

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

INSIDE THIS ISSUE

Real Estate Focus:

- My Top Eight CRE Predictions for 2025
- The Art of Creating Alpha in CRE Investment
- How do REITs Grow?
- CRE Books by Our Editor, Joseph Ori
- CRE Financing Rates Courtesy of Paramount Capital Corporation

CRE Deal Focus:

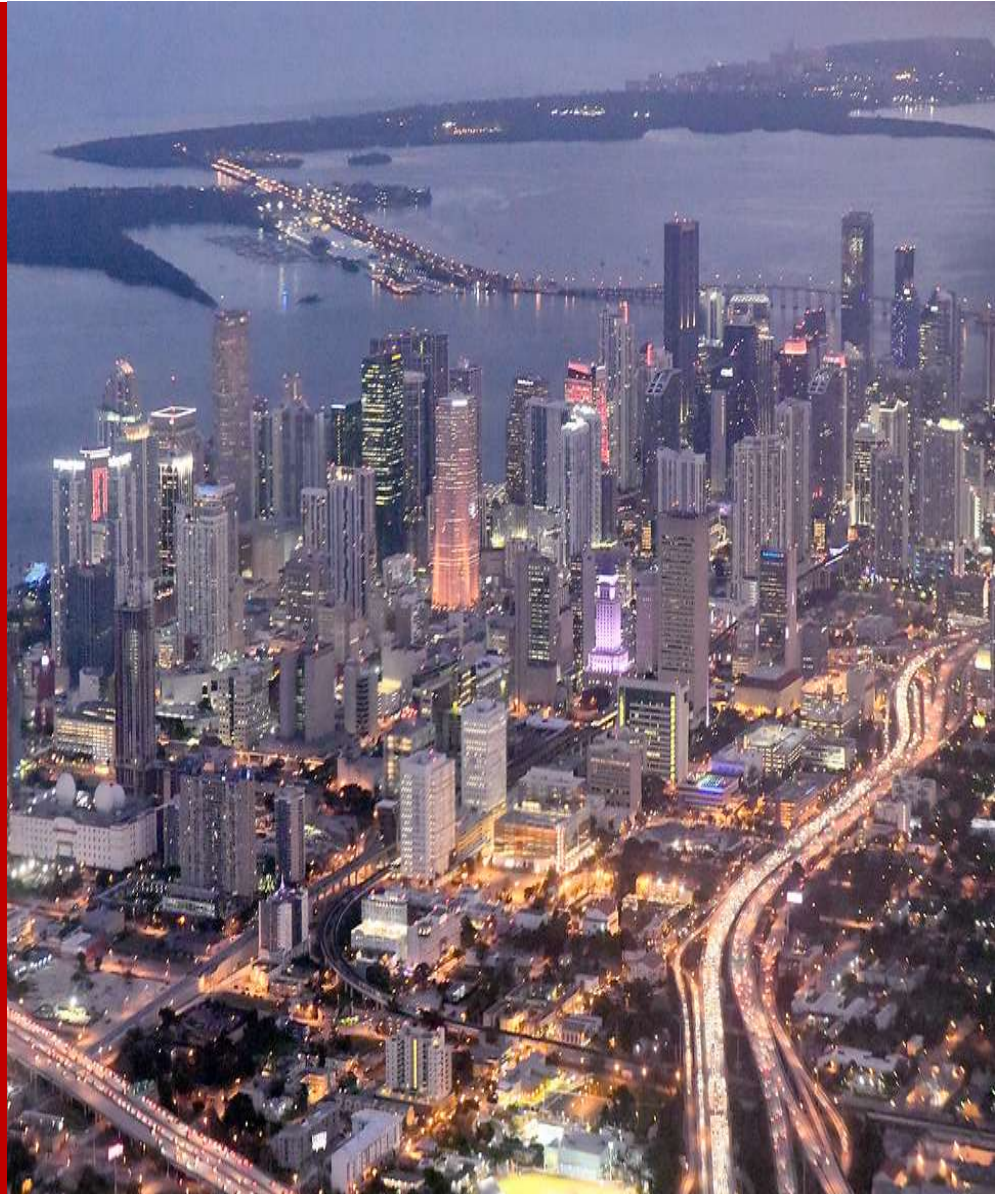
- CRE Deals of the Month

Corporate Finance Focus:

- The Daily Drucker

REIT Focus:

- REIT Return Statistics
- REIT Review: Realty Income Corporation, an Office REIT



Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

REAL STATE FOCUS

My Top Eight CRE Predictions for 2025

It's hard to believe that 2025 is almost here and below are my top eight predictions for the CRE industry next year.

