

View of the Market

Insight and Strategy for the Commercial Real Estate Industry

Paramount Capital Corporation

Volume 18 | Issue 4 | April 15, 2026

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FROM THE EDITOR

- 1. The CRE market is no longer in broad decline, but it is also not in a uniform rebound. Performance is being driven by sector selection, market choice, basis discipline, and underwriting quality, not by a generalized upswing.**
- 2. Current returns are being generated primarily through cash yield and current income, while capital appreciation remains limited. That makes disciplined acquisitions, durable cash flow, and downside protection more important than ever.**
- 3. Strong investor interest in apartments, net lease, seniors housing, medical office, industrial/logistics, data centers, and private credit/debt strategies, while more challenged traditional sectors—especially office—remain much more selective and pricing-sensitive.**
- 4. Financing availability and transaction activity have improved, multifamily capital markets are reopening, and fundraising has turned positive again. But this is a measured recovery, still shaped by elevated interest rates, refinancing risk, tighter**

spreads, and greater concentration of capital among large managers and stronger credits.

5. Successful CRE investing now requires going beyond headline narratives. Investors need to focus on embedded pricing assumptions, tenant credit, lease structure, spread risk, refinancing exposure, residual value, and scenario-based underwriting. In this environment, the “safest-looking” asset is not always the best risk-adjusted investment.



We are also pleased to announce the introduction of our new Financial App, Deal Maven. With the Deal Maven App (<https://dealmaven.lovable.app>), you are able to download on a confidential basis any private placement memorandum (PPM) or prospectus and get a confidential and comprehensive 7–10-page analysis with deal term comparisons, risk assessments, category benchmarks and more— in minutes, not days.

Joseph Ori
Editor, View of the Market

REAL ESTATE FOCUS

CRE Fundraising is Booming!

KEY TAKEAWAYS

- Fundraising has turned positive again, but the recovery is modest.
- Large managers are taking a bigger share of the market.
- Investors are favoring higher-return and more defensive strategies.
- The shadow lending market is becoming a major CRE capital source.
- Alternatives, especially data centers, are leading investor interest.

I. Executive Summary

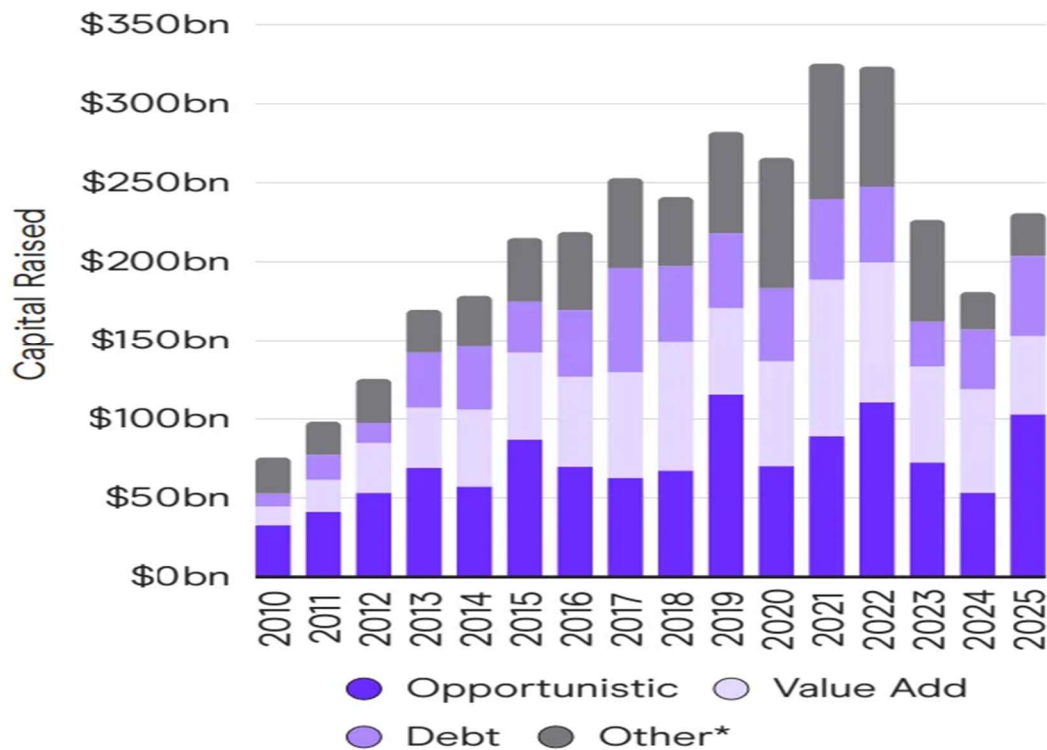
Private real estate fundraising entered 2026 with improving momentum after a difficult multiyear correction. According to CRE Daily, a CRE publication, global private real estate fundraising rose to \$172 billion in 2025, up from \$152 billion in 2024, marking the first annual increase since 2021. That rebound is significant because it suggests institutional investors are beginning to re-engage with the asset class after a period defined by sharply higher interest rates, valuation resets, reduced transaction volumes, and broader macro uncertainty. Even so, the recovery is being characterized as measured rather than robust, with managers and investors still operating under a “higher-for-longer” interest rate framework that continues to restrain optimism.

