

View of the Market

Insight and Strategy for the Commercial Real Estate Industry

Paramount Capital Corporation

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FROM THE EDITOR

- 1. Commercial real estate appears to have stabilized, but recovery remains selective. Performance is likely to depend much more on sector selection, market choice, and basis discipline than on general market momentum.**
- 2. Income, not appreciation, is still doing most of the work in institutional CRE. The NCREIF discussion makes clear that 2025 returns were positive, but they were driven primarily by current income rather than meaningful value appreciation.**
- 3. Sector dispersion remains wide, with niche and defensive sectors looking strongest. Across the MetLife outlook and the NCREIF analysis, the strongest opportunities appear to be in defensive-income and specialty sectors such as seniors housing, medical office, infill industrial, and certain retail formats.**
- 4. Second-level thinking is the real investment edge in today's CRE environment. One of the most sophisticated themes in the newsletter is that successful CRE investing now requires going beyond headline narratives. Investors need to focus on what is already**

embedded in price, implied underwriting assumptions, refinancing risk, spread risk, covenant quality, and scenario-based portfolio construction.

5. Capital markets have improved, but caution is still warranted. Financing conditions have stabilized and liquidity has improved, yet the newsletter consistently argues that the market is stabilized but not fully healed.

Joseph Ori
Editor, View of the Market

REAL ESTATE FOCUS

A New Dawn in CRE: MetLife 2026 U.S. Commercial Real Estate Outlook

KEY TAKEAWAYS

- CRE has likely bottomed, but capital recovery is lagging.
- 2026 is a selection market, not a broad rebound.
- Multifamily and office demand will follow income and talent concentration.
- The strongest opportunities are in defensive-income and niche sectors.
- The biggest risk in 2026 may be overpaying for consensus themes.

I. Market Outlook and Core Thesis

MetLife's central conclusion is that U.S. commercial real estate has likely moved beyond the valuation trough, but 2026 will not be a broad-based recovery. Instead, it expects a more selective environment where sector rotation, market selection, and pricing discipline matter much more than passive exposure to the asset class. The report states that private U.S. CRE values bottomed in 4Q24, with office the final major sector to trough in 2Q25. Liquidity improved during 2025 as bid-ask spreads narrowed, but significant institutional capital has not yet returned.

A key macro theme is the K-shaped economy. MetLife notes that the top 10% of earners accounted for 50% of spending in 2Q25, while income growth for the lower-income cohort weakened as savings were depleted and debt burdens rose. Its implication for CRE is straightforward: leasing demand in 2026 is expected to depend less on national averages and more on where high-value employment and wage gains are concentrated. That favors certain coastal multifamily markets and selected office submarkets, while tempering enthusiasm for some Sun Belt markets.

The second major macro theme is AI-linked labor disruption. MetLife argues that AI adoption has already begun to affect white-collar hiring and job openings, especially in entry-level and

administrative functions. The report, therefore, does not rely on a broad “return-to-office” narrative. Instead, it expects office demand to reconcentrate in markets with strong talent pools and durable industry clusters. That makes office recovery more localized and quality-driven than cyclical and uniform.

MetLife’s macro forecast is constructive but moderate. For 2026, it projects 1.7% GDP growth, a 4.25% 10-year Treasury, 15% growth in CRE investment activity, and 4.9% CRE value growth, following 1.7% in 2025. The report, therefore, frames 2026 as a year of improving conditions, but not one of easy beta or indiscriminate appreciation.

II. Capital Flows, Strategy, and Sector Positioning

One of the report’s most important insights is the disconnect between stabilizing valuations and continued weak capital allocations. MetLife argues that institutional investors are still reducing CRE exposure because the asset class has underperformed major alternatives over the last three years. It notes that redemption queues for open-end core real estate funds rose sharply beginning in 2022, peaked at \$41 billion in 1Q24, and later declined to just below \$25 billion. That helps explain why capital re-entry has lagged pricing stabilization.

MetLife’s strategic response is explicit: sector selection matters. Its back test shows that from 2020–2024, an unlevered portfolio tilted toward overweight sectors and away from underweight sectors would have generated 6.5% annualized returns, versus 3.6% for the NCREIF benchmark. An equal-weight portfolio invested only in overweight sectors would have returned 10.2%, though the report correctly warns these are hypothetical, illustrative figures rather than actual realized performance.

For 2026, MetLife’s top-ranked overweight sectors are:

- Seniors Housing (Independent Living)
- Infill Warehouses
- Medical Office
- Retail – Net Lease
- Retail – Mall

Its Neutral+ sectors are Manufactured Housing, Data Centers, and Self-Storage. The main underweight sectors are 55+ Housing, Grocery-Anchored Retail, General Office, Full-Service Hotels, and Student Housing.