1. The best-performing sector will be data centers

The best-performing sector in 2025 will be the data center market. The data center market has been “on fire” and has seen tremendous demand to meet the needs of enterprise providers moving from on-site applications to cloud-based information technology and artificial intelligence solutions. The global data center market is valued at \$242 billion in 2024 and will increase to over \$584 billion in 2032. Data center investments also have a low correlation with other CRE asset types. The vacancy rate is 3% and the net absorption of space in Q1-24 was 2,755MW (megawatts), a record. There is over 5.3MW of space currently under construction with average rents at \$127-\$321/kw/month and up 13%-22%, from Q1-23. The primary concern is power access as current and future data center demand has placed exorbitant strains on electricity, gas, and even nuclear power generation.

2. The Federal Reserve will continue lowering interest rates

The Federal Reserve, which has reduced the federal funds rate to 4.50% from 5.25% with another .25% decrease most likely at its meeting from December 17th-18th and further cuts of at least 1.0%-2.0% in 2025 will be a godsend for the CRE industry. Lower rates will be warranted because of lower inflation and choppy economic growth. A lower cost of debt capital will be a much-needed shot in the arm for the CRE industry and there will be a big boom in sale, financing, and lease transactions in 2025 and the next few years. Transaction volume may reach a total of \$700B in 2026 (see prediction four below).

3. The shadow lending sector will become more important than ever to the CRE industry

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

The shadow or unregulated lending sector has become a more vital and critical component of debt and equity financing to the CRE industry. 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, which are up from about 5%, ten years ago. These lenders have been critical during this tight credit market that began in March 2022, when the Fed began raising interest rates and will continue to see market share and deal gains even with a lower interest rate regime.

4. The CRE industry will see a big boom in transaction volume in 2025

Transaction volume, the amount of CRE sales transactions, will increase substantially in 2025. The record for transaction volume was about \$900B in deals in 2021. However, there was a steep decline in 2023 and 2024 with volume at about \$375B and \$300B, respectively, courtesy of the Federal Reserve and higher interest rates. Estimates for transaction volume in 2025 are \$400B-\$450B and a welcome sigh of relief for the thousands of real estate brokers and advisors, who have been sidelined for over two years and are essential players in the industry.

5. It's time to acquire distressed office assets in the gateway cities

There is over \$150 billion in CRE dry powder in private equity funds and these funds should be targeting distressed office assets in the gateway 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 now be purchased. Even though the risk is high for these markets to turn around, due to the fact that there has to be a change in governance to increase the quality of life for tenants and residents, the deep discounts in value are too good to pass up.

6. CRE investment 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

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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.

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

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. As the Fed has been reducing interest rates, the bid-ask spread has narrowed somewhat but will shrink significantly in 2025 as the Fed continues lowering 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. A lower bid-ask spread will be the key driver of higher transaction volumes in 2025 and 2026.

8. Increase allocation to REIT stocks as returns will outpace private CRE returns

The public REIT market is poised to deliver solid double-digit total returns (dividends plus capital gains) in 2025 and beyond. REIT returns have seen tremendous volatility over the last few years due to higher interest rates. The FTSE-NAREIT All Equity REIT returns were 43.34% in 2021, -24.37 in 2022, 13.73% in 2023 and 10.73% in 2024 (through August 2024). We expect returns to be up by 25%-30%+ in 2025 due to lower interest rates, positive economic and growth policies of the new administration and increased institutional allocations to the CRE sector.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

The Art of Creating Alpha in CRE Investment

In modern portfolio theory, Alpha is the excess return of an investment above the market or benchmark return. In the capital markets, Alpha is the excess return of common stocks above a benchmark like the S&P 500 Index or the excess return of a portfolio of corporate bonds above the Barclay's Capital Aggregate Bond Index. The Alpha for REIT stocks would be the return in excess of the FTSE-NAREIT All Equity Index. In private CRE, Alpha is the excess return generated by the investment owner/manager above a market return like the NCREIF NPI Index. The Alpha return in CRE as opposed to stocks and bonds is primarily generated by the investment owner/manager through its control of the real estate asset. This hands-on control of the real estate asset, leases, income/expenses and capital structure enables the owner/manager to create an Alpha return.

Each type of CRE, whether an office building, shopping center, industrial property or apartment complex has distinct income and cash flow properties. These properties primarily derive from the tenant leases that encumber the property. The type of lease, duration, rental rate, expense reimbursements and other lease provisions plus additional property income, determine the effective cash gross income of a property. Cash property operating expenses typically include repairs and maintenance, real estate taxes, insurance, management fees, salaries, utilities, and administrative costs. The effective gross income less operating expenses is the net operating income or NOI. NOI is considered one of the most important metrics in CRE and is used to apply the capitalization rate to calculate real estate value or is discounted to estimate a purchase price.