A central theme of the article is that the fundraising rebound should not be confused with a return to the easy capital environment of the low-rate cycle. The article makes clear that private real estate remains under pressure from elevated financing costs, with the 10-year Treasury yield staying above 4% for much of the past two years. That backdrop has forced both fund sponsors and investors to recalibrate expectations. Rather than planning for a sharp recovery in capital formation, most large funds are now targeting raises roughly in line with 2025 levels. This indicates a market that is stabilizing but not yet reaccelerating. In practical terms, the sector is moving from retrenchment toward normalization but still lacks the

conditions that would support a broad-based surge in fundraising or asset prices. The chart below, from CRE Daily and S&P Global, shows global fundraising by investment strategy.

Figure 2

Global real estate fundraising by strategy 2010-2025



* Other includes core, core-plus, secondaries and fund of funds. Strategy totals may exceed headline fundraising figures due to overlap in fund classifications.

Source: With Intelligence by S&P Global

II. Fundraising Concentration

Another major point in the article is that fundraising strength is increasingly concentrated among the industry's largest players. The top 10 real estate funds raised \$68 billion in 2025, representing roughly 40% of all capital raised globally. This is a very important structural shift. Investors, especially large institutions, appear to be prioritizing platform scale, diversification, brand strength, operating history, and perceived execution certainty. Larger general partners have strengthened their competitive positions through mergers, acquisitions, and broader multi-strategy investment capabilities, making them more attractive in a cautious market. Conversely, emerging managers are finding it much harder to gain traction. The article notes that through the third quarter of 2025, only a small number of new entrants captured a disproportionate share of the capital raised by first-time managers.

III. Investment Preferences

The article also emphasizes a meaningful shift in strategy preferences. Investors are not allocating capital uniformly across the real estate risk spectrum. Instead, they are disproportionately favoring opportunistic, value-add, and debt strategies, which together accounted for nearly 90% of capital raised last year. This preference reflects the market environment. In a volatile period with repricing still underway, many investors want either higher-return potential to compensate for risk or greater structural protection through debt positions in the capital stack. Opportunistic and value-add strategies offer the possibility of buying assets at basis discounts or repositioning properties in sectors undergoing change. Debt strategies, meanwhile, offer current income, covenant protection, and better downside mitigation in uncertain markets. This is a notable departure from the prior cycle, when large amounts of capital flowed into core strategies supported by cheap leverage and yield compression.

Core real estate, particularly office, remains the weakest traditional segment discussed in the article, although the tone suggests conditions may be beginning to stabilize. Investor skepticism toward office continues, given hybrid work, elevated vacancy, refinancing risk, and uncertain long-term demand patterns. However, the article points out that some investors are beginning to reexamine heavily discounted office assets as potential value opportunities. That does not mean office has broadly recovered; rather, it suggests a selective contrarian interest is emerging where pricing has fallen enough to offset perceived risk. This is an important nuance.