This ranking is notable because it departs from consensus in several places. MetLife is more positive on malls and more cautious on grocery-anchored retail than many institutional investors. It also emphasizes that its most useful leading indicators have been monthly regional surveys and REIT options pricing, while demographics and cap-rate movements have had less predictive value. That reinforces the report's broader theme that current CRE strategy should be driven by real-time market signals and pricing dislocations, not just static sector narratives.

III. Property-Type Views and Practical Investment Implications

A. Multifamily

MetLife believes national apartment vacancy is likely at or near peak levels and should improve gradually through 2026 as construction slows and homeownership remains expensive. Its favored multifamily opportunities are in supply-constrained, high-barrier markets such as Chicago, San Francisco, New York, Palm Beach, Tampa, Seattle, Orange County, and San Diego, including opportunities to buy Class A assets below replacement cost. By contrast, it is cautious on Austin, Charlotte, Nashville, Denver, Phoenix, and Atlanta, where oversupply and weak effective rent growth remain a problem. It is also negative on value-add apartment strategies, especially in the Sun Belt, where it believes pricing often still assumes overly aggressive rent growth.

B. Industrial

The industrial sector remains favored, but no longer as a blanket trade. MetLife differentiates sharply between infill and regional warehouse exposure and suggests stronger conviction where pricing and lease profile create better mark-to-market upside. The report's preview language specifically highlights "high-conviction views on infill vs. regional warehouse pricing," indicating that sub-sector differentiation within industrial is now central to performance.

C. Office

MetLife remains cautious overall on office at the sector level, but its comments imply that selected office assets are now priced too low in certain markets and segments. Its macro discussion suggests future office demand will be concentrated in deep labor pools and strong industry clusters, not restored uniformly across the country. This is an important distinction: office may offer selective opportunity, but only where quality, location, and tenant demand justify it.

D. Data Centers and Alternatives

MetLife treats data centers as attractive but not without risk, raising the question of whether the sector may be in a bubble while also arguing that portfolio construction theory supports exposure because of differentiated demand drivers. At the ranking level, data centers are Neutral+, not outright overweight, which suggests a constructive but measured stance. More broadly, the report favors defensive-income and specialty sectors such as seniors housing, medical office, and self-storage, where demographic and operating fundamentals appear stronger than in more cyclical property types.

E. Overall Assessment

This is a credible institutional outlook with a clear relative-value framework. Its most useful contribution is not a directional call that “CRE is back,” but the sharper argument that 2026 will be a dispersion market: stabilized values and improving liquidity create opportunity, but returns are likely to be earned through property-type selection, market choice, and disciplined basis, not broad market momentum.

Are You a Second-Level CRE Thinker?

KEY TAKEAWAYS

- **Second-level CRE thinking starts where most underwriting ends: consensus vs price—you must be different *and* more right than the market, not merely “right.”**
- **For CRE equities, the key question is often the implied underwriting (cap rates, NOI growth, capex, etc.) embedded in NAV discounts/premiums and FFO multiples, not the headline narrative.**
- **For CRE debt, superior work is often “second-level” credit analysis: spreads, duration, refinancing risk, and covenant quality determine outcomes as much as collateral headlines.**
- **Portfolio construction should diversify the true risk drivers (rate duration, spread duration, NOI cyclicity, leverage), acknowledging public/private valuation lags.**
- **A practical second-level process is systematic: convert price to implied expectations, assign probabilities, stress leverage and covenants, and size so you can be early**

without forced selling.

Executive summary

Second-level thinking in commercial real estate (CRE) securities is the discipline of separating facts from expectations and then separating expectations from what's already embedded in price. The hallmark is not simply having a view (e.g., "rates will fall" or "office is impaired"), but forming a variant, probabilistic view about how outcomes may differ from consensus and what the security will do under each outcome—given its leverage, cash-flow duration, refinancing needs, and covenant protections. Howard Marks, in his terrific book, *The Most Important Thing-2011*, frames the edge as "different and better" thinking: success requires being "more right than others," because market prices already reflect the beliefs of many capable participants.

I. Definition and Contrast of First vs Second-Level Thinking

Marks' core distinction is that first-level thinking is "simplistic and superficial" (easy, widely practiced, and therefore unlikely to produce superior results), while second-level thinking is "deep, complex, and convoluted," explicitly incorporating the range of outcomes, probabilities, consensus beliefs, and how price reflects psychology. In Marks' formulation, a first-level investor mainly needs "an opinion about the future," whereas the second-level investor asks a set of market-aware questions: What outcomes are likely, what does the consensus believe, what is priced in, and what happens to the price if I'm right versus if the consensus is right? Applied to CRE equities and CRE debt, the contrast becomes concrete because both instruments are claims on the same underlying NOI, but express different sensitivities to rates, spreads, and leverage.

