

View of the Market

Volume XV/Issue
12/December 2023

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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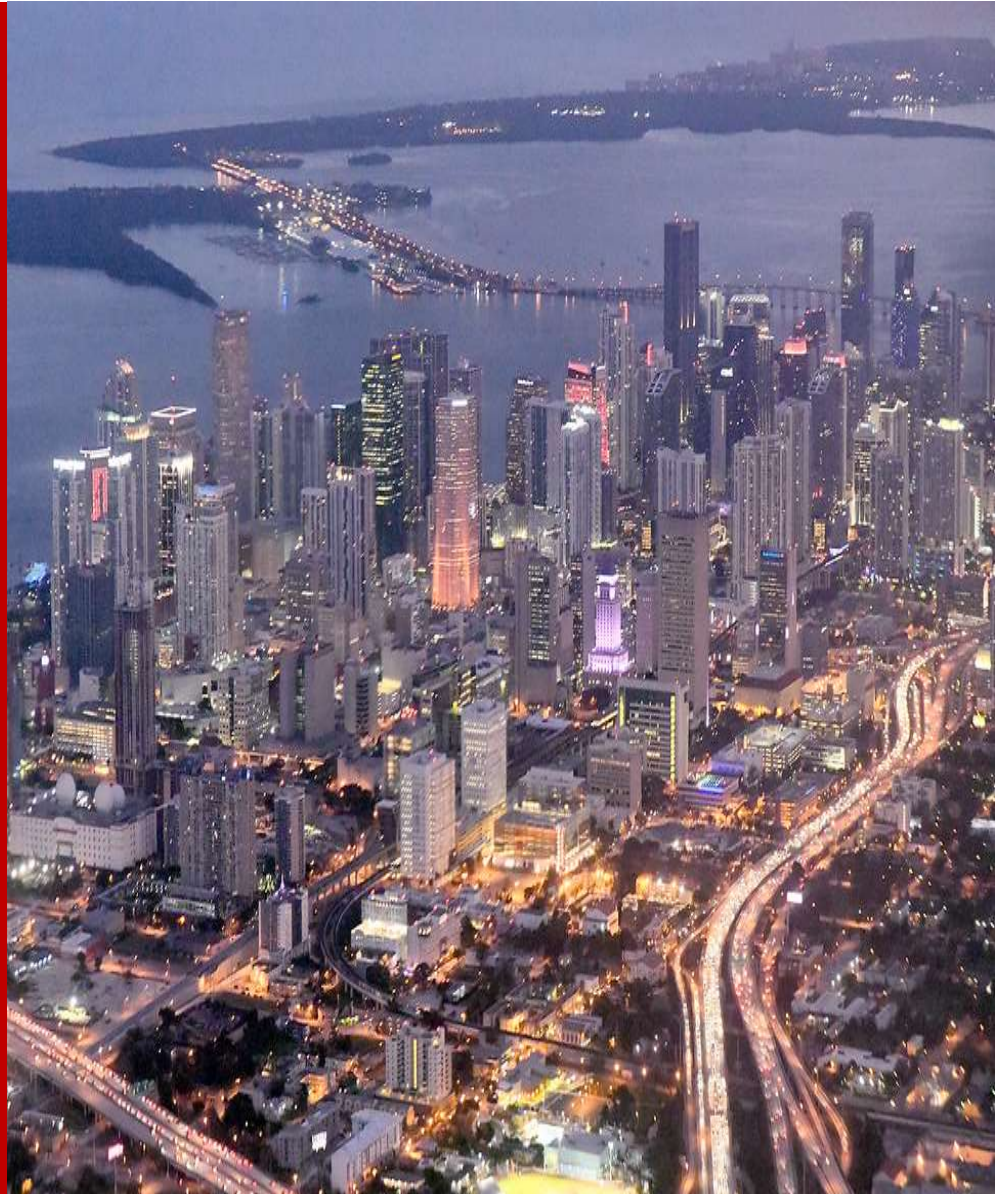
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REAL STATE FOCUS

Top Eight CRE Predictions for 2024

It's hard to believe that 2024 is almost here and below are my top eight predictions for the CRE industry next year.

1. The booming industrial market will begin to soften

The super-hot industrial market that has seen the national average asking rent increase 0.9% to \$9.73 and a vacancy of 4.7% for the third quarter of 2023 will begin to slow down due to extreme overvaluation and over 624.3 million square feet of new space under construction. In the third quarter alone, a record amount of newly delivered space of more than 171.8 million square feet was delivered which is an 18.7% increase over the second quarter. Net lease asking rents per square foot have almost doubled in many markets from ten years ago like Orange County at \$21.72, Los Angeles at \$20.92, the San Francisco Bay Area at \$17.70 and the Inland Empire at \$18.06. Cap rates are also still compressed with Class A properties at 5.00% amid financing rates of 6.5% or more.

2. The Federal Reserve will begin lowering interest rates in the Summer of 2024

The Federal Reserve, which has hiked the federal funds rate from 0.0% in March 2022 to 5.25% today, will begin lowering rates in the Summer of 2024. Lower rates will be warranted because of lower inflation, the gigantic increase in the national debt to over \$34 trillion and the Presidential election. This will be a shot in the arm for the CRE industry and there will be a mini-boom in sales, financings, and leases.

3. The shadow CRE lending sector will increase loan volume substantially

The shadow or unregulated lending sector will see increased loan and deal volume as the Fed reduces interest rates next summer. The shadow lending sector includes REIT mortgage funds, private equity debt funds, CMBS conduits and hard-money funds. These lenders currently fund about 15% of all CRE loans and will see their market share rise as more distressed assets come to

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market for debt and as the banks and other regulated lenders maintain their conservative CRE financing policies.

