BKM Capital Partners

Q2 2026

# LIGHT INDUSTRIAL MARKET UPDATE

AUGUST 2026


# BKM INTEL

THOUGHT LEADERSHIP SERIES

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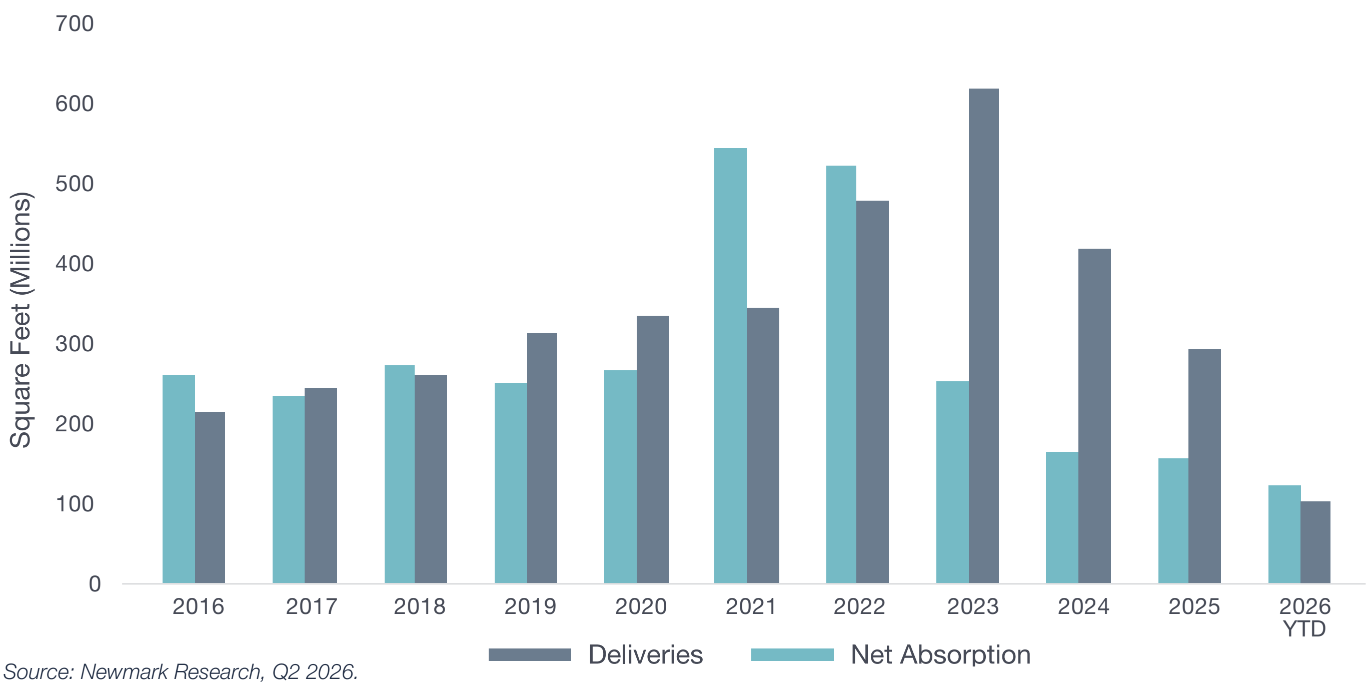
## NORMALIZATION IS DRIVING A HEALTHIER INDUSTRIAL MARKET

So far, 2026 has been a year of normalization for the industrial sector, as occupier priorities shift and fundamentals continue to reset following prior years of rapid expansion. Continued geopolitical uncertainty and changing economic conditions have prolonged decision-making and forced businesses to reevaluate operational strategies. As uncertainty persists across the U.S. economy, occupiers can no longer afford to delay critical decisions, leaving them to focus on operational resilience and supply chain efficiency to insulate themselves from future volatility. We are seeing this shift translate into sector fundamentals through renewed deal activity, improved net absorption, and stronger demand from tenants seeking flexible, well-located space.

