BKM Capital Partners

Q3 2026

LIGHT INDUSTRIAL MARKET UPDATE

NOVEMBER 2026



BKM INTEL

THOUGHT LEADERSHIP SERIES

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A NUANCED VIEW OF THE INDUSTRIAL SECTOR

The U.S. industrial market is entering a new phase of stabilization, supported by strengthening demand fundamentals even as capital markets headwinds continue to present challenges. Elevated Treasury yields and lending hurdles have complicated financing, yet leasing momentum and renewed occupier confidence point to a resilient market.

In Q3, industrial net absorption reached 104.6M square feet nationally—the highest quarterly total since Q4 2022 and well above the 10-year quarterly average of 82.9M square feet.[1] Leasing activity also increased 27% year-over-year to 276.8M square feet, signaling a return of demand.[1]

However, the industrial sector can no longer be evaluated as a single, uniform asset class. Performance is increasingly dependent on building size, geographic market, and asset functionality, with smaller industrial properties continuing to demonstrate distinct advantages. While broader industrial fundamentals normalize, small- and mid-bay assets benefit from a more diversified tenant base, limited competitive supply, and demand driven by small-business formation, local service providers, and occupiers resuming decision-making. Despite the ongoing economic uncertainty, businesses are adapting to an environment where volatility has become the norm, reinforcing the importance of flexible, functional industrial space.

Supply constraints remain a defining characteristic of the small-bay segment, particularly in infill markets where developable land is scarce and replacement costs have stayed elevated. Consistently high construction and financing costs have made new small-bay development increasingly difficult to justify, further limiting an already constrained pipeline. Additionally, according to BKM analysis, rents would need to increase by 40%–50% in certain markets, and potentially as much as 94%, to support new development economics, even assuming stable land costs. These barriers reinforce the competitive positioning and long-term value of existing, well-located industrial assets.

As market rents stabilize following several years of normalization, the durability of smaller industrial properties remains particularly notable. Buildings under 25K SF have exhibited the lowest rent growth volatility among industrial building-size segments over the past decade, with a standard deviation of just 3.8%.[2] This consistency underscores small-bay's resiliency through market cycles and its potential to deliver more predictable income through changing market conditions.

In this nuanced environment, operator expertise has become a defining factor of success. Successful investment strategies demand disciplined asset selection, a deep understanding of local market dynamics, and hands-on execution to preserve occupancy, strengthen tenant relationships, and drive sustainable income growth. As the sector moves toward a more balanced operating environment, we believe investors should prioritize location, income durability, building functionality, and demonstrated operating capabilities—factors that will increasingly distinguish long-term performance.

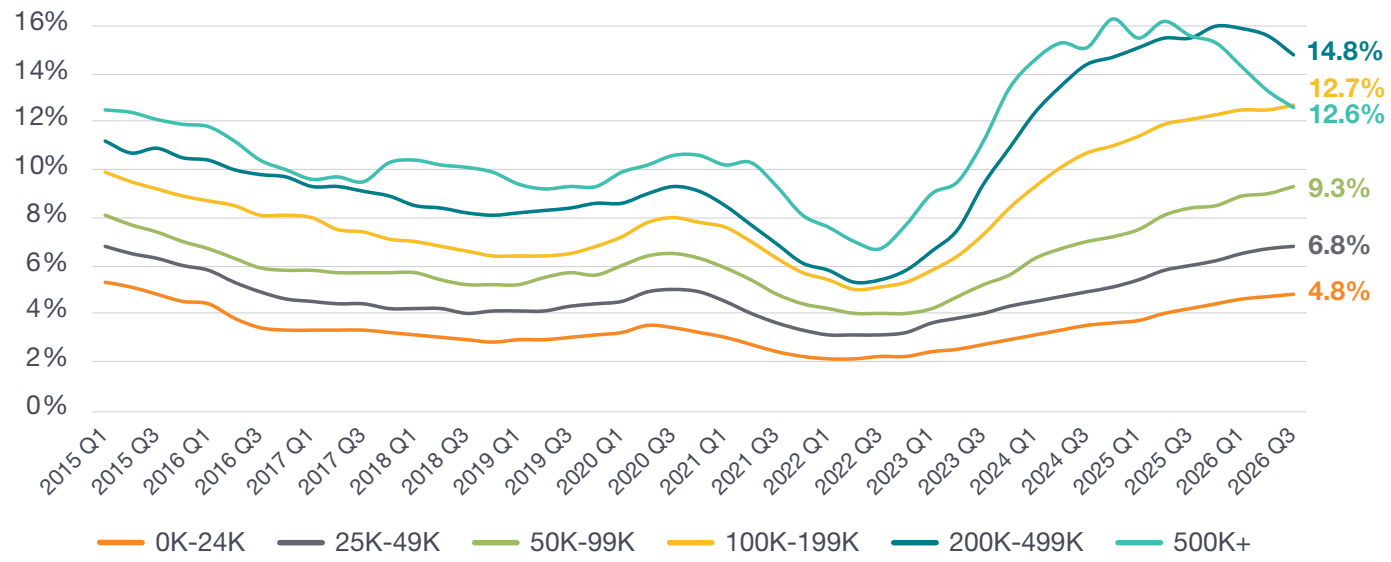
[1]CBRE Research, Q3 2026. [2]CoStar Research, Q2 2026.