- CRE equities (REIT common): First level: "The Fed will cut → REITs up." Second level: "Cuts may signal slower growth; what NOI growth is already implied by the REIT's NAV premium/discount, cap-rate assumptions, and forward FFO multiple—and does my macro path change those inputs more than consensus?"
- CRE equities (office example): First level: "Office is broken → avoid/short." Second level: "Office is impaired, but is it over-discounted? If the selected office is 'priced too low' in certain segments, the trade hinges on balance-sheet survivability and lease roll timing, not on a broad 'return-to-office' narrative."

- CRE debt (REIT unsecured bonds/bank facilities): First level: “Investment grade REIT debt is safe.” Second level: “Safety depends on covenant package (total leverage limits, secured debt limits, fixed-charge coverage, unencumbered asset coverage) and the issuer’s refinancing calendar under stress spreads.”
- CRE debt (credit spreads): First level: “Spread is wide → bargain.” Second level: “Spread includes multiple components (default, liquidity, risk premium); if your thesis is ‘mean reversion,’ you need a catalyst and downside analysis if spreads widen further before they tighten.”

This is why Marks repeatedly ties second-level thinking to market context: prices are set in a competitive arena; merely noticing a fact that everyone sees rarely creates an edge.

Second-level thinking changes CRE security work by forcing every valuation input and risk statement to be framed as: (a) what is already priced, (b) what must be true for this to be mispriced, and (c) what I get paid if I’m early/wrong.

Valuation: cap rates, NOI growth, and implied expectations. A first-level CRE equity valuation often stops at “cap rates will compress/expand.” Second-level thinking insists you link cap rates to required returns and growth. A cap rate is a mechanism that converts NOI into value (Value = NOI / cap rate). In Gordon-growth terms, cap rate intuitively reflects a required return less long-run growth (risk-free rate plus a risk premium less a growth rate equals the cap rate or $R_{rf} + R_p - G$), which means a low cap rate is not bullish by itself; it may simply reflect that the market is already paying up for expected growth and safety. In public REITs, NAV-based valuation explicitly uses cap rates as a critical input and requires adjustments to “reported NOI” (e.g., straight-line rent) to estimate “cash” NOI; small changes in cap rate or recurring capex assumptions can dominate NAV outcomes.

II. Second-level implications for CRE equities:

- Ask what cap rate the stock implies, not just what private-market cap rates were last quarter. If the equity trades at a deep NAV discount, the market may already be underwriting higher cap rates, weaker NOI growth, and/or higher capex.
- Cross-check NOI growth assumptions with lease structure (mark-to-market, escalators, near-term rollover) and sector supply. The “good asset class” story can be fully priced; the edge comes from identifying where the market’s implied NOI path is too pessimistic or too optimistic.

III. Second-Level Implications for CRE Debt:

- Value the bond as $(\text{rates} + \text{spread}) \times \text{duration}$. The relevant question is not “is the yield attractive?” but “how much price pain occurs if benchmark rates rise and/or spreads widen?” Credit spreads are commonly defined as the yield component above comparable Treasuries, and how they move with both default risk and other premia.
- Treat credit spreads as a scenario variable, not a constant. In a downturn, spreads can widen even if Treasuries rally.

IV. Risk Assessment: Leverage, Interest-Rate Sensitivity, Duration, and Covenants:

- Leverage: For REITs, leverage isn’t just “high vs low;” it’s how leverage interacts with asset-value volatility (cap rate expansion) and refinancing timing. Research on public real estate finds that interest-rate sensitivity differs widely across firms and rises when credit is tight—precisely when refinancing becomes harder.
- Interest-rate sensitivity & duration: Bonds have measurable duration; modified duration approximates price sensitivity to yield changes. Listed real estate can also be interpreted through a duration lens (cash flows discounted at rates that reprice with yields and spreads), and empirical work suggests sensitivity increases when credit is “tight and more expensive.”
- Covenant quality: In many REIT unsecured debt structures, a relatively standard covenant package evolved around total leverage limits, secured debt limits, fixed-charge coverage, and unencumbered asset coverage—constraints designed to preserve lender protection and issuer flexibility. Academic evidence also indicates covenants can reduce borrowing costs and often focus on coverage and leverage ratios, even for investment-grade REITs, suggesting covenants can function as both protection and “signal” of credit quality.
- Portfolio construction: diversify the actual risk drivers, not the labels. Second-level portfolio construction asks: “What am I truly long—cap rate compression, NOI growth, liquidity, credit tightening?” This aligns with mean–variance intuition: portfolio risk depends materially on co-movements (correlations), not only on standalone asset risk. In CRE specifically, second-level thinkers also account for measurement differences between public and private markets: appraisal-based indices can exhibit

“smoothing” and “lag bias,” delaying turning points relative to transaction-based pricing.

