



BKM Capital Partners

Bigger is Not Always Better

THE ADVANTAGE OF SMALL-BAY INDUSTRIAL



BKM INTEL | THOUGHT LEADERSHIP SERIES

SMALL-BAY PROPERTIES OUTPACING BULK WAREHOUSES

The performance of well-located light industrial properties continues to surpass that of larger bulk warehouses across a diverse set of fundamentals, fueled by local economic activity, urban population growth, and consumer expectations for same-day delivery. Ongoing and emerging tailwinds including the surge in e-commerce and manufacturing, a global supply chain re-balance, and loosening monetary policy all have contributed to light industrial's sustained growth, trends that are expected to continue well into 2025.

Light-industrial properties under 100,000 square feet represent approximately 42% of the total U.S. warehouse inventory, with a remarkably low vacancy rate of around 4%.¹ In contrast, big-box warehouses show significantly higher vacancy rates—nearly 175% higher—largely due to speculative deliveries, 51% of which exceeded 300,000 square feet nationally.²

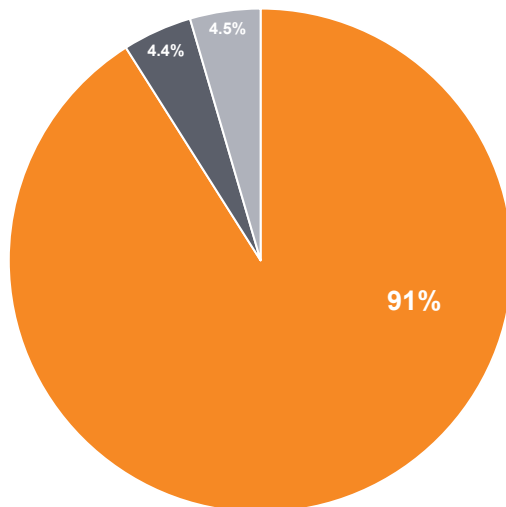
As a result, rents for small-bay industrial properties have risen to an average of \$10.94 per square foot, compared to rates of \$7.50 per square foot for warehouses over 100,000 square feet.³ Notably, leases under 100,000 square feet accounted for 95.4% of all leasing activity in 2024.¹

New development in the light industrial sector has been highly constrained, with construction starts representing just 3% of total industrial construction.⁴ This limited supply stems from challenges such as high land and construction costs, as well as competition for smaller parcels in densely populated areas.

The robust demand for smaller warehouse spaces will likely persist, driven by retailers and logistics operators expanding their networks to enhance proximity to consumers to meet their growing needs. Consequently, fundamentals for light industrial properties are expected to outpace that of larger bulk warehouses.

Size Range Share in Number of Leases Transacted

January 2024 - October 2024



- Number of Leases Signed 50K-100K SF
- Number of Leases Signed Under 50K SF
- Number of Leases Signed Over 100K SF

Source: CoStar, Newmark Research, October 2024.

Figure 1: Industrial Warehouse Availability Rates by Building Size Segment

- » Light industrial properties make up a significant portion of total industrial inventory, but still remain scarce with historically narrow vacancy rates. Any resulting increase in supply from the construction pipeline will have negligible effects on vacancy, even in downside scenarios.