The proof is in the numbers: New leasing in Q2 outpaced any quarter in the prior three years, measuring 175 million square feet, 49% higher than Q2 2025.[1] New leasing and renewals maintained a relatively balanced distribution, reflecting both new demand as well as an increase in decision-making among current occupiers. As the year progresses and a wave of COVID-era leases comes to term, a larger push in leasing velocity is expected.

Overall absorption also made headlines, surging to a total of 167 million square feet in Q2—nearly doubling the prior quarter.[1] Significant contributions from recent speculative project completions signal renewed industrial demand beyond build-to-suit and owner-user activity, enhancing landlord pricing power for modern, high-quality assets. Combined with a receding supply pipeline, net absorption has surpassed deliveries for the first time since 2022, reinforcing improving market fundamentals and easing total vacancy for two consecutive quarters.

### ABSORPTION SURPASSES DELIVERIES FOR THE FIRST TIME SINCE 2022




*Source: Newmark Research, Q2 2026.*

Capital market indicators reflect a similar sentiment. The industrial sector has seen the greatest price appreciation while maintaining the lowest commercial mortgage delinquency rate of any major asset class, reflecting continued investor confidence and demonstrating strong underlying property performance. Pricing trends further reinforce this outlook, with top-quartile cap rates hovering near 5.5% amid broader market stabilization.[2]

*[1]JLL, Q2 2026. [2]Newmark Research, Q2 2026.*

## THE NEW INDUSTRIAL ERA: A TALE OF MANY SIZES

Drilling deeper into the industrial sector's performance, however, reveals a more nuanced story—one that differs depending on the size segment and inventory age. Though big-box industrial is making a comeback after a multi-quarter decline, multi-tenant light industrial remains the standout performer across nearly every category. Vacancy for these assets still hovers close to historic lows, while leasing activity remains heavily concentrated in smaller spaces. As the supply-demand imbalance continues to widen for multi-tenant light industrial, the segment is poised for continued success even in today's challenging economic environment.

Performance is further enhanced by assets that meet the needs of today's tenant base: modern, efficient facilities that provide sufficient power, efficient loading, and high-quality finishes and amenities. Because new small-bay development is extremely limited, existing buildings are aging and require significant upgrades to accommodate evolving tenant expectations. Operators who deliberately underwrite significant capex into their deals will not only attract greater market demand but will also enhance NOI and overall property-level returns, further strengthening performance in an already high-performing sector.