A practical CRE-securities illustration: MetLife Investment Management notes in this letter that private U.S. CRE values bottomed in late 2024 while “meaningful capital re-entry has not yet occurred,” with allocations trending lower after underperformance—exactly the kind of setup where second-level thinking asks whether pessimism is already in price, and where liquidity and positioning may matter as much as fundamentals.

V. Practical Framework and Checklist for Applying Second-Level Thinking to CRE Deals

Second-level thinking is a repeatable process: identify consensus, derive implied expectations, build a probabilistic variant view, then size the position so you survive being early.

Actionable checklist

- State the consensus narrative in one sentence (e.g., “cap rates will fall” or “office is uninvestable”) and list what data points the market is using.
- Translate price into implied underwriting: implied cap rate, implied NOI growth, implied exit multiple (FFO / AFFO), or implied spread-to-Treasury.
- Build a range of outcomes with probabilities (base/bull/bear) and write down what would falsify each scenario.
- Stress cap rates and NOI together (not separately): apply the cap rate formula above, if growth disappoints while discount rates rise, values can gap down nonlinearly.
- Map the capital stack and refinancing wall: maturity ladder, % floating vs fixed, hedges, and how debt service changes under higher base rates and wider spreads.
- Quantify leverage multiple ways (net debt/EBITDA, secured debt %, asset-level LTVs) and tie it to covenant headroom (maximum leverage, minimum coverage).
- Separate liquidity risk from credit risk: can you exit when the thesis breaks? Marks emphasizes the payoff for being early in credit (before the market reprices).
- Check for appraisal/benchmark lag traps: if you’re comparing private valuations to public pricing, remember appraisals can lag turning points and dampen volatility.

NCREIF 2025 Returns and Analysis

KEY TAKEAWAYS

- **Institutional CRE recovery continued, but only modestly.**
- **2025 returns turned positive, but appreciation remained weak.**
- **Retail and residential led; office remained the laggard.**
- **Valuation risk had not fully cleared.**

Executive view

The latest NCREIF (National Council of Real Estate Investment Fiduciaries) data indicate that institutional U.S. commercial real estate continued its recovery through year-end 2025, but the improvement remained income-led rather than appreciation-led. The Expanded NPI (National Property Index) posted a 1.14% total return in 4Q 2025, consisting of 1.15% income return and -0.01% appreciation. For the full year of 2025, the index generated roughly 4.9% total return, with only about 0.2% appreciation, confirming that cash yield, not broad cap-rate compression, or strong price recovery, did most of the work.

1. Market recovery is real, but still fragile

NCREIF's latest published returns show a market that has clearly stabilized relative to the 2022–2024 repricing period. The positive quarterly return in 4Q 2025 extended the recovery trend, but the near-zero appreciation component signals that institutional valuations have not yet entered a durable reacceleration phase. In practical terms, which means core real estate performance is currently behaving more like a yield vehicle than a capital gains vehicle.

2. Income remains the dominant source of return

The most important analytical takeaway is the composition of performance. With a quarterly income of 1.15% versus appreciation of approximately flat, and a full-year appreciation of only 0.2%, the return structure remains defensive. That has two implications for institutional investors: first, asset selection and operating cash flow quality matter more than mark-to-market upside; second, return durability is more dependent on NOI resilience than on falling interest rates alone.

3. Sector dispersion remains meaningful

Traditional property-type performance was uneven in 2025. According to market commentary summarizing the NCREIF release, retail led at 6.8% annual return, followed by residential at 5.3%, industrial at 4.5%, and office at 3.4%. That ranking is notable because it shows that even as the broad index stabilized, sector fundamentals still diverged sharply. Retail's relative strength suggests better repricing discipline and durable in-place income, while office remains the weakest large-sector allocation within the institutional universe.

4. Office is improving more slowly than the rest of the market

Office's weaker total return profile suggests that the asset class continues to face structural headwinds, even if aggregate NCREIF-level returns have turned positive. The issue is not simply cyclical softness; it is the combination of utilization uncertainty, leasing friction, capital expenditure burden, and reduced liquidity. A positive broad-index reading therefore, should not be interpreted as a uniformly positive signal for office-heavy portfolios.

5. Alternatives are becoming more important in the "expanded" framework

NCREIF's expanded framework now encompasses qualifying alternative sectors beyond the historical apartment/industrial/office/retail set. NCREIF materials and related commentary highlight areas such as senior housing, self-storage, and medical office as part of the expanded property-type universe. A NIC analysis using NCREIF data reported that senior housing posted a 10.6% total return in 2025, outperforming the broader Expanded NPI's 4.9% return. That is a strong signal that private-market institutional performance is increasingly being influenced by alternative operating real estate sectors rather than only the four traditional food groups.