IV. The Growth of the Shadow Lending Market

One of the strongest trends identified in the article is the rise in the shadow lending market (unregulated lenders) or private credit in commercial real estate. As traditional banks continue to pull back from CRE lending because of regulatory pressure, balance sheet constraints, and asset quality concerns, private lenders are stepping in more aggressively. The article reports that debt funds raised \$51 billion in 2025, the highest level since 2021. This is a major development because it reflects both a financing gap and an investment opportunity. On the borrower side, many owners need refinancing solutions as loans mature in a more expensive and restrictive capital markets environment. On the investor side, private credit offers attractive risk-adjusted returns, often with strong collateral protection and better current yield than many equity strategies.

V. Key Investment Sectors

The article further highlights how capital is moving toward sectors with stronger secular demand drivers, especially data centers and other alternatives. Data centers are singled out as a standout sector due to the continued expansion of AI, cloud computing, and digital infrastructure demand. That demand is drawing substantial investor interest and fresh fundraising into specialized vehicles targeting the space. Beyond data centers, the article notes increasing allocations to single-family rentals, healthcare, and logistics, all of which benefit from durable demographic, operational, or supply-chain related themes. This capital rotation reflects a broader market reality: investors want exposure to sectors with stronger growth narratives and clearer tenant demand fundamentals, rather than relying on cyclical recovery alone.

VI. Investor Sentiment

The article closes on a moderately constructive note. It argues that many large pension funds remain under-allocated to real estate, which could provide a longer-term tailwind to fundraising. That is an important support factor because it suggests there is still dry powder potential from institutions that may need to rebuild or expand their private real estate exposure over time. However, the near-term expectation is still for gradual growth rather than explosive expansion. Investors are expected to remain focused on discipline, downside protection, and diversification. That combination of improving sentiment and continued caution captures the article's overall message well: private real estate fundraising is recovering, but it is doing so in a more selective, more strategic, and more structurally differentiated market than the one that existed before rates moved materially higher.

A Review of the Apartment Market

KEY TAKEAWAYS

- Apartment demand is strong, but supply is still the swing factor.
- National rents are growing only modestly, but market dispersion is wide.
- Cap rates and values appear to be stabilizing.
- The best relative opportunities are highly market specific.
- Capital markets are reopening for multifamily.

I. Executive summary

The U.S. apartment market entered 2026 in a transitional but improving position. Operating fundamentals in 2025 were shaped by two offsetting forces: very strong renter demand and a still-elevated, though falling, supply wave. At the same time, capital markets improved meaningfully, with private real estate fundraising rebounding in 2025 and multifamily investment activity recovering as buyers gained confidence that pricing and cap rates were stabilizing.

From an operating standpoint, 2025 was a good demand year for apartments. Cushman & Wakefield reports that U.S. multifamily net absorption totaled roughly 355,000 units in 2025, making it the third-strongest year for demand in the past 25 years. New deliveries remained high at about 402,000 units, but that figure was down materially from the prior year, while the units-under-construction pipeline fell to 469,374 units, roughly half the cycle peak. The national vacancy rate ended 2025 at 9.3% in Cushman's dataset, while average asking rent was \$1,893 per month, up only 1.1% year over year, reflecting continued pressure from concessions and lease-up competition in recently delivered projects.

That combination is the core story of the current apartment market: demand is healthy, supply is finally rolling over, but rent growth remains soft until excess vacancy is absorbed. In practical terms, the market is late in the supply-digestion phase. Owners in oversupplied metros are still prioritizing occupancy and retention over aggressive rent pushes, especially in Class A product. Cushman notes that Class A vacancy began to improve earlier in 2025 as concessions proved effective, while Class B and C properties experienced some softness as renters traded up into

newer communities offering incentives. This class bifurcation is one of the most important current underwriting themes in the sector.