CRE owners and managers can adopt various policies and strategies such as revenue-enhancing capital improvements, altering the ownership and management structure and/or financial engineering to realize incremental NOI and Alpha value. Some of the most important policies and strategies to create Alpha for CRE are discussed in the table below.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

Commercial Real Estate Alpha Strategies

Strategy	Description	Alpha Influence	Example
1. Capital Improvements.	Investing additional funds to improve the physical property above and beyond normal and recurring repairs and maintenance.	May have a moderate to high effect on the NOI and property value depending on the amount invested and the direct benefit to tenants.	Renovation of an office building lobby or new appliances for an apartment project.
2. Capital Redevelopment.	Major physical change or redevelopment of a property due to high vacancy, outdated use, or severe disrepair, to attract or maintain tenants.	May provide a substantial boost to the NOI and the value of a property, however, requires substantial new investment.	Complete rehabilitation of an older C apartment property into a B property or conversion of a vacant office building into apartments.
3. Management and Leasing.	Selection of leasing/management agents and application of NOI enhancing marketing strategies.	There is a wide disparity in the quality of leasing and managing agents, especially for apartments and hiring the right firm and personnel is critical to creating value.	Changing the management and leasing agents on a property in a Gateway city from a small local brokerage firm to one of the national firms like CBRE or JLL

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

4. Lease Structures.	Changing the lease structure to increase base rents, shift additional operating costs to tenants, or provide for inflation indexation.	It depends on the property occupancy, local market lease customs and tenant retention, but can have a very positive effect on NOI and value.	Include a CPI rent increase clause or change the lease structure to triple net from a gross lease.
5. Income and Expense Management.	This relates to the management function; however, better income/expense management can be beneficial.	The most popular and easiest-to-implement strategy that can achieve 5%-10% increases in the NOI.	Make investments in PropTech to reduce accounting, salary, and leasing costs at an apartment project.
6. Market Arbitrage.	This relates to the arbitrage opportunity available from converting CRE ownership to/from public (REIT) and private ownership.	This strategy can generate very high Alpha depending on the valuations assigned in the public (REIT) versus the private market. The valuation of certain property types is usually different in the public vs. private markets due to liquidity risk, economic outlook, interest rates, and the availability of capital.	Converting a private real estate company or portfolio to a public REIT, wherein, most REITs are currently trading at significant premiums to private net asset value.

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

7. Ownership and Advisor Change.	This requires a change in the property ownership or advisor relationship. Some firms are simply better owners/asset managers than others.	Many institutional real estate fund owners/sponsors do not possess the best operating, investment, capital strategy and intellectual capital and therefore, realize lower returns.	A public pension fund replacing an underperforming advisor or asset manager with a new firm.
8. Financial Engineering.	This involves the structure of the property capital stack including the amount, percentage, and cost of the first mortgage, mezzanine debt, subordinated debt, preferred equity, owner equity and securitization opportunities.	This is probably the riskiest strategy and was a major contributor to the Great Recession, however, it can provide the highest value increase.	Selling the land under a major office building in a long-term sale-leaseback or capitalizing a project with 10% or less in equity, multiple layers of non-recourse debt and mezzanine financing in a declining interest rate environment.
9. Cap Rate Arbitrage.	This is similar to market arbitrage above and is usually dependent on the level of interest rates, inflation and the economy.	A drop in cap rates from acquisition to sale can generate the largest boost in value. A 1% cap rate decline from 6% to 5% can increase a property's sale value by 20%.	Acquiring CRE at high cap rates and selling at low cap rates due to the decline in interest rates or cap rate compression.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

How do REITs Grow?

Real estate investment trusts (REITs) are excellent vehicles to own, manage and operate commercial real estate assets. According to the National Association of Real Estate Investment Trusts (NAREIT), as of August 2024, there were 194 REITs in the FTSE NAREIT All REITs index with an equity market capitalization of \$1.51 trillion. REITs own approximately \$4.0 trillion in commercial real estate assets including listed and non-listed public equity and mortgage REITs.

REITs are income-tax-created entities that must hold real estate assets or mortgages under the following general regulations:

1. Be an entity that would be taxable as a corporation but for its REIT status.
2. Be managed by a board of directors or trustees.
3. Have a minimum of one hundred shareholders after the first year as a REIT.
4. Have no more than 50 percent of the shares held by five or fewer individuals during the last half of the taxable year.
5. Invest at least 75 percent of the total assets in real estate assets and cash.
6. Derive at least 75 percent of the gross income from real estate sources, including rents from real property and interest on mortgages financing real property.
7. Derive at least 95 percent of the gross income from real estate and mortgage sources and dividends or interest from any source.
8. Have no more than 20 percent of the assets consist of nonqualifying securities or stock in taxable REIT subsidiaries.

