3Q 2023 White Paper

BKM Capital Partners

Multi-Tenant Light Industrial

THE NEW PARADIGM TENANTS DRIVING INDUSTRIAL DEMAND

BKM INTEL | THOUGHT LEADERSHIP SERIES

Secular demand tailwinds from e-commerce growth, innovation, and onshoring contribute to record demand, a higher-quality tenant base, and value-creation opportunities.

There has been a significant change to tenancy within the light industrial asset class as three categories emerge as the largest users of light industrial space:

1. E-Commerce
2. Manufacturing
3. Technology

Collectively, these tenants account for a 50 percent boost in overall light industrial demand.

The onshoring of large manufacturing plants provides opportunities for smaller operators to supply goods and support services and promotes innovation in the local community. This halo effect results in increased demand for space, higher rental rates, and potentially increased property values which can be amplified by other external factors such as infrastructure improvements and economic development initiatives like the 2022 CHIPs Acts.

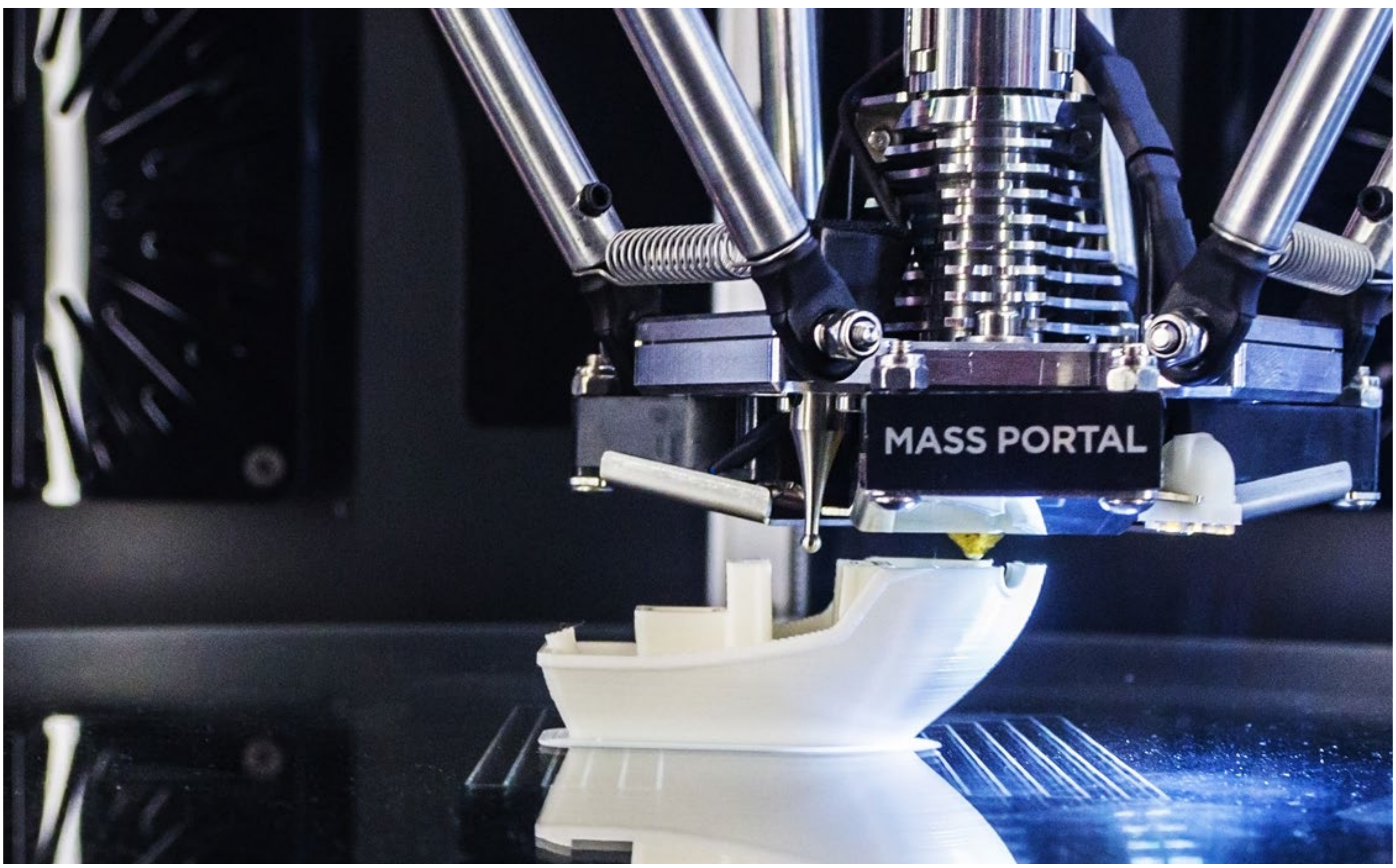
This new demand, coupled with a constrained supply chain, place the light industrial asset class in a strong position for growth through 2023.