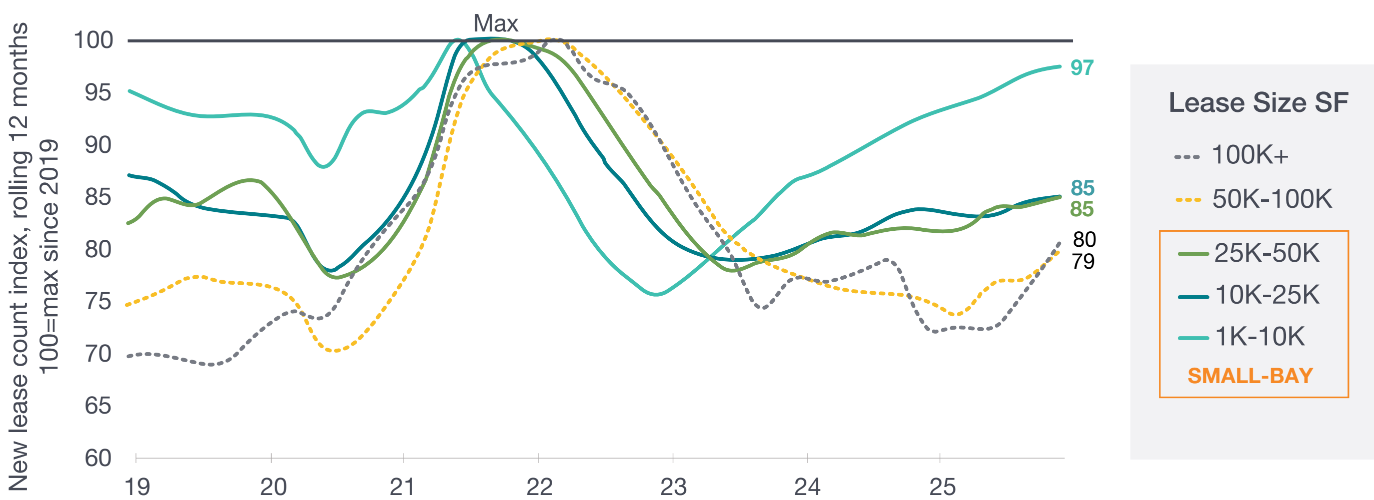

Mt. Diablo Industrial Park | Concord, CA

# THE FUNDAMENTALS DRIVING SMALL-BAY DEMAND

## OUTSIZED DEMAND FOR SMALLER SPACES

Demand for multi-tenant light industrial assets has consistently outperformed that of larger-format properties. On average, **70-80% of all leases transacted are under 50K SF,** despite the size segment comprising only 31% of all industrial inventory.[1]

## MULTI-TENANT LIGHT INDUSTRIAL LEASING OUTPERFORMS OTHER SIZE SEGMENTS




*Source: CoStar, February 2026. Note: The analysis is limited to logistics properties.*

## CONSTRAINED NEW SUPPLY

One of the most compelling aspects of small-bay investment is the lack of new supply and highly constrained construction pipeline. **Only 7% of new industrial supply is under 50K SF,** limiting supply risk and contributing to low vacancy figures.[2]

## STRONG RENT GROWTH

Rents in the sector have shown near-constant growth over the past decade, surging during COVID-19 but moderating in recent quarters. **National small-bay rents have increased 50% on average, with select markets experiencing 50-80% growth during the 2020-2022 period alone.**[3,4]

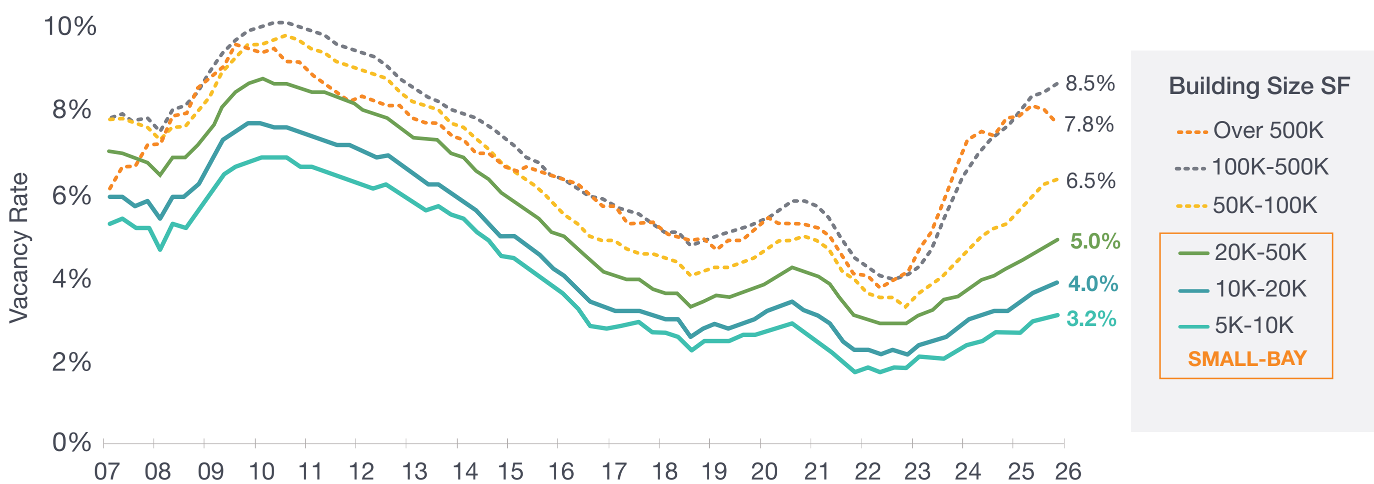
*[1]Newmark Research, BKM Intel, Q1 2026. [2]CoStar, Q1 2026. [3]CBRE, Q1 2026. [4]As of Green Street's Q1 2023 M-RevPAF forecast, which shows cumulative industrial rent growth from 2020-2022. The M-RevPAF growth combines changes in effective rents and occupancies into a single measure.*