6. Valuation marks may still lag transaction reality

One of the more important caution flags is the continuing gap between appraisal-based valuations and transactional evidence. Public commentary around the 4Q 2025 results notes that appreciation was effectively flat even after several quarters of stabilization, and broader NCREIF Trends materials emphasize monitoring cap rates and NOI changes as separate drivers of value. That suggests some portfolios may still be carrying marks that are directionally improving but not fully reconciled to true market-clearing levels, particularly in less liquid subsectors.

7. What this means for investors

For institutional allocators, the 4Q 2025 NCREIF report supports a fairly specific conclusion:

- Core real estate is no longer in broad free-fall.
- The recovery is being powered mostly by current income.
- Sector selection matters more than benchmark beta.
- Office still warrants caution.
- Alternative sectors may provide superior growth and return dispersion opportunities.

That combination argues for a strategy centered on balance-sheet durability, leasing quality, rollover management, and subsector selection rather than a simple “wait for cap rates to compress” thesis.

8. Bottom line

The latest NCREIF report points to a market that is stabilized but not fully healed. Returns are positive, but mostly because assets are still generating income, not because values have broadly rebounded. For a professional investor, the message is straightforward: 2026 underwriting should still emphasize cash flow, liquidity, and sector selectivity over appreciation optimism.

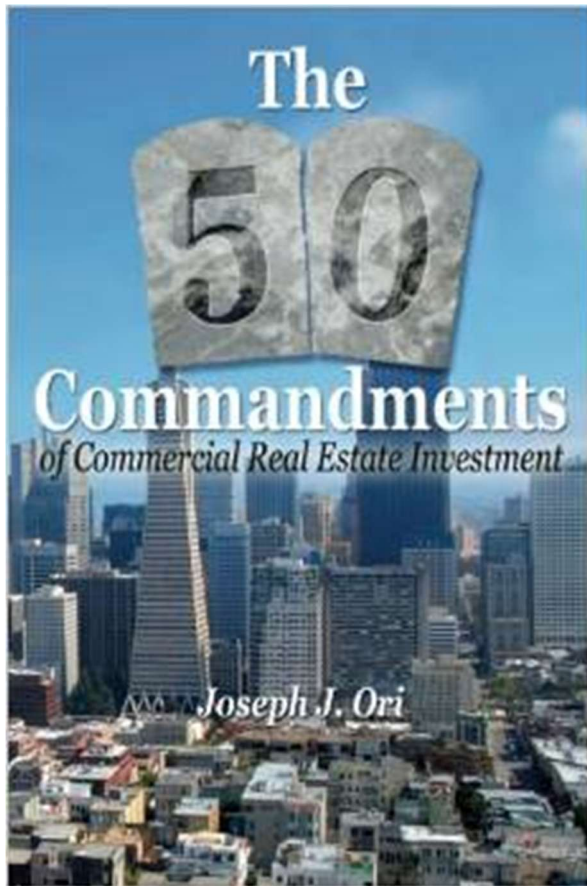
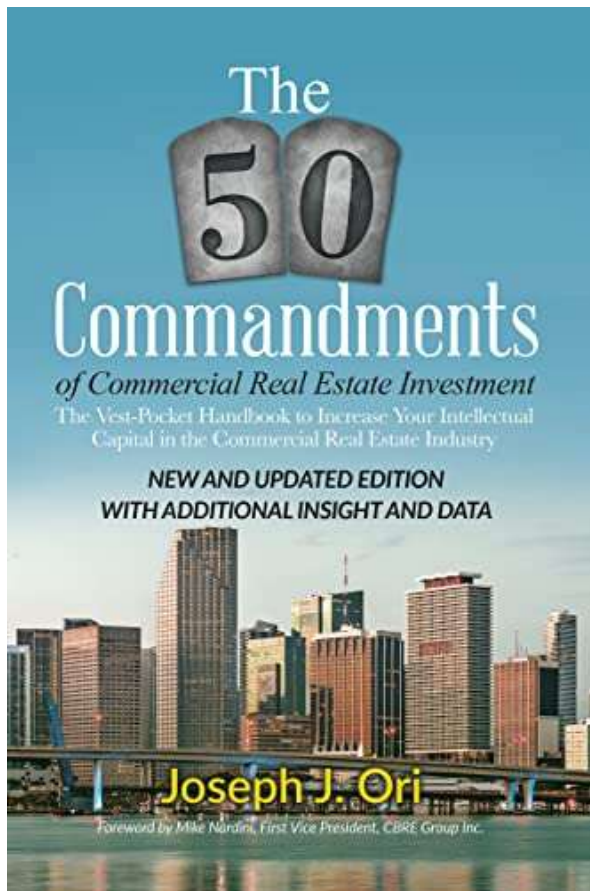
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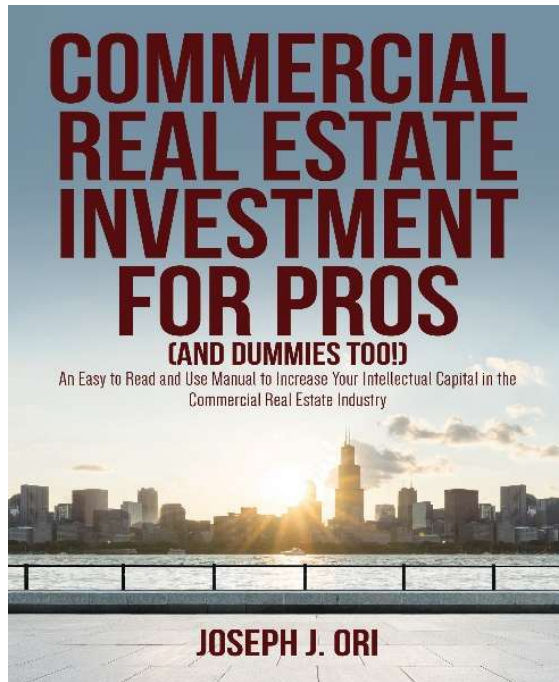
The editor of this newsletter, Joseph Ori, is pleased to offer his three CRE books for sale: “The Fifty Commandments of Commercial Real Estate Investment,” Edition I and II and “Commercial Real Estate Investment for Pros (and Dummies Too!).” All books are available on Amazon and other book outlets on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