1. Strong Momentum in E-Commerce Boom

- **Ongoing Expansion:** U.S. E-commerce grew 18.3% year-over-year in 2021[1]. Online retail sales could reach 29.5% by 2030 in the U.S.[2]
- **Changing Warehousing Expectations:** E-Commerce users utilize three times more warehouse space than traditional retailers – occupying smaller warehouses in well-positioned markets.
- **Location Optimization:** The ability to move products quickly with the shortest delivery times to the consumer is critical to the modern supply chain – increasing the value of lower clear-height product in infill locations.
- **Last Mile Advantage:** Urban hubs in the e-commerce supply chain shorten last mile distribution, saving not only on delivery cost but also helping meet sustainability goals by potentially saving up to 50% of greenhouse gas emissions[3]. Well-located and highly functional light industrial warehouses or properties reduce transportation costs and meet customer demand.
- **New Supply Chain Creations:** An efficient supply chain relies on vendor support from light industrial tenants.
- **The Halo Effect:** Strong e-commerce has been a boom to all supply chain sectors. Every job at big-box warehouses arguably produces three more jobs within a smaller multi-tenant industrial warehouse.

2. New Technologies and Innovations are Reinventing the Supply Chain

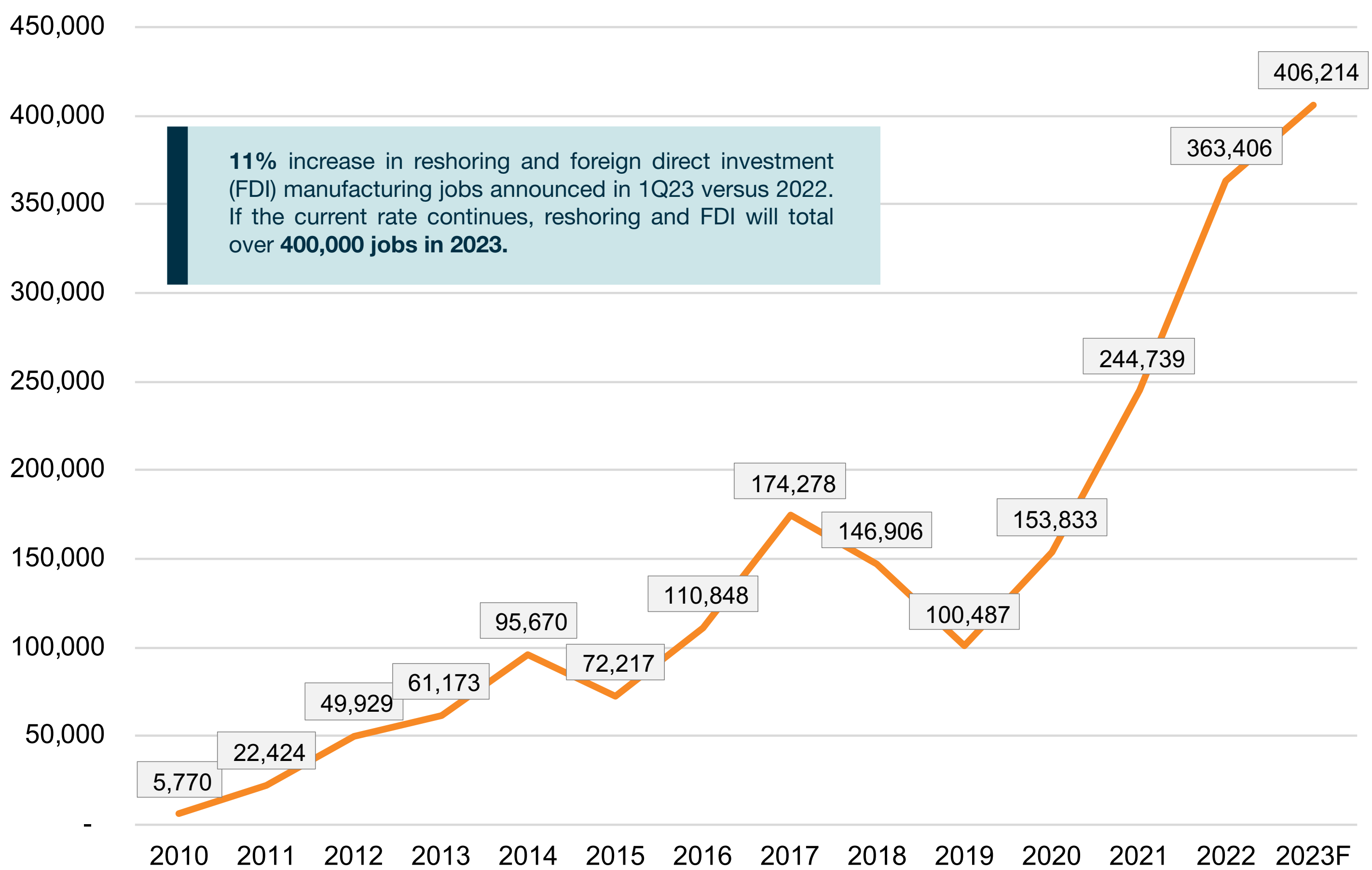
- **Automation on the Rise:** Automation, supply chain management, cloud computing, and artificial intelligence technologies will alleviate labor force shortages, improve efficiency, and provide valuable insight into warehouse movement.
- **Expansion to Smaller Facilities:** The warehouse automation market could grow 1.5 times by 2025 to $37.6 billion[4]. Automation solutions, already common in large fulfillment centers (e.g., Amazon, Walmart, Target), will be customized to accommodate smaller buildings.
- **Increase in Warehouse Efficiency:** Automation will bring savings that can offset the cost of warehouses in urban cores, closer to customers, generating exponential demand for light industrial space.
- **3D Printing Has Been a Game Changer:** Rapidly advancing technology has revolutionized traditional manufacturing practices, making them more efficient and cost-effective. 3D printing has enabled companies to operate on a much smaller scale with the same production capabilities as before - producing goods once requiring 500,000 square feet of space is now achievable in only 10,000 square feet.
- **On-Demand Production:** 3D printing lessens the need for spare parts inventories by enabling the on-demand production of goods from digital files. With 3D printing, you don't need molds or fixed tooling, allowing mass customization.
- **Multi-Tenant Light Industrial in Growing Demand:** With less space for even advanced manufacturing, tenants find the multi-tenant light industrial asset more attractive as one machine can make multiple parts.
- **Flexible Zoning Required:** These businesses often locate their office, manufacturing, and warehouse functions within a single unit, and the only Zoning that allows them to do that is light industrial.



