

View of the Market

Volume XVI/Issue
9/September 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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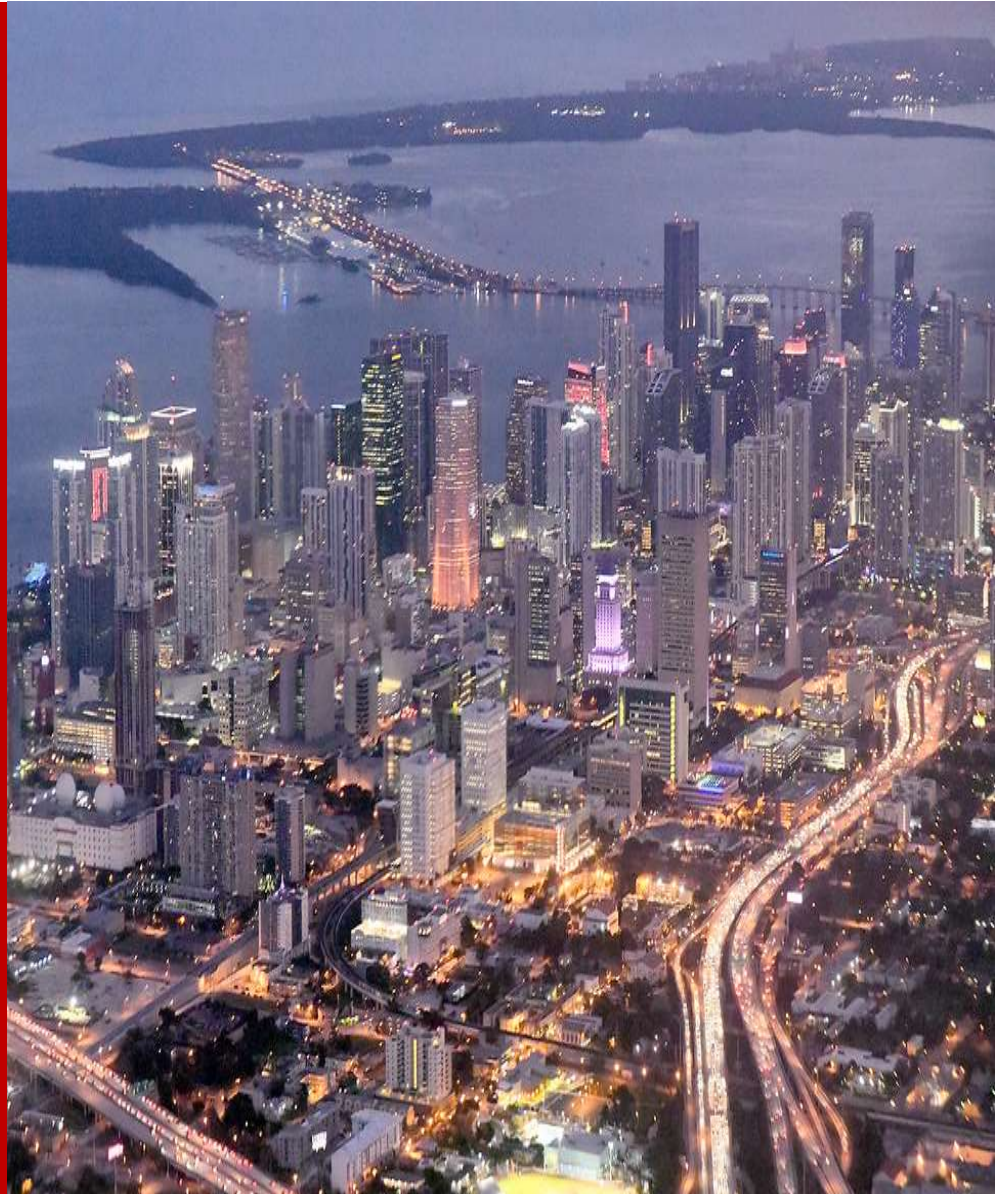
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REAL STATE FOCUS

Get Ready for a CRE Boom!

Sharpen your pencils, dust off those old overpriced real estate deals for sale and get your favorite real estate broker on speed dial as a new CRE boom will begin when the Fed finally begins lowering interest rates. It's been a grueling thirty months of a "bear market" in the CRE industry with plenty of pain and many of us are "chomping at the bit" to get some deals done and see our bank accounts flourish once more. The Fed will meet next on 9/17-18/24 and then on 11/6-7/24 and finally on 12/17-18/24. We expect here at VOM, for the Fed to reduce the 5.25% federal funds rate by .25% in September, .25% in November and .50% in December. These rate decreases will bring the federal funds rate down to 4.25% and thirty-day SOFR (secured overnight funding rate) down from 5.34% to 4.34%, which will bring down CRE financing rates by at least 1.0%. We also expect at least a 1.50%-2.0% decrease in the funds rate in 2025.