Strategy and Insight for the Commercial Real Estate Industry

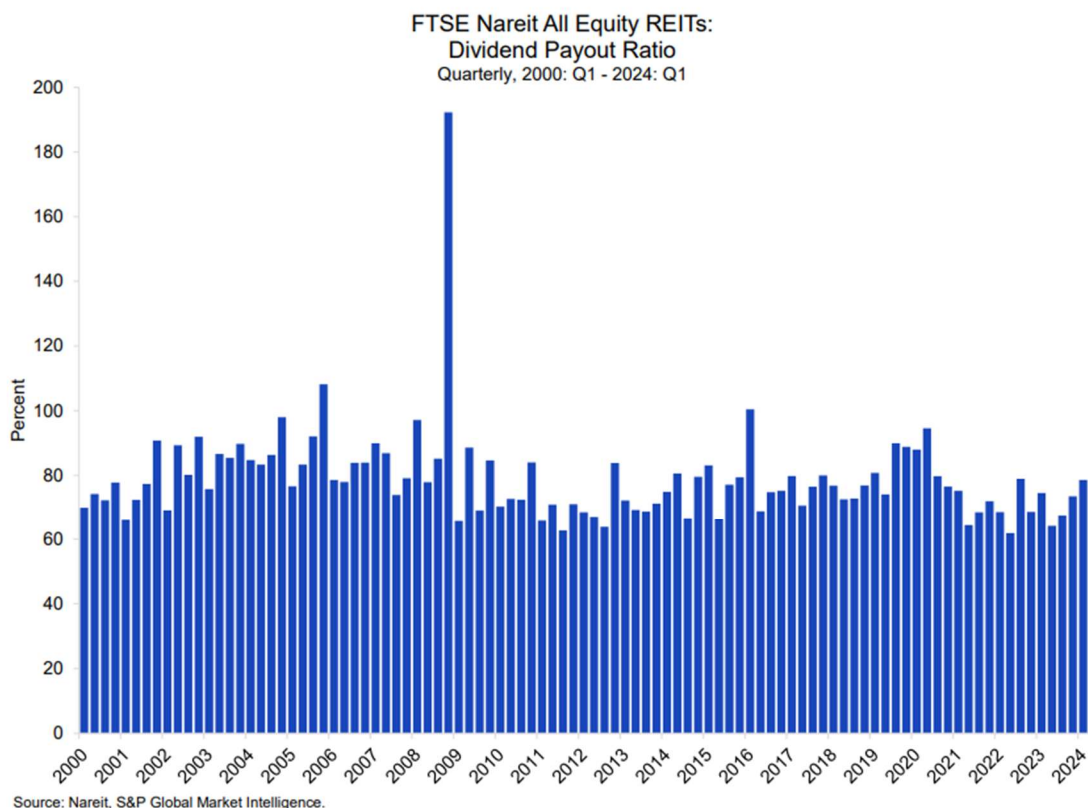
A Publication of Paramount Capital Corporation

9. Required to pay out 90 percent of their taxable income as dividends to be exempt from paying income tax.

REITs were formed in the 1960s as a way for individual investors to invest in commercial real estate companies and the like. They were created to be passive investment vehicles, similar to mutual funds, and if they pay out 90 percent of their taxable income as dividends, they are not subject to corporate income tax. The 90 percent payout requirement usually requires most REITs to pay out a high percentage of their funds from operations, (FFO) or net income plus depreciation/amortization less any gains and losses and therefore they do not generate sufficient internal net cash flow to grow their business organically. As shown in the chart below from NAREIT, the average dividend as a percent of FFO since 2000 is about 75%.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation



The majority of REITs own one or more of the four primary commercial property types; office buildings, shopping centers, apartments and industrial warehouses. All of these primary property types, except apartments, are encumbered with long-term leases that provide for very small annual rent increases usually equal to the annual increase in the consumer price index or fixed increases of 1%-2.5% or step rent increases every five years, from 2.5% to 5%. The high payout ratio of most REIT's cash flow as dividends together with the encumbrance of long-term leases with fixed rent increases, are characteristics of REITs that do not allow for high levels of internal growth in profits and cash flow. This is in contrast to a corporate operating company (a company that makes or sells a product or service other than commercial real estate) that does not have

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

these restrictions and therefore can grow very fast internally with sales and volume increases. If a corporation realizes sizable sales and volume increases in its business, this will increase net income, free cash flow and earnings before interest, taxes, depreciation and amortization.

