

View of the Market

Volume XVII/Issue
1/January 2025

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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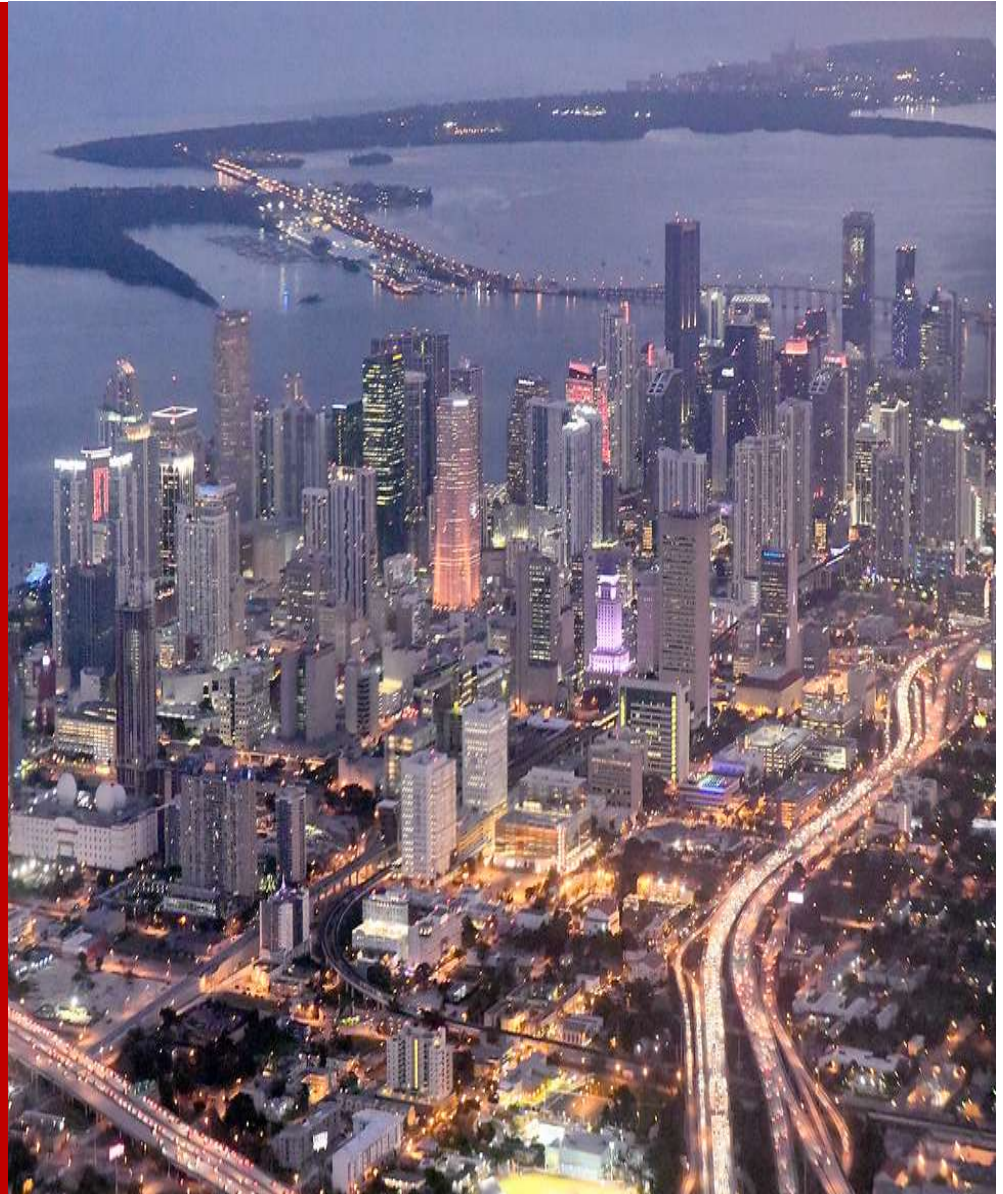
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REAL ESTATE FOCUS

Cornell University's Baker Program in Real Estate-Hodes Weill & Associates Research Commentary

Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, a global CRE advisory firm have presented their findings of the 12th annual Real Allocations Monitor and below is a summary of their key findings.