4. Office REITs will see robust returns

The office REIT sector, which has seen their stock prices pummeled during the last two years due to work-at-home policies, high-crime urban areas and less demand will see substantially higher total returns in 2024. Lower interest rates and a robust economy will lead to higher rents and occupancy in key markets, however, the urban markets with high crime, homelessness and quality of life issues will continue to struggle. During the last two years and through September 2023, public office REIT total returns per NAREIT have been 22.0%, -37.62% and -17.41%.

5. Acquire distressed office assets in urban markets

There is over \$100 billion in CRE dry powder in private equity funds and these funds should be targeting distressed office assets in urban markets like New York, Washington D.C., San Francisco, downtown Los Angeles, and Seattle. These urban cores have been decimated by high crime, rampant homelessness and an outmigration of residents and companies. The office markets in these cities are characterized by high double-digit vacancies, declining rents and values that have decreased 30%-50%. Many of the office properties in these markets can be purchased at 50% discounts from pre-covid values and should be purchased. Even though the risk is high for these markets to turn around and increase the quality of life for tenants and residents, the deep discounts in value are similar to the value destruction that occurred during the Great Recession.

6. CRE in high growth low tax states will outperform high tax states

The U.S. CRE market has become bifurcated with the high growth low tax states substantially outperforming the low growth high tax states Today, the high-growth, low-tax states are experiencing tremendous influxes of new residents, and their economies are booming. The high-tax, high-crime states are experiencing just the opposite, large outmigration, poor economies, declining CRE fundamentals and very slow growth. A diversified portfolio of CRE assets in high-growth, low-tax states will substantially outperform a similar portfolio in high-tax, high-crime states.

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7. The large bid-ask spread in CRE will begin to narrow

Since mid-2022, the bid-ask spread has become wider than the Grand Canyon as sellers and buyers cannot agree on a sales price due to higher interest rates and higher cap rates. By the summer of next year, this bid-ask spread will narrow as the Fed begins reducing interest rates and debt capital is priced lower and becomes more readily available. Cap rates will decline to the 5.0%-8.0% area depending on the property and location. Sales and financing volumes will increase substantially from 2023, which will be a boom for the CRE and brokerage industries.

8. The best-performing sector will be retail real estate

Retail real estate which went through the wringer four to eight years ago, with thousands of store closures and dozens of retailer bankruptcies including Sears/Kmart, JC Penney, Neiman Marcus, Toys R Us, Gymboree, Payless Shoes, Ascena Retail Group, Forever 21 and many others will rebound and be the best-performing sector in 2014. The total returns for retail REITs for 2021, 2022 and through November 2023, have been 51.91%, -13.29% and -8.92%, respectively. The entire retail real estate industry has become more efficient, and profitably adapted to online, brick and mortar and mobile sales and is back with about 4,000 new store openings per year. We especially like food and drug-anchored shopping centers and net lease retail real estate.

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Hodes Weill & Associates, Key Findings of the 2023 Institutional Real Estate Allocation Monitor

Hodes Weill & Associates is a leading, global capital advisory firm focused on real estate, infrastructure and other real assets that was founded by David Hodes and Doug Weill in 2009. The firm offers specialist advice and capital-raising services on a global basis to investment and fund managers, from its offices in New York, Denver, Hong Kong, London, and Amsterdam. Below is commentary from the 11th annual Institutional Real Estate Allocations Monitor, The 2023 Real Estate Allocations Monitor focuses on the role of real estate in institutional portfolios, and the impact of institutional allocation trends on the investment management industry.

1. Institutions are maintaining their allocations to real estate, holding target allocations flat year-over-year. Institutions held average target allocations at 10.8% between 2022 and 2023. This marks the first time since 2013 (the launch of the survey) that institutions have not reported an increase in target allocations. Overall, target allocations are up 190 basis points since 2013, representing an increase of over 20%.

2. While the majority of institutions are at or over target allocations to real estate, portfolios are beginning to come into balance as the denominator effect abates. Nearly 40% of 2023 survey respondents report being overallocated to real estate, in comparison to 32% in 2022 and less than 9% in 2021. Institutions responding to the survey after the first of September reported being under-allocated by an average of 70 bps, following a rebound in public equities and continued write-downs in real estate portfolios.

3. After declining in 2022, investor conviction is on the rise, as institutions begin to focus on the potential to take advantage of a favorable investment environment over the next several years. Institutions reported an increase in conviction to 6.4 points, marking the second-highest level of conviction over the past eleven years. Investors are starting to deploy capital to select opportunities, though remain cautious, citing concerns relating to further devaluations as interest

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rates remain higher for longer, and uncertainty regarding macro-economic fundamentals, including the potential for a recession. Institutions believe the next few years will prove to be good vintage years for deploying opportunistic capital.

4. Real estate portfolio returns, while still outperforming long-term average target returns, moderated in 2022 and are expected to decline significantly in 2023. After returning 17.1% in 2021, real estate portfolios generated an average return of 9.5% in 2022, compared to an average target return of 8.5%. Institutions anticipate real estate portfolio returns will continue to decline, with a potential for negative returns in 2023, as private portfolios, including fund NAVs, are written down to market.

5. Contending with overallocation, institutions continue to show a strong preference for reallocating capital to existing manager relationships. Approximately 64% of 2023 investments are expected to be allocated to existing manager relationships. Emerging managers continue to be at a disadvantage, with a nominal 11% of institutions willing to invest with first-time fund managers in 2023, compared to 16% in 2022.