To sufficiently grow their net operating income, FFO, dividends, stock price and business in general, REITs must grow externally via an acquisition model and strategy. A successful REIT business model should be based on increasing the net operating income of owned properties by increasing rents and lowering vacancies to increase effective gross income and lowering operating expenses to increase net operating income and growing externally by acquiring or developing property. The stock price of a REIT will typically increase very little without external growth. The stock value can increase substantially without external growth in only two ways. Either capitalization rate compression (the capitalization rate applied to the REIT's net operating income decreases which increases the value of the REITs assets and hence the stock price) or from FFO multiple (the stock price of the REIT divided by the FFO per share) expansion. Today, the average capitalization rate of large equity REITs is 5% to 8%+, while the average FFO multiple of all equity REITs is approximately 16 times, while it was less than 10 times fifteen years ago.

The compression of capitalization rates and the expansion of FFO multiples has been an important driver of the increase in stock prices of many REITs before the Federal Reserve's interest rate increases that began in March of 2022. Due to these higher interest rates and a volatile economy, a large number of REITs have not grown their asset base during the last few years. However, with the Fed lowering interest rates, REIT stocks will benefit and so will their operations, cash flow and dividend increases.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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.

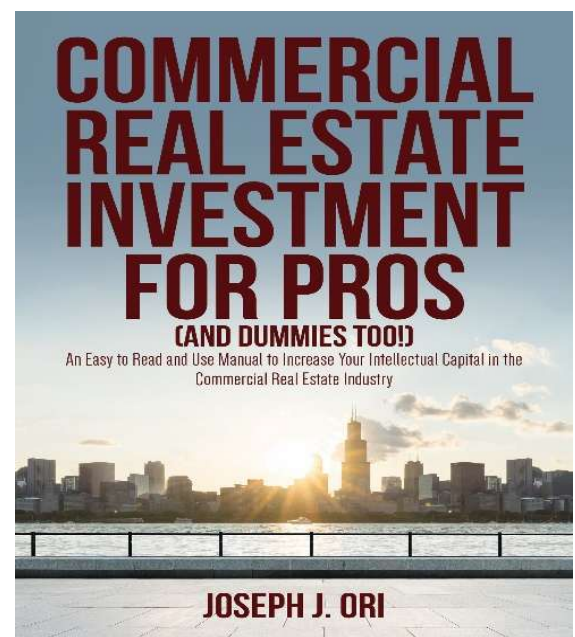
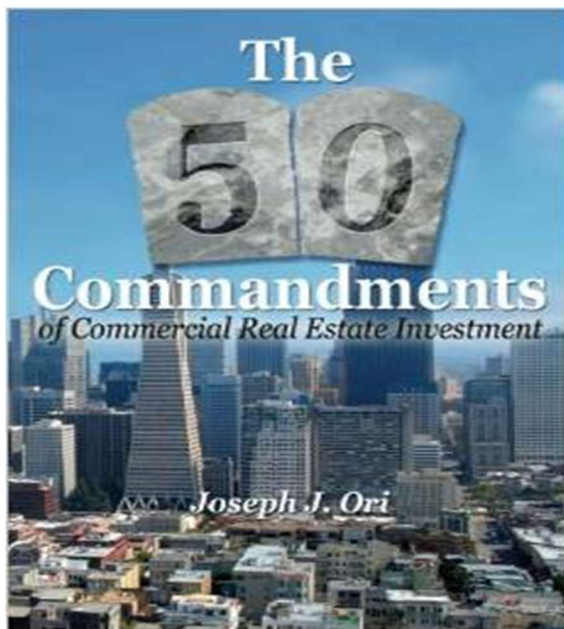
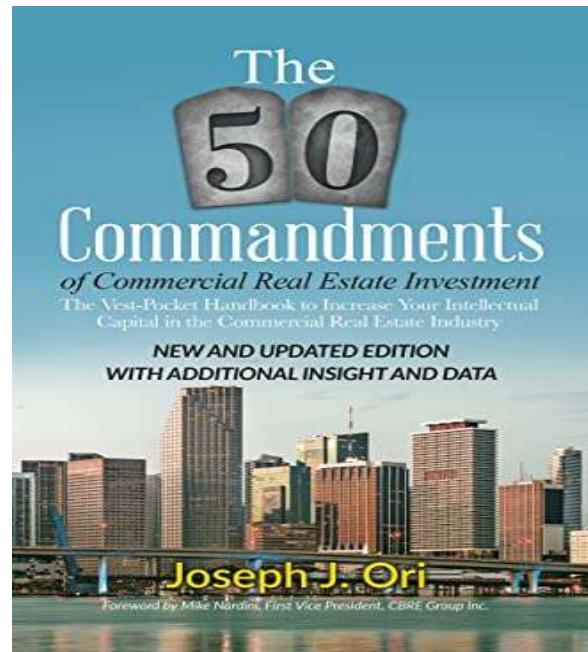
Commercial Real Estate Investment for Pros (and Dummies Too!) discusses the history, the various financial players, legal and financial structures, property types, modern portfolio theory and the financial metrics of commercial real estate investment and the commercial real estate industry. The book 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.

