All of a Sudden, Income Matters

Building an Income Bridge to Growth

2025

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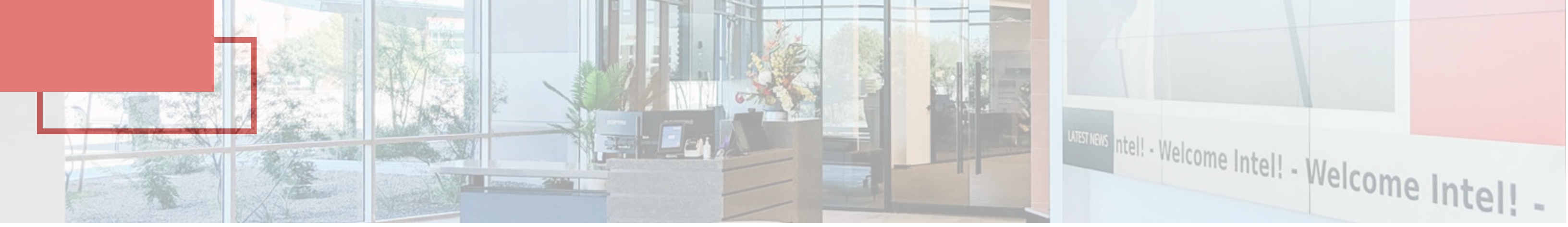


INTRODUCTION

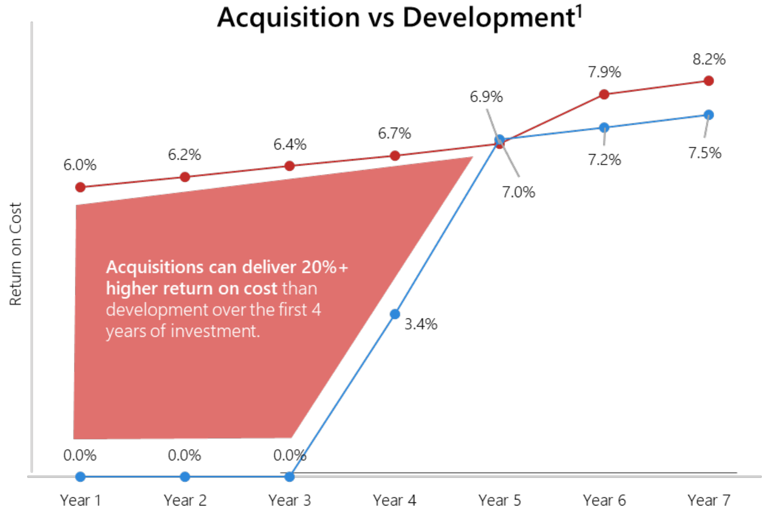
In the wake of increasing economic uncertainty, a clear shift is taking place in how institutional investors are approaching real estate. We've recently seen the pendulum swing away from growth-at-all-costs strategies back toward something more grounded: income stability.

Longer leases—once seen as limiting—are now being valued for what they really provide: predictability and steady cash flow. Industrial assets with Weighted Average Lease Terms (WALT) over five years have become an increasingly attractive investment opportunity. This reflects a meaningful shift. In the post COVID era, 2–5-year leases were favored for their flexibility and the chance to capture rapidly rising rents. But today, that same flexibility looks like risk given the perceived near-term economic uncertainty thanks to interest rate volatility, global political instability, ongoing trade disputes, and more. Long-term leases, on the other hand, offer something increasingly valuable in today's market: the ability to lock in stable, growing income and support long-term, non-recourse debt. It's a strategy that not only cushions downside risk but also reflects a broader shift in mindset: when markets are uncertain, consistency becomes the most valuable return.

THE RISE OF CORE+ STRATEGIES

Rising interest rates have certainly taken their toll on valuations and the depth of the investor pool, but they've also helped highlight the resilience of income-focused strategies. Core+ strategies (those focused on well-located, income-generating assets from credit tenants with room for light improvements) have emerged as a smart hybrid approach in this environment. They avoid the risks of development while still offering upside potential. And unlike deals with long J-curves (the duration from initial investment to stabilizing cash flows), Core+ assets can start producing cash flow on day one. We think of it as building an "income bridge to growth." By returning capital consistently along the way, this strategy helps build solid total returns—without relying solely on the timing or outcome of a future sale.

Illustrative Return on Cost
Acquisition vs Development[1]



Assumes a hypothetical investment as follows: PCC – assumes a blended 6.0% yield on cost for the portfolio with 3.5% annual rent increases on in-place leases, with a 15% "mark-to-market" rent increase once the in-place lease expires in year 6. Development – assumes the development was underwritten to yield 6.75% on cost at completion, with 3.5% annual rent increases, that leasing commences in year 4 with 50% of leases signed in year 4 and 50% signed in year 5.

WHY SMALL- AND SHALLOW-BAY STILL STANDS OUT

We believe this “income bridge to growth” approach is especially true in our corner of the market—small- and shallow-bay industrial (SSB). SSB continues to benefit from strong demand and constrained infill supply. Over the past twenty years, SSB assets have averaged vacancy rates 290 basis points lower than bulk, driven largely by strong last-mile demand, diverse tenants, and operational necessity.[1] As these properties lease up and begin generating cash flow, they’re well-positioned to benefit from sustained absorption and rent growth, fueled by these same supply/demand fundamentals and broader industrial growth tailwinds.