6. Investors continue to favor value-add strategies, led by institutions in the Americas. A strong appetite for high-return strategies continues to be the trend, with more than 25% of institutions expecting to invest more capital in both opportunistic and value-added strategies, compared to approximately 10% with respect to core and core plus. Across the globe, investors are showing an increased appetite for credit strategies, with 34% of survey respondents noting they are planning to invest more capital in real estate debt, up from 14% in 2022.

7. The United States remains the preferred destination for capital allocations from both North American and international investors, and institutions are planning to increase cross-border investments. Approximately 89% of institutions are actively investing in North America, followed by 73% in continental Europe, 65% in the United Kingdom and 41% in Asia. Notably, after retrenching and turning their focus to domestic strategies, institutions are planning to increase cross-border investments; approximately 91% and 71% of institutions in APAC and

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EMEA, respectively, expect to be active in allocating to North American-focused strategies over the next 12 months.

8. Despite a sluggish fundraising environment that has persisted since 2022, over 80% of institutions report that they are now actively considering investments in funds. Institutions in the Americas continue to have the greatest appetite for funds, though notably, 40% of APAC-based institutions expect to invest more capital into closed-end funds over the next year.

9. Institutions consider REITs to be a complement to private real estate in overall portfolios in terms of filling allocation needs and addressing liquidity objectives. REITs and other real estate public equities are an increasingly important component of institutional portfolios, with approximately 84% of institutions that actively invest in REITs including REITs as part of their real estate allocation. Institutions report they are planning to increase their capital allocations to REITs in 2023, with approximately 42% of institutions planning to make investments in REITs.

An Update on CRE Risk

We have discussed risk in CRE in several issues of VOM and this is an update on this risk analysis. One of the most important functions of any CRE investment program is to review and analyze the risks inherent in the investment and its related market or industry. In stock and bond investments, there are two types of risks, systematic and nonsystematic. Systematic risk is a risk that affects all market participants like higher interest rates, a recession, or rampant inflation and it cannot be eliminated. Systematic risk is market risk and even though it can't be eliminated, it may be reduced by buying stocks with low volatility or beta, but investors will give up their return. Stock beta is the volatility of a common stock as measured against the market like the S&P 500 Index. Nonsystematic risk is the risk that affects one company, like a product defect and recall or a major fire at the company's key manufacturing plant. Since nonsystematic risk is company-specific risk, it can be eliminated by diversifying a stock portfolio. Modern portfolio

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theory says an investor needs about 20 different stocks in a portfolio to eliminate nonsystematic risk.

Risk is a key concern in CRE as it's a key component of the capitalization rate. The cap rate for a property is derived in two ways. First by calculating the net operating income of a property divided by its purchase price or value and second by the cap rate formula. The cap rate formula is the risk-free rate (Rrf) plus a risk premium (Rp) less the growth rate (G) in rents or income. In this formula, the Rrf is the risk-free rate, typically the 10-Year Treasury Note and the Rp is the risk premium for all the risks inherent in CRE investment. The risk premium is a subjective number and there is very little historical data on the risk premium over time, by property type or location. We here at VOM have discussed the risk premium in a few issues and have determined that it is between 3% and 10% and in today's high-interest rate market, the average cap rate is approximately 7.5%. If the average 10-year Treasury rate during the last five years is 3.50% and the risk premium is 7.0% and rent growth is 3.0%, then the formula cap rate is 7.5% (3.50% + 7.0% - 3.0%). This is an average cap rate and should be adjusted for a specific property type and location.

The risk premium of 7% as calculated above, is comprised of 15 different risks inherent in CRE investment. These fifteen risks are listed below.

1. Cash Flow Risk (volatility in the property's net operating income or cash flow)
2. Property Value Risk (reduction in a property's value)
3. Tenant Risk (loss or bankruptcy of a major tenant)
4. Market Risk (negative changes in the local real estate market)
5. Economic Risk (negative changes in the macroeconomy)
6. Interest Rate Risk (an increase in interest rates)
7. Inflation Risk (an increase in inflation)
8. Leasing Risk (inability to lease vacant space or a decline in lease rates)
9. Management Risk (poor management)
10. Ownership Risk (poor ownership decisions or loss of critical personnel)

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11. Legal, Title, Tax and Political Risk (adverse legal issues, claims on title and adverse tax and regulatory changes)
12. Construction Risk (development delays or cessation and payment defaults)
13. Entitlement Risk (inability or delay in obtaining project entitlements)
14. Liquidity Risk (inability to sell the property or convert equity value into cash)
15. Refinancing Risk (inability to refinance property)

The above list is not all-inclusive but represents key risk areas for any CRE owner. The list does not include geographic, property type and industry concentration risks which should be considered at the portfolio level in the CRE investment process. Some CRE owners may delete or add other risk factors that are specific to their property or portfolio. For example, entitlement risk applies only to land and development projects and would not be applicable for completed properties. Every CRE owner should be cognizant of the suite of risks above in owning CRE and the potential effects these risks have on the performance and value of the real estate assets.

A CRE owner should perform at least annually, a risk assessment of its portfolio or property. In practice, this is rarely done and is one of the main reasons for sub-par investment performance and return. Most CRE investment firms are skilled at acquiring and financing deals, but poor at managing their risks. Implementing this analytical framework to assess risks inherent in CRE and then taking steps to minimize or eliminate these risks is a proactive approach to increased cash flow, value creation and is beneficial to real estate owners and investors. This risk assessment process outlined below is a quantitative analysis of a property or portfolio using a simple numerical grading system of zero, one, two or three points. The general steps in performing this risk assessment are as follows:

- Define assets in the fund, portfolio, or entity to be assessed.
- Segregate assets by property type or location.
- For each asset and then each risk factor, assign a risk assessment score of zero, one, two or three points. Zero points are assigned as a risk factor if there is no risk. One point is assigned as a risk factor if there is low risk. Two points are assigned if there is medium risk, and three points are assigned if there is high risk. The assignment of the risk

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assessment score should be reviewed and approved by senior management of the real estate owner/manager to make sure the assessment is accurate and reliable.

