Strategy and Insight for the Commercial Real Estate Industry

VIEW OF THE MARKET

A PUBLICATION OF PARAMOUNT CAPITAL CORPORATION

Volume XV/ Issue 5 / May 15, 2023

INSIDE THIS ISSUE

REAL ESTATE FOCUS

A Look at the CRE Loan Market

There has been a lot of chatter the last few months on the CRE loan market and how after the collapse of Silicon Valley Bank, Signature Bank and First Republic Bank, have heightened investor and depositor fears of more bank failures and a jump in CRE loan defaults.

Many pundits are calling for the CRE market to crash and a catastrophic increase in defaulted real estate loans in the banking system and similar to the Great Recession from 2007 to 2012. We here at VOM, do not believe there is going to be a crash and any comparison to the Great Recession, at this point in the cycle, is dubious at best.

Per the Mortgage Bankers Association, the total balance of all U.S., CRE loans by lender as of Q4-22 is shown in the table below. There are $4.5 trillion in CRE loans in the U.S. with the largest percentage in the banking industry at $1.749 trillion or 38.6%. The current default rate of all CRE loans is approximately 1.0% or $45 billion of loans. The federal funds rate is currently 5.0% and if the Federal Reserve pauses in its rate hikes for the next year, the default rate will most likely rise to about 2.0% or $90 billion of loans. This will create a lot of distress in the CRE industry, especially in the Gateway markets, but will not cause a crash in the national CRE market. Many of these defaulted loans will get extended, restructured with the borrowers, or sold by the lenders at deep discounts of 10%-30% through loan or short sales to distressed CRE funds, which are raising capital right now to take advantage of the upcoming market turbulence.

If the Federal Reserve does not pivot and keeps raising rates even at twenty-five basis per meeting and the federal funds rate hits 5.50%-6.0%, then yes, the CRE market will be in big distress and defaulted loans will increase to 5.0% of the total debt or approximately $226 billion. This will be painful for the economy and the CRE market, but it will not cause a severe recession or depression as many financial gurus are projecting. Lenders who are overweight in CRE loans and do not have diversified portfolios of loans will get hurt the worst and may need an injection of capital or Federal assistance. However, it will not be a calamity like the Great Recession. During the Great Recession, the average value of all CRE assets throughout the country dropped by 50% and total loan defaults were over 10.0%, and much more devasting than today's market.

Lender	Debt Outstanding (millions)	% of Total
Banks and Thrifts	$1,749	38.6%
Agency and GSE Portfolios and MBS	$953	21.0%
Life Insurance Companies	$666	14.7%
CMBS, CDO and Other ABS Issues	$603	13.3%
REITs	$182	4.0%
State and Local Governments	$134	3.0%
Federal Government	$92	2.0%
Nonfarm Corporate Businesses	$38	0.8%
Other Insurance Companies	$30	0.7%
Finance Companies	$29	0.6%
Private Pension Funds	$25	0.5%
Other	$31	0.8%
Total	**$4,532**	**100%**

Also, per the MBA, CRE loan originations were 56.0% lower in the first quarter of 2023 as compared to a year ago and 42.0% lower in the fourth quarter of 2022, which is also evidence that the industry is being more cautious. Another factor that the doomsday pundits don't realize is that after the Great Recession, the banking industry, through tougher oversight and accounting regulations regarding loans losses and defaults, has been very conservative in their lending practices with increased scrutiny of the borrower and real estate, lower loan to value ratios, higher debt service coverages and higher loan yield requirements. The banking industry has also increased its capital ratios after the Great Recession with an average Tier 1 capital ratio of over 10.0%. There are also two wild cards in the default equation that could send the economy and the CRE industry into a crash and those are a severe recession or more dangerous economic policies from our leaders in Washington.

The Seven Deadly Sins of CRE Investment Redux

With all the talk and noise of a crash in the CRE industry, we here at VOM thought it would be educational to take another look at the Seven Deadly Sins of CRE Investment. Many of the CRE firms that are in trouble and facing foreclosure or are over-levered with their real estate assets are guilty of violating one or more of these iniquities. The seven CRE sins are analogous to the Seven Deadly Moral Sins which include; pride, envy, gluttony, lust, anger, greed, and sloth. The Seven Deadly Sins of CRE Investment in this market, are the result of complacency, poor investment analysis and underwriting, lax property management, aggressive leverage, overpaying for property and over-optimistic rent growth and projections for the real estate assets.