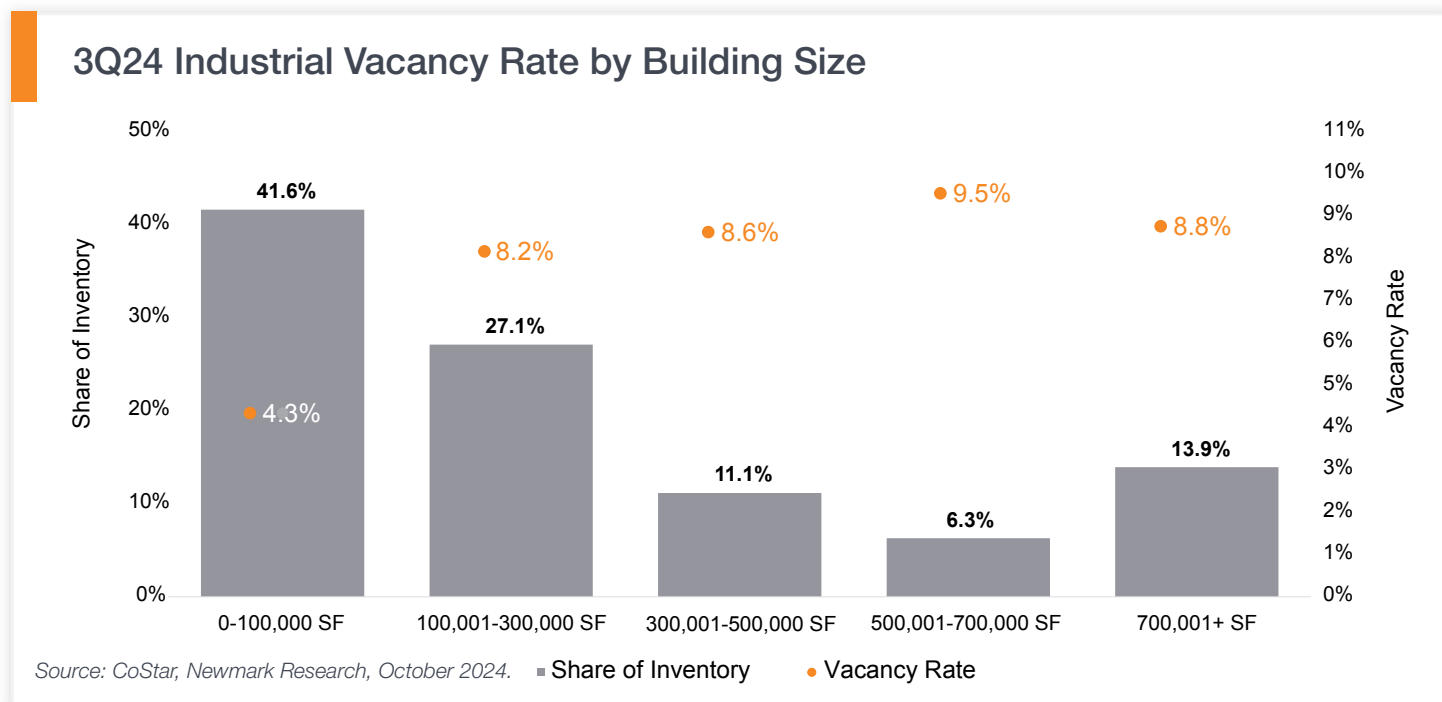


Figure 2: Industrial Leasing Market Dominated by Smaller Leases

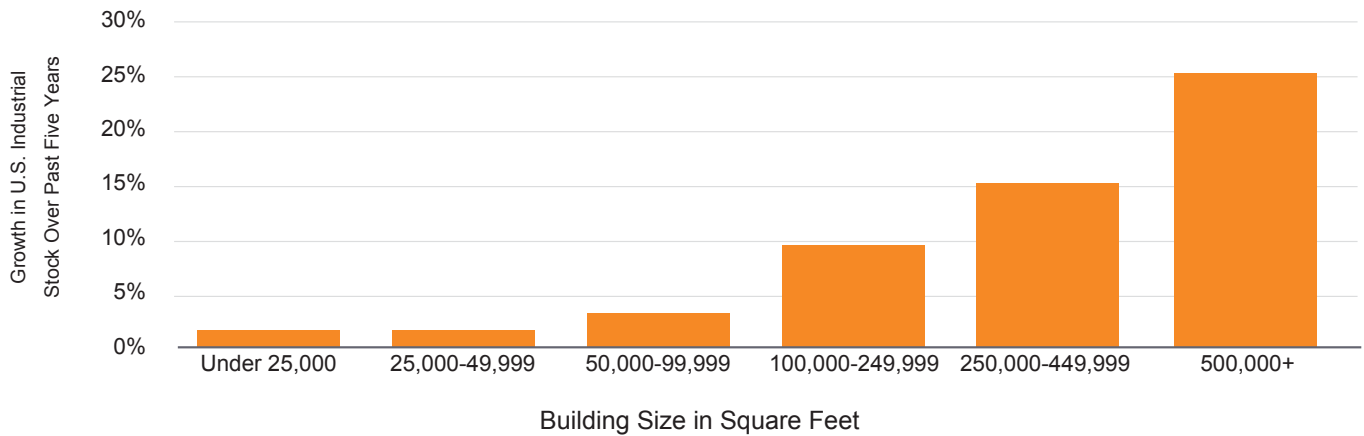
- » Tenant space requirements are shrinking with the advancement of technology and the increased popularity of micro fulfillment centers—a byproduct of evolving consumer demand. This shift has resulted in a decrease in the average lease size over the past few years, with leases under 100,000 SF dominating the leasing market in 2024.