# THE FUNDAMENTALS DRIVING SMALL-BAY INVESTMENT PERFORMANCE

## TIGHT VACANCY

The starkest contrast between small-bay and big-box industrial is the vacancy rate. **Buildings under 50K SF only carry an average 4% vacancy—47% lower than the average across all other size segments**—while larger facilities have vacancy rates around 8%.[1]

## YEARLY INDUSTRIAL VACANCY RATE BY BUILDING SIZE




*Source: CoStar, March 2026.*

## INVESTMENT MARKET REBOUND

The broader industrial sector has experienced significant sales growth over the past year, though multi-tenant light industrial assets have outperformed. Industrial sales volume grew 37% YoY in Q2 2026, marking the second-best H1 on record.[2] **Deals under $100 million have accounted for 70% of all industrial investment sales over the past four quarters.[3]**

## SALE PRICE PREMIUM

Perhaps the most notable distinction in capital markets is the pricing premium commanded by smaller industrial assets. **Buildings under 50K SF trade at an average of $147 PSF, a 36% premium over larger-format properties,** which average $108 PSF.[4] This premium reflects the sector's resilient occupancy, limited new supply, and durable tenant demand.

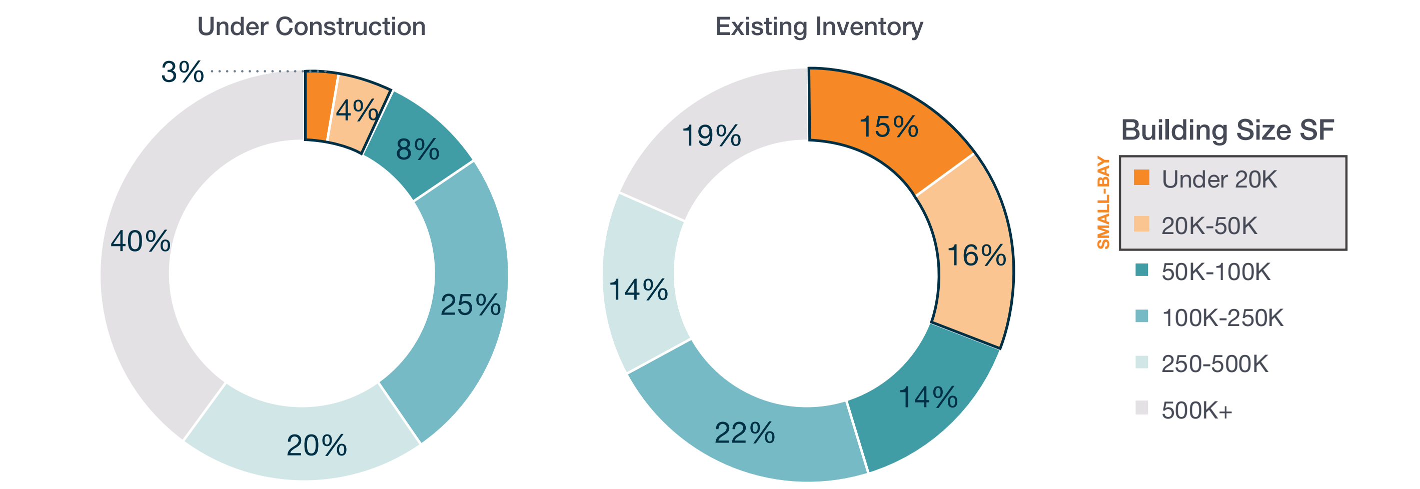
*[1]CoStar, Q1 2026. [2]Savills Research, Q2 2026. [3]Newmark Research, Q1 2026. [4]CoStar, Q2 2026.*