A lower cost of capital and enthusiasm for CRE investments will increase deal activity tremendously. Many large institutional investors including pension funds, private equity firms and sovereign wealth funds have curtailed their real estate investment programs during the last few years. CRE allocations by these investors have dropped about 30%-40%, but with lower rates, increased CRE optimism and a growing economy, these investors will begin reallocating funds to the real estate sector using the Four Quadrants chart below as a starting point.

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	Debt	Equity
Public	CMBS CLOs	REITs REOCs (real estate operating companies)
Private	First Mortgages Mezzanine Loans Subordinate Loans Bridge Loans Participating loans	Direct Acquisitions Joint Ventures Commingled Funds Nontraded REITs Closed-End Funds Fund of Funds Private Equity Real Estate Funds

We here at VOM are very optimistic about the CRE industry in the next few years. We do not see a recession and with a new administration in charge, the business will be on steroids. We like both the debt and equity side of the business, with the most favored property types as follows; apartments, retail, industrial and office. We also favor the Midwest and Sunbelt for investments and are still leery of investments in the high-crime urban markets.

A Review of the Data Center Market

The data center market has been on fire and the best-performing sector of the CRE market since the beginning of the pandemic in 2000. The emergence of artificial intelligence (AI) software, which requires tremendous amounts of data, algorithms, calculations, and storage, has been the catalyst for the growth in demand for data centers all over the country. It has been projected that AI CapEx spending will exceed \$300 billion annually in the U.S.

There are three types of data centers, Hyperscale, Enterprise and Colocation. Hyperscale data centers are large data campuses that provide at least 50MW (megawatts) of power and are owned

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or leased by the largest public cloud providers, Amazon's AWS, Microsoft's Azure, Google's Cloud, Oracle's Cloud, and others. Enterprise data centers are large single buildings or campuses with 100,000 to 250,000 square feet, primarily leased by large corporate entities, such as Fortune 500 companies. Colocation data centers are large multi-tenant single buildings with 100,000 to 200,000 square feet that lease their space racks to many companies for their in-house data and technology needs.

The largest data center markets in the U.S. per the Jones, Lang LaSalle Data Center Sector report for midyear 2024 are Northern Virginia, the Pacific Northwest, Dallas/Fort Worth, Northern California, and Austin/San Antonio. As of Q1-24, the inventory of space in the U.S. was 12.029 megawatts and a vacancy rate of 3.0%, with 22.163MW of space planned for development. Average rents are quoted in per-square-foot amounts and per kilowatts per month depending on the type of tenant above and the size of the property. For properties that provide >250KW, the average rate is \$321/kw/mo., for 250KW to 1MW of power, the rate is \$197/kw/mo., for properties with 1-5MW, \$151/kw/mo., for properties that provide 5-20MW, \$137/kw/mo., and for properties over 20MW, \$127/kw/mo.

Key statistics and data on the data center market are discussed below.

I. Key Statistics

General statistics for the data center market as of Q1-24 per broker, Jones Lang LaSalle are as follows:

- Vacancy rate – 3.0%
- Net absorption – 2,755MW
- Average annual net rent - \$127- \$321/kw/mo. (up 13.0%-22.0%YoY)
- Construction starts – 5,340MW

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II. Pros and Cons of Data Center Investment

The data center market is booming with insatiable demand all over the U.S. and the pros and cons of data center investment include the following:

- Pros
 - Investment type diversity with hyper-scale, enterprise and colocation properties and corporate campuses
 - Demand for data centers is growing exponentially with a CAGR of 23.0% through 2030
 - Most data centers have high-credit tenants with minuscule lease default rates
 - Most leases are triple net or single net with an electric cost pass-through
 - The investment market is extraordinarily strong with an abundance of debt and equity capital available

- Cons
 - Difficult to find the land, power requirements, cooling, and connection to fiber optic networks
 - Cap rates have compressed to an average of about 5.0%
 - Construction costs have ballooned to at least \$1,500 per square foot depending on the land cost and power structure
 - Difficult to find suitable land for new development
 - Development lead times and construction periods are 3-5+ years
 - Many municipalities have curtailed data center construction due to the high demand for power from the local utility and to keep consumer utility rates down
 - Difficult to find management talent and personnel with data center experience and technical expertise

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III. Data Center Rental Rates Inventory

Since the pandemic, data center rental rates have soared. The chart below shows the average rent and inventory for key markets per the Jones, Lang, LaSalle report for Q1-24.

Area	Rent Per KW/MO	Inventory (MW)
Northern Virginia	\$130-\$165	4,575
Pacific Northwest	\$135-\$165	987
Dallas/Fort Worth	\$130-\$150	966
Chicago	\$135-\$155	818
Northern California	\$170-\$200	810
New Jersey	\$135-\$185	570

IV. New Data Center Construction

The chart below shows new data center construction per the Jones, Lang, LaSalle report. This period of new construction has been at record rates.