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation



View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

CRE Financing Rates

Loan Type	Mortgage Rate	Maximum Amortization	Term (years)	Maximum LTV
Permanent Loans	5.87%-10.00%+	30	10	70%
Conduit-CMBS	5.88%-7.49%+	30	10	70%
Bridge Loans	6.00%-14.00%+	Interest Only	1-3	80%
Construction Loans	9.50%-14.50%+	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	7.75%
30-Day SOFR (secured overnight funding rate)	4.61%
1 Year Swap	4.16%
10 Year Swap	3.70%
5 Year Treasury	4.07%
10 Year Treasury	4.17%
Federal Funds Rate	4.50%



Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

The Federal Reserve's Open Market Committee meets again from December 17th to 18th, and it is expected that they will further lower the federal funds rate by .25% to 4.25%. This will be their third-rate reduction this year and a welcome relief to the CRE industry. We believe the Fed will continue to lower the funds rate by an additional 1.0% to 2.0% in 2025. 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
Blackstone Real Estate Partners X	Shareholders of Retail Opportunity Investments Corp.	Acquisition of ROIC Retail REIT	\$4B	A retail REIT with 93 grocery-anchored properties and 10.5 million square feet.
Longpoint Partners	Blackstone	Industrial Portfolio	\$331M	A 26-building industrial portfolio with 1.4 million square feet.

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

Lakevision Capital	Daiwa House Texas and Investors	Parkside Apartments, Redmond, WA	\$258M	A 664-unit apartment complex.
Cabot Properties	Private Investors	Industrial Portfolio, Inland Empire, CA	\$202M	Four industrial properties with 669,057 square feet and 100% leased.
Basis Industrial	Birtcher Andersen & Davis and Belay Investments Group	Industrial Portfolio, Dallas-Fort Worth Metro Area	\$138M	Eight industrial properties with 439,916 square feet.
Canvas Investment Partners and Tokyu Land US	Spencer Equity	Azure Apartments, Brooklyn, NY	\$112M	A 150-unit apartment complex built in 2016.
City of Austin, TX	Brandywine Realty Trust	One and Two Barton Skyway, Austin, TX	\$107M	Two office buildings with 386,000 square feet.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

NorthBridge Partners	Rockefeller Group	Industrial Portfolio, Long Island, NY	\$105M	Two industrial properties with 560,719 square feet.
Sherman Residential	Pacific Development Partners	Vela on Camelback, Phoenix, AZ	\$72M	A 237-unit apartment complex built in 2017.

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. Success Always Creates New Realities

Only the fairy story ends “They lived happily ever after.” Success always obsoletes the very behavior that achieved it. It always creates new realities. It always creates above all, its own and different problems. It's not easy for the management of a successful company to ask, “What is our business?” But the management that does not ask “What is our business?” when the company is successful is, in effect, smug, lazy, and arrogant. It will not be long before success will turn into failure.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

II. The Opportunity Focused Organization

Performing organizations enjoy what they are doing. Organizations have a gravity; the weight is constantly being pushed into being problem-focused and one has to fight it all the time. Not very many organizations are good at what I call “exploitation of success.” But if you build that into the organization and demand it from everybody, then you create a receptivity for being opportunity-focused rather than problem-focused.

III. Finding Opportunity in Surprises

One survives problems by making them irrelevant because of success. Every surprise is something to be taken seriously. The entire reporting system kind of encourages the neglect of opportunities and surprises, but also fairly easy to change. Write a letter to your boss each month identifying unexpected events. Pick out unexpected successes and pursue them.

IV. Maintaining Dynamic Equilibrium

Management has to maintain the dynamic equilibrium between change and continuity. Without which society, organizations and individuals perish. Institute a systematic process of innovation to lead change.