Figure 3: Construction Pipeline, Small vs. Large Warehouses

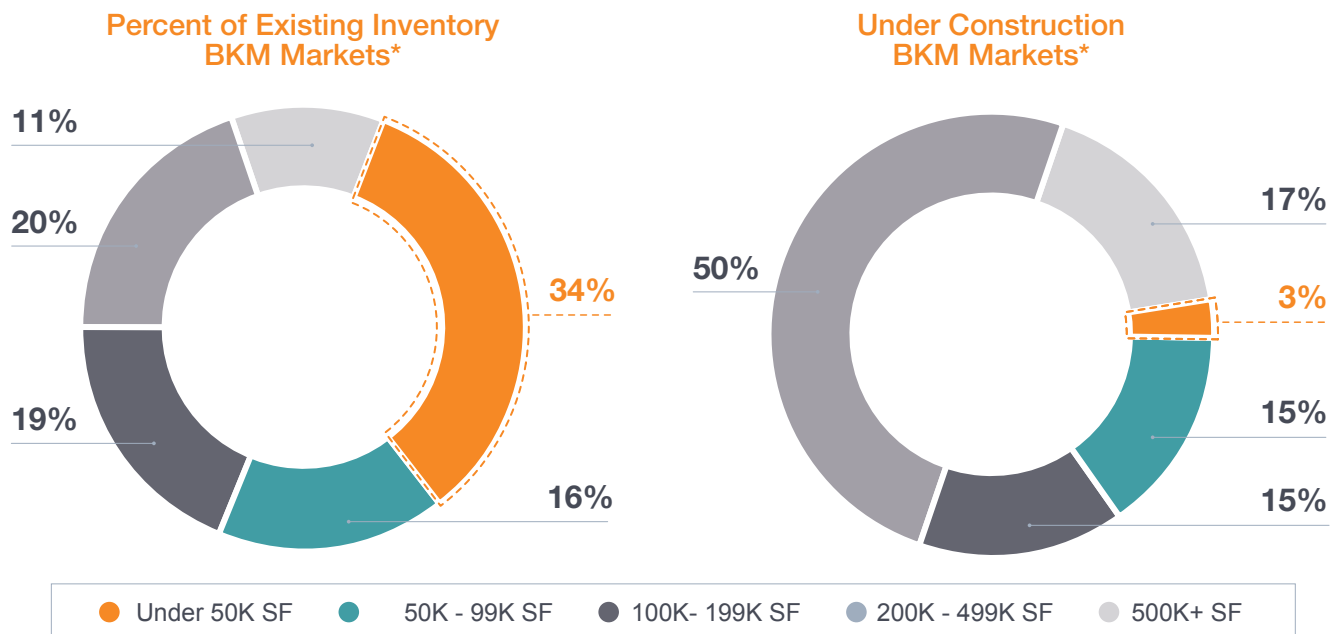
- » The small-bay sector has one of the lowest availability rates as it relates to the construction pipeline, emphasizing the high barriers to entry for the product type and resulting scarcity of available space.
- » The stock of industrial properties measuring smaller than 100,000 square feet has only grown an average of 3% cumulatively over the past five years, while growth in the stock of industrial properties sized 100,000 square feet or larger has grown more than five times as quickly, by an average of 16%.