3. Manufacturing Responds to Supply Chain Disruption

- **Manufacturing Growth Spike:** The COVID-19-induced supply chain bottlenecks and port jams forced manufacturers to reevaluate their offshore production capabilities.
- **Large Manufacturers Onshoring:** At the risk of further supply chain disruption, private and public sectors continue pursuing domestic manufacturing efforts at a record pace.
- **Reshoring is on the Rise:** In 2022, U.S. companies reshored over 350,000 jobs, representing a 25% increase from 2021[5]. In addition, U.S. manufacturing reshoring in the advanced manufacturing sector has impacted industrial demand through a significant increase in new manufacturing-plant development.
- **Record Job Creation:** Reshoring and foreign direct investment (FDI) manufacturing job announcements are continuing to outpace recent records, adding 101,500 jobs in 2023 Q1. By year end 2023, the cumulative number of jobs brought back since the manufacturing low in 2010 will reach two million or about 40% of what we lost to offshoring.[6]
- **Support Network Utilizes More Industrial Space:** Supplying and supporting these and other new manufacturing plants will lead to greater demand for mining, manufacturing, warehousing, and distribution space, which is often composed of vendors found within the multi-tenant light industrial space. This demand from a high-quality tenant base will lead to a growth in rental rates.

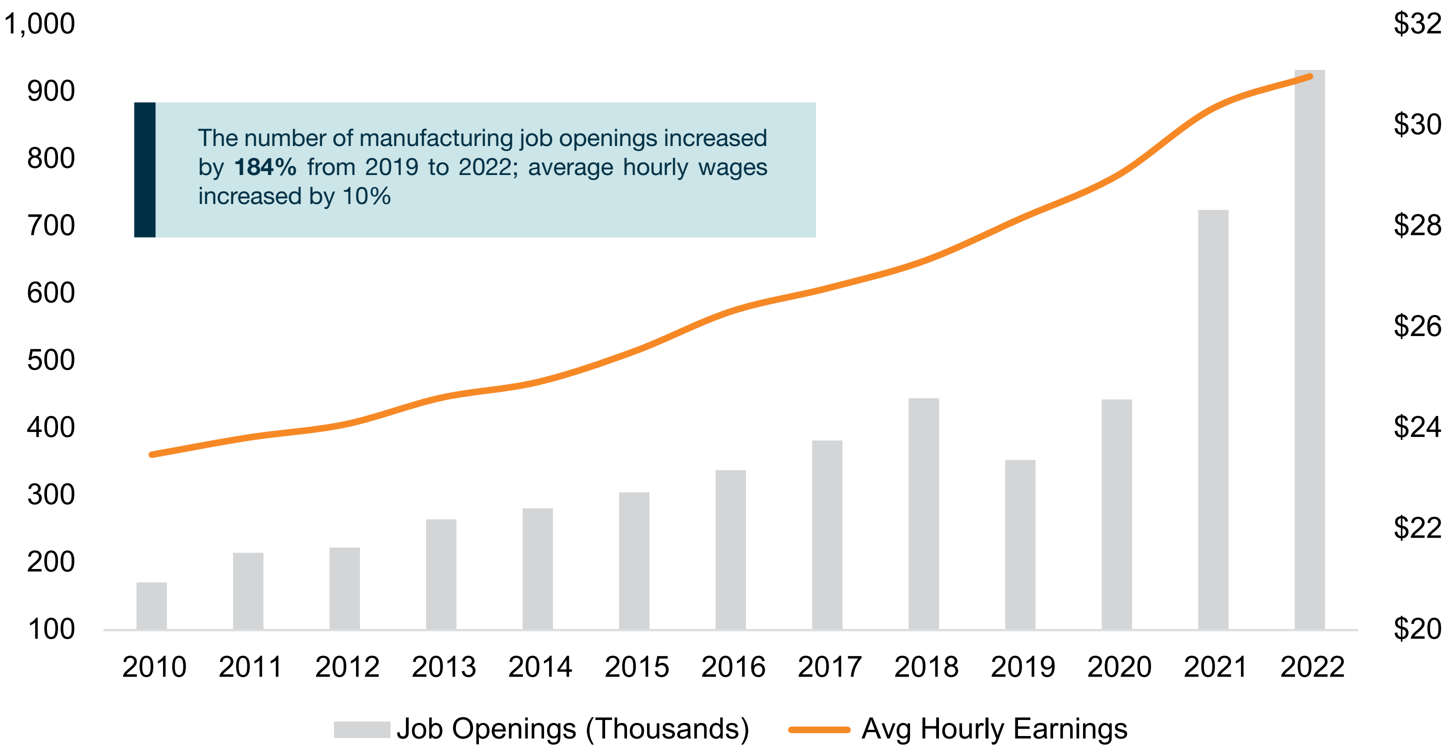
Manufacturing Job Announcements per Year, Reshoring + FDI, 2010 through 2023 Projected