MULTI-TENANT LIGHT INDUSTRIAL IS STILL THE CLEAR WINNER

TIGHTEST VACANCY IN THE ASSET CLASS

Small-bay buildings continue to exhibit significantly lower vacancy rates when compared with large-bay properties. **Buildings under 100K SF have an average 6.9% vacancy rate, 50% lower than buildings over 200K SF, which have an average vacancy of 13.7%.** Small-bay vacancy also remains well below the national industrial average of 10.6%.[1]

QUARTERLY INDUSTRIAL VACANCY RATE BY BUILDING SIZE - MULTI-TENANT BUILDINGS ONLY



Source: CoStar, November 2026.

SMALLER INDUSTRIAL LEASES OUTPACE THE MARKET

Smaller lease transactions have accelerated in recent years. **Lease transaction volume for spaces under 25K SF increased by 35% when comparing the 2020–2024 annual average to the 2025–2026 average.** Larger leases (over 50K SF) grew by only 16% between those periods. Comparatively, leases under 50K SF increased by 33% during the same period.[2]

SMALLER SPACES MOVE QUICKER

Small-bay spaces take approximately 70% less time to lease than large-bay spaces, averaging 7.5 months for leases under 15K SF vs. 25.6 months for leases over 50K SF across all BKM markets.[3]

[1]CoStar, November 2026. [2]CoStar, August 2026; 2026 YTD through 8/19/26. 2025-2026 analysis uses an annualized average. [3]CoStar, September 2026. Small-bay lease analysis evaluates industrial and flex leases under 15K SF within buildings under 100K SF across 23 U.S. markets, while large-bay analysis measures industrial leases over 50K SF in buildings over 200K SF across the same geographies.

FUNDAMENTALS SUPPORT SMALLER BUILDINGS

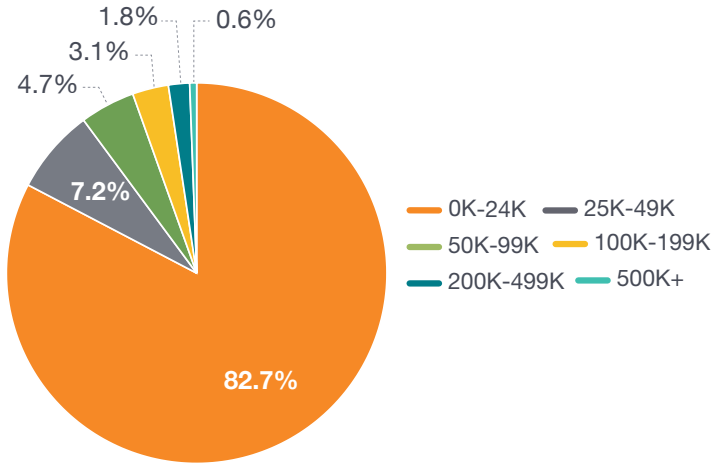
LEASING FAVORS SMALL-BAY

82.7% of industrial leases since 2025 were for spaces under 25K SF, with leasing activity up 12% YoY, reinforcing strong demand for smaller footprints.[1]

PERSISTENT RENT PREMIUM

Smaller buildings continue to command premium rents, with **assets under 100K SF averaging $11.44 PSF, 24% above the market average.**[2]