Period	Construction Completions (MW)
Q2-24	5,250
2023	8,800
2022	4,650
2021	1,700
2020	1,100

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V. Data Center Returns

The yearly returns, including price change and dividends for the data center sector per NAREIT are shown in the chart below.

NAREIT	7/24	2023	2022	2021	2020
Annual Returns	3.98%	30.08%	-27.97%	25.47%	21.00%

Data per NAREIT

Increase Your Intellectual Capital in CRE and Corporate Finance

The CRE industry is the largest of the alternative asset sectors, which also includes private equity, hedge funds, and venture capital. The total market value of all investment, corporate and government-owned real estate is conservatively valued at over \$35 trillion. The CRE industry has become institutionalized, especially with the growth of large private equity real estate funds at \$15B to \$30B in size, the large number of REITs and the attraction of CRE investments by pension funds, endowments, corporations, Wall Street, insurance companies and sovereign wealth funds.

The analysis and valuation of CRE by real estate and corporate finance pros have become more blurred, with some metrics used by one party and not the other. In the REIT sector, Wall Street players are very comfortable using valuation metrics like funds from operations (FFO), which is primarily net income plus depreciation, cash available for distribution (CAD), which is FFO less capital expenditures and the amount paid out as a dividend, EBITDA, which is earnings before interest, taxes, depreciation and amortization margins and debt to EBITDA. While real estate pros prefer cap rates, net present values on the net operating income, internal rates of return (IRR) on the equity, sales volumes per square foot, debt yield, debt service coverage and loan-to-value ratios. Although the metrics and even terminology between CRE and corporate finance

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seem different, they are remarkably similar. One way to increase your intellectual capital in CRE and corporate finance is to understand and apply both to corporate and real estate valuation and analysis.

In corporate finance, EBITDA is a common cash flow measure that is used in corporate finance for company valuation purposes. Typically, a company is valued at a certain multiple of EBITDA. The multiple is calculated by the enterprise value (EV) or the market value of the company's long-term debt plus market capitalization of common stock less cash/marketable securities divided by its EBITDA. EBITDA multiples for the sale of an operating company typically range from 8 to 12 times. As an example, if the EV of a company is \$15B and its EBITDA is \$1.5B, the multiple is 10 times (\$15B/\$1.5B). If similar companies in the same industry group are selling at 12 times EBITDA, this company would be worth \$18B (\$1.5Bx 12) and a premium of \$3B to its current value.

At the REIT level, EBITDA in corporate finance is equivalent to NOI in CRE. Both metrics are cash flow measures that exclude depreciation, amortization, interest, and taxes and are used in valuation. The cap rate is the NOI divided by a property's value and is shown below:

$$\text{Cap Rate} = \text{NOI/Property Value}$$

The EBITDA Multiple formula is shown below:

$$\text{EBITDA Multiple} = \text{EV/EBITDA}$$

The inverse of the EBITDA multiple is equivalent to the cap rate formula as follows:

EV/EBITDA is the inverse of NOI/Property Value and therefore,

$$\text{EBITDA/EV} = \text{NOI/Property Value}$$

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An EBITDA multiple of 12.5 times is equal to a cap rate of 8.0% (100 divided by 12.5) or a cap rate of 4.0% is equal to an EBITDA multiple of 25 times (1 divided by 4.0%). If the average EBITDA multiple is 8x-12x, this means that operating companies trade at cap rates ranging from 8.3% to 12.5%. Another way to look at the low cap rates being paid on core properties is to convert the cap rate to an EBITDA multiple as shown above. A 4% cap rate on a Class A office building in Miami is equal to an EBITDA multiple of 25x, which is unheard of in corporate finance circles and very few companies will sell at that valuation. However, investments in operating companies are higher risk than commercial real estate and should trade at lower returns. This is due to the volatility of a company's revenue from year to year and the quasi-guarantee of income derived from tenant leases on real estate properties. Operating companies typically have no guaranteed or fixed income and their sales from year to year can vary greatly if they gain or lose a major customer or the economy softens and their sales plummet. Therefore, corporate investments should trade at and are properly valued at higher cap rates and lower EBITDA multiples than CRE investments, which is the case today.

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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 40 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.

