

# View of the Market

Volume XVII/Issue

12/December 2025

Strategy and Insight for the Commercial Real Estate Industry

A Publication of Paramount Capital Corporation

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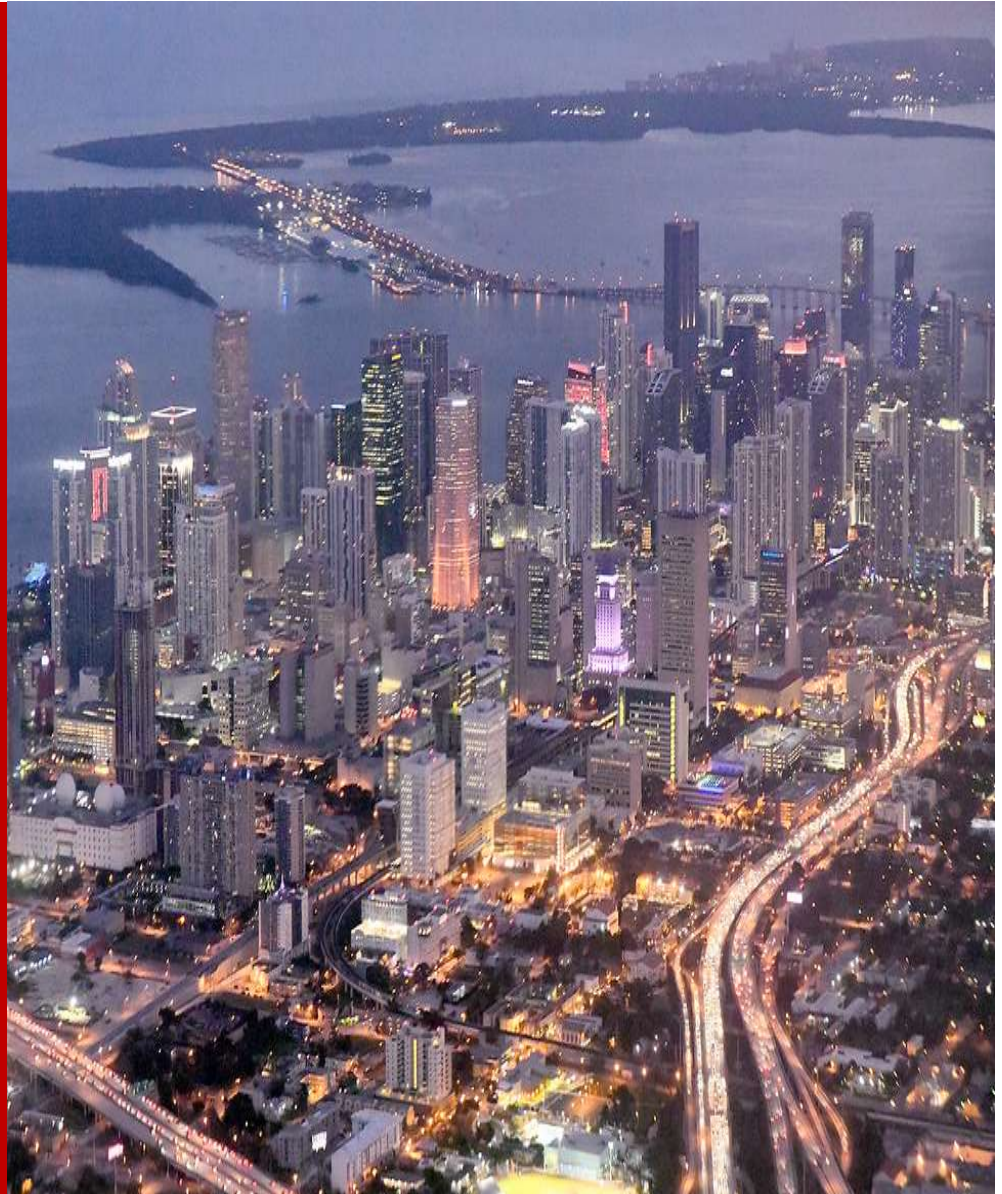
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## **REAL ESTATE FOCUS**

### **Top Ten CRE Predictions for 2026**

It's that time of year again for our Top Ten CRE predictions for 2026, as follows.