The CRE investment process is a multifaceted procedure to analyze, acquire, finance, manage, lease, and sell a commercial property. There are many steps in the process from evaluating a broker sales package to analyzing the market in which the property is located, touring the property, raising the appropriate amount of debt and equity capital, closing the acquisition, and managing and leasing the property. Each of these steps is critical to a successful CRE property investment. However, there are many sins or errors committed along the way and our list of seven of these are listed below.

1. Buying at Low Cap Rates
Acquiring CRE at low cap rates is one of the biggest sins that an investor can commit. This has been a hallmark feature of this cycle with historically low interest rates and investors not understanding the various risks in CRE investment. In acquiring commercial real estate assets, it is more important to buy a good asset at a great value rather than a great asset at a good value. The most important criteria in a successful real estate acquisition are to buy the asset at a feasible risk-adjusted return. Buying a CRE asset at extremely high values, which has been common the last several years, or at ultra-low cap rates, is rarely, in the long run, a successful strategy.

2. Poor Due Diligence
The due diligence process conducted before the closing of a real estate acquisition includes all the procedures to make sure the property, financial and market data provided by the seller and broker are accurate and form the basis upon which the purchase price is based. During the booming CRE market of the last few years, the due diligence process has been condensed and, in some cases, not even performed. Sellers have compressed the time to close a transaction, which leaves the buyer with less time to complete a thorough due diligence program. This is especially true of large portfolio transactions with dozens of properties. Shoddy due diligence can result in poor financial proformas, missed negative lease provisions and critical issues with the property's physical condition. Poor due diligence can lead to lower investment returns and reduced cash flow for the property.

3. Lax Market Analysis
One of the key procedures in the due diligence process per above is a detailed analysis of the market where the property is situated. This involves looking at property data such as supply and demand for space, rents, vacancies, new construction, cap rates, competition, and a highest and best-use review. As many of us know, technology is changing consumer behavior, which is affecting the CRE industry, both positively and negatively. Many class A properties that were once tops in their local market and in great locations are finding that the local

real estate market has changed and demand for the property has waned or changed substantially. A proper market analysis should uncover these key market issues and reduce the risk of market changes on the value of the property.

4. This Time it's Different

These are the most dangerous four words in the investment world and are associated with every market bubble and financial crash. CRE investors that overpay for a property by buying at low cap rates will often utter these four words to justify their investment. They will comment that the real estate market is changing and if we don't buy this asset at a low cap rate, somebody else will and our investors will redeem their funds. Or we think we can raise the rents substantially during the next few years and that justifies the high price and low cap rate, or the cost of debt is so low even borrowing at floating rates, we will be able to flip the property for a nice profit before interest rates rise. This sin was prominent during the last several years with artificially low-interest rates and an abundance of capital. However, once interest rates began to rise in March 2022, the stress in the CRE market began to rear its ugly head.

5. Using Excessive Leverage

Acquiring CRE assets with high leverage is one of the most common investment sins. This was particularly common during the early 2000s and up to the middle of the Great Recession in 2010. Many properties bought during this period had a securitized first mortgage, several levels of mezzanine debt, preferred equity and finally the owner equity. Although, the amount of debt on a property post the Great Recession has been less, there were still many properties purchased during the last several years with too much debt at floating rates. When the Federal Reserve began raising rates in March of 2022, many CRE investors got caught with floating rate debt and were not able to convert to fixed-rate debt through an interest rate collar or swap.

6. Poor Management and Ownership of a Property

As in any industry or business, there are good owners and managers and bad owners and managers. This is very apparent in the CRE industry, especially with apartments. Apartments are the most management-intensive of all real estate assets due to the large number of tenants and leases, high levels of employee turnover and poor management policies. There are a large number of bad apartment managers whose shoddy policies and procedures lead to low occupancy and subpar net operating income and cash flow. There are also bad owners in the CRE industry, even some of the largest and most prestigious real estate investment managers. As real estate private equity firms grow to immense size with tens or hundreds of billions of CRE assets under management, they become marketing machines and asset gatherers instead of real estate managers. The unwritten goals of a lot of these firms are to just raise more and more capital, increase the 1.5% to 2.0% asset management fee and acquire more and more assets regardless of the price and performance.