- Once all the properties are assessed, all the points for each property should be totaled. Since there are fifteen risk factors, the range of risk grades is from zero to 45. A property with a risk assessment of 0-15 points would have no or low risk, a property with a risk grade of 16-30 points would indicate medium risk and one with a grade of 31-45 points would be considered high risk.

A property with a high-risk assessment is an early warning indicator to ownership that steps need to be taken to reduce or eliminate the various risks. For example, if a risk assessment score is 39 points with high scores for Cash Flow, Property Value and Refinancing Risks, ownership must, at a minimum, seek to stabilize the property cash flow, reinvest capital to attract new tenants or renegotiate the loan terms with the lender. It may also be necessary for management to replace the property manager and reduce operating expenses in an attempt to increase cash flow.

Using this simple risk assessment analysis, any property owner can better understand the risk and volatility of their assets and attempt to reduce or eliminate the risk exposure. The fifteen risk factors may also be altered and tailored to meet the specific needs of a company and portfolio. Although the assignment of risk points is somewhat subjective, it is easy to use and provides a simple grading system for ownership to evaluate CRE risk.

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Get Your Copy of Three Great CRE Books by Our Editor, Joseph Ori

The editor of this newsletter, Joseph Ori, is pleased to offer his three CRE books for sale, “The Fifty Commandments of Commercial Real Estate Investment” Edition I and II and “Commercial Real Estate Investment for Pros (and Dummies Too!).” All books are available on Amazon and other book outlets in Kindle, and soft and hardcover from \$8.99 to \$24.99.

Both editions of The Fifty Commandments of Commercial Real Estate Investment compile the choice pieces of advice Mr. Ori has amassed over 35 years in the CRE industry. Mr. Ori lists essential dos and don'ts, mistakes, and successful strategies with a mixture of critical analysis and a keen sense of satirical humor, reinforced by his encyclopedic knowledge of the commercial real estate environment. Mr. Ori covers all areas of the industry. Commercial real estate investment, finance, development, capital markets, and management tactics are all given his full attention, as are leasing, financial analysis, and institutional investments. He applies his commandments to all property types, including apartments, office buildings, shopping centers, industrial warehouses, lodging properties, and senior housing.

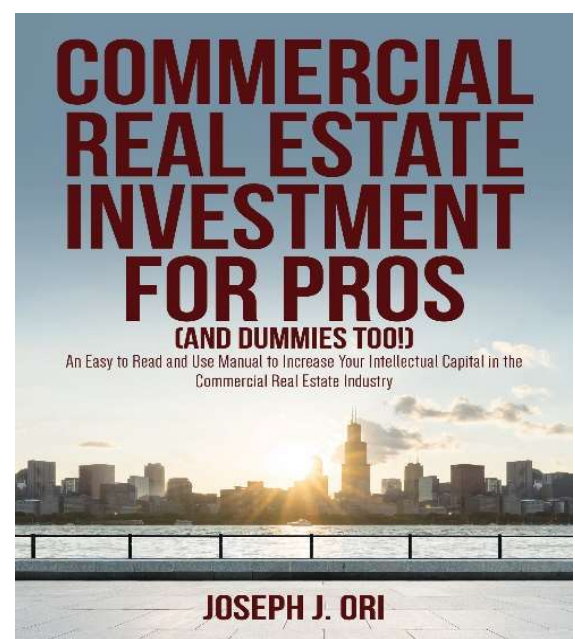
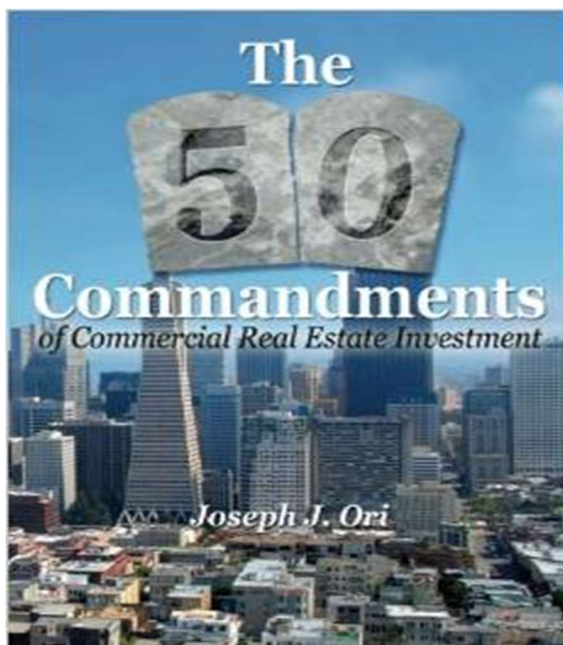
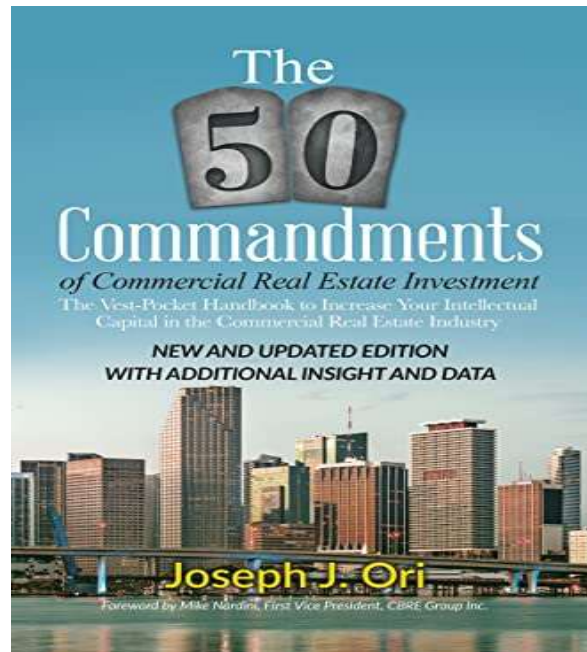
Commercial Real Estate Investment for Pros (and Dummies Too!) discusses the history, the various financial players, legal and financial structures, property types, modern portfolio theory and the financial metrics of commercial real estate investment and the commercial real estate industry. The book includes numerous charts and analyses of the industry and a step-by-step breakdown of the commercial real estate analysis and investment process. The book is perfect reading for the experienced real estate pro and also understandable to the real estate novice or someone new to the industry.