#### **1. One of the biggest booms in the CRE industry will begin in 2026.**

The CRE industry will see its biggest boom since the end of the Great Recession in 2012. The industry has been in a “bear market” since March of 2022, when the Federal Reserve began raising interest rates. With lower rates, a strong economy, a new Chairman of the Fed, and a huge pent-up demand to do deals, will unleash a deal frenzy with record transaction volume over \$1 trillion and loan volume over \$900 billion. It will be an exciting time to be a CRE broker.

#### **2. The best performing CRE sector will be Class A office in the Sunbelt Markets.**

After almost six years of distress and value destruction, office buildings will be in demand. Class A office buildings will be the best-performing real estate sector in 2026. This will be especially true in the high-growth Sunbelt markets of Miami, Tampa and Palm Beach in Florida, Charlotte in North Carolina, Dallas and Houston in Texas, Nashville in Tennessee and Phoenix in Arizona. Cap rates on many of these buildings will fall to the 5.0%-6.0% level.

#### **3. The worst-performing CRE sector will be data centers.**

The historical construction and expansion boom in data centers will lead to higher vacancies and lower rents in the next year, albeit from a record-setting pace. In the last year, the hyperscalers and AI-centric firms have spent an unprecedented \$300+ billion on new and larger data centers throughout the U.S. This will lead to an oversupply of space and locations in 2026; however, this sector will still be one of the best-performing sectors over the next five to ten years.

#### **4. The Federal Reserve will finally reduce the federal funds rate to at least 2.00% in 2026.**

The combination of low inflation, the exit of Jerome Powell, the head of the Fed, and a new Fed chairman in May 2026, will lead to a large drop in interest rates, with the federal funds rate to as

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low as 2.0%. As treasury rates fall, cap rates will follow, as the cap rate formula is the risk-free rate (10-Year Treasuries) plus a risk premium (typically 3.0%-10.0%), less the growth rate in rents (typically 2.0%-4.0%).

### **5. CRE cap rates will decline to an average of 4.0%-6.0% for Class A properties.**

As interest rates are reduced, cap rates will follow down to the 4.0% to 6.0% level for Class A properties in Sunbelt markets. This will be welcome news for those investors who overpaid for their properties prior to March of 2022, when the Fed began raising interest rates.

### **6. Acquisitions and consolidations will increase in the PropTech sector.**

The PropTech sector was on fire until the Fed began raising interest rates and venture capital funding became scarce. Once rates decline and the venture capital industry allocates new capital, the PropTech sector will again see new growth, especially with AI-based software and data analytics. The large and established CRE software and data analytics firms will invest billions in acquisitions and new AI-centered products to improve efficiency and performance, reduce costs, and improve decision-making.

### **7. REIT stocks will outperform in 2026.**

The FTSE-NAREIT All Equity Index will return 18.0%-20.0%+ in 2026, up from annual returns of less than 5.0% in the last two years. The projected returns will consist of a 3.50% dividend and at least 14.50% in capital appreciation.

### **8. The shadow lending sector will continue to grow its loan volume in 2026.**

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 20% of all CRE loans, which is 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.

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### **9. Rent control for apartments will spread to more states and cities in the U.S.**

Currently, California, Oregon and Washington, the city of New York, cities within New Jersey, Maryland, Maine, Minnesota, and the District of Columbia have some form of rent control. Rent control typically limits annual rent increases to the CPI plus 5.0%-7.0% and other rent restrictions. As rent costs continue to increase, look for more blue states and cities to enact rent control policies.

### **10. Distressed office assets in the blue gateway cities will be in demand.**

It is finally time to aggressively acquire distressed office assets in blue gateway cities. The urban cores of these cities have been decimated by high crime, rampant homelessness and an outmigration of residents and companies; however, they may be ripe for turnaround. Many of these office properties are still trading at deep 50%-70% discounts from their 2019 highs and with lower rates and a booming economy, the fundamentals should improve dramatically. Targeted markets like Washington D.C., San Francisco, Chicago, Philadelphia, Atlanta, and Seattle should be favored.