1. Institutions held target allocations flat for the second consecutive year but expect to lower target allocations over the next 12 months. Target allocations remained at 10.8% in 2024, marking the second consecutive year that target allocations were flat year-over-year. Moreover, institutions expect to lower target allocations by an average of 10 bps over the next 12 months. Overall, target allocations are up 190 basis points since 2013, representing an increase of over 20%.
2. Over the past 12 months, institutional portfolios have shifted from over- to under-allocated to real estate, as the denominator effect has reversed. As public equities and other asset allocations saw strong performance in 2024 and write-downs in real estate portfolios continued, institutional portfolios swung to 60 bps under-allocated (as compared to 2023 when the majority of institutions were at or over-allocated). Approximately 27% of institutions remain over-allocated to real estate, down from 39% in 2023.
3. Institutional real estate portfolios delivered negative returns in 2023, which followed a 10-year period of substantial outperformance relative to target returns. As real estate portfolios took continued write-downs in 2023, institutions reported an average real estate portfolio return of -1.4%. This follows 10 years of strong outperformance, a period of time during which portfolios delivered an average return of 10.1%, 180 bps in excess of

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the average target return.

4. Conviction remains moderately positive, albeit down slightly year-over-year, as institutions are optimistic about investment opportunities over the next several years. Institutions have remained largely on the sidelines over the past 24 months due to persistent concerns regarding inflation, high interest rates, low transaction volumes and uncertainty as to the direction of the economy. As transaction volumes rebound, institutions report that they are gaining conviction about a market bottom and the opportunity to allocate capital to new investments.
5. While a growing number of institutions are moving portfolio management in-house, the vast majority of institutions are reliant on third-party managers and continue to allocate to commingled funds. Overall, 93% of institutions report outsourcing all or a portion of their portfolio to third-party managers. Approximately 64% of investments are expected to be allocated to existing manager relationships, continuing a trend of consolidation in the industry. Emerging managers are at a particular disadvantage, as a nominal 13% of institutions expect to allocate to first-time managers.
6. Institutions in the Americas and APAC continue to favor higher return strategies, including value-add and opportunistic, while interest in core strategies remains high in EMEA. Return expectations have risen, driven by an appetite to take advantage of market distress and dislocation. Value-add continues to be the preferred strategy, with 79% of institutions planning to invest in the strategy, followed by opportunistic strategies at 73%.
7. North America remains the preferred destination for capital allocations; however, the appetite for investing cross-border has decreased across all regions. Institutions in APAC continue to be the most active cross-border allocators, with 80% of APAC-based institutions intending to invest outside of their domestic markets, followed by 75% of EMEA-based institutions and 65% of institutions in the Americas.

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8. As transaction volumes remain at a cyclical low, capital allocations have shifted to direct investments, joint ventures, and separate accounts. While the percentage of institutions investing in closed-end funds stayed the same year-over-year, institutions reported increased appetite for direct investments, joint ventures, and separate accounts. Appetite for open-end funds decreased slightly year-over-year.

The Good, the Bad, and the Ugly of the Current CRE Market

It has been a grueling and tumultuous thirty-three months for the CRE industry since the Fed began raising the Federal Funds rate in March of 2022. Even though the Fed has reduced the funds rate from 5.25% to 4.25% in the last five months, there has still been much pain, falling incomes, defaults, foreclosures and job losses in the industry. However, we believe the next few years will be boom times for CRE and thought it would be instructive to examine the Good, the Bad and the Ugly of the CRE industry during this turbulent period.

The Good

- The CRE market has not crashed and thrown the economy into the Great Recession II as many pundits have predicted.
- There has not been a wave of defaulted CRE loans, especially in the office sector, which would take the commercial banking sector under as many have predicted.
- The retail sector has done very well with little new construction and high investment demand for neighborhood and community shopping centers.
- The data center sector is booming with huge demand, tight supplies, and rents up 10%-20%+ YoY.
- The apartment and industrial sectors are doing well even though rents in some of the “hot” markets are down 5%-10%.
- New construction in all sectors except data centers, has slowed which will improve demand in the next few years.