II. Metrics and National Fundamentals

The national metrics show a market that is softer than the tight conditions of 2021–2022, but far from distressed. On a regional basis, the South remains the largest apartment region with more than 6.1 million units of inventory, followed by the West at about 3.1 million, the Midwest at 2.1 million, and the Northeast at just under 2.0 million. The South also delivered the most new units in 2025, at 202,438, which explains why Sunbelt markets still carry the greatest near-term vacancy pressure.

Regional rent and vacancy data underscores that the apartment market is no longer moving in one uniform national direction. According to Cushman, Q4 2025 average asking rents were \$2,718 in the Northeast, \$2,152 in the West, \$1,627 in the South, and \$1,505 in the Midwest. Vacancy rates were 5.6% in the Northeast, 8.6% in the West, 11.3% in the South, and 8.0% in the Midwest. The Northeast continues to benefit from tighter supply, while the South remains the epicenter of new deliveries and therefore higher vacancy.

At the market level, fundamentals are highly differentiated. In absolute demand terms, New York led the country in 2025 absorption with nearly 27,000 units, followed by Dallas/Fort Worth at roughly 25,000, Austin around 20,000, Atlanta around 19,000, and Phoenix around 15,000. Vacancy, however, tells a different story: some of the same high-growth markets are still digesting large construction pipelines. For example, Q4 2025 vacancy was approximately 14.3% in Austin, 12.0% in Dallas/Fort Worth, 13.1% in Phoenix, and 11.8% in Atlanta, versus only 4.1% in New York, 4.2% in Orange County, and 4.9% in San Jose.

Rent growth also varied sharply by location. Cushman notes that national rent growth was only 1.1%, but San Francisco posted 7.5% year-over-year growth, and San Jose exceeded 4%, supported by improving technology demand and tighter West Coast conditions. By contrast, many Sunbelt metros experienced flat or negative effective rent performance because concessions remained elevated. This makes current apartment investing much more market-selective than in prior cycles. Investors are no longer simply buying “multifamily” as a broad theme; they are buying specific metros, submarkets, and asset vintages with very different lease-up and mark-to-market profiles.

III. Capital Markets, Cap Rates, and Valuations

The investment backdrop improved materially through 2025 and into early 2026. CBRE reports that U.S. multifamily investment volume rose 9.1% in 2025 to \$161.6 billion, and its Q4 2025 underwriting survey showed 76% of respondents had positive sentiment for core multifamily acquisitions, up from 44% a year earlier. The average core going-in cap rate for multifamily assets in CBRE's Q4 2025 survey was 4.75%, with the average exit cap rate at 4.95% and core unlevered IRR targets at 7.70%.

More broadly, cap rates appear to have peaked or stabilized, not compressed materially yet. CBRE's H2 2025 U.S. Cap Rate Survey states that cap rates held steady during the second half of 2025 and that most respondents believed the market was past the cyclical peak in yields. It also identified multifamily as one of the most appropriately priced sectors and the sector expected to deliver the strongest long-term investment performance. That matters because it indicates institutional capital is still prioritizing apartments even after the rent slowdown.

Market-level multifamily cap rates show the valuation spread across geographies and product types. For Class A stabilized suburban multifamily, CBRE's H2 2025 survey showed ranges such as 4.25%–5.0% in Austin, 4.5%–5.25% in Dallas, 4.75%–5.0% in Miami, 4.75%–5.25% in Tampa, 4.25%–4.75% in San Jose, 4.75%–5.25% in Seattle, 5.0%–5.5% in Chicago, and 5.5%–6.0% in Memphis. For infill Class A stabilized multifamily, rates were similarly tight in gateway markets such as Boston at 4.5%–5.0%, Philadelphia at 4.75%–5.25%, and Washington, D.C. at 4.75%–5.5%. These ranges imply that the best-located coastal and high-barrier assets still command premium pricing, while secondary or slower-growth markets trade at wider yields.