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## Highlights of the 2026 Emerging Trends in Real Estate Report

The 2026 Emerging Trends in Real Estate report was just released by the Urban Land Institute and PricewaterhouseCoopers and below are key takeaways.

### 1. Half Full or Half Empty? Capital Markets in the Fog.

- Liquidity and sales volume have improved, but real estate industry leaders have varied expectations for capital market conditions in 2026 and beyond.
- For commercial real estate investors, the glass is half full— fueled by lower interest rates, abundant debt, and pent-up equity demand.
- The glass is half empty, with higher long-term rates, sidelined equity, and less foreign investment.
- Either way it plays out, a new source of liquidity is likely ahead.

### 2. Niche to Essential Real Estate.

Sectors identified as niche two decades ago are the new essential property types.

- Data centers attract the most attention for moving to essential quickly, but regardless of individual views on the fog of uncertainty, the industry shift into multiple niche sectors and subsectors is prominent enough to reduce allocations away from primary property types.
- The current rise of formerly niche sectors and subsectors to essential property types is opening the door to new options that may be essential in the decades ahead.
- Despite the wide variation in views on U.S. economic growth and market conditions ahead, the real estate industry agrees that, when it comes to sector allocation, what was once considered niche is now essential.

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### **3. Back to Basics: Where Analytics Meet Operations.**

- Dynamic changes to real estate demand add new challenges and opportunities beyond sector allocation and market selection to detailed assessments of demand at the asset level.
- Location analyses now emphasize the submarket and microlocation, including block-level analyses.
- Asset resilience to climate and digitization joins demographics and cyclical factors in this new approach to asset selection.

### **4. Demographics Will Define Demand.**

- Net international migration is a critical component of U.S. population and economic growth and is projected to decline with new restrictions and mass deportations.
- Lower population and economic growth have implications not only for real estate demand but also for supply, as fewer construction workers means higher building costs.
- Domestic migration has slowed, and, although the “lock-in effect” may be temporary, the direction of state-to-state migration is being shaped by new factors.

### **5. AI Moves into Real Estate.**

- Artificial intelligence (AI) is moving from tech buzzword to operational reality for the real estate industry.
- Job replacement is occurring but remains rare among real estate firms. Job transformation and use-case exploration are more prevalent at this stage of AI adoption.
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- Most real estate firms are exploring potential uses for AI, while early adopters are concentrated among residential operators, finding success in using AI tools to streamline resident services.

Source: ULI and PWC, Emerging Trends in Real Estate 2026

## Cash on Cash Return Versus the Internal Rate of Return

We have received many questions here at VOM about the difference between the cash on cash (COC) return and the internal rate of return (IRR) in a CRE investment. The COC return is the cash flow from a CRE property after debt service (principal and interest), tenant improvements and leasing commissions and capital improvements divided by the equity invested in the property.

For example, USA LLC is acquiring an apartment complex for \$50 million with \$35 million in debt and \$15 million in equity. The capitalization is then 70% debt and 30% equity. The debt has an interest-only payment at a rate of 5.0% or \$1.75 million (\$35M times 5.0%) annually. The property was purchased at a 6.0% cap rate, so the net operating income is \$3 million (\$50M times 6.0%). There are no tenant improvements, leasing commissions, or capital improvements, so the net cash flow to equity is \$1.25 million (\$3M less \$1.75M). The COC return is then 8.33% (\$1.25M divided by \$15M). This property has positive leverage or when the COC return of 8.33% is greater than the cap rate of 6.0%. The COC return is also a yearly calculation and not applied to a series of years.

The IRR on the equity on the other hand is applied to a series of yearly cash flows from operations or equity as shown above and from the sale of the property at some time in the future (the terminal value), typically five to ten years. Using the above data, and that the net operating income increases 3.0% annually and the property is sold after five years at the purchase cap rate

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of 6.0%, the IRR on the equity would be the rate or return that equates the initial equity investment of \$15M with all the future annual cash flows plus the terminal value. The terminal value is the year six net operating income of \$3.477M divided by the 6.0% cap rate and less the debt of \$35M or approximately \$22.963M. The terminal value is calculated from the year six NOI because we are assuming the property will be sold at the end of your five and the buyer will base his offer on the year six, not year five's net operating income. This amount is added to the year five cash flow and now there are five years of cash flows to be discounted. The IRR is the discount rate that equates the original equity investment of \$15M with the five years of cash flow or 16.95%.