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- Total defaults and foreclosures of CRE have been less than 2% of total loans which is manageable and not a threat to the \$17 trillion CRE industry.
- Job growth has been stable which is the key demographic for the CRE industry.
- The bid-ask spread will continue to narrow, which will lead to much higher transaction volume.
- There is over \$150 billion of private real estate capital ready to be deployed in the next few years.
- The Sunbelt markets, especially Arizona, Nevada, Texas, Florida, and Tennessee are seeing high demand for CRE and record in-migration of residents and businesses.
- Distressed investing will lead to outsized returns for investors in the next few years.
- The CRE software and data analytics sectors are still seeing solid demand for their products and services, especially with AI-based software.
- More CRE deals will see capital structures with positive leverage as compared to negative leverage due to higher interest rates in 2023 and 2024.

The Bad

- Interest rates are still elevated with the Federal Funds rate at 4.25%, but it is expected that the Fed will continue lowering rates by at least 1.0%-2.0% in 2025 and 2026.
- Office valuations in the high-crime urban Gateway cities are still down by 50% or more.
- Transaction activity including sales, financings and leases is still down about 70% but will rebound substantially in 2025.
- The data center market is having difficulty finding new development sites with fiber connectivity and most importantly, access to power and water.

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The Ugly

- The office markets in the high-crime urban Gateway cities of New York, Washington D.C., Chicago, San Francisco, Los Angeles (downtown), Seattle, Oakland and Portland are still in chaos and won't recover until "law and order" is reestablished.
- Out-migration in the high-crime urban Gateway cities of residents and businesses is still at record levels.
- Job demand in the CRE industry will improve in 2025, but will still be difficult, especially for new graduates.

Increase Your CRE Returns by Avoiding These Investment Risks

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's 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 program. The CRE industry is entering a period of high optimism and booming transaction volume and many investors who have been dormant in the last few years are ready to allocate capital to new CRE investment and development projects. In connection with these new deals, investors should be cognizant of the key risks in the process as discussed below.

1. Acquiring Properties at Low Cap Rates

Acquiring CRE at low cap rates is one of the biggest sins an investor can commit. Prior to the Fed's rate increases in the last thirty months, many apartment and industrial properties were trading at sub 4.0% cap rates. This was due to artificially low interest rates, an abundance of capital looking for CRE investments as an inflation hedge and strong fundamentals. When acquiring commercial real estate assets, it is more important to buy a good asset at a great value

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than to buy a great asset at a good value. The most important criterion in a successful real estate acquisition is buying the asset below its intrinsic value. Buying a CRE asset above its intrinsic value or at a low cap rate is rarely, in the long term, a route to a successful transaction.

2. Performing 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 CRE boom years from 2013 to 2022, the due diligence process was 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 and can lead to lower investment returns and reduced cash flow for the property.

3. Performing an Inadequate Market Analysis

One of the key procedures in the due diligence process as per above is a detailed analysis of the market the property is situated in. This involves looking at property data such as supply and demand for space, rents, vacancy, new construction, cap rates, competition, and a highest and best use review. As many of you 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 find 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 that will negatively affect the value of the property.

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4. Believing “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 in U.S. history. CRE investors who overpay for a property by buying at low cap rates will often utter these four words to justify their investment. They would comment that the real estate market was changing and if we didn’t buy this asset at a low cap rate, somebody else would and our investors would redeem their funds. Or we think we can raise the rents substantially over 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 perverse thinking was commonplace during the last few years for the booming industrial and apartment markets, where space demand was very strong, and cap rates compressed to below 4.0%.

5. Using Excessive Leverage

Acquiring CRE assets with high leverage is one of the most common investment risks. This was particularly common during the early 2000s and up until the middle of the Great Recession in 2010. Many of the properties bought during that period had a securitized first mortgage, several levels of mezzanine debt, preferred equity and finally the owner’s equity. Excessive leverage is nirvana when the market is booming, inflation is high and prices are rising, but is persona-nongrata, when the economy and markets tank. Thankfully, the regulated lenders have been very conservative with their real estate underwriting and lending structures, often limiting loan-to-value ratios of 65% or less.