Valuation conditions are therefore best described as stable but uneven. The article you provided on real estate fundraising supports that same conclusion from the capital-raising side: global private real estate fundraising rose to \$172 billion in 2025, but capital is concentrating among larger managers and is increasingly directed toward sectors and strategies with clearer downside protection. That is constructive for apartment liquidity, but it also means underwriting remains selective.

Financing conditions are improving as well. MBA forecasts multifamily origination volume of \$399.2 billion in 2026, up from \$330.6 billion in 2025, driven by refinancing needs and increased acquisitions. Fannie Mae reported nearly \$74 billion of multifamily loan production in 2025, while the broader mortgage banking industry reported that commercial and multifamily borrowing in Q4 2025 was 30% higher than a year earlier. This should support apartment transaction velocity, particularly for recapitalizations and refinancings of assets that were acquired or developed at lower-rate assumptions.

IV. Property Types and Location Themes

From a property-type standpoint, the key splits today are not only Class A vs. B/C, but also urban infill vs. suburban and traditional multifamily vs. alternatives within rental housing. NCREIF defines apartment subtypes to include garden, low-rise, mid-rise, and high-rise assets. In the current cycle, suburban garden and mid-rise product in oversupplied Sunbelt metros has seen the most near-term revenue pressure due to the volume of recent development, while urban high-barrier coastal assets have generally benefited from tighter new supply, higher replacement costs, and stronger renter retention.

The most attractive locations at present appear to fall into three buckets.

First are the coastal, high-barrier, low-vacancy markets such as New York, Northern New Jersey, Boston, Orange County, San Jose, San Francisco, and selected Los Angeles submarkets. These markets tend to offer lower cap rates but stronger pricing support and better long-term rent-growth durability. Cushman's data show extremely high asking rents in these metros, including \$3,345 in New York, \$3,666 in San Francisco, \$3,349 in San Jose, \$2,953 in Boston, and \$2,868 in Orange County.

Second are the recovery Sunbelt markets where supply pressure remains high but is beginning to improve, such as Austin, Jacksonville, Raleigh, Charlotte, and Charleston. These markets still have elevated vacancy, but construction has begun to taper materially, and strong demographic demand is gradually working through excess availability. They may offer better near-term basis opportunities for investors willing to underwrite 12 to 24 months of slower rent growth.

Third are the Midwest and selected secondary markets that offer better current yield and less valuation risk, including Chicago, Minneapolis, Cincinnati, Milwaukee, and St. Louis. These markets typically trade at higher cap rates than coastal product, but they can offer more durable cash-on-cash yield and lower development competition. For investors prioritizing income and downside protection rather than aggressive growth, this part of the market deserves continued attention.

V. Outlook

The near-term outlook for the U.S. apartment market is moderately constructive. The biggest drag on fundamentals — excess new supply — is receding. Cushman states that the development pipeline is now at its lowest level since 2015, which should lead to a sharp drop in new deliveries over the next several years. CBRE likewise expects positive net demand in 2026, though it notes that many markets still have substantial newly delivered units left to lease. In other words, 2026 should be better than 2025 operationally, but probably not yet a full rebound year in rents.

For investors, that means the apartment sector remains one of the strongest major CRE property types, but success will depend on location, asset quality, and basis. Apartments still benefit from structurally favorable demand drivers: high homeownership costs, household formation, limited single-family affordability, and strong institutional preference. But revenue growth in the near term remains constrained in the metros that built the most. The result is a market where stabilized, well-located assets should perform defensively, while lease-up and value-add strategies require much more precise market selection than they did three years ago.

The Booming Net Lease Sector

KEY TAKEAWAYS

- **Net lease investing is fundamentally a spread business.**
- **Tenant credit and lease term drive value more than the property.**
- **Net lease REITs have fueled major sector growth.**
- **Low cap rates can create significant hidden risk.**
- **The safest-looking deals are not always the best deals.**

I. Executive Summary

One of the most active and durable sectors within commercial real estate over the last several years has been the net lease investment market. Net lease investments generally consist of single-tenant retail, industrial, and office properties leased on a long-term triple-net basis, under which the tenant is responsible for real estate taxes, insurance, and most or all operating and maintenance expenses. As a result, the owner receives a relatively predictable contractual income stream with limited landlord responsibilities, making the sector especially attractive to investors seeking stable cash flow and lower asset-management intensity.