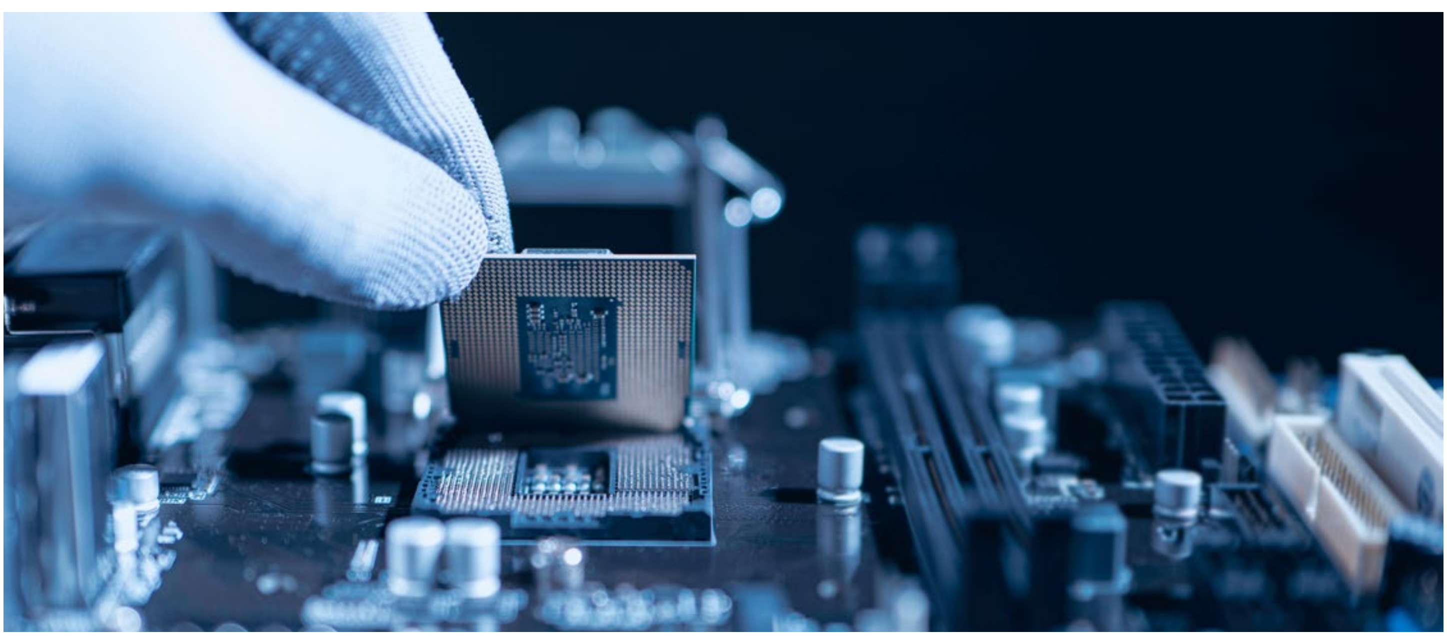
Source: The Reshoring Initiative 1Q20232

While manufacturing employment in the United States remained subdued in the first decade of the 21st century, there has been a significant spike as the trend of reshoring operations continues to dominate the industry. While the number of new openings has risen since 2020, so has the average hourly rate as manufacturers attempt to attract and retain top talent.