6. Poor Management and Ownership of a Property

As is 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. With 27 million apartments in the U.S., there are a large number of bad apartment managers whose shoddy

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policies and procedures lead to low occupancy and subpar net operating income and cash flow. There are also bad owners in the CRE industry, whether they are incompetent, lack serious experience and expertise, or are naïve about owning and operating CRE assets. This includes some of the largest and most prestigious real estate investment managers. As real estate private equity firms grow to immense size with billions of CRE assets under management, they become marketing machines and asset gatherers rather than real estate managers. The unwritten goal of many of these firms is to just raise more and more capital, increase their 1.0% to 2.0% asset management fees and acquire more and more assets regardless of the price and performance.

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.

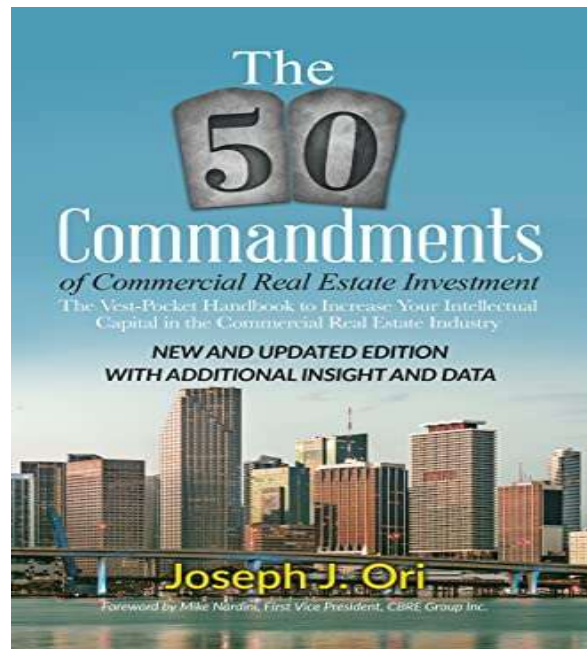
Both editions of The Fifty Commandments of Commercial Real Estate Investment compile the choice pieces of advice Mr. Ori has amassed over 40 years in the CRE industry. Mr. Ori lists essential dos and don'ts, mistakes, and successful strategies with a mixture of critical analysis and a keen sense of satirical 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.

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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.

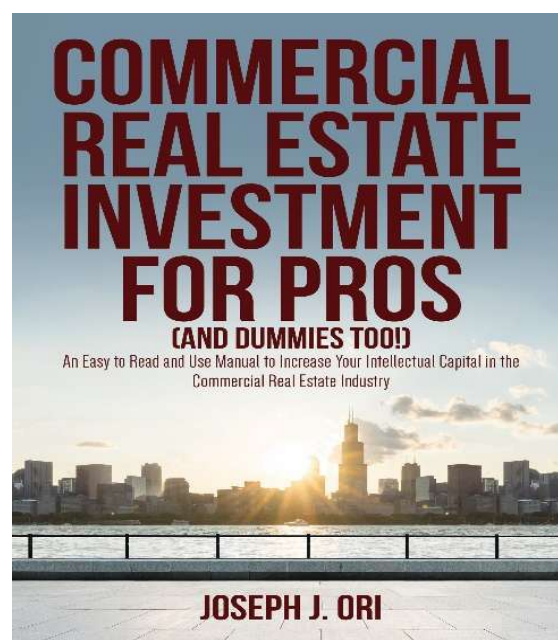
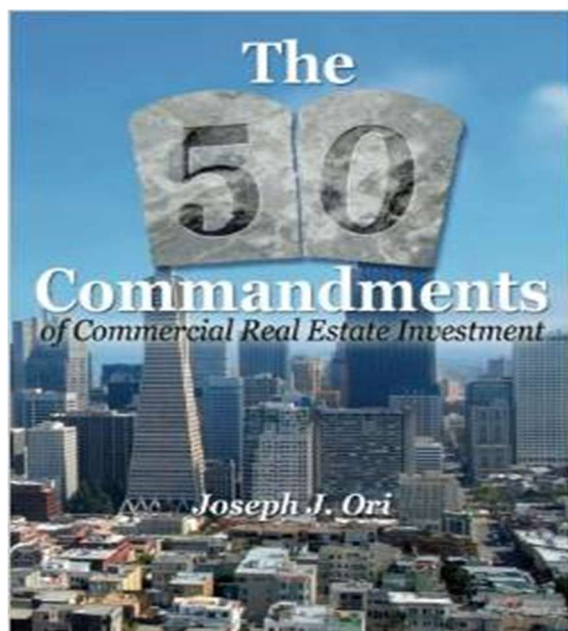