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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 on 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 for 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.

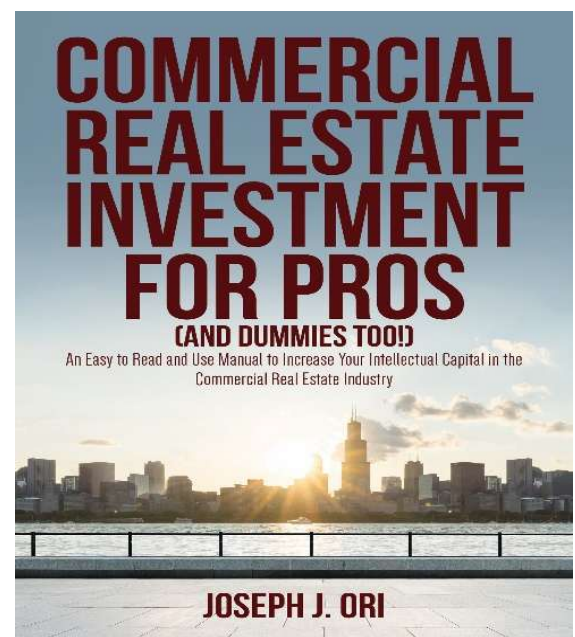
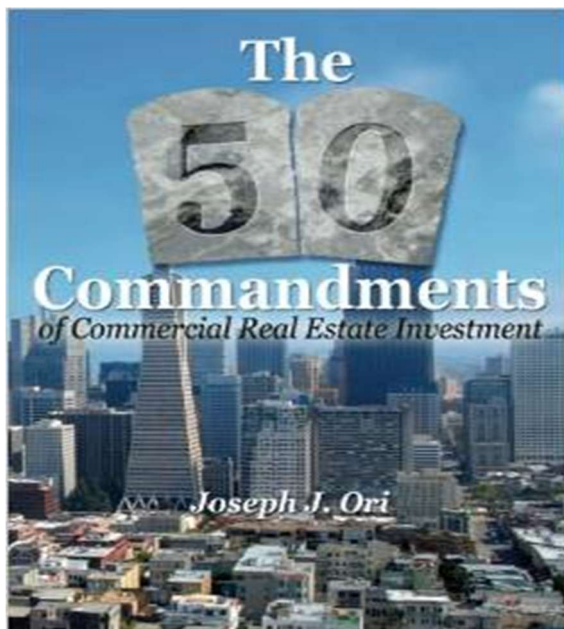
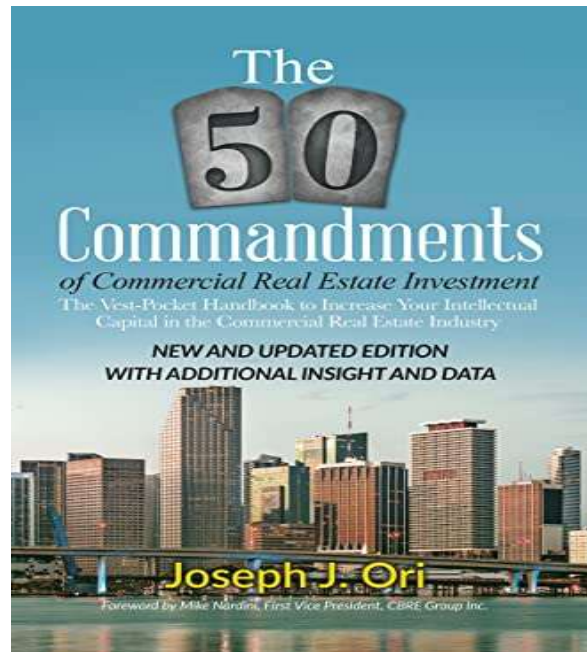
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## CRE Financing Rates