The appeal of net lease assets lies in their bond-like characteristics. Investors are not primarily underwriting short-term rent growth, intensive leasing activity, or near-term operational upside. Rather, they are underwriting the tenant's credit quality, the durability of the business occupying the premises, the remaining lease term, the rental escalation structure, and the probability that the rent stream will continue uninterrupted through the investment horizon. In many cases, these assets are created through sale-leaseback transactions, in which a corporate owner sells the real estate to an investor and simultaneously leases it back under a long-term triple-net lease. This allows the corporate seller to unlock capital from owned real estate while maintaining operational control of the location.

Net lease investing is fundamentally a spread business. Investors acquire a long-duration cash flow stream at a certain capitalization rate and finance that purchase with debt priced below the asset yield. The excess spread, after debt service, provides the return on equity and supports dividends, management overhead, and growth. This framework has made net lease

investing particularly attractive to public and private REITs, family offices, pension capital, 1031 exchange buyers, and institutional investors looking for comparatively defensive real estate exposure.

Cap rates in the net lease market are driven primarily by tenant credit and lease duration, and only secondarily by real estate fundamentals such as location, alternative use, or replacement cost. In general, the stronger the tenant's credit and the longer the remaining lease term, the lower the cap rate. Conversely, weaker tenant credit, shorter lease duration, specialized buildings, or challenged locations require materially higher cap rates to compensate for re-tenanting and residual value risk. Investment-grade credits with ten or more years of lease term can trade at very aggressive cap rates, while non-rated or lower-credit tenants require significantly wider yields.

That said, net lease investing is not risk free. In a higher-rate capital markets environment, the sector becomes highly sensitive to mispricing. When buyers accept cap rates below the cost of debt or below appropriate risk-adjusted return thresholds, the strategy can produce negative leverage and weak equity returns. Accordingly, net lease investing remains attractive, but only when disciplined underwriting is applied to tenant credit, location quality, lease economics, and exit assumptions.

II. Why the Net Lease Sector Has Been So Attractive

The net lease sector has seen substantial investor demand in recent years because it offers attributes that many other property types have lacked: steady contractual income, reduced operating volatility, limited landlord expense exposure, and lower management intensity. During periods of elevated interest rates, economic uncertainty, and tighter credit conditions, investors have increasingly gravitated toward assets that can provide dependable current yield and relatively straightforward underwriting.

For many investors, net lease properties serve as a hybrid between fixed-income securities and traditional real estate. Like bonds, they provide a long-term stream of contractually defined payments. Unlike bonds, however, they are secured by real estate with potential residual value, tax advantages, and the possibility of appreciation if the rent stream proves durable and the asset remains marketable at sale. This combination of income stability and real estate ownership has made the sector especially appealing to both public and private capital.

Another reason for the popularity of the sector is the continued growth of sale-leaseback financing as a corporate capital strategy. Companies increasingly view owned real estate as a source of trapped capital. By selling the property and leasing it back, they can redeploy proceeds into core business operations, acquisitions, debt reduction, or shareholder returns. Although new lease accounting rules require seller/lessees to record the present value of their lease payment liability on the balance sheet, this data is often not included in total debt for financial analysis and Wall Street valuation purposes.

The simplicity of the lease structure is also important. In a pure triple-net lease, most property-level expenses are borne by the tenant, reducing volatility in net operating income. This is a major contrast with multi-tenant office, apartment, hotel, or shopping center investments, where ownership must manage recurring leasing, tenant turnover, capital expenditures, and fluctuating operating costs. In the net lease sector, value is tied less to operational execution and more to the reliability of the lease payment stream and the quality of the underlying credit.

Still, investors must avoid oversimplifying the asset class. Not all net lease investments are equal. A long-term lease to a strong national tenant in a prime location is materially different from a long-term lease to a weaker operator in a tertiary market with a highly specialized building. The market often compresses these distinctions during periods of abundant capital, which can lead to overpricing and poor risk-adjusted returns.