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CRE Financing Rates

Loan Type	Mortgage Rate	Maximum Amortization	Term (years)	Maximum LTV
Permanent Loans	5.87%-9.50%+	30	10	70%
Conduit-CMBS	5.88%-7.49%+	30	10	70%
Bridge Loans	5.50%-13.50%+	Interest Only	1-3	80%
Construction Loans	9.00%-14.00%+	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%

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Commercial Loan Index Rates	
Prime Rate	7.50%
30-Day SOFR (secured overnight funding rate)	4.10%
1 Year Swap	4.17%
10 Year Swap	4.20%
5 Year Treasury	4.45%
10 Year Treasury	4.68%
Federal Funds Rate	4.25%



Interest rates have increased by about .50% during the last month as investors expect the inflation rate to increase as the new administration takes office on January 20, 2025. We believe these rate increases will only be short term as the market finally realizes that inflation is declining, and tariffs will be inflation neutral at best. 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.

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CRE Deal Focus

CRE Deals of the Month

Purchaser/ Sponsor	Seller	Property/ Deal	Price	Description
Haddad Brands	Morgan Stanley	2 Park Ave., New York, NY	\$360M	A 1.03 million square foot office building.
Stonepeak	Starwood Capital	Logistics Portfolio, La Porte, TX	\$244M	A six-property industrial with 2.3 million square feet.
Interstate Equities Corp.	DWS	Summerwood Apartments, Los Altos, CA	\$203M	A 468-unit apartment complex built in 1971.
Kusher Cos.	Apartment Investment and Management Co.	The Hamilton, Miami, FL	\$190M	A 276-unit apartment complex built in 1984.

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Mesirow	MG Properties	Preserve at Melrose, San Diego, CA	\$185M	A 410-unit apartment complex built in 2015.
Fairbourne Properties	Harbert U.S. Real Estate Fund VIII LP	Hamburg Pavilion, Lexington, KY	\$135M	A 874,095 square-foot shopping center built in 1997.
Highline Hospitality Partners	Union Investment	Hyatt Place/Hyatt House, Charleston, SC	\$113M	A 304 room Hyatt hotel built in 2015.
Goldman Sachs Asset Management	PGIM Real Estate and High Street Residential	Smith & Rio, Tempe, AZ	\$105M	A 310-unit apartment complex built in 2023.
Elion Partners	Link Logistics	Warehouse Portfolio, Everglades National Park, FL	\$102M	Four industrial warehouses containing 390,022 square feet.

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JBS Capital Group	Stellar Communities	Stellar at Emerald Hills, Dania Beach, FL	\$69M	A 197-unit apartment complex built in 2022.
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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. Know Thy Time

Effective executives start with their time. Most discussions of the executive's task start with the advice to plan one's work. This sounds eminently plausible. The only thing wrong with it is that it rarely works. Effective executives, in my observation, do not start with their tasks. They start with their time. And they do not start out with planning. They start by finding out where their time actually goes. Then they attempt to manage their time and to cut back unproductive demands on their time.

II. Record Time and Eliminate Time Wasters

All one has to do is to learn how to say "no" if an activity contributes nothing. The first step toward executive effectiveness is to record actual time-use. The important thing is that it gets

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done and that the record is made in “real” time. A good many effective executives keep such a log continuously and look at it regularly every month. After each such sample, they rethink and rework their schedule. Create a time log of your activities. Eliminate those activities that are time wasters.

III. Consolidate Time

Effective executives know that one rarely overprunes. The final step in time management is to consolidate the time that record and analysis show normally available and under the executives control. To be effective every executive needs to be able to dispose of time in fairly large chunks. This is particularly true with respect to time spent working with people, which is, of course, a central task in the work of the executive. Consolidate your time and set aside large blocks of time to complete major tasks.

IV. Practices of Effective Executives

All that effective executives have in common is the ability to get the right things done. Five practices have to be acquired to be effective. Effective executives *know where their time goes*. Effective executives focus on *outward contributions*. Effective executives *build on strengths*, theirs, and others. Effective executives concentrate on *superior performance*. Effective executives make *effective decisions*. Whenever I found a person who-no matter how great in intelligence, industry, imagination, or knowledge-fails to observe these practices, I have also found an executive deficient in effectiveness.