Manufacturing Job Openings & Wage Growth



Sources: JLL Research, Bureau of Labor Statistics, August 2022



ONSHORING & RESHORING - NOTABLE ACTIVITY

- Electrical equipment remains the top industry reshoring due to continuing large investments in EV batteries. The industry moved from 42% of total jobs announced in 2022 to 47% in 2023 Q1.[7] As local supply chains strengthen from the recent large investments, we expect a trickle-down effect of more job creation in a broad range of industries.
- Intel announced an initial $20+ billion investment in constructing two new semiconductor chip factories in Ohio and two in Arizona in early 2022.
- Since congress passed the CHIPS Act in 2022, Taiwan Semiconductor Manufacturing Co has built two chip plants in Arizona, with its current investment in the state totaling $40 billion.
- Semiconductor manufacturer, Micron has committed $100BB to produce a plant in Clay, New York, creating up to 50,000 jobs.

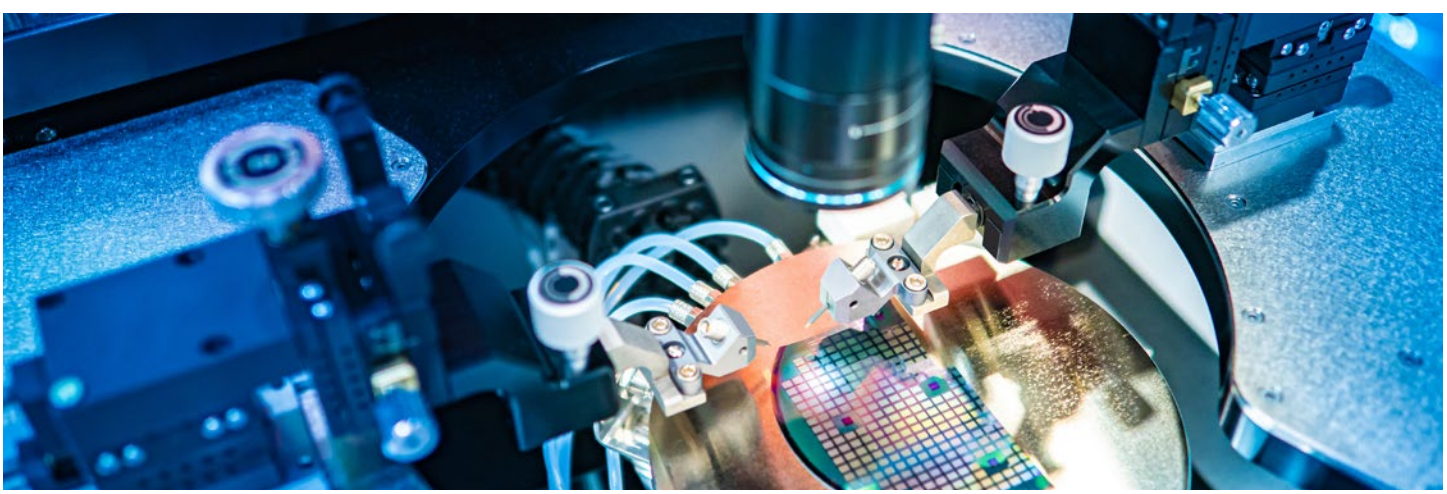
Top Semiconductor Companies	Micron - NY	TSMC - AZ	Texas Inst. - TX	Intel - OH	IBM - NY
Total Dollars Invested	**$100B**	**$40B**	**$30B**	**$20B**	**$20B**

U.S MANUFACTURERS ONSHORING & RESHORING[8]

# of Businesses	Total Dollars	Total Employees	Top Locations
49	**$319B**	**128,591**	**NY, AZ, TX**

MANUFACTURERS ONSHORING & RESHORING - BKM MARKETS[8]