Loan Type	Mortgage Rate	Maximum Amortization	Term (years)	Maximum LTV
Permanent Loans	5.63%-9.00%+	30	10	70%
Conduit-CMBS	5.88%-7.49%+	30	10	70%
Bridge Loans	6.00%-13.00%+	Interest Only	1-3	80%
Construction Loans	5.75%-9.00%+	Interest Only	1-4	70%
Insurance Co. Loans	5.38%-7.89%+	30	10	70%
Fannie Mae/Freddie Mac	5.46%-6.26%+	30	10	80%

Commercial Loan Index Rates	
Prime Rate	6.75%
30-Day SOFR (secured overnight funding rate)	3.90%
1 Year Swap	3.45%
10 Year Swap	3.62%
5 Year Treasury	3.64%
10 Year Treasury	4.10%
Federal Funds Rate	3.50%



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The Federal Reserve's Open Market Committee met on December 9<sup>th</sup> and 10<sup>th</sup> and reluctantly lowered the federal funds rate by .25%. This is a welcome rate reduction for the CRE industry, but the Fed has been way behind the economy and much lower rates will come in 2026. 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](mailto:jjo@paramountcapitalcorp.com), for your real estate capital needs.

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## **CRE Deal Focus**

### **CRE Deals of the Month**

<b>Purchaser/ Sponsor</b>	<b>Seller</b>	<b>Property/ Deal</b>	<b>Price</b>	<b>Description</b>
Mori Trust	Related Cos. And Oxford Properties Group	Mixed-Use Property, NY, NY	\$541M	A 212-room hotel and 253,000 square feet of office and retail space.
Highwoods Properties	Lincoln Property Co.	6Hundred at Legacy Union, Charlotte, NC	\$223M	A 411,000 square foot office building built in 2025.
MT Capital	Dermot Co.	Seabourn Apartments, Boynton Beach, FL	\$183.5M	A 456-unit apartment complex built in 2012 and 2013.
Bridge Logistics Properties	Scuderia Development	Industrial Property, Fontana, CA	\$174M	A 1.1 million square foot industrial property.

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Pantzer Properties	Related Group of Miami and Rockpoint	Manor Miramar, Miramar, FL	\$161M	A 393-unit apartment complex.
Redwood Housing Partners and Hearthstone Housing Foundation	Living Opportunities Management Co.	Two Senior Housing Projects, Orange, CA	\$160M	A 210-unit and 123-unit senior housing complexes.
Simon Property Group	Lincoln Property Co.	Phillips Place, Charlotte, NC	\$144.8M	A 133,059 square foot shopping center.
Blackstone	Westbrook Partners	Four Seasons Hotel, San Francisco, CA	\$130M	A luxury 277-room hotel built in 2001.
Hubb NYC Properties	Carlyle Group	Apartment Property, Brooklyn, NY	\$85M	A 105-unit apartment property.

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Montana Avenue Capital Partners	Peakstone Realty Trust	Industrial Property, Burlington, MA	\$84.5M	A 431,233 square foot industrial building.
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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, he 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. The Future Budget**

The budget for the future remains stable throughout good times and bad. In most enterprises and again not just in business, there is only one budget and it is adjusted to the business cycle. In good times expenditures are increase across the board. In bad times expenditures are cut across the board. This however, practically guarantees missing out on the future. Prepare a “development budget” that contains funds to exploit opportunities. Make sure the budget provides stability of funding in good times and bad.

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### II. Winning Strategies

There is an old saying that good intentions don't move mountains; bulldozers do. Strategies are the bulldozers. They convert what you want to do into accomplishments. Strategies lead you to work for results. They also tell you what you need to have by way of resources and people to get the results.

### III. The Failed Strategy

Most of the people who persist in the wilderness leave nothing behind but bleached bones. When a strategy or action doesn't seem to be working, the rule is, "If at first you don't succeed, try once more. Then do something else." The first time around, a new strategy very often doesn't work. If at first you don't succeed, sit down, and ask what you have learned. Improve your approach and try once more. Maybe make a third effort. Then do something else.

### IV. Strategic Planning

Strategic planning deals with the futurity of present decisions. Strategic planning is not a box of tricks, a bundle of techniques. It is analytical thinking and commitment of resources to action. It is the continuous process of making present entrepreneurial decisions systematically and with the greatest of knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectations through organized, systematic feedback.