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REIT Statistics

Current REIT statistics for 10/31/24 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>10/2024</i>	9.46%	10.11%	20.97%	21.24%
<i>1-Year</i>	33.38%	34.09%	38.02%	41.87%
<i>5-Year</i>	3.65%	4.09%	15.27%	17.83%
<i>10-Year</i>	6.44%	6.72%	13.00%	15.72%
<i>20-Year</i>	7.28%	7.80%	10.58%	11.58%
<i>Market Capitalization</i>	\$1.49T	\$1.43T	\$45.8T	\$22.4T
<i>Dividend Yield</i>	4.00%	3.71%	1.24%	1.27%

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REIT Review

Summary

This REIT valuation is on Equity Residential Property Trust (“EQR”), a publicly traded REIT that is engaged in the acquisition, ownership, and management of apartment properties. EQR's properties are located in ten key markets in the U.S., with the largest being, Southern California, Washington D.C., San Francisco and New York. EQR owns, directly or in joint ventures, 84,018 apartment properties. EQR's occupancy rate was 96.4% and same-store net operating income growth for Q3-24 YoY was 3.7%.

Property Developments

EQR commenced construction on one partially owned consolidated apartment property during the nine months ended September 30, 2024, located in the Boston market, consisting of 440 apartment units totaling approximately \$232.2 million of expected development costs. The Company also completed construction on one unconsolidated apartment property during the nine months ended September 30, 2024, located in the Denver market, consisting of 209 apartment units totaling approximately \$70.0 million of development costs.

Corporate Data

EQR is traded on the New York Stock Exchange, is incorporated in Maryland, and is located in Chicago, IL. EQR has 390.8 million common shares outstanding and a market capitalization of approximately \$26.4 billion. EQR owns a 97% interest and controls its UpReit partnership, ERP Operating Limited Partnership. EQR's credit rating is A- from Standard and Poor's.

Management

Mark J. Parrell, 57, President and CEO

Mark J. Parrell has been Chief Executive Officer of the Company since January 2019 and President of the Company since September 2018. Mr. Parrell served as Executive Vice President and Chief Financial Officer of the Company from October 2007 to September 2018. Mr. Parrell was Senior Vice President and Treasurer of the Company from August 2005 to October 2007

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and has held various positions within the Company's finance group since September 1999. He has served as an independent member of the Boards of Directors of the T. Rowe Price mutual funds since July 2023. Mr. Parrell is also active in several business and community service organizations, currently serving on the Board of Directors of the Real Estate Roundtable and is Treasurer and a member of the Executive Board of Governors of Nareit. He is a member of the Advisory Board for the Weiser Center for Real Estate at the University of Michigan, his alma mater, and is a member of the National Multifamily Housing Council ("NMHC") and served as Chair of its Finance Committee in 2015-2016. Mr. Parrell also serves on the Board of Directors and is Chair of the Finance Committee of the Greater Chicago Food Depository. He is a former director of Brookdale Senior Living Inc. (NYSE: BKD), a leading operator of senior living communities throughout the United States, from April 2015 to July 2017, and served as a director of Aviv REIT, Inc. (NYSE: AVIV), a REIT that specialized in owning post-acute and long-term care skilled nursing facilities and other healthcare properties, from March 2013 until April 2015, when it merged with Omega Healthcare. Mr. Parrell received a B.B.A. from the University of Michigan and a J.D. from the Georgetown University Law Center.

Top Institutional Holders	Shares (millions)	%
The Vanguard Group, Inc.	55.69	14.68
Blackrock Inc.	39.1	10.31
Norges Bank Investment Management	35.12	9.26
State Street Corporation	23.92	6.30
T. Rowe Price Associates, Inc.	19.8	5.22

Ownership Breakdown	
% Of Shares Held by All Insiders and 5% Owners	.47
% Of Shares Held by Institutional & Mutual Fund Owners	95.01

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Number of Institutions Holding Shares	1,032
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All amounts above per Yahoo Finance

Financial Analysis and Valuation

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

(In millions where applicable)