# of Businesses	Total Dollars	Total Employees	Top Locations
14	**$122.3B**	**18,965**	**TX, AZ, UT**



MANUFACTURERS ONSHORING & RESHORING

Company	Industry	Announced	City	State	Dollars Invested	Direct Jobs Created	Indirect Jobs Created[1]
Eastern Region							
New Balance	Footwear	12/14/22	Skowhegan	ME	$65,000,000	200	1,600
Micron	Semiconductor	10/17/22	Clay	NY	$100,000,000,000	50,000	400,000
IBM	Semiconductor	10/7/22	Poughkeepsie	NY	$20,000,000,000	1,000	8,000
Subtotal Eastern					**$120,065,000,000**	**51,200**	**409,600**
Northern Region							
SkyWater Technology	Semiconductor	7/20/22	Tippecanoe	IN	$1,800,000,000	750	6,000
Panasonic Holdings	Electrical Equipment/Applainces	7/14/22	Various	KS	$4,000,000,000	4,000	32,000
Ultium Cells	Electrical Equipment	12/12/22	Various	MI,OH,TN	$2,500,000,000	11,000	88,000
Pfizer, Inc.	Pharmaceuticals	12/5/22	Kalamazoo	MI	$750,000,000	300	2,400
Intel	Semiconductor	1/20/22	New Albany	OH	$20,000,000,000	6,000	48,000
Honda/LG Energy Solutions	Electrical Equipment/Appliances	1/14/23	Jeffersonville	OH	$3,500,000,000	2,200	17,600
Abbott Laboratories	Healthcare	12/15/22	Bowling Green	OH	$536,000,000	450	3,600
Excellerate	Microgrids	11/14/22	Little Chute	WI	$20,000,000	275	2,200
Subtotal Northern					**$33,106,000,000**	**24,975**	**199,800**
Southern Region							
Novelis	Aluminum	10/15/22	Baldwin County	AL	$2,500,000,000	1,000	8,000
First Solar	Photovoltaic Solar	11/30/22	Lawrence County	AL	$1,100,000,000	700	5,600
Mercedes-Benz	Automotive Manufacturer	3/15/22	Bibb County	AL	$1,000,000,000	600	4,800
Hyundai Motor Company	Automotive Manufacturer	12/20/22	Savannah	GA	$5,500,000,000	8,100	64,800
Hyundai Motor Company/SK	Battery Manufacturer	12/20/22	Atlanta	GA	$5,000,000,000	3,500	28,000
FREYR Battery	Battery Manufacturer	11/11/22	Coweta County	GA	$2,600,000,000	723	5,784
Hanwha Qcells	Photovoltaic Solar	1/11/23	Cartersville	GA	$2,500,000,000	2,500	20,000
Denkai America	Metals	8/3/22	Augusta	GA	$430,000,000	250	2,000
Kubota North America	Industrial Equipment	7/1/22	Gainsvill	GA	$140,000,000	500	4,000
Norma Precision, Inc.	Ammunition	11/11/22	Bryan County	GA	$60,000,000	600	4,800
Sewon America, Inc.	Automotive	2/23/23	Rincon	GA	$300,000,000	740	5,920
SK Innovations Co.	Electrical Equipment/Appliances	12/5/22	Elizabethtown	KY	$5,800,000,000	5,000	40,000