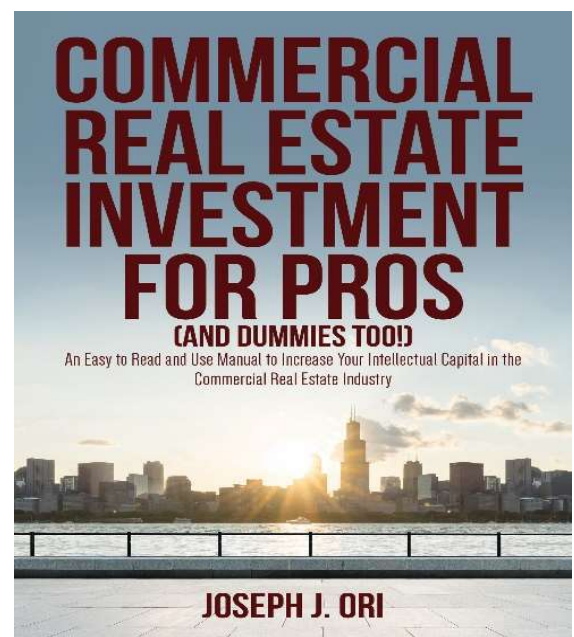
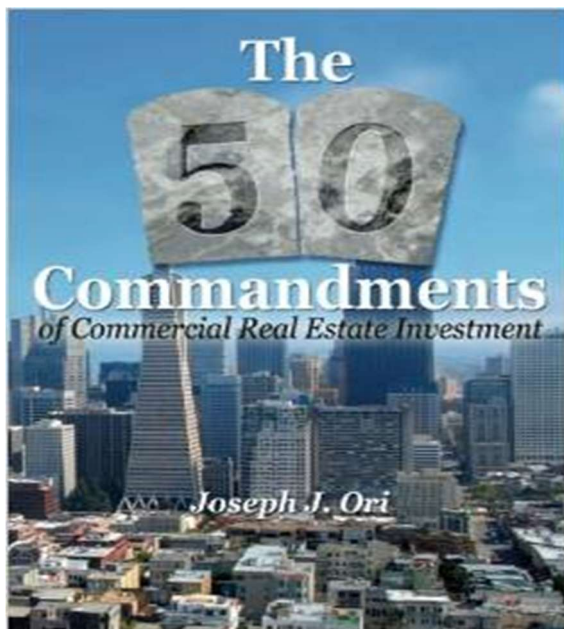
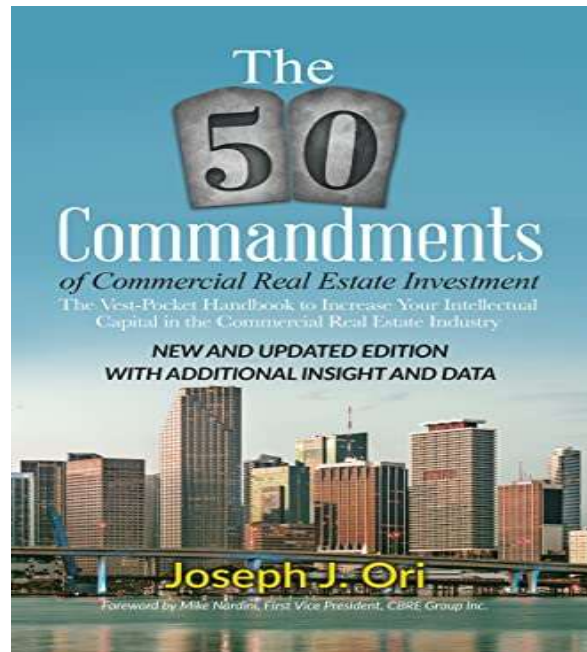
Commercial Real Estate Investment for Pros (and Dummies Too!) discusses the history, the various financial players, legal and financial structures, property types, modern portfolio theory and the financial metrics of commercial real estate investment and the commercial real estate industry. The book 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	4.02%
10 Year Swap	3.22%
5 Year Treasury	3.53%
10 Year Treasury	3.72%
Federal Funds Rate	5.25%



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Short-term interest rates have remained stable with the 30-day SOFR rate at 5.34%, however, the ten-year treasury rate has declined to 3.72%. The Federal Reserve meets on 9/17-9/18/24 and will probably lower the funds rate by .25% with further rate cuts to follow. The above financing rates and data are courtesy of Paramount Capital Corporation and feel free to contact Joseph Ori, Founder and CEO, 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
Hyatt Hotels Corp.	ARES Management	Hyatt Regency, Orlando, FL	\$1.04B	A 1,641-room hotel and conference center.
Pine Tree and State Pension Funds	SITE Centers Corp.	Six Shopping Centers, US	\$495M	Six shopping centers with 2.5 million square feet.
JP Morgan	AEW Capital Management	250 Park Ave., NY, NY	\$320M	A 540,000-square foot office building that is 76% leased.

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Exeter Real Estate Income Trust	Core5 Industrial Partners of Atlanta	Industrial Property, Middletown, PA	\$170M	A 1.22 million-square-foot industrial property net leased to Amazon.
CTO Realty Growth, Inc.	SITE Centers, Inc.	Three Shopping Centers, US	\$137M	Three shopping centers with 893,385 square feet.
Harbor Group International	Brookfield Asset Management	Edmund Apartments, Reston, VA	\$133M	A 352-unit apartment property.
Equity Residential	Trammel Crow Residential and Diamond Realty Investments	Iris O4W, Atlanta, GA	\$126M	A 320-unit apartment property.
Equity Residential	Blackstone Group-	The Bishop Apartments, Sandy Springs, GA	\$108M	A 425-unit apartment property built in 2019.