Financial Data	Amounts
Real Estate Assets, Gross	\$30,110
Total Assets	\$20,925
Property Debt (at weighted average interest rates of approximately 3.52%)	\$8,364
Stockholders' Equity	\$11,053
Revenue	\$2,213
Net Income (Loss)	\$614
Cash Flow from Operations	\$1,219
Unsecured Credit Facility (\$2.5B with \$793M used)	\$1,707
Market Capitalization	\$26,400
Property Debt to:	
Gross Real Estate Assets	28%
Market Capitalization	32%
Enterprise Value	24%
Dividend and Yield (\$2.70/sh.)	4.00%
Shares Sold Short (in millions per Yahoo Finance)	6,190

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Valuation Methodology	
Q3-24 Real Estate Revenue	\$2,213
Q3-24 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, impairment charges plus G&A expenses)	<u>\$838</u>
Q3-24 Net Operating Income	\$1,375
Proforma Annualized Net Operating Income at 102%	\$1,870
Projected Average Cap Rate	<u>6.0%</u>
Projected Value of Real Estate Assets	\$31,167
Add: Net Operating Working Capital (at book value and less goodwill and intangibles)	(\$313)
Investments in Unconsolidated Entities (at 1.5 times book value)	\$538
Projects Under Development (at 1.5 times book value)	\$333
Land Held for Development (at book value)	<u>\$65</u>
Total Projected Value of the Assets of the Company	\$31,790
Less: Total Debt per Above	<u>(\$8,364)</u>
Projected Net Asset Value of the Company	<u>\$23,426</u>
Common Shares Outstanding, 390.8M (379.3M common shares and 11.5M partnership units)	
Projected NAV Per Share	\$60
Market Price Per Share on 1/15/25	\$67
Premium (Discount) to NAV	12%

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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 EQR 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	\$27,533	\$27,203	\$28,272	\$28,088	\$28,712	\$30,110
Property Debt	\$9,035	\$8,042	\$8,341	\$7,424	\$7,389	\$8,364
Revenue	\$2,701	\$2,571	\$2,463	\$2,735	\$2,873	\$2,213
Net Income (Loss)	\$967	\$910	\$1,329	\$773	\$832	\$614
Funds from Operations (FFO)	\$1,248	\$1,256	\$1,161	\$1,373	\$1,477	\$1,090
Return on Invested Capital (1)	9.5%	8.7%	7.8%	9.23%	9.6%	NA
Dividend Coverage (2)	1.59	1.35	1.24	1.40	1.44	1.38
Dividends Paid Per Share	\$2.27	\$2.375	\$2.41	\$2.4775	\$2.6125	\$2.70(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 2025 is \$.675 per quarter.

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

EQR Total Return	10/2024	1-Yr	3-yr	5-Yr
	18.51%	32.42%	-2.93%	-0.84%

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As shown above, our net asset value per share for EQR is \$60/sh., compared to a market price of \$67/sh. Current average cap rates for apartment properties per our industry experience and CBRE's Cap Rate Survey are in the 5.0% to 7%+ range, depending on the location, condition and age of the property. We have used an average cap rate of 6.0% due to EQR's diversified portfolio of apartment assets.

Strengths:

- An attractive dividend yield of 4.0%.
- A low debt to enterprise value of 24%.

Concerns:

- REIT prices will decline if interest rates increase.
- The dividend has only increased by 15% since 2019.
- EQR is trading at a premium to our NAV of 12%.
- Approximately 45% of the apartment portfolio is located in Los Angeles, San Francisco and Seattle, Gateway cities with high crime and outmigration.

Recommendation:

EQR is trading at a 12% premium to our NAV per share, and we do not recommend the purchase of the stock.