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## REIT Statistics

Current REIT statistics for 9/30/25 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&amp;P 500</i>	<i>NASDAQ Composite</i>
<i>9/2025</i>	4.48%	4.51%	14.83%	<b>17.93%</b>
<i>1-Year</i>	-4.121%	-4.00%	17.60%	<b>25.42%</b>
<i>5-Year</i>	6.81%	6.97%	<b>16.47%</b>	16.07%
<i>10-Year</i>	6.53%	6.79%	15.30%	<b>18.32%</b>
<i>20-Year</i>	6.41%	6.77%	10.97%	<b>12.49%</b>
<i>Market Capitalization</i>	\$1.47T	\$1.40T	\$56.9T	\$37.2T
<i>Dividend Yield</i>	4.27%	3.88%	1.15%	1.17%

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### REIT Review

#### Summary

This REIT valuation is on Prologis, Inc., (“PLD”), a publicly traded REIT that is engaged in the ownership, acquisition, development, and management of logistics facilities with a focus on key markets in 20 countries on four continents. PLD owns or controls over 5,887 properties with 1.3 billion square feet. Occupancy as of 9/30/25 was 95.2% and the same-store net operating income growth for Q3-25 YoY was 10%.

#### Development

As of 9/30/25, PLD had 26 properties under development with 10 million square feet and a total cost of \$1.955 billion.

#### Corporate Data

PLD is traded on the New York Stock Exchange, is incorporated in Maryland, and is located in San Francisco, CA. PLD has 928.6 million common shares outstanding and a market capitalization of approximately \$118.38 billion. PLD is rated A by Standard and Poor’s and A2 by Moody’s. PLD owns 99.68% of its UpReit partnership, Prologis, L.P.

#### Management

##### *Hamid R. Moghadam, 68, Chairman and CEO*

Hamid serves as the Chairman and CEO of Prologis, and on the executive committee of the board. In 1983, he co-founded the company's predecessor, AMB Property Corporation, and led it through its IPO in 1997 and its subsequent merger with ProLogis in 2011. Prologis, which is ranked in the top 100 S&P companies, is the global leader in logistics real estate, serving thousands of customers with a 1.3 billion square feet portfolio in 20 countries. The company is dedicated to a sustainable future as demonstrated through a commitment to be net zero across its value chain by 2040 as well as major investments in renewable energy, mobility, and sustainable design and construction. Mr. Moghadam currently serves on MIT’s Real Estate Advisory Committee and as a member of the Business Roundtable and the US China Business Council. He

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previously served as a Stanford University's Board of Trustees and on the boards of Stanford Management Company (former chair), Stanford Health Care, the Freeman Spogli Institute, and the Stanford Graduate School of Business. He has also served as a trustee and board member of the Urban Land Institute, chairman of NAREIT, and on the boards of several other philanthropic, educational, and community organizations. Mr. Moghadam received an MBA from the Stanford Graduate School of Business and a Bachelor and Master of Science in engineering from Massachusetts Institute of Technology.

Top Institutional Holders	Shares (millions)	%
Vanguard Group, Inc.	122.06	13.14
Blackrock Inc.	93.33	10.37
State Street Corporation	58.08	6.25
JP Morgan Chase and Co.	44.10	4.75
Cohen & Steers, Inc.	25.33	2.73

Ownership Breakdown	
% of Shares Held by All Insiders and 5% Owners	.28
% of Shares Held by Institutional & Mutual Fund Owners	97.23
Number of Institutions Holding Shares	2,104

All amounts above per Yahoo Finance

## Financial Analysis and Valuation

Select financial data for PLD per the 2025 Q3-10Q, and supplemental information.