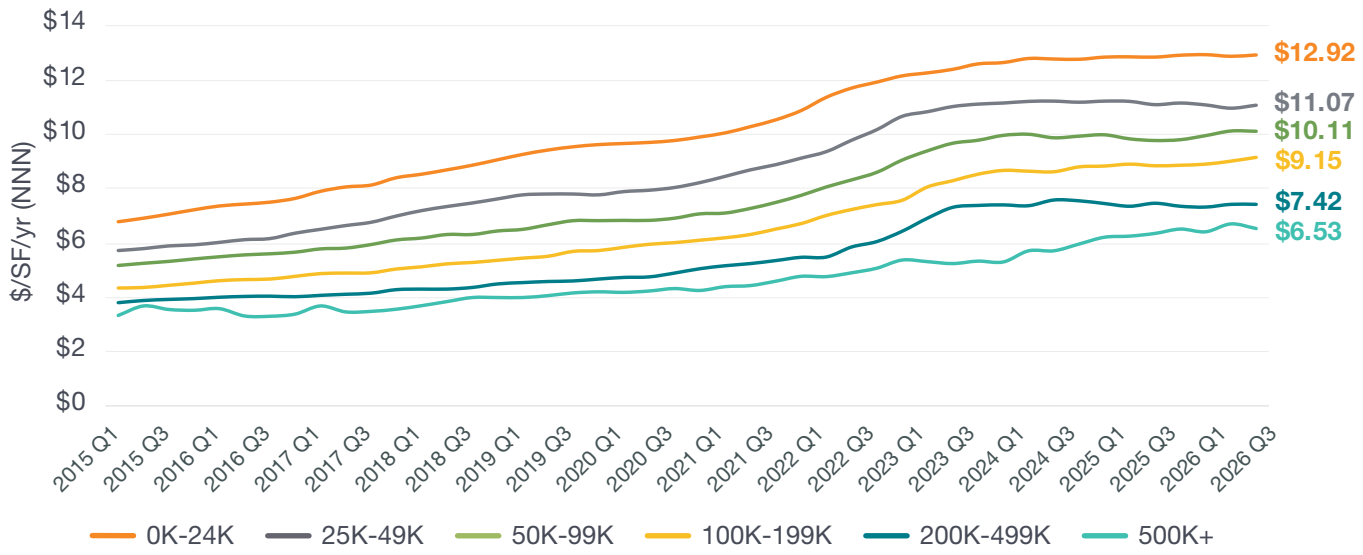
SHARE OF LEASE COUNT BY LEASED SF, 2025-2026



Note: Leases across all industrial buildings and size types. 2026 YTD through 8/19/2026. Source: CoStar, August 2026

[1]*CoStar, August 2026; 2026 YTD through 8/19/26.* [2]*CoStar, November 2026.*

QUARTERLY ASKING RENT BY BUILDING SIZE - MULTI-TENANT BUILDINGS ONLY



Source: CoStar, November 2026.