Nucor Corporation	Steel	1/6/23	Brandenburg	KY	$1,700,000,000	400	3,200
Toyota/Panasonic	Automotive/Electronics	8/31/22	Various	NC	$2,500,000,000	350	2,800
Believer Meats	Meat Production	12/8/22	Wilson County	NC	$123,350,000	100	800
Catalent	Pharmaceuticals	12/14/22	Durham	NC	$40,000,000	200	1,600
Altex Heat Exchanger Ltd.	Tubing	7/27/22	Columbus	SC	$110,000,000	58	464
Envision AESC	Battery Manufacturer	12/6/22	Florence	SC	$810,000,000	1,170	9,360
Scout Motors, Inc.	Automotive Manufacturer	3/8/23	Columbia	SC	$2,000,000,000	4,000	32,000
The BMW Group	Automotive Manufacturer	10/22/22	Woodruff/Greer	SC	$1,700,000,000	300	2,400
Albemarle	Chemical Manufacturer	3/22/23	Columbia	SC	$1,300,000,000	N/A	N/A
Redwood Materials	Battery Recycling/Manufacturer	12/27/22	Charleston	SC	$3,500,000,000	1,500	12,000
Cirba Solutions	Battery Recycling	3/22/23	Columbia	SC	$300,000,000	300	2,400
LG Chemicals	Primary Metal Products	12/12/22	Clarksville	TN	$3,200,000,000	860	6,880
Subtotal Southern					**$44,213,350,000**	**33,451**	**267,608**
Western Region							
Taiwan Semiconductor	Semiconductor	12/6/22	Phoenix	AZ	$40,000,000,000	1,600	12,800
American Battery Factory	Battery Manufacturer	12/2/22	Tucson	AZ	$1,200,000,000	1,000	8,000
Sion Power Corporation	Battery Manufacturer	12/8/22	Tucson	AZ	$341,000,000	150	1,200
ElectraMeccanica Vehicles	Electric Vehicles	12/12/22	Mesa	AZ	$35,000,000	350	2,800
Entegris	Semiconductor	12/20/22	Colorado Springs	CO	$600,000,000	600	4,800
Pratt Industries	Corrugated Packaging	11/14/22	Various	KS,KY,TX	$5,000,000,000	5,000	40,000
TESLA	EV	1/25/23	Sparks	NV	$3,600,000,000	3,000	24,000
Ioneer Ryolite Ridge	Battery Manufacturer	1/14/23	Esmeralda County	NV	$700,000,000	500	4,000
Texas Instruments	Semiconductor	5/31/22	Sherman	TX	$30,000,000,000	3,000	24,000
Samsung	Semiconductor	11/24/21	Taylor	TX	$17,000,000,000	2,000	16,000
Chevron Phillips/QatarEnergy	Petrochemical	11/16/22	Orange	TX	$8,500,000,000	500	4,000
Air Products and Chemicals	Chemicals	12/8/22	Wilbarger County	TX	$4,000,000,000	315	2,520
Fujifilm Holdings Corporation	Chemicals	12/14/21	College Station	TX	$300,000,000	150	1,200
Texas Instruments	Semiconductor	2/17/23	Lehi	UT	$11,000,000,000	800	6,400
Subtotal Western					**$122,276,000,000**	**18,965**	**151,720**
Total					**$319,660,350,000**	**128,591**	**1,028,728**