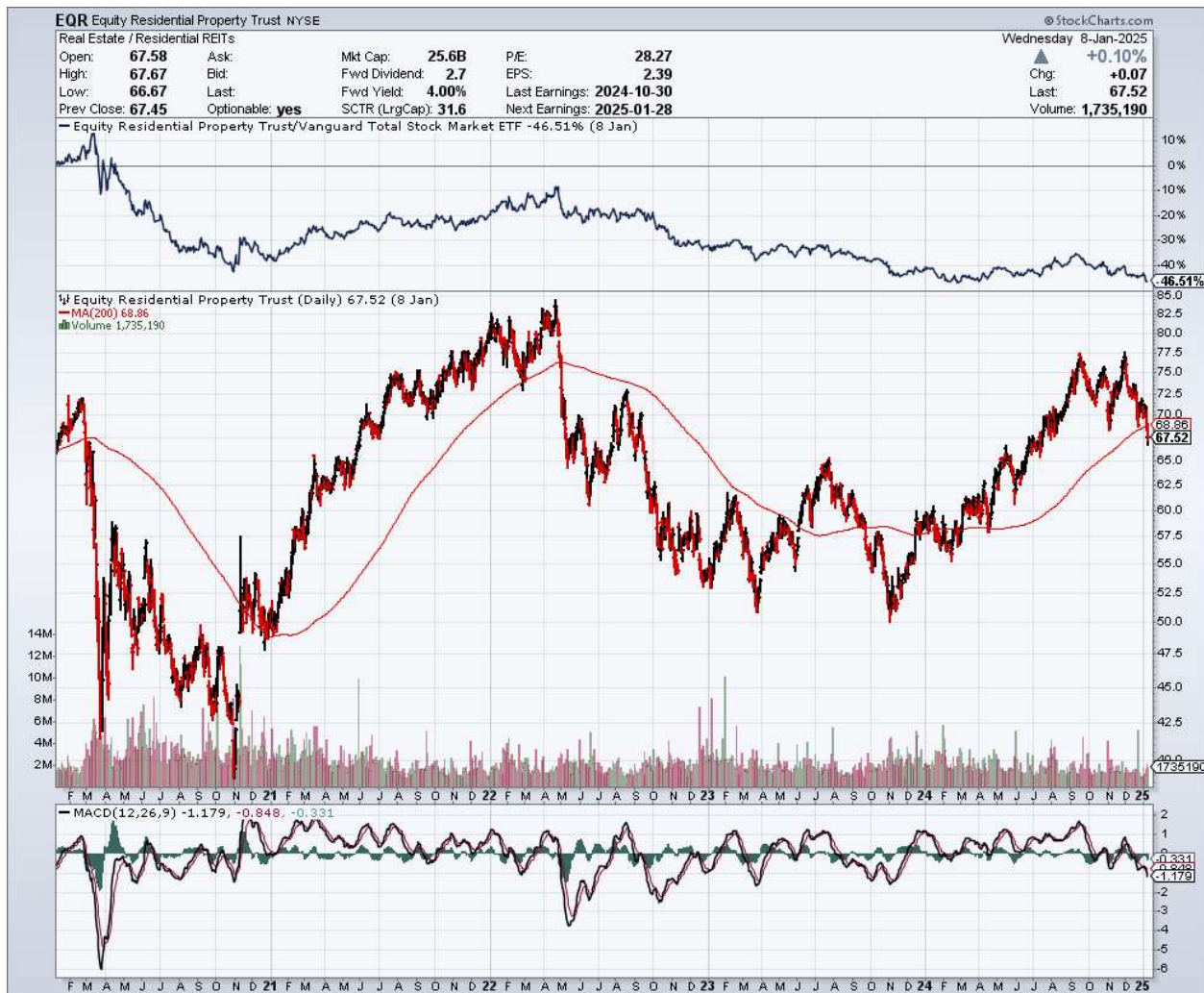
View of the Market

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



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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

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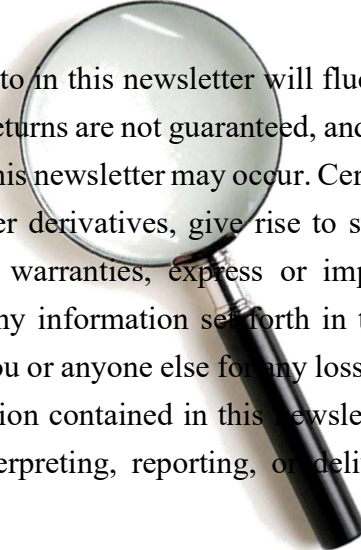
- 17. Regency Centers Corporation, September 2024
- 18. Kilroy Realty Corporation, October 2024
- 19. BXP, Inc., November 2024
- 20. Realty Income Corp., December 2024

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