View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

REIT Statistics

Current REIT statistics for 8/31/24 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>8/2024</i>	10.39%	10.73%	19.53%	18.57%
<i>1-Year</i>	20.82%	21.44%	27.14%	27.15%
<i>5-Year</i>	4.50%	4.82%	15.92%	18.29%
<i>10-Year</i>	6.81%	7.08%	12.98%	15.60%
<i>20-Year</i>	7.58%	8.11%	10.65%	11.99%
<i>Market Capitalization</i>	\$1.51T	\$1.43T	\$45.8T	\$22.4T
<i>Dividend Yield</i>	3.94%	3.67%	1.24%	1.27%

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

REIT Review

Summary

This REIT valuation is on Realty Income Corporation (O"), a publicly traded REIT that is engaged in the acquisition, ownership, and management of net lease properties. Os properties are located in all 50 states, the United Kingdom and six other countries in Europe. O owns directly or in joint ventures, 15,457 properties with a total of 336.6 million square feet. Os occupancy rate is 98.7% and same-store net operating income growth for Q3-24 QoQ was 28%. The three largest tenants include Dollar General (3.3% of annualized base rent), Walgreens (3.3% of annualized base rent) and Dollar Tree (3.1% of annualized base rent).

Property Developments

As of Q3-24, O was developing 182 properties with 6.3 million square feet at a total cost of \$548 million.

Corporate Data

O is traded on the New York Stock Exchange, is incorporated in Maryland, and is located in San Diego, CA. O has 875.1 million common shares outstanding and a market capitalization of approximately \$49.09 billion. O owns a 93.1% interest and controls its UpReit partnership, Realty Income, L.P. O's credit rating is A- from Standard and Poor's and A3 from Moody's.

Management

Sumit Roy, 54, President and CEO

As the President & Chief Executive Officer, Mr. Roy's primary responsibility is to perform as a fiduciary for our shareholders in fulfilling our mission to provide monthly dividends that increase over time. This responsibility involves overseeing all of our operations, as well as creating and executing on the company's strategy. The implementation of our strategy involves constant monitoring of the economic environment, analyzing factors that can impact our operations, and doing what is required to generate investor returns, while mitigating the risks that

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

are taken to achieve those returns. Mr. Roy has served as Realty Income's Chief Executive Officer since October 2018 and President since 2015. Mr. Roy previously served as Realty Income's Chief Operating Officer from 2014 to 2018. As COO, Mr. Roy oversaw the Company's investments and business operations, including Acquisitions, Dispositions, Asset Management, Portfolio Management, Information Technology, Internal Audit and Human Resources. He also served as the Chairman of the Investment Committee and a member of the Executive Management Team. He joined Realty Income in 2011 and was promoted to Chief Investment Officer in 2013. Prior to joining the Company, Mr. Roy was an Executive Director at UBS Investment Bank where he worked for seven years. During his tenure at UBS, he was responsible for more than \$57 billion in real estate capital markets and advisory transactions. Prior to joining UBS, he worked in investment banking at Merrill Lynch, and as a Principal in technology consulting at Cap Gemini. Mr. Roy has a Bachelors and Masters degree in Computer Science. He also holds a Masters in Business Administration in Finance and Economics from the University of Chicago, Booth School of Business. Mr. Roy serves as an independent member of Ventas, Inc.'s Board of Directors. He also currently serves on the Executive Board and the Governance Committee for the National Association of Real Estate Investment Trusts.

Top Institutional Holders	Shares (millions)	%
The Vanguard Group, Inc.	138.68	15.85
Blackrock Inc.	91.61	10.47
State Street Corporation	61.02	6.97
Parnassus Investments LLC	24.45	2.79
Geode Capital Management LLC	22.82	2.61

Ownership Breakdown	
% Of Shares Held by All Insiders and 5% Owners	.11
% Of Shares Held by Institutional & Mutual Fund Owners	81.2

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

Number of Institutions Holding Shares	1,612
---------------------------------------	-------

All amounts above per Yahoo Finance

Financial Analysis and Valuation

Select financial data for O per the 2024 Q3 10Q and supplemental information.

(In millions where applicable)

Financial Data	Amounts
Real Estate Assets, Gross	\$57,749
Total Assets	\$68,468
Property Debt (at weighted average interest rates of approximately 5.0%)	\$26,144
Stockholders' Equity	\$38,669
Revenue	\$3,930
Net Income (Loss)	\$648
Cash Flow from Operations	\$2,601
Unsecured Credit Facility (\$4.25B with \$430M used)	\$3,820
Market Capitalization	\$49,090
Property Debt to:	
Gross Real Estate Assets	45%
Market Capitalization	53%
Enterprise Value	34%
Dividend and Yield (\$3.16/sh.)	5.63%
Shares Sold Short (in millions per Yahoo Finance)	15,430