## THE SMALL-BAY SUPPLY GAP CONTINUES TO WIDEN

- **The industrial supply wave is receding, with the construction pipeline down 61% from its 2022 peak.**[1] New supply remains heaviest in Sun Belt markets, while coastal markets continue to experience restrained supply pipelines due to limited land availability and higher development costs.
- **New construction is increasingly focused on build-to-suit projects, which accounted for nearly 27% of all industrial projects under construction in Q1 2026, 42% higher than in 2024.**[1]
- Just 36 million square feet of small-bay assets are currently under construction nationwide, **representing less than 0.3% of total industrial inventory.**[2]
- **Approximately 83% of small-bay inventory was built before 2000,** reinforcing the lack of new small-bay construction and creating significant repositioning potential for value-add operators.[3]
- **Properties built since 2010 account for only 5% of small-bay inventory,** reflecting minimal new supply relative to the size of the existing stock.[3]
- Existing small-bay assets represent 31% of total industrial inventory, yet **accounts for only 7% of the current construction pipeline.**[4]

*[1]Savills Research, Q2 2026. [2]CoStar Research, Q2 2026. [3]CBRE Research, Q1 2026. [4]CoStar Research, Q1 2026.*

### UNDER CONSTRUCTION AND EXISTING INVENTORY SUPPLY BY BUILDING SIZE




*Source: CoStar, March 2026.*

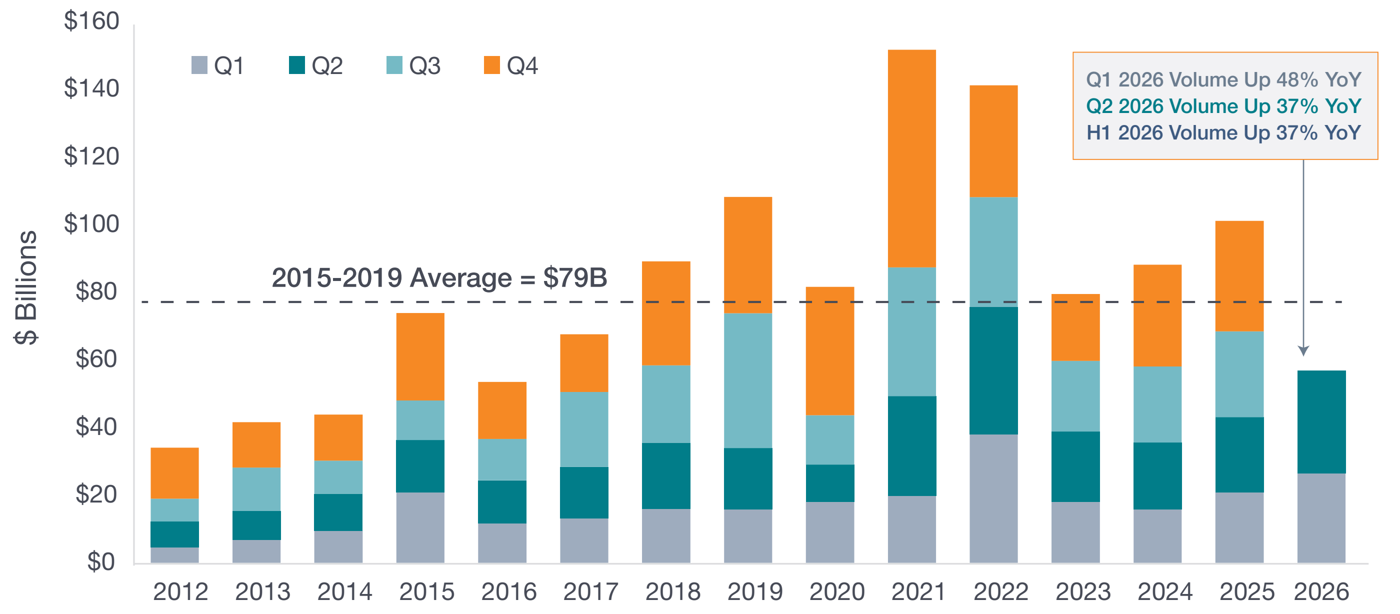
Columbia Commerce Park | Portland, OR

## TRANSACTION VOLUME RETURNS TO PRE-PANDEMIC STRENGTH

+ **2026 H1 sales reached $64.7 billion, the second-strongest first half on record** and up sharply from a year ago.[1]
+ Industrial is the only major property sector to record transaction volume above its 2015-2019 average, with **activity now exceeding pre-pandemic benchmarks.**[2]
+ The industrial sector led all major property types with the largest YoY increase in median transaction price per square foot, **rising 11.8% to $110 PSF in Q1 2026.**[3]