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CRE Financing Rates

Loan Type	Mortgage Rate	Maximum Amortization	Term (years)	Maximum LTV
Permanent Loans	5.87%-10.50%+	30	10	70%
Conduit-CMBS	5.88%-7.49%+	30	10	70%
Bridge Loans	6.50%-14.50%+	Interest Only	1-3	80%
Construction Loans	10.00%-15.00%+	Interest Only	1-4	70%
Insurance Co. Loans	5.38%-7.89%+	30	10	70%
Fannie Mae/Freddie Mac	4.98%-5.79%+	30	10	80%

Commercial Loan Index Rates	
Prime Rate	8.50%
30-Day SOFR (secured overnight funding rate)	5.34%
1 Year Swap	5.65%
10 Year Swap	3.87%
5 Year Treasury	3.99%
10 Year Treasury	4.20%
Federal Funds Rate	5.25%



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Short-term interest rates have moderated further with the 30-day SOFR rate at 5.34% and longer-term treasury rates down by .6%. The Fed met on December 12th and 13th and did not raise interest rates. However, they may raise rates one more time in early 2024 and then the Fed will begin to lower rates in the second quarter of 2024. The above financing rates and data are courtesy of Paramount Capital Corporation and feel free to contact Joseph Ori, Executive Managing Director, Paramount Capital Corporation, jjo@paramountcapitalcorp.com, for your real estate capital needs.

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CRE Deal Focus

CRE Deals of the Month

Purchaser/ Sponsor	Seller	Property/ Deal	Price	Description
Kaiser Permanente	Property Group Partners	Office Towers, Washington, D.C.	\$198M	A three-building office complex with 507,237 square feet and built in 2009.
MIG Real Estate	MG Properties Group	Waterleaf, Vista, CA	\$174M	A 456-unit apartment complex.
Passco Co. and Greystone	Southeastern	One Riverwalk, Knoxville, TN	\$120M	A 303-unit apartment complex built in 2019.
MG Properties	Evergreen Devco Inc.	NOVO Broadway, Tempe, AZ	\$100M	A 324-unit apartment complex.

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DLC Management Corp. and DRA Advisors	ShopCore Properties	Four Retail Portfolio, US	\$100M	A four-shopping center portfolio with 764,817 square feet in four states.
Tempus Realty Partners	The Carlstar Group	Industrial Portfolio, US	\$78M	A four-industrial property portfolio sales-leaseback with 1.4 million square feet.
PNH Properties	Velocis and Lincoln Property Co.	211 Commerce, Nashville, TN	\$75M	A 233,314 square foot office building built in 2000.
Apple Hospitality REIT	MCR	Residence Inn, Seattle, WA	\$55M	A 146-room hotel.

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CORPORATE FINANCE FOCUS

The Daily Drucker

One of the most popular corporate thinkers and management consultants in the last hundred years is Peter Drucker. He passed away in 2005 at 92 years old, but during his illustrious career, published over thirty-five books, and his corporate and management ideas have had a great impact on shaping the modern corporation and management science. For the next twenty-four issues of VOM, we will highlight some of his insights and motivations in corporate management, personnel, and the knowledge worker from one of his last books, *The Daily Drucker*.

I. Defining the Task in Knowledge Work

In knowledge work, the how only comes after the what has been answered. In manual work the task is always given. But in knowledge work, *what to do* becomes the first and decisive question. They largely are in control of their own tasks and must be in control of their own tasks. For they and only they, own and control the most expensive of the means of production, their education, and the most important tool, their knowledge.

II. Defining Results in Knowledge Work

Defining the task makes it possible to define what the results of a given task should be. Hence the next and crucial step in making the knowledge worker productive is to define what results are or should be in a particular knowledge worker's task. Above all, it is the point where the individual worker's task and mission of the organization converge and have to be harmonized.

III. Defining Quality in Knowledge

Measuring quality in knowledge work sounds formidable, in practice, it defines itself. In some knowledge work and especially in some work requiring a high degree of knowledge we already measure quality. The main trouble is, however, not the difficulty of measuring quality. It is the difficulty in defining what the task is and what it should be.

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IV. Continuous Learning in Knowledge Work

A knowledge organization has to be both a learning organization and a teaching organization. Knowledge workers must have continuous learning built into their tools. Knowledge today, in all areas, changes so fast that knowledge workers become obsolete pretty soon unless they build continuous learning into their work. Knowledge workers need, therefore, to hold themselves responsible for educating their colleagues, especially when the knowledge base of their own specialty changes.