CRE Financing Rates

| Loan Type | Mortgage Rate | Maximum Amortization | Term (years) | Maximum LTV |
|------------------------|---------------|----------------------|--------------|-------------|
| Permanent Loans | 4.99%-8.75%+ | 30 | 10 | 70% |
| Conduit-CMBS | 5.63%-7.56%+ | 30 | 10 | 70% |
| Bridge Loans | 5.75%-12.75%+ | Interest Only | 1-3 | 80% |
| Construction Loans | 5.50%-8.75%+ | Interest Only | 1-4 | 70% |
| Insurance Co. Loans | 5.13%-8.40%+ | 30 | 10 | 70% |
| Fannie Mae/Freddie Mac | 5.46%-6.26%+ | 30 | 10 | 80% |

| Index | Commercial Loan Index Rates |
|--|-----------------------------|
| Prime Rate | 6.75% |
| 30-Day SOFR (secured overnight funding rate) | 3.65% |
| 1 Year Swap | 3.75% |
| 10 Year Swap | 3.91% |
| 5 Year Treasury | 3.72% |
| 10 Year Treasury | 4.13% |
| Federal Funds Rate | 3.50% |



Interest rates have stabilized after the Iran attack. The Federal Reserve meets on March 17th and 18th next week and the consensus is for the funds rate to remain at 3.50%. 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, for your real estate capital needs.

CRE Deal Focus

CRE Deals of the Month

| Purchaser/ Sponsor | Seller | Property/ Deal | Price | Description |
|----------------------------------|---|---|----------|---|
| Amazon Services Data | George Washington University | 122-Acre Campus. Ashburn, VA | \$427M | A 122-acre campus with university buildings for up to five years. |
| Gencom | Westbrook Partners and Korea Investment Corp. | Ritz-Carlton Hotel, NY, NY | \$320M | A 253-room luxury hotel. |
| GI Partners | Harrison Street | Two Data Centers, Severn and Laurel, MD | \$221.9M | Two data centers with 219,791 square feet. |
| Inland Real Estate Group | BRP Cos. | Arboretum Apartments, Long Island, NY | \$190M | A 292-unit apartment complex built in 2024. |
| Dermot Cos. | PGIM Real Estate | Quaye Apartments, Palm Beach Gardens, FL | \$131.8M | A 340-unit apartment complex built in 2015. |
| Swift Creek Real Estate Partners | Link Logistics | Crossroads Distribution Center, Orlando, FL | \$98.45M | A 712,145 square foot industrial property fully leased. |
| Amazon | Stonemont Financial Group | Industrial Property, Wes | \$95.92M | A 1.09 million square foot |

| | | | | |
|---------------|--------------------|--|---------|--|
| | | Jefferson, OH | | industrial property built in 2022. |
| Goldman Sachs | Mesirow | West Paces Ferry Rd. Apartments, Atlanta, Ga | \$90.8M | A 210-unit apartment complex built in 2012. |
| InvenTrust | Manova Partners | Nashville West, Nashville, TN | \$88M | A 750,000 square foot shopping center built in 2008. |
| Irgang Group | Mega Furniture USA | Gilbert Gateway Towne Center, Mesa, AZ | \$85M | A 273,973 square foot shopping center built in 2005. |

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. Limits of Quantification

This principle holds that not everything important in management can be measured precisely, and not everything that is measurable is truly important. Drucker warns against overreliance on metrics, formulas, and numerical targets when judging human performance, institutional health, or long-term effectiveness. Quantification is useful, but it becomes dangerous when leaders treat numbers as a substitute for judgment. Many of the most important organizational realities—trust, integrity, judgment, morale, leadership, and mission alignment—cannot be fully captured in data. The point is not to reject measurement, but to recognize its boundaries and pair it with sound managerial judgment.