*[1]Savills Research, Q2 2026. [2]Oxford Economics; MSCI Real Assets, Q2 2026. [3]Altus Group, Q1 2026.*

### HISTORICAL INDUSTRIAL AND LOGISTICS TRANSACTION VOLUMES




*Source: JLL Research, Q2 2026.*

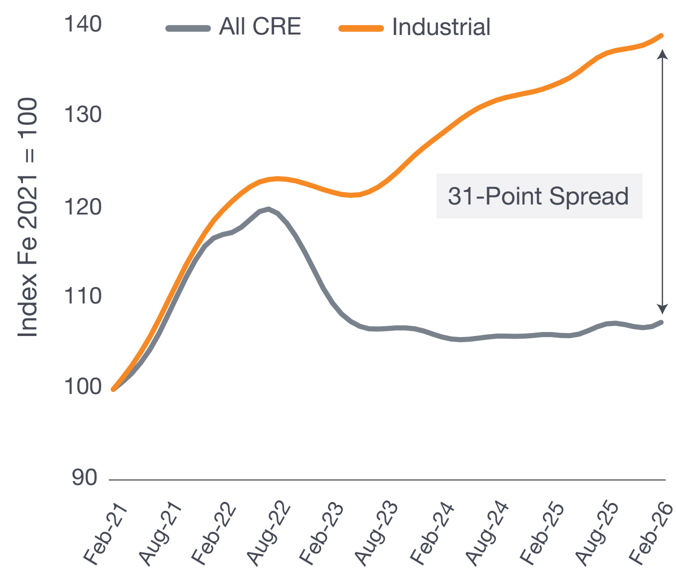

Rose Garden Business Park | Phoenix, AZ

# INDUSTRIAL PRICING HOLDS FIRM WITH LIMITED DEBT DISTRESS

+ Industrial continues to exhibit the strongest credit fundamentals among major property types, with a **CMBS delinquency rate of just 0.7%, compared to an average of 8.2% across all other sectors.**[1]
+ **Industrial prices are up 39% from 2021,** while all other sectors have seen less than 10% growth during the same time period.[1]
+ Stabilized cap rates in the mid-5% range reflect increased investment discipline and a more normalized pricing environment. **In 2025, only 7% of industrial transactions traded at cap rates below the 10-Year Treasury yield, down from 19% in 2023,** reflecting a renewed emphasis on in-place cash flow and asset fundamentals.[2]