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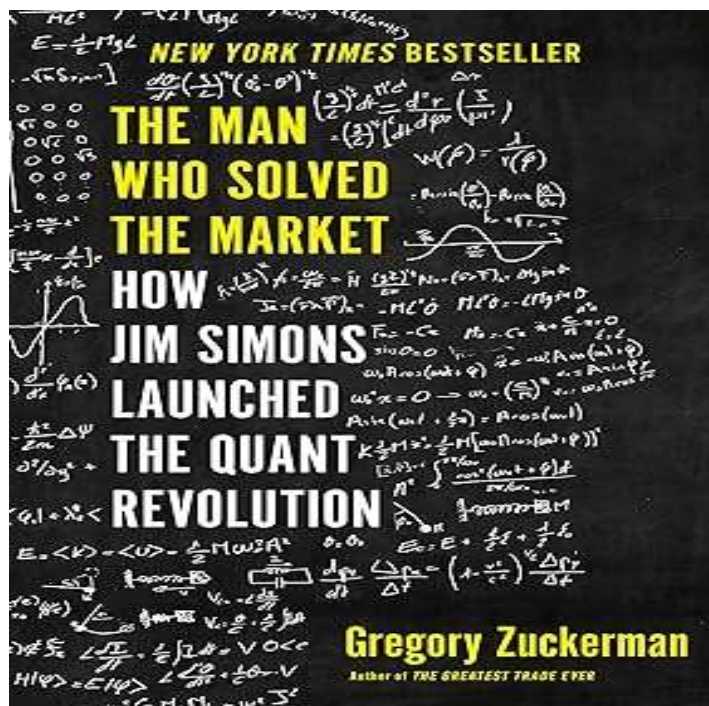
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Great Finance/Real Estate Books as Stocking Stuffers

It's the holiday season and below are three great books on corporate finance and real estate that would make great Christmas stocking stuffers.

1. "The Man Who Solved the Market-How Jim Simons Launched the Quant Revolution," by Gregory Zuckerman

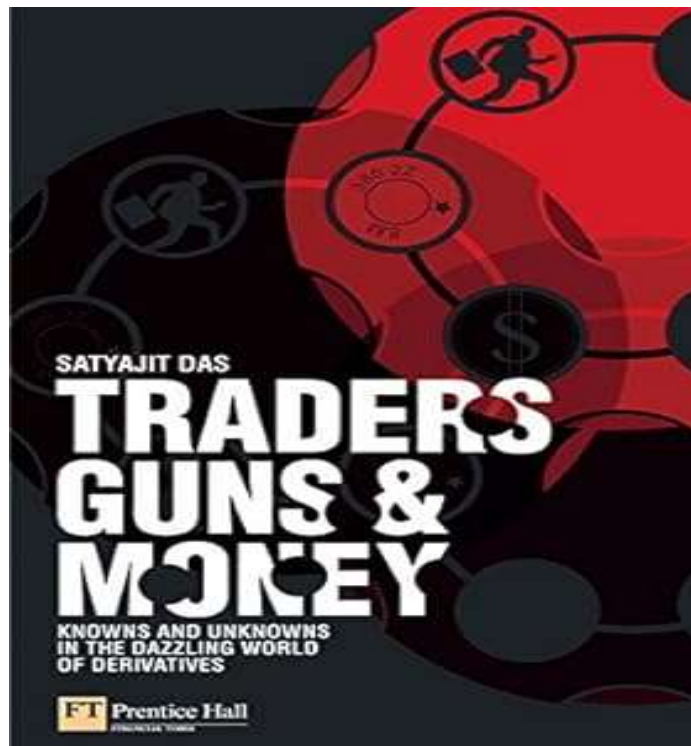
This is an excellent treatise on the start-up and rise of a quantitative trading hedge fund, Renaissance Technologies Corporation by a math prodigy, Jim Simons and his band of math and science brainiacs. Mr. Simons began this hedge fund in the early 1980s from a one-room office and built it into one of the largest and most profitable hedge funds in history. The fund generated over \$100 billion in profits, with Mr. Simons garnering a fortune of over \$20 billion, from trading commodities, currencies and stocks based on a proprietary computer-based trading system.



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2. “Traders Guns & Money,” by Satyajit Das

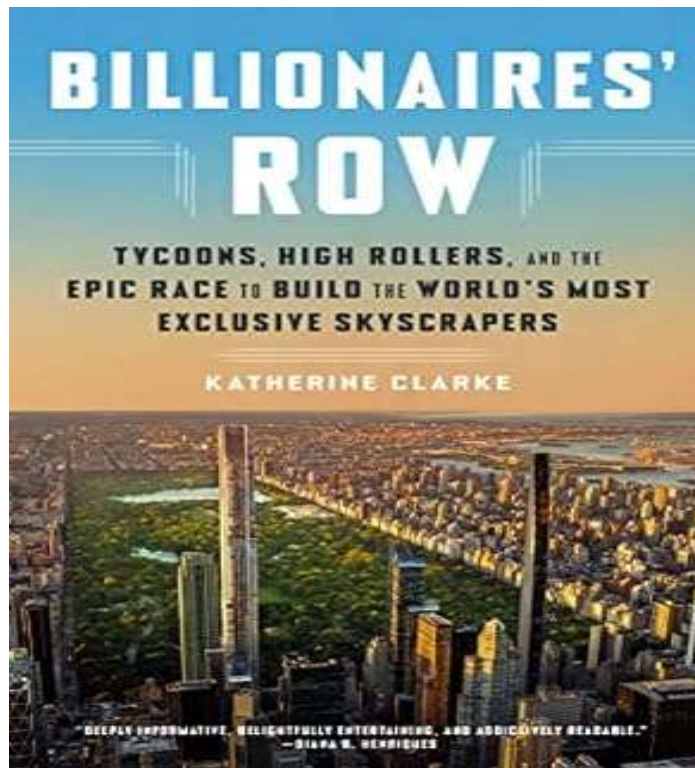
This is a great read on the knowns and unknowns in the dazzling world of derivatives. The author chronicles his work and deals in the banking and derivatives markets around the world. It’s a very funny and satirical look at the culture, games, and deceptions in trading derivatives, with other people’s money at banks and investment banks.