Back in 2021-2022, during a period of hyperinflationary rent growth and surging demand, leasing risk was less of a concern—vacant space could be re-leased quickly, and at higher rents every few months. But that moment has passed. In today’s market, it’s not vacancy that drives value—it’s in-place income.

A WINDOW FOR THE MIDDLE MARKET

Years of strong performance have made industrial a favorite among investors—institutional portfolios, particularly those aligned with the ODCE Index, have experienced a significant overweight in industrial assets. According to Meketa Investment Group, industrial allocations in the NFI-ODCE Index increased from approximately 15% a decade ago to nearly 37% in 2024.[2] This overweight positioning is prompting institutional investors to rebalance, creating opportunities for sub-institutional players to acquire high-quality assets.

This presents a compelling opportunity for middle-market investors like us. As Core funds divest and pricing begins to reset due to stagnant, elevated interest rates, Core+ and Value-Add investors can capitalize on the availability of income-generating properties that would’ve been out of reach just a few years ago. It’s a moment of dislocation—and those who are ready can step in and buy durable income at attractive pricing.

WHERE RECTANGLE FITS IN

At Rectangle, this is the moment we’ve been positioned for. We believe these market dynamics benefit the thesis behind our investment strategy. As institutional investors rebalance and income durability regains priority, our strategy is uniquely positioned to capitalize on the gap between institutional and sub-institutional capital. By targeting longer-leased, light last-mile SSB industrial assets in densely populated, high-growth markets, we aim to deliver what the market now rewards most: *stable cash flow, minimized downside risk, and the potential for long-term capital appreciation*.

SOURCES

[1] CoStar (Q2 2024; excludes owner-occupied buildings)
[2] Meketa Investment Group. 2024. “Current State of Core Real Estate.” July. Meketa Investment Group.

A COMUNALE PROPERTIES COMPANY

ABOUT RECTANGLE

Rectangle is part of the Comunale Properties Group, a privately owned, vertically integrated industrial real estate platform based in Denver, Colorado. Rectangle acquires, develops, and manages last-mile industrial assets near population centers and major transportation hubs in high-growth markets.

44 Assets	**6** States with Assets
2005 Founded	**1.4M** Square Feet
99%+ Occupancy	**20+** Team Members

INVESTMENT MANAGEMENT

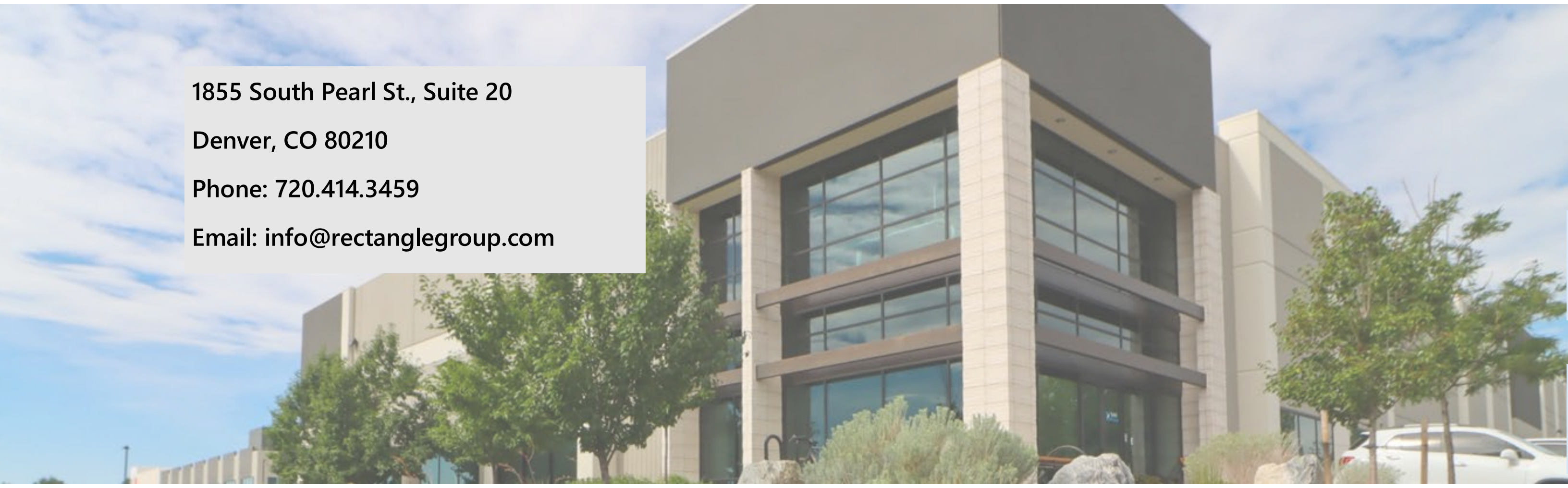
DEVELOPMENT

CONSTRUCTION

PROPERTY & ASSET MANAGEMENT

By combining expertise across every stage of the real estate lifecycle, we deliver seamless execution and maximize value for our investors.

CONTACT US



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