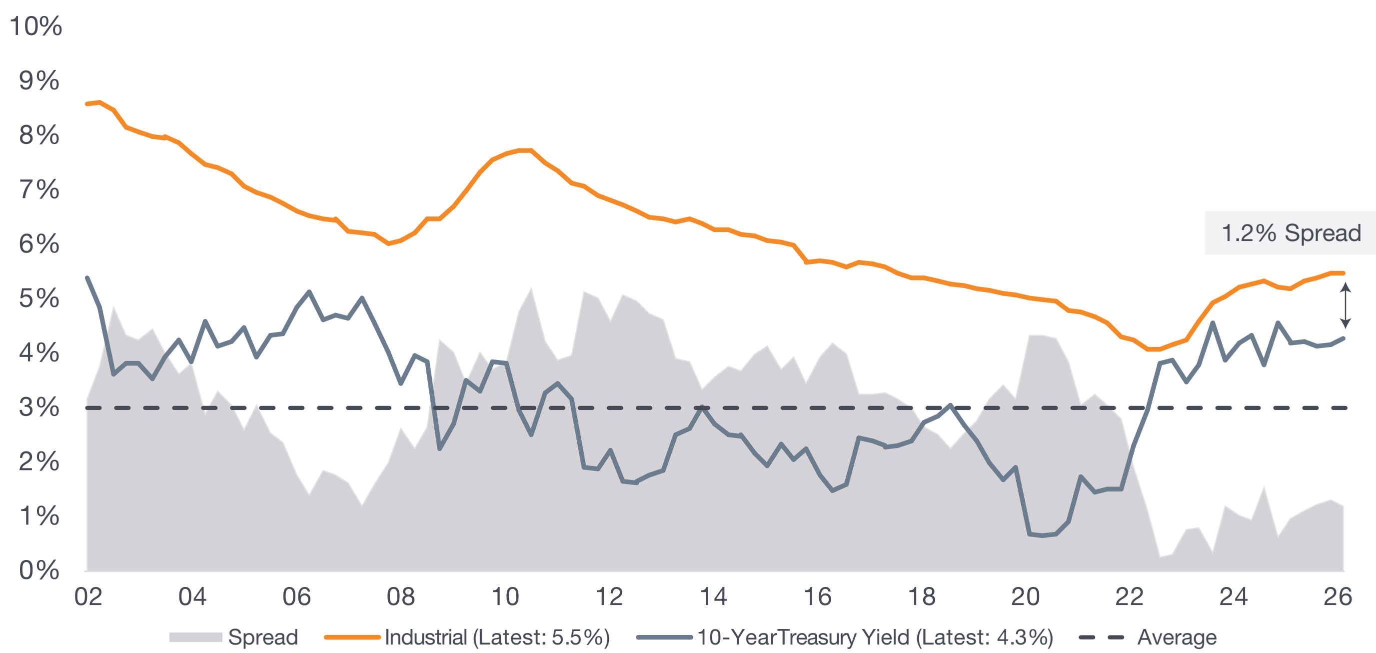
*[1]Savills Research, Q1 2026. [2]Newmark Research, Q1 2026.*

## COMMERCIAL PROPERTY PRICE INDEX (CPPI)




*Source: MSCI / Real Capital Analytics, Trepp, February 2026.*

## TOP QUARTILE TRANSACTION CAP RATE VS. 10-YEAR TREASURY




*Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's, April 2026. *Quarterly*

