Rising Development Costs Give Existing Light Industrial a Clear Advantage

BKM Capital Partners' Q3 2026 Light Industrial Market Update examines why the strongest industrial demand since 2022 isn't drawing new small-bay supply

BKM Capital Partners

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LIGHT INDUSTRIAL MARKET UPDATE



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Newport Beach, California Nov 18, 2026 (Issuewire.com) - In Los Angeles, rents for small-bay industrial space would need to climb 94% before new construction makes financial sense. Houston, where development costs run less than half those in Los Angeles, would still need a 47% increase, and Seattle and South Florida aren't far behind at 44% and 40%.

Those figures come from a four-market development analysis in the newly released *Q3 2026 Light Industrial Market Update* from BKM Capital Partners, a leading institutional fund manager and operator focused exclusively on small- and mid-bay light industrial properties across the United States. The analysis arrives as industrial demand gathers strength. U.S. net absorption reached 104.6 million square feet in the third quarter, the highest quarterly total since late 2022 and well above the 10-year quarterly average of 82.9 million square feet.

In most of the industrial market, demand at that level would eventually bring new construction. Small-bay's development economics keep that from happening. Only 0.5% of small-bay inventory is under construction, compared with 3.0% for large-bay buildings, and much of what is underway sits outside established infill markets. Construction costs for small-bay projects also rose 3.6% over the past year, outpacing increases for medium and large projects.

"A business park can be full for years and the site next door can still be too expensive to develop," said Brian Malliet, BKM's Founder and CEO. "Higher construction and financing costs have made that even more true. Capital is still moving carefully, so predictability goes a long way in a market like this. Owners of well-located small-bay properties can be fairly confident that no one will build a competing project down the street, right now and for the foreseeable future."

The update's other findings include:

- **Existing buildings trade well below replacement cost.** Small- and mid-bay properties have sold for an average of $156 per square foot, against estimated new development costs of $200 to $500 per square foot.
- **Smaller spaces lease far faster.** Across 23 U.S. markets, spaces under 15,000 square feet leased in an average of 7.5 months, compared with 25.6 months for spaces over 50,000 square feet.
- **Small-bay rents have been the steadiest in the sector.** Over the past decade, buildings under 25,000 square feet showed the lowest rent-growth volatility of any industrial size class.
- **Institutional capital is moving in.** Institutional investors accounted for 18% of small-bay acquisitions in the first half of 2026, up from less than 13% between 2023 and 2025.

"Buying an existing park well below what it would cost to build gives you a margin of safety that's hard to find elsewhere in industrial right now," said Brett Turner, BKM's Partner and Chief Investment Officer. "More institutional buyers have reached the same conclusion, and competition for good assets is picking up. On a rent roll, a park that's simply old and a park that needs the right capital and management can look identical. We spend most of our underwriting time figuring out which one we're looking at."

Demand is also coming from a newer source: the electrical contractors, HVAC providers, equipment suppliers and specialized maintenance firms that build and service data centers. Those firms need functional small- and mid-bay space near major development hubs, first during construction and then for years of upkeep.

"An electrical contractor working on a data center needs a nearby place to house equipment and get

crews out in the morning," said Mason Waite, BKM's Partner and Managing Director of Asset and Portfolio Management. "Even a decades-old business park can serve that tenant well if trucks can get in and out and the suite is ready when the job starts."

Despite persistent financing challenges, BKM expects improving fundamentals and rising small-business optimism to keep supporting leasing and acquisitions. Longer term, roughly $1 trillion in U.S. advanced manufacturing construction could be delivered by 2030, and the suppliers, logistics providers and service firms that follow those plants will need smaller, functional space. With new development this difficult to justify, BKM expects most of them to find it in buildings that already exist.

The ***Q3 2026 Light Industrial Market Update*** is the latest release from **BKM Intel**, the firm's research series and thought leadership platform examining the forces shaping small- and mid-bay industrial real estate. The full report is available for **download here**, and past BKM Intel publications can be found on **the firm's website**.

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