II. Hierarchy and Equality

Drucker sees organizations as requiring hierarchy for clarity, accountability, and effective decision-making, but he also insists that every individual deserves equal dignity and respect. Hierarchy is a functional necessity, not a statement of human worth. An organization cannot operate well without defined authority, responsibilities, and reporting lines, yet it fails when rank turns into privilege or personal superiority. The principle balances operational order with moral equality. In practice, it means managers must lead decisively while treating all people as contributors whose value is not determined by title.

III. Characteristics of Organizations

Drucker emphasizes that organizations are human creations designed for specific purposes, not natural communities that exist for their own sake. They are specialized, task-oriented, and built to produce results in the external environment. Because of that, organizations must be clear about mission, disciplined in structure, and deliberate in management. They depend on coordination, role definition, communication, and accountability to function well. This principle reminds leaders that organizations are tools for performance and contribution, and they must be shaped intentionally to remain effective.

IV. The Federal Principle

The federal principle is Drucker's idea that large institutions work best when they balance central control with meaningful local autonomy. Authority should not be concentrated so completely at the top that lower levels become passive, but neither should decentralization lead to fragmentation or inconsistency. A sound federal structure allows smaller units to take responsibility, make decisions, and remain close to operations, while still being aligned with the larger mission and standards of the whole enterprise. This creates both accountability and flexibility. The principle is especially important in complex organizations, where local initiative and central coordination must coexist.



REIT FOCUS

REIT Statistics

Current REIT statistics for 12/31/25 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&P 500</i> | <i>NASDAQ Composite</i> |
|------------------------------|------------------|-------------------------|--------------------|-------------------------|
| 12/2025 | 1.66% | 2.27% | 17.88% | 21.14% |
| 1-Year | 1.66% | 2.27% | 17.88% | 21.14% |
| 5-Year | 4.38% | 4.85% | 14.42% | 13.35% |
| 10-Year | 5.51% | 5.77% | 14.82% | 17.66% |
| 20-Year | 6.20% | 6.57% | 11.00% | 12.50% |
| Market Capitalization | \$1.43T | \$1.36T | \$61.8T | \$42.2T |
| Dividend Yield | 4.44% | 4.07% | 1.10% | 1.17% |

REIT REVIEW

Summary

This REIT valuation is on STAG Industrial, Inc. (“STAG”), a publicly traded REIT that is engaged in the ownership, operation, acquisition, and development of industrial properties throughout the

U.S. STAG owns or controls over 601 properties with 120 million square feet. The top three tenants are Amazon (2.8% of annualized base rent), Schneider Electric USA, Inc. (1.0% of annualized base rent), and American Tire Distributors, Inc. (.9% of annualized base rent). The occupancy as of 12/31/25 was 96.4%, and the same-store net operating income growth YoY was 10.7%.

DEVELOPMENT

As of December 31, 2025, STAG had seven properties under development at a total cost of approximately \$134.6 million.

Corporate Data

STAG is traded on the New York Stock Exchange, is incorporated in Maryland, and is located in Boston, MA. STAG has 191 million common shares outstanding and a market capitalization of approximately \$7,482 billion. STAG is rated BBB by Fitch Ratings and Baa2 by Moody's. STAG owns a 98.1% interest in its UpReit partnership, STAG Industrial Operating Partnership, L.P.

Management

William R. Crooker, 45, President and CEO

Mr. Crooker serves as our President, Chief Executive Officer, and Director. Mr. Crooker most recently served as our Chief Financial Officer, Executive Vice President, and Treasurer from January 2016 until May 2021. Mr. Crooker has also served as Chief Accounting Officer and Senior Vice President of Capital Markets. Prior to the formation of our Company, Mr. Crooker served as the Chief Accounting Officer for the Company's predecessor, STAG Capital Partners, LLC, from 2010 to 2011, where he was responsible for the accounting, tax, and financial reporting for the company. From 2002 to 2010, Mr. Crooker worked for KPMG LLP, in its real estate practice focusing primarily on publicly traded real estate investment trusts. He has held various positions with KPMG LLP, including most recently as Senior Manager. Mr. Crooker is a

certified public accountant and received his Bachelor of Science degree in accounting from Bentley University.