# FUTURE OUTLOOK

## SMALL-BAY INDUSTRIAL REMAINS THE CLEAR WINNER

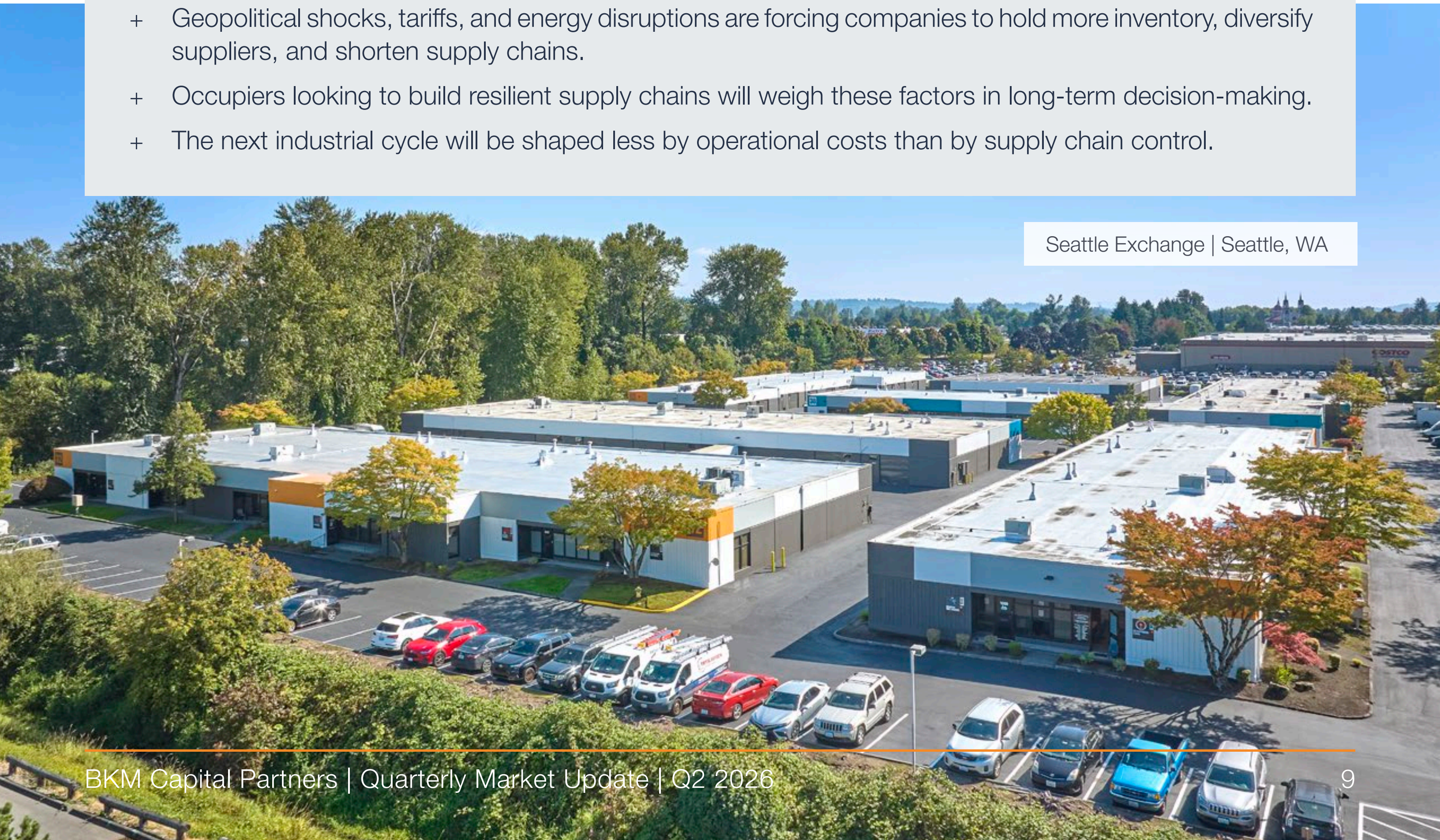
+ As businesses prioritize efficiency and as technology advances, space requirements are shrinking, driving demand toward smaller, highly functional industrial suites.
+ Institutional investors are increasingly targeting the sector, attracted by durable occupancy, fragmented ownership, and resilient cash flows.
+ Operational sophistication continues to distinguish top performers, giving specialized operators with local market expertise and hands-on asset management capabilities a clear advantage.

## SCARCITY IS REPLACING GROWTH AS A PRIMARY DRIVER OF VALUE

+ Future winners will be defined less by rent growth and more by asset irreplaceability.
+ Land costs, power constraints, and lack of developable urban land are making infill industrial increasingly difficult to recreate.
+ Existing small-bay properties in Tier I and Tier II markets are becoming valuable infrastructure. Strategic capital expenditures further enhance the value of aging light industrial inventory, positioning skilled value-add operators at the top of the market to capture new demand.

## SUPPLY CHAIN RESILIENCE IS THE NEWEST COMPETITIVE ADVANTAGE

+ Geopolitical shocks, tariffs, and energy disruptions are forcing companies to hold more inventory, diversify suppliers, and shorten supply chains.
+ Occupiers looking to build resilient supply chains will weigh these factors in long-term decision-making.
+ The next industrial cycle will be shaped less by operational costs than by supply chain control.



Seattle Exchange | Seattle, WA

## 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 nearly 40 million square feet of light industrial projects valued at $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 |
|---|---|---|---|
| PROPERTY SIZE | <200K SF | 200K-500K SF | 500K-1M SF |
| TENANTS | 20-200 | 5-15 | 1-2 |
| NUMBER OF BUILDINGS | 4-10 | 1-5 | 1 |
| AVG. UNIT SIZE: | 1,000 - 15,000 SF | 15,000 - 75,000 SF | 75,000+ SF |
| WAREHOUSE % | 70-75% | 80-90% | 85-95% |

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