(In millions where applicable)

Financial Data	Amounts
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Real Estate Assets, Gross	\$95,037
Total Assets	\$98,341
Property Debt (at weighted average interest rates of approximately 3.2%)	\$35,302
Stockholders' Equity	\$57,212
Revenue	\$6,537
Net Income (Loss)	\$1,924
Cash Flow from Operations	\$3,850
Unsecured Credit Facility (\$6.524B with \$252M drawn)	\$6,272
Market Capitalization	\$118,380
<b>Property Debt to:</b>	
Gross Real Estate Assets	37%
Market Capitalization	29%
Enterprise Value	23%
Dividend and Yield (\$4.04)	3.19%
Shares Sold Short (in millions per Yahoo Finance)	8,910

<b>Valuation Methodology</b>	
Q3-2025 Real Estate Revenue	\$6,537
Q3-2025 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, impairment charges, and related party fees plus G&A expenses)	<u>\$2,016</u>
Q3-2025 Net Operating Income	\$4,521
Proforma Annualized Net Operating Income at 105%	\$6,329
Projected Average Cap Rate	<u>6.0%</u>
Projected Value of Real Estate Assets	\$105,483
Add: Net Operating Working Capital (at book value)	\$1,279
Investment in Unconsolidated Entities (at 1.5x book value)	<u>15,814</u>
Total Projected Value of the Assets of the Company	\$122,576
Less: Total Debt per Above	(\$35,302)
Series Q Preferred Stock (at liquidation value of \$50/sh.)	<u>(\$63)</u>

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Projected Net Asset Value of the Company	<b>\$87,211</b>
Common Shares Outstanding, 959.2M Common Shares (928.6M common shares and 30.6M partnership units)	
Projected NAV Per Share	<b>\$91</b>
Market Price Per Share on 12/15/25	<b>\$127</b>
Premium (Discount) to NAV	<b>39%</b>

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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 PLD for the years 2020 through Q3-25 are shown in the table below.

(Millions except dividend and per share amounts)	2020	2021	2022	2023	2024	Q3-25
Gross Real Estate Assets	\$50,384	\$53,005	\$81,623	\$88,666	\$91,246	\$95,037
Property Debt	\$16,849	\$17,715	\$23,875	\$29,000	\$30,879	\$35,302
Revenue	\$4,438	\$4,759	\$5,973	\$8,023	\$8,201	\$6,537
Net Income (Loss)	\$1,473	\$2,933	\$3,358	\$3,053	\$3,725	\$1,924
Funds from Operations (FFO)	\$2,864	\$3,172	\$4,188	\$5,334	\$5,305	\$4,178
Return on Invested Capital (1)	5.6%	5.9%	5.4%	6.9%	6.4%	NA
Dividend Coverage (2)	1.27	1.41	1.51	1.54	1.37	1.37
Dividends Paid Per Share	\$2.32	\$2.52	\$3.16	\$3.48	\$3.84	\$4.04(3)

- (1) This ratio is cash provided by operations plus interest expense divided by stockholders' 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 \$1.01 per quarter.

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

PLD Total Return	9/2025	1-Yr	3-yr	5-Yr
	11.35%	-5.98%	7.39%	5.50%

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As shown above, our net asset value per share for PLD is \$91/sh., compared to a market price of \$127/sh. Current average cap rates for industrial assets, per our industry experience and CBRE's Cap Rate Survey, are in the 5.0% to 8.0%+ range, depending on the location, age and credit of the tenant. We have used an average cap rate of 6.0% due to PLD's diversified portfolio of industrial assets.

### ***Strengths:***

- The dividend has increased 74% since 2020.
- PLD has an investment-grade credit rating.
- A debt to enterprise value of 23%.
- A quality and diversified portfolio of industrial assets.

### ***Concerns:***

- REIT prices will decline if interest rates increase.
- The stock is trading at a 39% premium to our NAV.

### ***Recommendation:***

PLD is trading at a 39% premium to our NAV per share and we do not recommend purchasing stock.