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Decron Properties	Stockbridge Capital Group	Mira Mesa Market West Shopping Center, Mira Mesa, CA	\$99M	A 238,747-square foot shopping center.
Prologis REIT	TracFone Wireless	Office Building, Doral, FL	\$54M	A 145,352 square foot office building built in 2000.

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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 profound 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. Calculated Obsolescence

Being the one who makes your product, process, or service obsolete is the only way to prevent your competitor from doing so. Innovating organizations spend neither time nor resources on defending yesterday. Systematic abandonment of yesterday alone can free the resources, and especially the scarcest resource of them all, capable people, for work on the new. Cannibalize your own products before your competitor does.

II. The Infant New Venture

Businesses are not paid to reform customers. Above all, the people who are running a new venture need to spend time outside: in the marketplace, with customers and with their own sales force, looking and listening. The new venture needs to build in systematic practices to remind itself with a “product” or “service” is defined by the customer, not by the producer. See the unexpected success of a new venture as an opportunity not as a problem.

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III. The Rapidly Growing New Venture

The more successful a new venture is, the more dangerous the lack of financial foresight. The lack of adequate financial focus and the right financial policies is the greatest threat to the new venture in the next stage of growth. Develop sound financial plans and controls for your new venture. Don't look at your accounting and finance people as "bean counters."

IV. Managing Cash in the New Venture

There is an old bankers rule of thumb according to which one assumes that bills will have to be paid sixty days earlier than expected and receivables will come in sixty days later. Entrepreneurs starting new ventures are rarely unmindful of money; on the contrary, they tend to be greedy. They therefore focus on profits. The new venture needs cash-flow analysis, cash-flow forecasts, and cash management. Develop "worst case" estimates of cash flow and cash forecasts for new ventures. Monitor receivable and inventory levels closely.



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The Great Peter Lynch's 25 Rules of Investing

One of the world's greatest living investors is Peter Lynch. Peter Lynch was the manager of Fidelity's Magellan fund from 1977 to 1990 and earned a remarkable average annual return of 29.2%. He authored many books and two of his classics are "One Up on Wall Street" in 1989 and "Beating the Street" in 1997. His 25 rules for becoming a successful investor in the stock market are listed below.

1. Investing is fun, exciting, and dangerous if you don't do any work.
2. Your investor's edge is not something you get from Wall Street experts. It's something you already have. You can outperform the experts if you use your edge by investing in companies or industries you already understand.
3. Over the past three decades, the stock market has come to be dominated by a herd of professional investors. Contrary to popular belief, this makes it easier for the amateur investor. You can beat the market by ignoring the herd.
4. Behind every stock is a company, find out what it's doing.
5. Often, there is no correlation between the success of a company's operations and the success of its stock over a few months or even a few years. In the long term, there is a 100 percent correlation between the success of the company and the success of its stock. This disparity is the key to making money; it pays to be patient and to own successful companies.
6. You have to know what you own, and why you own it. "This baby is a cinch to go up!" doesn't count.

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7. Long shots almost always miss the mark.

8. Owning stocks is like having children - don't get involved with more than you can handle. The part-time stock picker probably has time to follow 8-12 companies and to buy and sell shares as conditions warrant. There don't have to be more than 5 companies in the portfolio at any time.

9. If you can't find any companies that you think are attractive, put your money into the bank until you discover some.

10. Never invest in a company without understanding its finances. The biggest losses in stocks come from companies with poor balance sheets. Always look at the balance sheet to see if a company is solvent before you risk your money on it.

11. Avoid hot stocks in hot industries. Great companies in cold, no-growth industries are consistent big winners.

12. With small companies, you're better off waiting until they turn a profit before you invest.

13. If you're thinking about investing in a troubled industry, buy the companies with staying power. Also, wait for the industry to show signs of revival. Buggy whips and radio tubes were troubled industries that never came back.

14. If you invest \$1,000 in a stock, all you can lose is \$1,000, but you stand to gain \$10,000 or even \$50,000 over time if you're patient. The average person can concentrate on a few good companies, while the fund manager is forced to diversify. By owning too many stocks, you lose this advantage of concentration. It only takes a handful of big winners to make a lifetime of investing worthwhile.

15. In every industry and every region of the country, the observant amateur can find great growth companies long before the professionals have discovered them.

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16. A stock-market decline is as routine as a January blizzard in Colorado. If you're prepared, it can't hurt you. A decline is a great opportunity to pick up the bargains left behind by investors who are fleeing the storm in panic.

17. Everyone has the brainpower to make money in stocks. Not everyone has the stomach. If you are susceptible to selling everything in a panic, you ought to avoid stocks and stock mutual funds altogether.