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

Valuation Methodology	
Q3-24 Real Estate Revenue	\$3,930
Q3-24 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, impairment charges plus G&A expenses)	<u>\$392</u>
Q3-24 Net Operating Income	\$3,538
Proforma Annualized Net Operating Income at 102%	\$4,812
Projected Average Cap Rate	<u>6.5%</u>
Projected Value of Real Estate Assets	\$74,030
Add: Net Operating Working Capital (at book value and less goodwill and intangibles)	\$1,375
Investments in Unconsolidated Entities (at book value)	<u>\$1,224</u>
Total Projected Value of the Assets of the Company	\$76,629
Less: Total Debt per Above	<u>(\$26,144)</u>
Projected Net Asset Value of the Company	<u>\$50,485</u>
Common Shares Outstanding, 875M	
Projected NAV Per Share	\$58
Market Price Per Share on 12/15/24	\$56
Premium (Discount) to NAV	(3.4%)

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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 O for the years 2019 through Q3-24 are shown in the table below.

(Millions except dividend and per share amounts)	2019	2020	2021	2022	2023	Q3-24
Gross Real Estate Assets	\$19,577	\$21,015	\$35,908	\$42,656	\$49,586	\$57,749
Property Debt	\$7,901	\$8,816	\$15,444	\$18,109	\$21,818	\$26,144
Revenue	\$1,491	\$1,657	\$2,080	\$3,343	\$4,078	\$3,930
Net Income (Loss)	\$436	\$395	\$359	\$869	\$872	\$648
Funds from Operations (FFO)	\$1,039	\$1,142	\$1,407	\$2,471	\$2,822	\$2,569
Return on Invested Capital (1)	7.7%	5.2%	4.0%	6.3%	6.7%	NA
Dividend Coverage (2)	1.21	1.18	1.20	1.36	1.33	1.28
Dividends Paid Per Share	\$2.74	\$2.80	\$2.84	\$2.97	\$3.06	\$3.16(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 \$.2635 per month.

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

O Total Return	8/2024	1-Yr	3-yr	5-Yr
	11.86%	16.90%	.88%	1.84%

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

As shown above, our net asset value per share for O is \$58/sh., compared to a market price of \$56/sh. Current average cap rates for net lease properties per our industry experience and CBRE's Cap Rate Survey are in the 5.0% to 8%+ range, depending on the credit of the tenant and the length of the lease. We have used an average cap rate of 6.5% due to Os diversified portfolio of net lease assets.

Strengths:

- An attractive dividend yield of 5.63%.
- A diversified portfolio of net lease assets.
- A low debt to enterprise value of 34%.
- O is trading at a 3.4% discount to our NAV.

Concerns:

- REIT prices will decline if interest rates increase.
- The dividend has only increased by 15% since 2019.

Recommendation:

O is trading at a 3.4% discount to our NAV per share, however, we do not recommend the purchase of the stock.

View of the Market

Volume XVI/Issue
12/December 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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



Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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



1. Spirit Realty Capital, Inc., May 2023
2. Cousins Properties, Inc., June 2023
3. Tanger Factory Outlet Centers, Inc., July 2023
4. Paramount Group, Inc., August 2023
5. Broadstone Net Lease, Inc., September 2023
6. Apartment Income REIT Corp., October 2023
7. Kite Realty Group Trust, November 2023
8. Alexandria Real Estate Equities, Inc., December 2023
9. Agree Realty Corporation, January 2024
10. WP Carey, February 2024
11. Essex Property Trust, March 2024
12. Brandywine Realty Trust, April 2024
13. Urban Edge Properties, May 2024
14. Eastgroup Properties, June 2024
15. Stag Industrial, Inc., July 2024
16. Camden Property Trust, August 2024

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

17. Regency Centers Corporation, September 2024

18. Kilroy Realty Corporation, October 2024

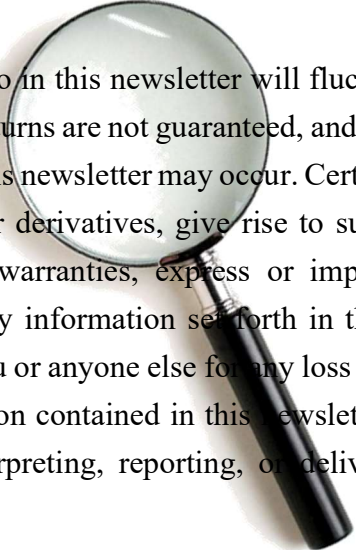
19. BXP, Inc., November 2024

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.

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation



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.

Subscription Information

Subscriptions to this newsletter are free and see www.paramountcapitalcorp.com/publications for a free subscription.