7. Need to Invest Idle Fund Cash

In today's turbulent CRE market, there is still an abundance of unused powder or cash that needs to be invested. There are over 200 real estate private equity funds in the U.S. with more than $200 billion in capital looking for deals and many investment firms are currently raising capital for distressed funds to take advantage of the upcoming defaults and foreclosures. The pressure on the sponsors of these deals from their investors to use the funds and justify the 1.5%-2.0% annual asset management fee on these funds and generate the projected internal rate of return is immense. Many of these sponsors will break one or more of the other sins above and begin making bad investment decisions, just to place the capital to work. Sometimes the best deal in CRE is the one you don't do.

Calculating a CRE Discount Rate?

Properly analyzing a CRE deal for acquisition is one of the most important functions of the investment process. Most real estate investment firms use cap rates to calculate the purchase price of the asset by applying their cap rate to the proforma net operating income (NOI) of a property. Other firms also prepare a discounted cash flow analysis of the property over a five, seven or 10-year time horizon to also determine the purchase price or value. The NOI and/or the cash flow to the equity investors is typically discounted to determine an acceptable internal rate of return (IRR) or net present value (NPV). This value is compared to the purchase price and if the net present value is greater, the deal is purchased and if less, the deal is shelved. If the IRR is greater than the internal discount rate, hurdle rate or cost of capital, the deal is purchased, if less, the deal is shelved.

The formula for calculating a generic cap rate is the Risk-Free Rate (Rrf) plus a Risk Premium (Rp) minus a Growth Rate (G). The Rrf is typically the rate on the 10-Year Treasury Note, Rp is the risk premium inherent in CRE investment (we have discussed the 15 risks in CRE is many prior issues of VOM) and G is the annual growth in property rents or revenue. A generic cap rate today would be 7.5%, with a Rrf of 3.5% (average 10-Year Treasury Note since 2015), plus a Rp of 7.0% (typical risk premium is between 3.0% and 10.0%) and a G of 3.0%. The cap rate is then, 3.5% plus 7.0% minus 3.0% or 7.5%. This is just an average cap rate and would need to be adjusted further for specific property types and markets.

If you are an investor discounting cash flows to arrive at a value, what rate do you use and how is this discount rate determined? It depends on whether the cash flow is the NOI, which is unlevered, or the cash flow to equity, which is levered. Many institutional investors use an established or unlevered required rate of return as the discount rate that today is typically between 7.5% and 10.5%. The cap rate formula above provides the individual components to calculate the discount rate. It is the Rrf plus the Rp, or in the example above, 10.5%. Since the discount rate is used to discount a series of yearly cash flows, the G or growth rate is excluded. This is proper because the specific yearly cash flows already include an inflation factor. A typical real estate Excel proforma for 5, 7 or 10 years (we prefer 5 years) will include a market rent for each year and increases in revenue and expenses. Revenue is first increased by the existing leases, then by various revenue assumptions on market rent, expense bill-backs, other income and vacancy. The non-lease revenue and operating expenses are increased by the expected inflation rate, which today is typically 2%-4%. If only one year of net operating income is used to determine the value of a property, then it is appropriate to use the complete cap rate formula that deducts the growth rate.