18. There is always something to worry about. Avoid weekend thinking and ignore the latest dire predictions of the newscasters. Sell a stock because the company's fundamentals deteriorate, not because the sky is falling.

19. Nobody can predict interest rates, the future direction of the economy, or the stock market. Dismiss all such forecasts and concentrate on what's actually happening to the companies in which you've invested.

20. If you study 10 companies, you'll find 1 for which the story is better than expected. If you study 50, you'll find 5. There are always pleasant surprises to be found in the stock market - companies whose achievements are being overlooked on Wall Street.

21. If you don't study any companies, you'll have the same success buying stocks as you do in a poker game if you bet without looking at your cards.

22. Time is on your side when you own shares.

23. If you have the stomach for stocks, but neither the time nor the inclination to do the homework, invest in equity mutual funds. Here, it's a good idea to diversify. You should own a few different kinds of funds, with managers who pursue different styles of investing: growth, value, small companies, large companies, etc. Investing in six of the same kind of fund is not diversification.

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24. The capital gains tax penalizes investors who do too much switching from one mutual fund to another. If you've invested in one fund or several funds that have done well, don't abandon them capriciously. Stick with them.

25. Among the major markets of the world, the U.S. market ranks eighth in total return over the past decade. You can take advantage of the faster-growing economies by investing some of your assets in an overseas fund with a good record.

REIT Statistics

Current REIT statistics for 7/31/24 per NAREIT are included in the table below. Please note that the all-equity REIT return over 20 years includes three CRE downturns, the Great Recession, the retail and store closure meltdown and the current higher interest rate regime.

<i>Period</i>	<i>All REITs</i>	<i>All Equity REITs</i>	<i>S&P 500</i>	<i>NASDAQ Composite</i>
<i>7/2024</i>	4.76%	4.83%	16.70%	17.71%
<i>1-Year</i>	10.91%	11.14%	22.15%	23.62%
<i>5-Year</i>	4.10%	4.53%	15.00%	17.53%
<i>10-Year</i>	6.60%	6.84%	13.15%	16.08%
<i>20-Year</i>	7.70%	8.23%	10.54%	11.81%

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<i>Market</i>				
<i>Capitalization</i>	\$1.42T	\$1.35T	\$45.7T	\$24.5T
<i>Dividend Yield</i>	4.18%	3.86%	1.27%	1.46%

REIT Review

Summary

This REIT valuation is on Regency Centers Corporation, (“REG”), a publicly-traded REIT that is engaged in the ownership, management, leasing, development, redevelopment, and acquisition, of shopping centers. REGs properties are primarily located on the West and East coasts, the Midwest and Southeast sections of the U.S. REG directly owns 380 properties and has interests in 101 more properties with a total of 56.9 million square feet. REGs occupancy rate is 95% and same-store net operating income growth for Q2-24 YoY was 13.5%. In August 2023, REG acquired shopping center owner, Urstadt Biddle Properties, which owned 74 shopping centers with 5.3 million square feet and for a price of approximately \$1.4 billion.

Property Developments

As of Q2-24, REG was developing six retail centers with 672,000 square feet at a total cost of \$220 million with approximately \$110 million incurred to date.

Corporate Data

REG is traded on the NASDAQ, is incorporated in Florida, and is located in Jacksonville, FL. REG has 180 million common shares outstanding and a market capitalization of approximately \$13,660 billion. REG owns a 99.4% interest and controls its UpReit partnership, Regency Centers, L.P. REG’s credit rating is A3 from Moody’s.

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Management

Lisa Palmer, 56, President and CEO

Lisa has been our President and CEO since January 1, 2020. Prior to her current role, she served as President and CFO from 2016 – 2019, Executive Vice President and CFO from 2013 to 2015, and Senior Vice President of capital markets from 2003 until 2013. Lisa has also held various other leadership positions with Regency since 1996. Before joining Regency, she was a consultant with Accenture and a financial analyst for General Electric. She is a member of the boards of directors of the Jacksonville Branch of the Federal Reserve Bank of Atlanta and Brooks Rehabilitation. She also serves as chair of the board of directors of the United Way of Northeast Florida, an executive board member of the National Association of Real Estate Investment Trusts (NAREIT), and on the board of trustees for Innovating Commerce Serving Communities (ICSC). Lisa earned a BA in economics from the University of Virginia and an MBA from the Wharton School of the University of Pennsylvania.

Top Institutional Holders	Shares (000's)	%
The Vanguard Group, Inc.	28,780	17.18
Blackrock Inc.	20,440	12.20
Norges Bank Investment Management	17,050	10.18
State Street Corporation	11,640	6.95
JP Morgan Chase & Company	10,650	6.36

Ownership Breakdown	
% Of Shares Held by All Insiders and 5% Owners	.78
% Of Shares Held by Institutional & Mutual Fund Owners	98.63
Number of Institutions Holding Shares	750

All amounts above per Yahoo Finance

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Financial Analysis and Valuation

Select financial data for REG per the 2024 Q2 10Q and supplemental information.