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3. “Billionaires Row,” by Katherine Clarke

This is one of the best books on the real estate market that we have read here at VOM. Ms., Clarke, writes a very entertaining and addictive book on the development of ultra-high condominium projects adjacent to Central Park in New York and known as “Billionaires Row.” In her poignant analysis, she shows the crazy egos, high-risk, billion-dollar deals and lawsuits in the high-rise New York real estate market. Billionaires Row is the area set with several new slender super-tall high-rise residences that have transformed the skyline of New York City, thanks to developer-friendly policies and a seemingly endless gush of cash from tech, finance, and foreign oligarchs.



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REIT Statistics

Current REIT statistics for 9/20/23 per NAREIT and NCREIF are included in the table below. Please note the solid all-equity REIT return over 20 years. REITs have been one of the best-performing asset classes historically.

<i>Period</i>	<i>All REITs</i>	<i>All Equity REITs</i>	<i>NCREIF NPI Levered Index</i>	<i>S&P 500</i>	<i>NASDAQ Composite</i>
<i>9/2023</i>	-5.17%	-5.61%	-4.15%	13.07%	27.11%
<i>1-Year</i>	-0.89%	-1.71%	-18.01%	21.62%	26.11%
<i>5-Year</i>	2.37%	2.79%	3.39%	9.92%	11.41%
<i>10-Year</i>	5.99%	6.17%	8.58%	11.91%	14.52%
<i>20-Year</i>	7.39%	7.90%	10.16%	9.72%	10.52%
<i>Market Capitalization</i>	\$1.17T	\$1.11T	\$312B	NA	NA
<i>Dividend Yield</i>	4.82%	4.44%	NA	1.57%	NA

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REIT Review

Summary

This REIT valuation is on Alexandria Real Estate Equities, Inc. (“ARE”), a publicly-traded REIT that is the longest-tenured owner, operator, and developer of collaborative life science, agtech, and advanced technology mega campuses in AAA innovation cluster locations, including Greater Boston, the San Francisco Bay Area, New York City, San Diego, Seattle, Maryland, and the Research Triangle. ARE owns 419 properties aggregating 75.2 million square feet in development projects.

Property Developments and Tenants

As of September 30, 2023, ARE had 23 properties under development or redevelopment with 6.48 million square feet, total estimated costs of \$8.2 billion with \$2.85 billion incurred to date. The occupancy in Q3-23 was 93.7% and the YoY increase in the net operating income was 3.7%. The three largest tenants are; Bristol-Myers Squibb Company (3.3% of annual base rent), Eli Lilly and Company (2.8% of annual base rent) and Moderna, Inc. (2.6% of annual base rent).

Corporate Data

ARE is traded on the NYSE, is incorporated in Maryland, and is located in Pasadena, CA. ARE has 173.8 million common shares outstanding and a market capitalization of approximately \$20.23 billion. AREs debt is rated BBB+ by Standard & Poor’s, Inc., and Baa1 by Moody’s.

Management

Peter M. Moglia, 56, CEO and CIO

Peter M. Moglia is the Chief Executive Officer and Chief Investment Officer of Alexandria Real Estate Equities, Inc. He has served as Chief Executive Officer since July 2022 and as Chief Investment Officer since September 2023. Mr. Moglia previously served as Co-Chief Executive Officer from April 2018 to July 2022, Co-Chief Investment Officer from May 2018 to September 2023, and Chief Investment Officer from January 2009 to April 2018, as well as in other important capacities since April 1998. From April 2003 to December 2008, he was

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responsible for the management of the Seattle region's asset base and operations, and from 1998 to 2003, his responsibilities were focused on underwriting, acquisitions, and due diligence activities. Prior to joining the company, Mr. Moglia served as an Analyst for Lennar Partners, Inc., a diversified real estate company, where his responsibilities included underwriting and structuring direct and joint venture real estate investments. Mr. Moglia began his real estate career in the Management Advisory Services group within the Kenneth Leventhal & Co. Real Estate Group, where he spent six years providing valuation, feasibility, financial modeling, and other analytical services to real estate developers, financial institutions, pension funds, and government agencies. Mr. Kite holds a BA in Economics from DePauw University.

Ownership

Top Institutional Holders	Shares (000's)	%
The Vanguard Group, Inc.	26,767	15.40
Blackrock, Inc.	17,153	9.87
Norges Bank Investment Management	15,632	9.00
State Street Corporation	11,129	6.40
Apg Asset Management US Inc.	7,177	4.13

Ownership Breakdown	
% Of Shares Held by All Insiders and 5% Owners	.93
% Of Shares Held by Institutional & Mutual Fund Owners	98.4
Number of Institutions Holding Shares	904

All amounts above per Yahoo Finance

View of the Market

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Financial Analysis and Valuation

Select financial data for ARE per the Q3-23 10Q and supplemental information.

