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BKM Capital Partners

SHORTER WALT ADVANTAGE

POWERING UNPRECEDENTED RENT GROWTH

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Short WALT Advantage:
Income Gains Outpacing Cost of Capital

With persistently high inflation and rising interest rates, investors are seeking investment opportunities with shorter lease terms and product types with double digit rent growth.

Shorter WALT assets have exceptional mark-to-market potential, and skilled operators are well-positioned to create value from the resulting NOI increase. Multi-tenant industrial product's short lease-terms coupled with growing institutional favorability of the asset class make for a strong hedge against the typical decreasing of returns during high inflationary periods, providing more income stability.

- **Quick Value Capture:** Market rent growth has far surpassed industrial rent increases versus five to ten years ago. This steep rent growth provides the opportunity to capitalize on in-place rents of 30-40% below market. – assets with a longer WALT, even with significantly below-market rents, have not participated equally in the impressive run-up in values and will not see as much of an increase in basis until market rent can be captured at a future date.
- **Inflation protections:** Shorter leases are advantageous given the ability to mark-to-market rents more rapidly. Owners will have the opportunity to reset currently in-place rents when leases roll in the near future.
- **Pricing Premium:** industrial assets with shorter WALTs of around three years are presenting an average 55% premium on pricing per square foot over their competitors with WALTs of a decade or more. Assets with less than three years left of WALT boasted an average 55% premium on pricing per square foot, with cap rates approximately 70 basis points lower, than assets with nearly a decade or more left in WALT. And they say that cap rate delta implies a 17.5% difference in value between short- and long-term WALT assets, on average. (Newmark)
- **Debt Cost:** Short-term WALT to combat the increasing costs of debt on the NOI increase that can be achieved versus the increasing costs of debt. With more interest rate hikes on the horizon, the acquisition of near-term WALT assets carries potential for short-term negative leverage, but the prospect of securing greater cashflow and refinancing at a lower rate in the years to come.
- **Market Fundamentals:** attractive supply/demand fundamentals for securing new tenancy and appreciating rent growth. Less space will enter the development pipeline during 2023 due to sharp decline in construction starts by year-end 2022 amid challenging financing conditions.

These compelling opportunities give investors yet another reason to invest in niche opportunities like the multi-tenant light industrial asset class.

Please visit our website below for more information.

bkmcp.com

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