Industrial Development Focused on Larger Properties



Source: CoStar, February 2024.

Light Industrial Supply

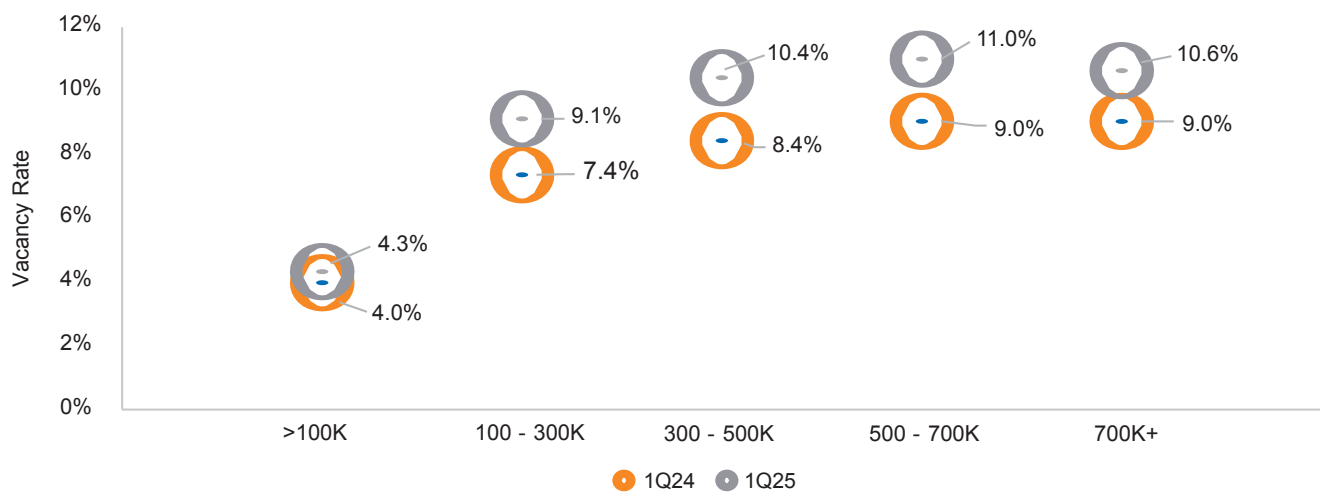


Source: CoStar, October 2024. *Represents markets BKM is actively investing in.

Figure 4: Vacancy Rate Projections by Size Range, Downside Scenario

- » In a downside scenario, small bay industrial shows the smallest vacancy increase of only 0.3%, 83% less than the average increase for all other size segments. This reinforces the notion that any future deliveries for the segment will have minimal effects on vacancy.
- » Multi-tenant industrial properties offer protection against tenant credit risk through extensive diversification, ensuring resilience during economic downturns and consistently delivering strong yields.

Vacancy Rate Projections by Size Range, Downside Scenario



Source: Newmark Research, April 2024.



SOURCES

¹Newmark Research, Q3 2024

²Cushman and Wakefield, Q4 2024

³Dovhertz.com, Q4 2024

⁴CoStar, Q1 2024



ABOUT THE AUTHOR

BKM Capital Partners is a proven real estate fund manager and operator focused exclusively on investing in multi-tenant light industrial and multi-use logistics properties in the Western United States. Headquartered in Newport Beach, CA, with over 100 employees in 13 offices, BKM Capital Partners implements a value-add strategy targeting under-managed and under-capitalized assets. The team has invested over \$4.5 billion in over 120 small and mid-bay light industrial properties since 2013. 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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