(In millions where applicable)

Financial Data	Amounts
Real Estate Assets, Gross	\$36,565
Total Assets	\$36,783
Property Debt (at weighted average interest rates of 3.70%)	\$11,202
Stockholders' Equity	\$22,661
Revenue	\$2,128
Net Income (Loss)	\$184
Cash Flow from Operations	\$1,201
Unsecured Credit Facility (\$5B with \$0B used)	\$5,000
Market Capitalization	\$20,230
Property Debt to:	
Gross Real Estate Assets	31%
Market Capitalization	55%
Enterprise Value	35%
Dividend and Yield (\$5.08/sh.)	4.25%
Shares Sold Short (in millions per Yahoo Finance)	5,500

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Valuation Methodology	
Q3-23 Real Estate Revenue	\$2,128
Q3-23 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, impairment charges plus G&A expenses)	<u>\$776</u>
Q3-23 Net Operating Income	\$1,352
Annualized Proforma Net Operating Income at 103%	\$1,857
Projected Average Cap Rate	<u>6.0%</u>
Projected Value of Real Estate Assets	\$30,950
Add: Net Operating Working Capital (at book value)	<u>\$635</u>
Investment in Unconsolidated JVs (at book value)	\$37
Investments in Public and Private Entities (at book value)	<u>\$1,431</u>
Total Projected Value of the Assets of the Company	\$33,053
Less: Total Debt Per Above	<u>(\$11,202)</u>
Projected Net Asset Value of the Company	<u>\$21,851</u>
Common Shares Outstanding, 173.8M	
Projected NAV Per Share	\$125
Market Price Per Share on 12/15/23	\$116
Premium (Discount) to NAV	(7%)

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Financial Metrics

The gross real estate assets, property debt, revenues, net income, funds from operations, return on invested capital, dividend coverage, and dividends per share for ARE for the years 2018 through Q3-23 are shown in the table below.

(Millions except dividend and per share amounts)	2018	2019	2020	2021	2022	Q3-23
Gross Real Estate Assets	\$14,148	\$17,518	\$21,238	\$28,733	\$34,238	\$36,565
Property Debt	\$5,477	\$6,777	\$7,561	\$8,790	\$10,159	\$11,202
Revenues	\$1,327	\$1,531	\$1,885	\$2,114	\$2,588	\$2,128
Net Income (Loss)	\$363	\$350	\$760	\$563	\$513	\$184
Funds from Operations (FFO)	\$682	\$783	\$923	\$1,144	\$1,361	\$1,142
Return on Invested Capital (1)	5.4%	5.0%	5.0%	4.1%	4.2%	NA
Dividend Coverage (2)	1.77	1.74	1.73	1.75	1.79	1.80
Dividends Paid Per Share	\$3.73	\$4.00	\$4.24	\$4.48	\$4.72	\$5.08

- (1) This ratio is cash provided by operations plus interest expense divided by stockholder's equity plus property debt and measures the return the REIT is earning on its invested capital.
- (2) This ratio is funds from operations divided by common and preferred stock dividends and distributions to noncontrolling interests.
- (3) The dividend is currently \$1.27 per quarter.

The total return of ARE year to date and through five years are shown in the chart below per NAREIT:

ARE Total Return	10/23	1-Yr	3-yr	5-Yr
	-33.92%	-33.20%	-12.29%	-2.43%

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As shown above, our net asset value per share for ARE is \$125/sh., compared to a market price of \$116/sh. Current average cap rates for life science properties per our industry experience and CBRE's Cap Rate Survey are in the 5.0% to 7.0% range, depending on the location, tenancy, and quality of the property. We have used an average cap rate of 6.0% due to AREs diversified portfolio of life science office assets.

Strengths:

- An attractive dividend yield of 4.25%.
- The dividend has increased by 36% since 2018.
- A low debt to enterprise value of 35%.
- The stock is trading at a 7.0% discount to our NAV.

Concerns:

- REIT prices will decline if interest rates increase.
- Life science real estate is a niche sector within the office sector and future growth opportunities may be limited.

Recommendation:

ARE is trading at a discount of 7.0% to our NAV per share and we are recommending the purchase of the stock.

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A five-year price chart for ARE is shown below:



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REIT FOCUS REVIEWS IN PRIOR ISSUES OF VOM ARE AS FOLLOWS:



1. Cousins Properties, Inc., August 2021
2. Mid-America Apartments, Inc., September 2021
3. VEREIT, Inc., October 2021
4. Spirit Realty Capital, Inc, November 2021
5. First Industrial Realty Trust, Inc., December 2021
6. Camden Property Trust, Inc., January 2022
7. Healthcare Trust of America, Inc., February 2022
8. Simon Property Group, Inc., March 2022
9. Brandywine Realty Trust, April 2022
10. Rexford Industrial Realty, Inc., May 2022
11. Host Hotels & Resorts, June 2022
12. The Macerich Company, July 2022

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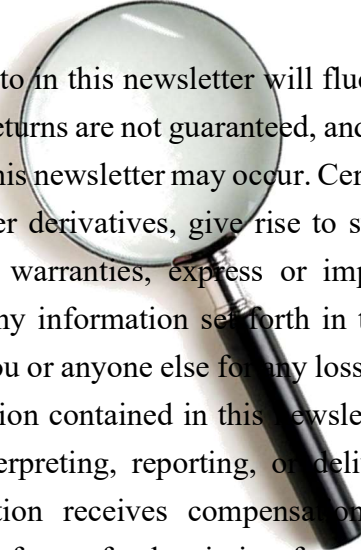
13. Hudson Pacific Properties, Inc., August 2022
14. Kilroy Realty Corporation, September 2022
15. Realty Income Corporation, October 2022
16. Federal Realty Trust, November 2022
17. Equity Residential, December 2022
18. STAG Industrial, January 2023
19. Brixmor Property Group, Inc., February 2023
20. Mid-America Apartment Communities, March 2023
21. Office Properties, Trust, April 2023
22. Spirit Realty Capital, Inc., May 2023
23. Cousins Properties, Inc., June 2023
23. Tanger Factory Outlet Centers, Inc., July 2023
24. Paramount Group, Inc., August 2023
25. Broadstone Net Lease, Inc., September 2023
26. Apartment Income REIT Corp., October 2023
27. Kite Realty Group Trust, November 2023

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