(In millions where applicable)

Financial Data	Amounts
Real Estate Assets, Gross	\$13,532
Total Assets	\$12,384
Property Debt (at weighted average interest rates of approximately 4.2%)	\$4,365
Stockholders' Equity	\$6,963
Revenue	\$721
Net Income (Loss)	\$217
Cash Flow from Operations	\$371
Unsecured Credit Facility (\$1.5B with \$310M used)	\$1,190
Market Capitalization	\$13,660
Property Debt to:	
Gross Real Estate Assets	32%
Market Capitalization	32%
Enterprise Value	24%
Dividend and Yield (\$2.68/sh.)	3.6%
Shares Sold Short (in millions per Yahoo Finance)	2,270

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Valuation Methodology	
Q2-24 Real Estate Revenue	\$721
Q2-24 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, impairment charges plus G&A expenses)	<u>\$269</u>
Q2-24 Net Operating Income	\$452
Proforma Annualized Net Operating Income at 102%	\$922
Projected Average Cap Rate	<u>6.0%</u>
Projected Value of Real Estate Assets	\$15,367
Add: Net Operating Working Capital (at book value)	\$225
Investments in Real Estate Partnerships (at 2 times book value)	<u>\$756</u>
Total Projected Value of the Assets of the Company	\$16,348
Less: Total Debt per Above	<u>(\$4,365)</u>
Preferred Stock (at \$25/sh. liquidation value)	<u>(\$225)</u>
Projected Net Asset Value of the Company	<u>\$11,758</u>
Common Shares Outstanding, 180M	
Projected NAV Per Share	\$65
Market Price Per Share on 9/15/24	\$74
Premium (Discount) to NAV	13.8%

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Financial Metrics

The gross real estate assets, property debt, revenue, net income, funds from operations, return on invested capital, dividend coverage, and dividends per share for REG for the years 2019 through Q2-24 are shown in the table below.

(Millions except dividend and per share amounts)	2019	2020	2021	2022	2023	Q2-24
Gross Real Estate Assets	\$11,095	\$11,101	\$11,495	\$11,858	\$13,454	\$13,532
Property Debt	\$3,919	\$3,922	\$4,040	\$4,043	\$4,153	\$4,365
Revenue	\$1,133	\$1,016	\$1,166	\$1,224	\$1,322	\$721
Net Income (Loss)	\$243	\$47	\$361	\$482	\$364	\$217
Funds from Operations (FFO)	\$239	\$44	\$688	\$707	\$736	\$396
Return on Invested Capital (1)	7.5%	6.5%	7.4%	7.8%	7.8%	NA
Dividend Coverage (2)	.60	.14	1.68	1.62	1.59	1.52
Dividends Paid Per Share	\$2.34	\$2.38	\$2.41	\$2.525	\$2.62	\$2.68(3)

- (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 in 2024 is \$.67 per quarter.

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

REG Total Return	7/2024	1-Yr	3-yr	5-Yr
	2.74%	7.19%	5.19%	4.50%

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As shown above, our net asset value per share for REG is \$65/sh., compared to a market price of \$74/sh. Current average cap rates for retail properties per our industry experience and CBRE's Cap Rate Survey are in the 5.0% to 8.0% range, depending on the location, tenancy and sales per square foot of the property. We have used an average cap rate of 6.0% due to REGs diversified portfolio of mostly high-quality retail properties.

Strengths:

- A low debt-to-enterprise value of 24%.
- A high-quality portfolio of retail properties.
- An attractive dividend yield of 3.6%.
- 80% of the assets are grocery-anchored shopping centers.

Concerns:

- REIT prices will decline if interest rates increase.
- The dividend has only increased by 14.5% since 2019.
- The stock is trading at a 13.8% premium to our NAV.

Recommendation:

REG is trading at a 13% premium to our NAV per share, and we are not recommending the purchase of the stock.