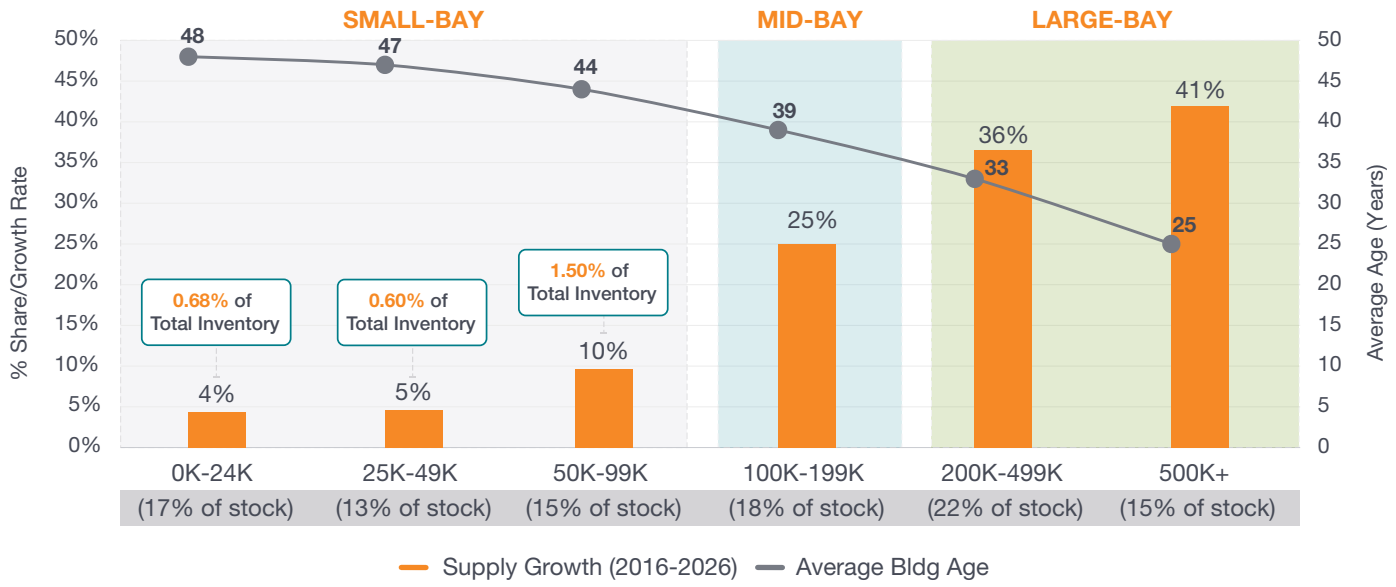


Fairway Park Business Center | Houston, TX

SMALL-BAY SCARCITY IS HERE TO STAY

+ **NEARLY NO NEW CONSTRUCTION: Only 0.5% of small-bay inventory (buildings under 100K SF) is currently under construction,** versus 3.0% for large-bay (200K+ SF).[1]
+ **BUYING BELOW THE COST TO BUILD: Small- and mid-bay buildings have an average sale price of $156/SF, compared with estimated new development costs of $200–$500/SF.** This significant gap highlights the potential value of acquiring existing assets at a discount to replacement cost, particularly as elevated construction and financing costs constrain new supply.[2,3]
+ **RISING CONSTRUCTION COSTS: Construction costs for small-bay projects increased 3.6% YoY,** outpacing both medium (+2.8%) and large (+2.3%) projects.[4]
+ **LONG-TERM SUPPLY GAP: Large-bay buildings have experienced more than six times the cumulative supply growth of small-bay buildings since 2016.[1]**
+ **LIMITED COMPETING SMALL-BAY SUPPLY: New small-bay development remains extremely limited,** with much of the pipeline concentrated outside established infill markets.

INVENTORY, SUPPLY GROWTH, AND AGE BY BUILDING SIZE



Source: CoStar, November 2026.

[1]CoStar, CBRE EA Peer Select, November 2026. Multi-tenant buildings only. [2]TCC/CBRE Contractor Survey, YE 2025; Rider Levett Bucknall; RSMeans, Q2 2026. Illustrative; factors vary by market and parcel. [3]BKM Intel, Q3 2026. [4]Cushman and Wakefield Americas Industrial Construction Cost Guide, Q2 2026.



Roeser Commerce Center | Phoenix, AZ

CASE STUDY: DEVELOPMENT COSTS AND RENT GROWTH FEASIBILITY

+ **NEW DEVELOPMENT FACES SIGNIFICANT ECONOMIC HURDLES:** Based on a BKM case study analyzing four major U.S. markets, **small-bay rents would hypothetically need to increase 40%–94% to justify new construction.**
+ **HIGH BARRIERS TO ENTRY IN COASTAL MARKETS: Los Angeles requires 94% rent growth to support new development while South Florida requires 40%,** reflecting significant development costs relative to achievable market rents.
+ **DEVELOPMENT CHALLENGES ARE WIDESPREAD: Houston and Seattle require 47% and 44% rent growth,** respectively, demonstrating that development feasibility constraints persist across markets with varying cost structures.
+ **EXISTING ASSETS BENEFIT FROM LIMITED REPLACEMENT SUPPLY: With development costs ranging from $210 to $500 PSF,** the economics of new construction reinforce the scarcity and competitive positioning of existing small-bay inventory.
+ **SUPPLY CONSTRAINTS SUPPORT LONG-TERM INVESTMENT FUNDAMENTALS: Limited development feasibility reduces the threat of competing new supply,** supporting occupancy stability, pricing power, and the long-term value of strategically located infill assets.