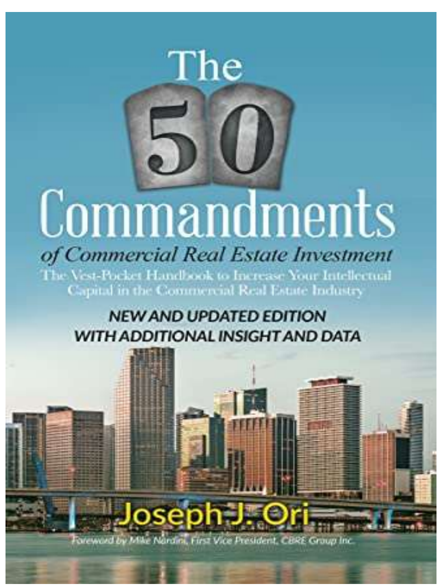
In addition to discounting the unlevered NOI to determine value, most investors also calculate the IRR on the investor equity. This is required so that the general partner or sponsor knows what the expected return will be to the investors. Since this is a levered return the IRR on equity today depending on the risk of the project is typically between 10% and 25%+. An opportunistic investment with 65% leverage would expect to generate an IRR to equity of 20%+ over the holding period. Class A institutional properties are in high demand today and have traded at incredibly low and in most cases nutty cap rates. Using the cap rate formula above a Class A generic cap rate would be Rrf of 3.5% plus a Rp of 6.0% less a G of 3.0% or 6.5%. The unlevered discount rate would then be the risk-free rate plus a risk premium or 9.5%. This rate is then used to discount the net operating income cash flows to determine the NPV of the property or the minimum rate of return required in an IRR analysis.

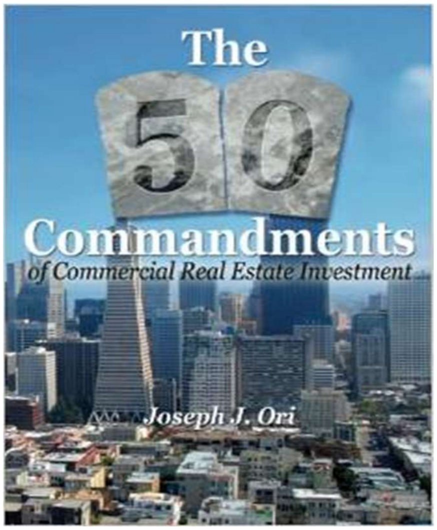
Get Your Copy of Three Great CRE Books by Our Editor, Joseph Ori

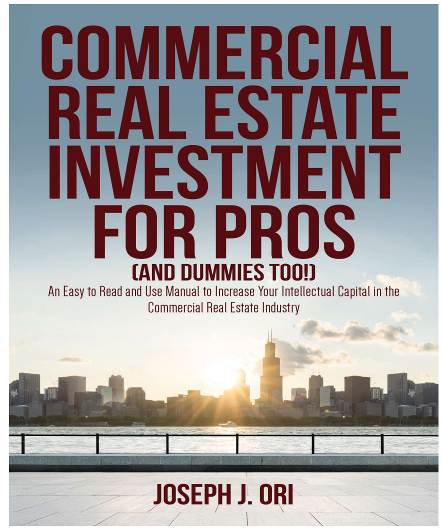
The editor of this newsletter, Joseph Ori, is pleased to offer his three CRE books for sale, “The Fifty Commandments of Commercial Real Estate Investment” Edition I and II and “Commercial Real Estate Investment for Pros (and Dummies Too!).” All books are available on Amazon and other book outlets in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







CRE Financing Rates

Loan Type	Mortgage Rate	Maximum Amortization	Term (years)	Maximum LTV
Permanent Loans	6.38%-10.25%+	30	10	75%
Conduit-CMBS	5.95%-7.00%+	30	10	75%
Bridge Loans	9.34%-18.34%+	Interest Only	1-3	90%
Construction Loans	9.75%-14.75%+	Interest Only	1-4	75%
Insurance Co. Loans	5.88%-7.89%+	30	10	70%
Fannie Mae/Freddie Mac	4.98%-5.79%+	30	10	80%

Commercial Loan Index Rates	
Prime Rate	8.25%
30 Day LIBOR	5.10%
90 Day LIBOR	5.33%
30 Day SOFR (secured overnight funding rate)	4.86%
1 Year Swap	4.92%

10 Year Swap	3.46%
5 Year Treasury	3.99%
10 Year Treasury	3.50%
Federal Funds Rate	5.00%

Short-term interest rates have increased with the 30-day SOFR rate up to 4.86%. This is due to the Fed raising the federal funds rate by .25% on May 3, 2023, to a multi-year high of 5.0%. The 30-day LIBOR rate has also increased to 5.10%. All short-term interest rates have increased due to the Fed and the Fed will likely pivot and begin to reduce the federal funds rate later in 2023. 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.

