▶▶ 2Q 2023 White Paper

BKM Capital Partners

SHORTER WALT ADVANTAGE

INCOME GAINS OUTPACING COST OF CAPITAL

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In an inflationary environment, multi-tenant light industrial's shorter duration leases are advantageous given the ability to mark-to-market rents more rapidly, thus acting as a natural inflation hedge. When compared to the typical bulk industrial lease with a WALT of 10 years, the result is higher revenue growth and capture, all else equal.

Industrial Investors More Aggressive on Short-Term Walt Deals in 2022

- Industrial assets with shorter weighted average lease terms (WALT) have been more attractive investment opportunities due to the mark to market potential.
- Analysis of industrial sales transactions in 2022 showed that assets with less than three years left of WALT achieved an average 55% premium on pricing per square foot, and cap rates approximately 70 basis points lower, than those with nearly a decade or more left in WALT.
- With the Secured Overnight Financing Rate (SOR) at 4.31% at the start of January 2023 and more interest rate hikes to come, acquiring 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 will likely keep this profile of asset competitive in 2023.

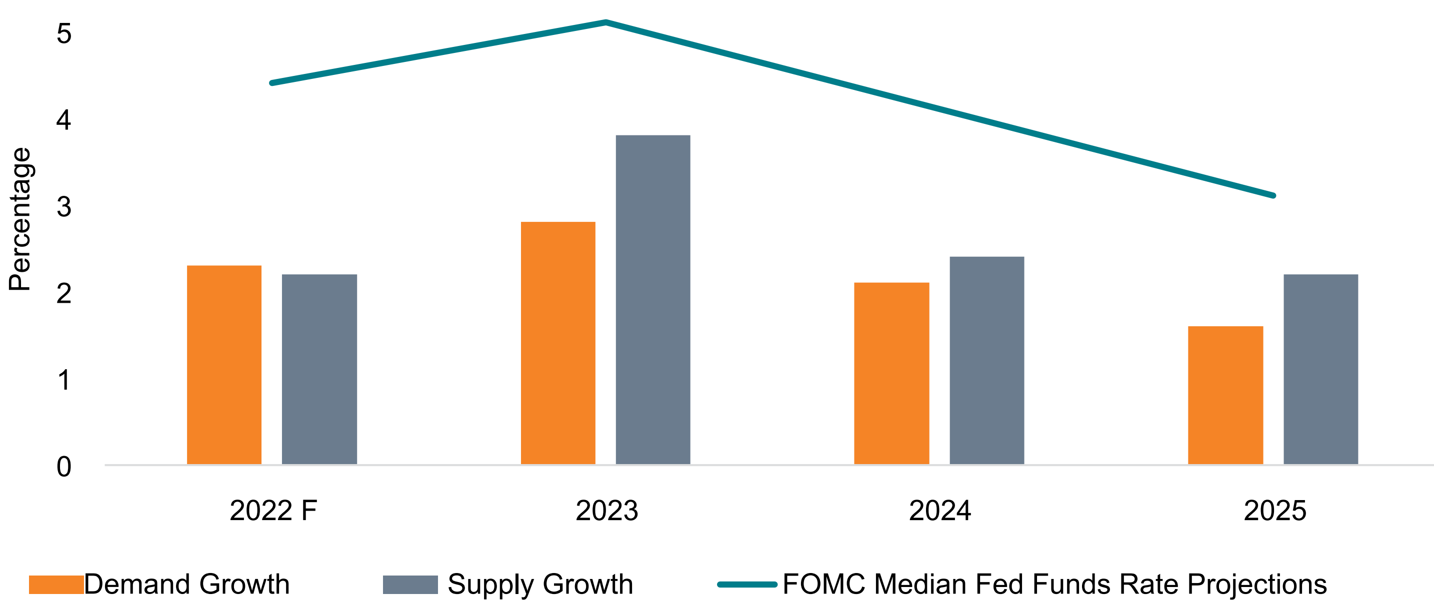
Average Sale Price and Cap Rate by Length of Term Left in Place

Source: Newmark Research. Investment sales of competitive warehouse assets 50,000 SF or greater across a variety of markets.

Highest interest rates and industrial supply/demand imbalance projected for 2023

- Despite muted transaction activity since August 2022, short-term WALT has remained competitive due to its potential for substantial income gain and refinancing at a lower rate when leases roll over.
- Market fundamentals such as decelerating demand and reduced construction starts will cause vacancy rates to loosen during 2023; however by 2024 supply should be closer into equilibrium alongside FOMC projections indicating interest rate cuts - making this profile of asset particularly lucrative for investors.

Demand and Supply Growth as a Percentage of Inventory; Fed Funds Rate Projections



Source: Newmark Research, Oxford Economics, Federal Reserve Economic Data; funds projections as of December 2022.

> 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.

Please visit our website below for more information.

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