%

Rent CAGR
Since 2015

0.57%

Total Inv.
Under
Construction

0.75%

Total Inv.
Under
Construction

829K SF

Leasing
Volume

592K SF

Leasing
Volume

Demand Drivers:

- » DFW's central location and premier transportation system make it a **highly desirable location for e-commerce, 3PLs, and manufacturing.**²

Macro-Economic Tailwinds:

- » **DFW is one of the fastest growing metro areas in the U.S.,** adding roughly 1.4M residents in the past decade. **Population is expected to expand to 11.2M by 2045,** up 42% from 2022.³
- » **Employment has grown ~24% since 2015,** 71% higher than the national figure.³

Industry Concentration:

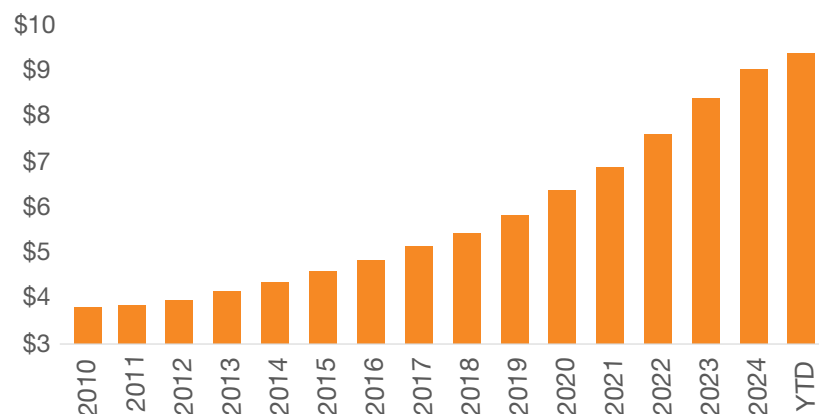
- » **The DFW Metro is home to 23 Fortune 500 company HQ's and top employers** including Walmart, American Airlines, AT&T, & Lockheed Martin.²

Institutional Appeal:

- » **DFW has emerged as the nation's second-largest industrial market, recently surpassing Los Angeles.** With inventory expanding rapidly, asking rents have surged over the past 15 years. Favorable market conditions continue to attract institutional capital, providing resilience and stability through market cycles.²

¹CoStar Research, Q3 2025. ²Stream Research Q2 2025. ³St. Louis Federal Reserve, Stream Research, Q2 2025.

DFW ASKING RENTS, 2010-2025¹



MARKET SNAPSHOT - ATLANTA, GA

760M SF

Total
Inventory

8.6%

Vacancy
Rate

\$7.28

Asking
Rents

4.9M SF

Under
Construction

19.1M SF

YTD Leasing
Activity

Source: CBRE Research, Q2 2025 / JLL, Q2 2025. Data represents entire industrial stock.

Attractive Rent Metrics:

- » **Small-bay product has a 13.7% rent premium** above the Atlanta average (\$8.20 vs \$7.21).¹
- » Rates are projected to grow an average of **5% per year for the next four years.**²

Favorable Leasing Dynamics:

- » **Atlanta ranks 6th nationally in leasing volume.**³
- » **81% of total leases transacted in 2025** measure under 100K SF.²

Lack of Construction:

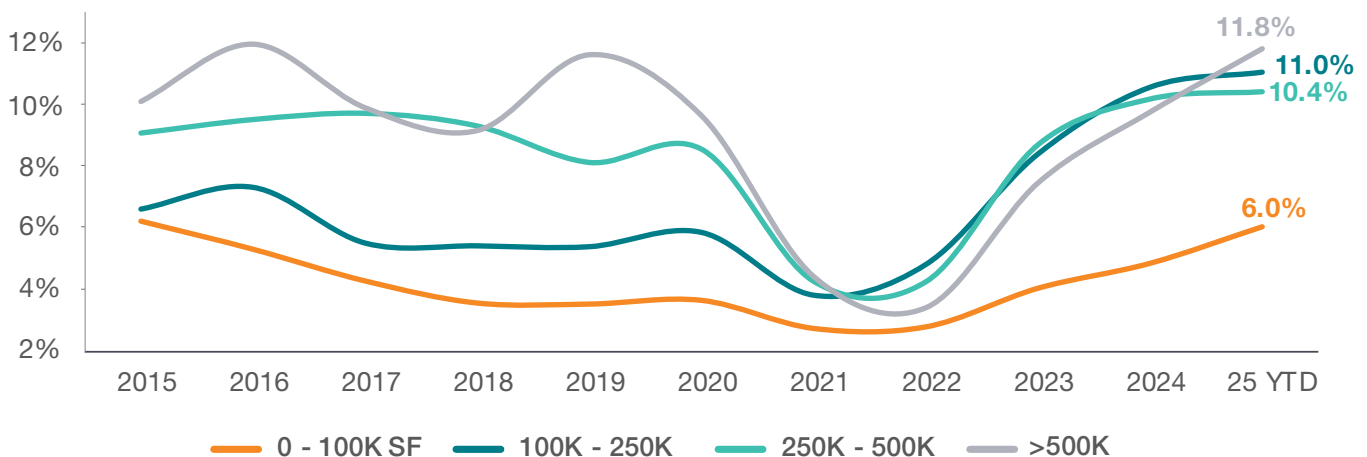
- » Small-bay construction has **averaged 5.3% of total deliveries since 2020.**²

Economic Drivers:

- » **Extensive railway systems, the nation's 3rd-busiest port, and the South's largest highway system** give logistics occupiers a strong advantage in the region.⁴

¹CBRE Research, Q2 2025. ²CoStar, Q2 2025. ³Cushman and Wakefield, Q2 2025. ⁴Savannah Economic Development Authority, 2025.

ATLANTA VACANCY RATE BY BUILDING SIZE



Source: CoStar, September 2025.

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 130 employees in 16 offices, BKM implements a value-add strategy targeting under-managed and under-capitalized assets. Since 2013, BKM has invested over \$5 billion in 150+ small and mid-bay light industrial properties comprising over 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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