LOS ANGELES



94%

Rent Premium Required to Support New Development

+ Current Market Rent: **$18/SF**
+ Estimated Development Cost: **$500 PSF**
+ Rent Required to Build: **$35.00/SF**

HOUSTON



47%

Rent Premium Required to Support New Development

+ Current Market Rent: **$10/SF**
+ Estimated Development Cost: **$210 PSF**
+ Rent Required to Build: **$14.70/SF**

SEATTLE



44%

Rent Premium Required to Support New Development

+ Current Market Rent: **$16/SF**
+ Estimated Development Cost: **$330 PSF**
+ Rent Required to Build: **$23.10/SF**

SOUTH FLORIDA



40%

Rent Premium Required to Support New Development

+ Current Market Rent: **$20/SF**
+ Estimated Development Cost: **$400 PSF**
+ Rent Required to Build: **$28.00/SF**

Source: BKM Intel, Q2 2026. Illustrative analysis assumes a 7% stabilized yield on development cost, with required rental revenue calculated before adjustments for vacancy and operating expenses. Actual development feasibility varies by market, property characteristics, lease structure, and project-specific costs.

FUTURE OUTLOOK

BOTH OCCUPIERS AND CAPITAL ARE RE-ENGAGING

+ 18% of small-bay acquisitions in H1 2026 came from institutional investors, up from less than 13% during 2023–2025. This growing institutional participation signals renewed conviction in the asset class and could expand the potential buyer pool for scaled portfolios, improving liquidity at exit.[1]
+ Despite persistent financing challenges and elevated borrowing costs, improving industrial fundamentals and an increase in small-business optimism are expected to support acquisition and leasing activity.

EXECUTION MATTERS MORE THAN EVER

+ Competition is increasing for multi-tenant light industrial investments, raising the importance of a proven operating platform to navigate the asset class's operational complexity.
+ Unlike larger industrial assets with fewer tenants, multi-tenant light industrial requires intensive leasing, frequent tenant engagement, and ongoing capital improvements across a high volume of smaller spaces. This operational intensity creates meaningful barriers to entry for less experienced owners.
+ Tenants are increasingly favoring modern, well-managed space, rewarding owners that invest in capital improvements, upgraded amenities, and an active local management presence.

DATA CENTERS AND MANUFACTURING WILL DRIVE THE NEXT WAVE OF DEMAND

+ Rapid expansion of AI and data center infrastructure is creating new demand for supporting industrial users, including electrical contractors, HVAC providers, equipment suppliers, and specialized maintenance firms. This will drive additional demand for functional small- and mid-bay space near major development hubs to support both data center construction and ongoing facility maintenance.
+ Approximately $1T of cumulative U.S. advanced manufacturing construction could be delivered by 2030, creating downstream demand across defense, data centers, semiconductors, batteries, suppliers, and logistics users.[2]
+ Approximately $220B of manufacturing construction now represents roughly 18% of all non-residential construction, nearly double its mid-2010s share, while more than half of surveyed U.S. manufacturers are expanding domestic operations—driving supplier, 3PL, and overflow demand into small-bay.[3]



Hesperian Business Park | Hayward, CA

[1]Real Capital Analytics, CBRE Strategic Investment Consulting, Q2 2026. [2]Hines Research, August 2026. [3]U.S. Census, CBRE 2026 Occupier Intentions Survey, Q2 2026.

ABOUT BKM CAPITAL PARTNERS

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 40 million square feet of light industrial projects valued at over $8 billion. The firm continues to grow its investment management business through strategic joint ventures, institutional investor funds and separate account equity capital.

Definition: Multi-Tenant Light Industrial

SMALL-BAY		MID-BAY		LARGE-BAY	
<200K SF	<100K SF	200K-500K SF	100K-200K SF	500K-1M SF	>200K SF
PROPERTY SIZE	BUILDING SIZE	PROPERTY SIZE	BUILDING SIZE	PROPERTY SIZE	BUILDING SIZE
NUMBER OF BUILDINGS 4-10		NUMBER OF BUILDINGS 1-5		NUMBER OF BUILDINGS 1-2	
NUMBER OF TENANTS 20-200		NUMBER OF TENANTS 5-15		NUMBER OF TENANTS 1-2	
AVG. UNIT SIZE: 3,000 - 15,000 SF		AVG. UNIT SIZE: 15,000 - 50,000 SF		AVG. UNIT SIZE: 75,000+ SF	
WAREHOUSE % 70-75%		WAREHOUSE % 80-90%		WAREHOUSE % 90-95%	

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