CRE Deal Focus

CRE Deals of the Month

Purchaser/ Sponsor	Seller	Property/ Deal	Price	Description
W.P. Carey	Apotex Pharmaceutical	Sale-Leaseback of Four Industrial Buildings, Toronto, CA	$468M	Four R&D industrial properties with 2.3 million square feet.
Rockpoint Group	Veris Residential	Harborside 1, 2, & 3 Office Buildings, Jersey City, NJ	$420M	Three Class A office buildings.
Rexford Industrial Realty, Inc.	Unknown	Three Industrial Buildings, Los Angeles, CA	$357M	Three industrial buildings acquired in a sales-leaseback.

Armada Hoffler	A Joint Venture of Armada and SJC Ventures	The Interlock, a Class A Mixed-Use Asset, Atlanta, GA	$215M	A 311,000-square-foot office building and 349 apartments.
GI Partners	AT & T	12800 Culver Blvd., Data Center Asset, Los Angeles, CA	$211M	A 185,315-square-foot data center facility built in 1968.
BH Group and PEBB Enterprises	ODP Corp.	Headquarters Office Building, Boca Raton, FL	$104M	A partial sale-leaseback from the parent of Office Depot and Office Max.
Fundrise	CRG	The Cubes at Glendale, Glendale, AZ	$83M	A 570,080-square-foot industrial building completed in 2022.

Barker Pacific Group and Kingsbarn Realty Capital	Blackstone	Two Office Buildings, Santa Ana, CA	$82M	Two, thirteen-story office buildings built in 1987.
JLL Income Property Trust	Core5 Industrial Partners	Louisville Logistics Center, Louisville, KY	$82M	A 1 million square foot industrial building built in 2022.
MG Properties	Continental Properties	Castle Rock Apartments, Castle Rock, CO	$67M	A 204-unit apartment complex built in 2019.

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. Piloting Change

Neither studies nor market research nor computer modeling is a substitute for the test of reality. Everything improved or new needs first to be tested on a small scale; that is, it needs to be piloted. Often a good way to pilot a new product or new service is to find a customer who really wants the new, and who is willing to work with the producer on making truly successful the new product or new service. Make sure the best ideas in your organization have fierce advocates to see them through a test in the marketplace.

II. The Purpose of a Business

The business enterprise has two basic functions; marketing and innovation. If we want to know what a business is, we have to start with its purpose. And the purpose must lie outside the business itself. In fact, it must lie in society, since a business enterprise is an organ or society. There is only one valid definition of business purpose: *to create a customer.* The customer is the foundation of a business and keeps it in existence. Find out what needs your customers want fulfilled today and determine how well your products are meeting those needs.

III. Converting Strategic Plans to Action

The best plan is only good intentions unless it degenerates into work. A plan needs to be tested by asking managers, “Which of your best people have you put on this work today?” “But I can’t spare my best people now. They have to finish what they are doing now before I can put them to work tomorrow,” is simply admitting that he does not have a plan.

IV. Universal Entrepreneurial Disciplines

Every institution and not only businesses, must build into the day-to-day management four entrepreneurial activities that run in parallel. One is organized abandonment of products, services, processes, markets, distribution channels and so on that are no longer an optimal allocation of resources. Then any institution must organize for systematic, continuing improvement. Then it has to organize for systematic and continuous exploitation, especially of its successes. And finally, it has to organize systematic innovation, that is, create the different tomorrow that makes obsolete and, to a large extent, replaces even the most successful products of today in an organization.

REIT Statistics

Current REIT statistics for 2023 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.

Period	*All REITs*	*All Equity REITs*	*NCREIF NPI Levered Index (Q1-23)*	*S&P 500*	*NASDAQ Composite*
3/2023	1.49%	1.74%	-2.18%	7.50%	**17.05%**
1-Year	-19.78%	-19.40%	-3.51%	**-7.73%**	-13.28%
5-Year	5.66%	6.25%	7.70%	11.19%	**12.60%**
10-Year	6.09%	6.45%	10.14%	12.24%	**15.30%**
20-Year	8.94%	9.47%	9.79%	10.37%	**11.68%**
Market Capitalization	$1.27T	$1.21T	$349B	NA	NA
Dividend Yield	4.46%	4.07%	NA	1.58%	NA

REIT Review

Summary

This REIT valuation is on Spirit Realty Capital, Inc. ("SRC"), a publicly-traded REIT that is engaged in the investing and managing of single-tenant, operationally essential real estate throughout the United States that is generally leased on a long-term, triple-net basis to tenants operating retail, industrial and other property types. SRC owns or has interests in 2,083 net lease properties with 60.3 million rentable square feet.