[1]*Source: Emsi. Sector-level multipliers are a weighted average of multipliers of all 6-digit industries in that sector.*

Sources

[1]*Census Bureau of the Department of Commerce "Quarterly Retail E-Commerce Sales" – November 18, 2022*

[2]*CBRE "U.S. Real Estate Market Outlook 2023 – Industrial & Logistics" – December 2, 2022*

[3]*Prologis Research "Logistics Real Estate and E-Commerce Lower The Carbon Footprint of Retail" – January 14, 2021*

[4]*2021 Research & Markets "Warehouse Automation – Robots, Technologies, and Solutions Market 2021-2030"*

[5]*Bloomberg "US Manufacturers 'Pumped Up' About Supply-Chain Reshoring Trend" – November 1, 2022*

[6]*Reshoring Initiative 1Q23*

[7]*Reshoring Initiative 1Q23*

[8]*Represents the most significant reshoring deals completed between July 2022 and January 2023. BKM Markets include AZ, CA, CO, NV, OR, TX, UT, and WA.*

ABOUT THE AUTHOR

BKM Capital Partners was founded in 2013. Headquartered in Newport Beach, California, BKM Capital Partners is a leading real estate operator and fund manager specializing in the acquisition and improvement of value-add light industrial multi-tenant properties in major markets across the Western U.S. The firm has 13 offices and over 90 employees and continues to produce top quartile performance for its investors.

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