

# PALOS

## CONTENTS

## Weekly Commentary

Issue No. 27 | JUNE 22, 2020

WPT Industrial REIT – Driven by e-Commerce demand	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

*By Charles Marleau, CIM*

## WPT Industrial REIT – Driven by e-Commerce demand

WPT Industrial REIT (TSX: WIR/U in USD, WIR-U in CAD) is a Canadian real estate investment trust (REIT) that holds a geographically diversified portfolio of industrial properties in the United States. The company acquires, develops, and manages high-quality properties with a focus on warehousing and distribution. WPT's reach is nationwide in the U.S. with 100 properties across 20 states.

In the 2019 annual report, management disclosed that investment property revenues and net operating income had increased by 24.5% and 24.2% respectively. During 2019, the company also completed \$368 million in accretive acquisitions in key logistics markets, expanded their private capital pipeline and assets under management, raised roughly \$232 million via equity offerings, and increased borrowing capacity by \$275 million. With a strong balance sheet in place, WPT is well positioned to continue with its strategic growth objectives by expanding its U.S. logistics network.

The vast majority of WPT's tenants operate in what is classified **as industrial storage and transportation of goods**. Many of WSP's tenants serve the non-discretionary consumer products industry and have beneficial exposure to the growing demand for e-Commerce logistics. These sectors of the economy are inherently less sensitive to economic volatility. Strong consumer demand for e-Commerce should continue to drive growth in logistics and distribution. Further driving growth will be the trend towards re-shoring as global supply chains have been disrupted by trade disputes, increasing costs of transportation and more recently, COVID. While the pandemic has wreaked havoc in many sectors of the economy, supply chains have taken on greater importance with authorities acknowledging that effective distribution channels are essential. Consequently, we are seeing a shift from 'just in time' to 'just in case' inventory management.

With the majority of WPT's tenants deemed to be essential, these businesses should be insulated from the economic impact of COVID. In a statement released on June 16, the company reported that the percentage of tenants who paid their rent was 99% in April and May, and 98% June. While the company acknowledged that tenants who account for roughly 12% of gross rental income had requested some form of rent deferral, none have been granted. The company believes the number of deferrals that may be granted in the future

*By Charles Marleau, CIM*

will be lower than the 12% requested. In addition, WPT has closed on an early renewal with its 10th largest tenant extending their commitment for an additional 5.5 years.

E-commerce has nearly doubled its leasing requirements in a single year and looking forward, I expect this trend to accelerate. In 2019, 11.1% of all retail sales were attributed to e-Commerce transactions and according to **eMarkets** this will grow to 15.1% by 2022. Businesses that are directly related to the e-Commerce industry and third-party logistics comprise approximately 70% of the tenant pool. With greater importance being placed on location, storage capacity, and integration with transportation networks, WPT is well positioned to capitalize on these trends.

Given the strength of e-Commerce and WPT's direct exposure, WIR-U has seen its price recover much quicker than REITS with exposure to 'brick and mortar' retail, commercial, and office. Growing demand for industrial properties is a given and in turn, we should expect an associated growth in net operating income in the coming years. WIR-U is trading at 5.5% cap rate and carries a 0% premium to net asset value (NAV) when it should be trading closer to a 15% premium to NAV. Given current trends and the company's strategic focus on storage and distribution facilities, I am expecting significant upside.

*Disclaimer: Palos Funds are shareholders of WIR-U.*

Follow Palos Management Inc on LinkedIn: [https://www.linkedin.com/company/palos-management-inc./](https://www.linkedin.com/company/palos-management-inc/)

Follow Palos Wealth Management Inc on LinkedIn: <https://www.linkedin.com/company/palos-wealth-management-inc>

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.22	-12.18%
Palos Equity Income Fund - RRSP	PAL101	\$5.11	-9.99%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$7.12	-7.06%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$7.9	-23.88%
S&P TSX Composite (Total Return with dividends reinvested)			-7.87%
S&P 500 (Total Return with dividends reinvested)			-3.19%
S&P TSX Venture (Total Return with dividends reinvested)			-1.63%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			0.69%
Canadian Government 10-Year			0.54%
Crude Oil Spot			US \$39.75
Gold Spot			US \$1,745.90
US Gov't10-Year/Moody BAA Corp. Spread			286 bps
USD/CAD Exchange Rate Spot			US \$0.7349

<sup>1</sup> Period ending June 19, 2020. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

# Weekly Commentary

Issue No. 27 | JUNE 22, 2020

## Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

# PALOS

1 Place Ville Marie, Suite 1670  
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504  
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

[www.palos.ca](http://www.palos.ca)