Property Information

As of March 31, 2023, the occupancy rate was 99.8% and the YoY increase in the net operating income was 13.7%. The three largest tenants are the Life Time Fitness (4.3% of annual base rent), Invited Clubs (2.7% of annual base rent) and BJs Wholesale Club (2.3% of annual base rent).

Corporate Data

SRC is traded on the NYSE, is incorporated in Maryland, and is located in Dallas, TX. SRC has 141.2 million common shares outstanding and a market capitalization of approximately $5,430 billion. SRC is an UpReit, and it owns or controls 99% of the interests in its operating partnership, Spirit Realty, L.P. SRC is rated BBB by Fitch and Baa3 by Moody's.

Management

Jackson Hsieh, 62, President and Chief Executive Officer

Jackson Hsieh joined Spirit as President and Chief Operating Officer in 2016 and was appointed Chief Executive Officer in 2017. Before joining Spirit, Jackson held a number of high-ranking positions in the financial sector, including serving as senior lead banker on over $285B of real estate and lodging transactions. Jackson earned a Bachelor's degree in Architecture from the University of California at Berkeley and a Master's degree in Architecture from Harvard University. Mr. Bilotto has been our President since 2021 and our Chief Operating Officer since 2020.

Ownership

Top Institutional Holders	Shares (000's)	%
Vanguard Group, Inc.	20,472	14.49
Blackrock, Inc.	18,071	12.79
Cohen & Steers, Inc.	16,167	11.44
FMR LLC	9,989	7.07
State Street Corporation	7,714	5.46

Ownership Breakdown	
% Of Shares Held by All Insiders and 5% Owners	.55
% Of Shares Held by Institutional & Mutual Fund Owners	98.09
Number of Institutions Holding Shares	479

All amounts above per Yahoo Finance

Financial Analysis and Valuation

Select financial data for SRC per the Q1-23 10K and supplemental information.

(In millions where applicable)

Financial Data	Amounts
Real Estate Assets, Gross	$8,729
Total Assets	$8,481
Property Debt (at a weighted average interest rate of approximately 3.36%)	$3,619
Stockholders' Equity	$4,553
Revenue	$188
Net Income (Loss)	$93
Cash Flow from Operations	$101

Unsecured Credit Facility ($1.2B with $100M used)	$1,100
Market Capitalization	$5,430
Property Debt to:	
Gross Real Estate Assets	41%
Market Capitalization	67%
Enterprise Value	40%
Dividend and Yield ($2.65/sh.)	6.88%
Shares Sold Short (in millions per Yahoo Finance)	3,090

Valuation Methodology	
Q1-23 Real Estate Revenue	$188
Q1-23 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, impairment charges plus G&A expenses)	25
Q1-23 Net Operating Income	$163
Annualized Proforma Net Operating Income at 102%	$665
Projected Average Cap Rate	7.0%
Projected Value of Real Estate Assets	$9,500
Add: Net Operating Working Capital (at book value and excluding goodwill)	$434
Loans Receivable (at book value)	56
Total Projected Value of the Assets of the Company	$9,990
Less: Preferred Stock (at $25/sh. liquidation value)	($172)
Total Debt Per Above	(3,619)

Projected Net Asset Value of the Company	$6,199
Common Shares Outstanding, 141.2M	
Projected NAV Per Share	**$44**
Market Price Per Share on 5/15/23	**$38**
Premium (Discount) to NAV	**(16%)**

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 SRC for the years 2018 through Q1-23 are shown in the table below:

(Millions except dividend and per share amounts)	2018	2019	2020	2021	2022	Q1-23
Gross Real Estate Assets	$4,757	$5,750	$6,392	$7,478	$8,632	$8,729
Property Debt	$2,054	$2,153	$2,506	$3,102	$3,575	$3,619
Revenues	$445	$516	$483	$608	$709	$188
Net Income (Loss)	$121	$164	$16	$161	$275	$93
Funds from Operations (FFO)	$322	$305	$286	$387	$493	$127
Return on Invested Capital (1)	8.8%	7.4%	7.3%	7.2%	7.4%	NA
Dividend Coverage (2)	1.07	1.29	1.05	1.26	1.38	1.27
Dividends Paid Per Share	$2.95	$2.50	$2.50	$2.526	$2.602	$2.65

(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 $.663 per quarter.

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

SRC Total Return	3/23	1-Yr	3-yr	5-Yr
	1.48%	-7.30%	22.52%	9.61%

As shown above, our net asset value per share for SRC is $44/sh., compared to a market price of $38/sh. Current average cap rates for net lease properties per our industry experience and CBRE's Cap Rate Survey are in the 6.0% to 9.0% range, depending on the credit of the tenant and lease term. We have used an average cap rate of 7.0% due to SRCs diversified portfolio of net lease assets.

Valuation Analysis

SRC's strengths, concerns and recommendations are as follows:

Strengths:

- An investment grade credit rating.
- SRC has a diversified national portfolio of net lease office assets.
- SRC is trading at a 16% discount to our NAV.
- An attractive dividend yield of 6.88%.

Concerns:

- REIT prices will decline if interest rates increase.
- Long-term net leases asset returns are negatively correlated with higher interest rates.

Recommendation:

SRC is trading at a large discount to our NAV, and we would be a buyer of the stock.

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

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

1. Cousins Properties, Inc., August 15, 2021
2. Mid-America Apartments, Inc., September 15, 2021
3. VEREIT, Inc., October 15, 2021
4. Spirit Realty Capital, Inc, November 15, 2021
5. First Industrial Realty Trust, Inc., December 15, 2021
6. Camden Property Trust, Inc., January 15, 2022
7. Healthcare Trust of America, Inc., February 15, 2022
8. Simon Property Group, Inc., March 15, 2022
9. Brandywine Realty Trust, April 15, 2022
10. Rexford Industrial Realty, Inc., May 15, 2022
11. Host Hotels & Resorts, June 15, 2022
12. The Macerich Company, July 15, 2022
13. Hudson Pacific Properties, Inc., August 15, 2022
14. Kilroy Realty Corporation, September 15, 2022
15. Realty Income Corporation, October 15, 2022
16. Federal Realty Trust, November 15, 2022
17. Equity Residential, December 15, 2022
18. STAG Industrial, January 15, 2023
19. Brixmor Property Group, Inc., February 15, 2023
20. Mid-America Apartment Communities, March 15, 2023
21. Office Properties, Trust, April 15, 2023

General Publication Information and Terms of Use

View of the Market is published by Paramount Capital Corporation at www.paramountcapitalcorp.com and edited by Joseph Ori, Executive Managing Director. The use of this newsletter and its content is governed by the Terms of Use as described herein. This newsletter is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This newsletter is distributed for informational purposes only and should not be construed as investment advice or a recommendation to sell or buy any security or other investment or undertake any investment strategy. It does not constitute a general or personal recommendation or tang the investment objectives, financial situations, or needs of individual investors.

The price and value of securities referred to in this newsletter will fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of all of the original capital invested in a security discussed in this newsletter may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. There are no warranties, express or implied, as to the accuracy, completeness, or results obtained from any information set forth in this newsletter. Paramount Capital Corporation will not be liable to you or anyone else for any loss or injury resulting directly or indirectly from the use of the information contained in this newsletter, caused in whole or in part by its negligence in compiling, interpreting, reporting, or delivering the content in this newsletter. Paramount Capital Corporation receives compensation in connection with the publication of this newsletter only in the form of subscription fees charged to subscribers and reproduction or re-dissemination fees charged to subscribers or others interested in the newsletter content.

Subscription Information

Subscriptions to this newsletter are available for $99 per year or $149 for two years. See www.paramountcapitalcorp.com for subscription information.