Ownership

| Top Institutional Holders | Shares (millions) | % |
|---------------------------|-------------------|-------|
| Blackrock Inc. | 27,790 | 14.55 |
| Vanguard, Inc. | 25,720 | 13.47 |
| FMR, LLC | 13,570 | 7.10 |
| State Street Corporation | 9,190 | 4.81 |
| Norges Bank | 8,040 | 4.21 |

| | Ownership Breakdown |
|--|---------------------|
| % of Shares Held by All Insiders and 5% Owners | .14 |
| % of Shares Held by Institutional & Mutual Fund Owners | 93.28 |
| Number of Institutions Holding Shares | 731 |

All amounts above per Yahoo Finance

Financial Analysis and Valuation

Select financial data for STAG per the 2025 10K, and supplemental information.

(In millions where applicable)

| Financial Data | Amounts |
|---|--------------------------|
| Real Estate Assets, Gross | \$8,344 |
| Total Assets | \$7,208 |
| Property Debt (at weighted average interest rates of approximately 4.21%) | \$3,252 |
| Stockholders' Equity | \$3,671 |
| Revenue | \$845 |
| Net Income (Loss) | \$273 |
| Cash Flow from Operations | \$463 |
| Unsecured Credit Facility (\$1B with \$262M drawn) | \$738 |
| Market Capitalization | \$7,482 |
| | Property Debt to: |
| Gross Real Estate Assets | 39% |
| Market Capitalization | 43% |
| Enterprise Value | 30% |
| Dividend and Yield (\$1.55) | 4.04% |
| Shares Sold Short (in millions per Yahoo Finance) | 12,810 |

| Valuation Methodology | |
|--|------------------|
| 2025 Real Estate Revenue | \$845 |
| 2025 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, and impairment charges) | <u>\$223</u> |
| 2025 Net Operating Income | \$622 |
| Proforma Annualized Net Operating Income at 103% | \$641 |
| Projected Average Cap Rate | <u>6.0%</u> |
| Projected Value of Real Estate Assets | \$10,683 |
| Add: Net Operating Working Capital (at book value) | <u>\$123</u> |
| Total Projected Value of the Assets of the Company | \$10,806 |
| Less: Total Debt per Above | <u>(\$3,252)</u> |
| Projected Net Asset Value of the Company | \$7,554 |
| Common Shares Outstanding, 191M Common Shares | |
| Projected NAV Per Share | \$39 |
| Market Price Per Share on 3/15/26 | \$38 |
| Premium (Discount) to NAV | (2%) |

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 STAG for the years 2020 through 2025 are shown in the table below.

| (Millions except dividend and per share amounts) | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|---------|----------|---------|---------|----------|-----------|
| Gross Real Estate Assets | \$5,278 | \$6,513 | \$6,953 | \$7,253 | \$7,966 | \$8,344 |
| Property Debt | \$1,702 | \$2,216 | \$2,497 | \$2,622 | \$3,028 | \$3,252 |
| Revenue | \$483 | \$562 | \$657 | \$707 | \$767 | \$845 |
| Net Income (Loss) | \$202 | \$192 | \$178 | \$192 | \$189 | \$273 |
| Funds from Operations (FFO) | \$285 | \$332 | \$401 | \$421 | \$458 | \$487 |
| Return on Invested Capital (1) | 6.8% | 7.1% | 9.4% | 8.0% | 8.7% | 9.6% |
| Dividend Coverage (2) | 1.27 | 1.35 | 1.50 | 1.57 | 1.67 | 1.72 |
| Dividends Paid Per | \$1.44 | \$1.4496 | \$1.46 | \$1.47 | \$1.4796 | \$1.55(3) |

| | | | | | | |
|-------|--|--|--|--|--|--|
| Share | | | | | | |
|-------|--|--|--|--|--|--|

(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 2026 is \$.1292 per month.

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

| STAG Total Return | 12/2025 | 1-Yr | 3-yr | 5-Yr |
|--------------------------|----------------|-------------|-------------|-------------|
| | 13.29% | 13.29% | 8.75% | 7.55% |

As shown above, our net asset value per share for STAG is \$39/sh., compared to a market price of \$38/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 and tenancy of the property. We have used an average cap rate of 6.00% due to STAG's diversified portfolio of primarily industrial assets.

Strengths:

- STAG has an investment-grade credit rating.
- The stock is trading at a 2% discount to our NAV.
- A low debt to enterprise value of 30%.
- A quality and diversified portfolio of industrial assets.
- The dividend yield is an attractive 4.04%.

Concerns:

- REIT prices will decline if interest rates increase.
- The dividend has only increased by 7.6% since 2020.

Recommendation:

STAG is trading at a 2% discount to our NAV per share; however, we are not recommending purchasing the stock.

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





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