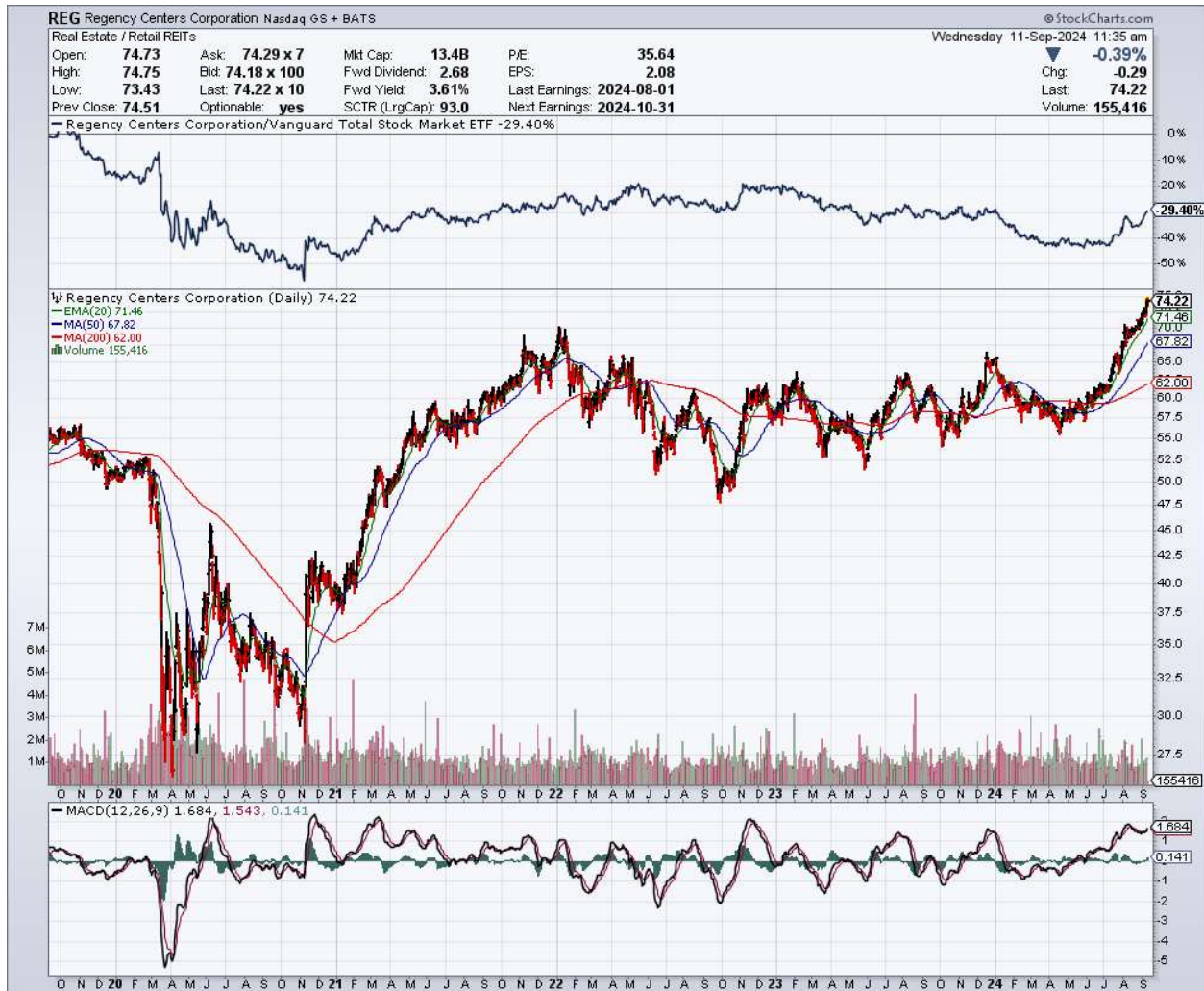
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A five-year price chart for REG is shown below:



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



1. Hudson Pacific Properties, Inc., August 2022
2. Kilroy Realty Corporation, September 2022
3. Realty Income Corporation, October 2022
4. Federal Realty Trust, November 2022
5. Equity Residential, December 2022
6. REG Industrial, January 2023
7. Brixmor Property Group, Inc., February 2023
8. Mid-America Apartment Communities, March 2023
9. Office Properties, Trust, April 2023
10. Spirit Realty Capital, Inc., May 2023
11. Cousins Properties, Inc., June 2023
12. Tanger Factory Outlet Centers, Inc., July 2023
13. Paramount Group, Inc., August 2023
14. Broadstone Net Lease, Inc., September 2023
15. Apartment Income REIT Corp., October 2023

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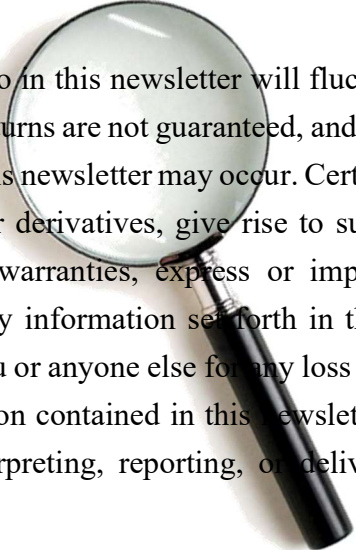
16. Kite Realty Group Trust, November 2023
17. Alexandria Real Estate Equities, Inc., December 2023
18. Agree Realty Corporation, January 2024
19. WP Carey, February 2024
20. Essex Property Trust, March 2024
21. Brandywine Realty Trust, April 2024
22. Urban Edge Properties, May 2024
23. Eastgroup Properties, June 2024
24. REG Industrial, Inc., July 2024
25. Camden Property Trust, August 2024

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