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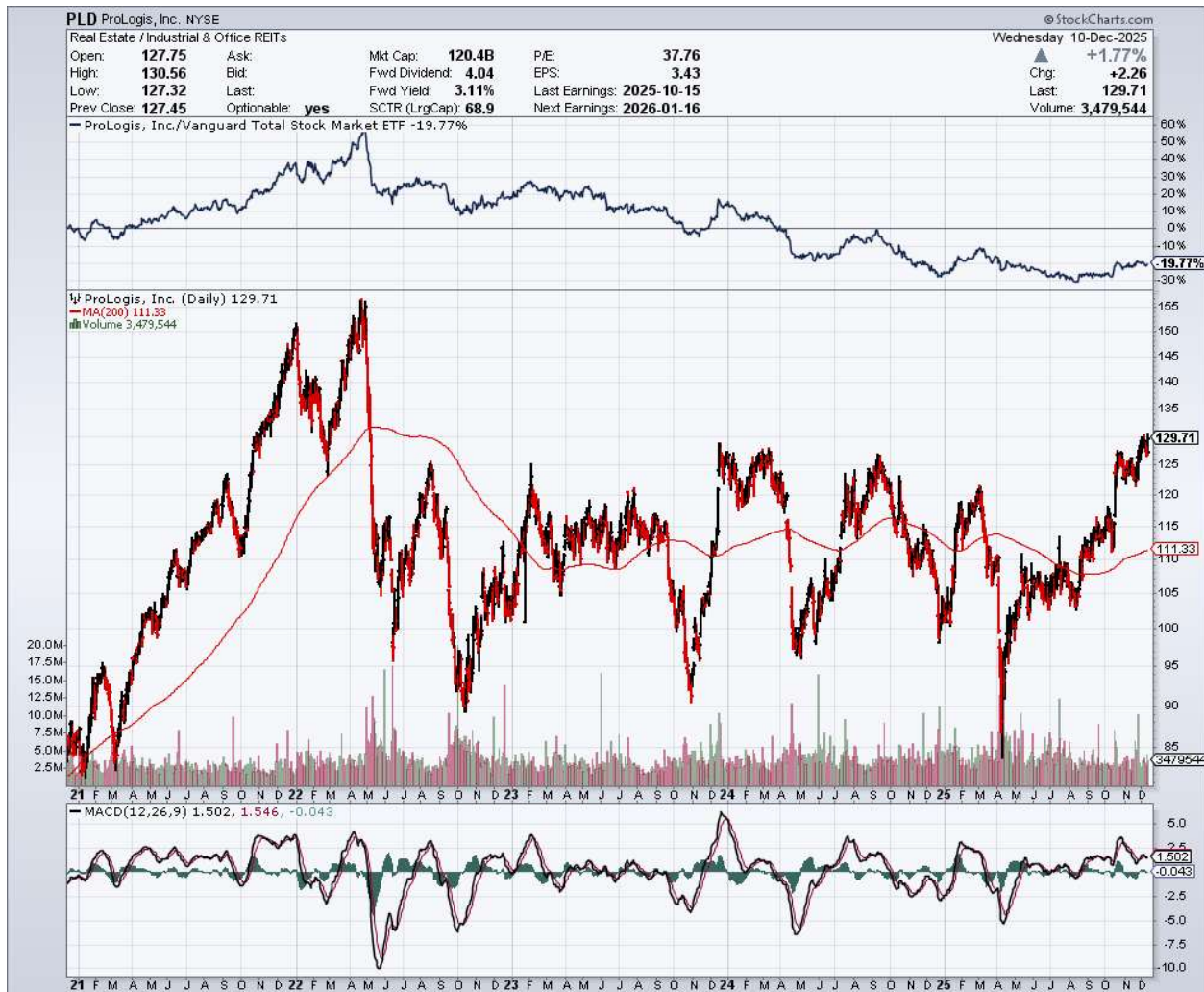
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A five-year price chart for PLD is shown below:



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



1. Camden Property Trust, August 2024
2. Regency Centers Corporation, September 2024
3. Kilroy Realty Corporation, October 2024
4. BXP, Inc., November 2024
5. Realty Income Corp., December 2024
6. Equity Residential, January 2025
7. Douglas Emmett, Inc., February 2025
8. Rexford Industrial Realty, Inc., March 2025
9. Broadstone Net Lease, April 2025
10. Alexandria Real Estate Equities, Inc., May 2025
11. Tanger, Inc., June 2025
12. AvalonBay Communities, Inc., July 2025
13. Service Properties Trust, September 2025
14. WP Carey, October 2025
15. SL Green Realty Corp., November 2025

Strategy and Insight for the Commercial Real Estate Industry

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