III. The Role of Net Lease REITs

NATIONAL ASKING CAP RATES			
Sector	Q4 2025 (Previous)	Q1 2026 (Current)	Basis Point Change
Retail	6.55%	6.55%	0
Office	8.00%	7.90%	-10
Industrial	7.20%	7.15%	-5
Overall	6.81%	6.80%	-1

Public and private net lease REITs have been among the largest drivers of capital flows into the sector. Companies such as Realty Income, W.P. Carey, Broadstone Net Lease, VNO Industrial, Agree Realty, and others have built large platforms around acquiring long-duration, single-tenant income streams. Their business model is straightforward: raise equity capital,

supplement it with debt, acquire properties at cap rates above the weighted average cost of capital, and generate recurring distributable cash flow for shareholders. Below is a table from The Boulder Group, a net lease brokerage firm, showing current net lease cap rates.

Most REIT buyers target acquisitions based on a spread to capital costs. When this spread is positive and sufficiently wide, external growth is accretive. When the spread compresses, acquisitions become less attractive and portfolio growth slows. This is why public REIT valuation matters so much in the sector. If a REIT's stock trades at a premium implied valuation, it can issue equity efficiently and buy assets accretively. If the stock trades at a discount, growth through acquisitions becomes more difficult. Consider the example of a property acquired for \$20 million at a 7.25% cap rate, producing \$1.45 million in annual net operating income. If financed with 70% debt at 6.0% with 30-year amortization, the annual debt service is roughly \$1.0 million, leaving about \$450,000 in net cash flow to a \$6.0 million equity investment. That equates to a 7.5% cash-on-cash return, which is an attractive leveraged equity yield provided the asset is properly priced and the tenant's credit remains sound.

This example demonstrates the power of disciplined leverage in the net lease business. When acquisitions are made at reasonable cap rates and debt is conservatively structured, net lease assets can produce highly attractive current income with comparatively low operational complexity. For this reason, the sector has become a favored hunting ground not only for REITs but also for private funds, separate accounts, registered investment advisors, and high-net-worth exchange buyers.

However, the REIT model is highly exposed to interest-rate movements. Rising rates increase borrowing costs, pressure cap rates upward, and often reduce the premium valuation of net lease REIT shares. Because these assets are long-duration in nature, they trade with bond-like sensitivity. As a result, the sector can be very strong when capital is inexpensive and very challenging when the cost of debt rises faster than acquisition yields.

IV. Underwriting Considerations and Valuation Discipline

Successful net lease investing requires more than just checking the lease term and coupon-like yield. The first and most important underwriting factor is tenant credit. Investors must determine whether the tenant has the financial capacity and business durability to honor the lease through the base term and renewal options. Public ratings are helpful, but they are not enough. Investors should also evaluate store-level performance where available, industry outlook, competitive position, unit-level profitability, and the strategic importance of the site.

The second major consideration is lease structure. Not all triple-net leases are equally protective. Investors must analyze rent escalations, renewal options, landlord responsibilities, assignment provisions, guaranties, co-tenancy exposure where relevant, and any termination rights. Fixed rent bumps of 1% annually or 5% every five years may provide some inflation protection, but in a higher inflation environment, these escalators can prove inadequate. CPI-based increases may provide better protection, but often include caps that limit upside.

The third consideration is real estate residual value. Although many investors focus primarily on the lease, the underlying real estate still matters greatly. If the tenant vacates, the owner is left with the building and the location. Therefore, investors should underwrite the property not only as a leased asset but also as a vacant asset. Does the location have alternative demand? Is the building generic enough to release? Is there meaningful land value? Is the market growing or declining? These issues become critically important as leases shorten or tenant credit weakens.

V. The Risks in Net Lease Investing

The principal danger in net lease investing arises when investors buy at cap rates that are too low relative to tenant risk and prevailing debt costs. A deal that makes sense at a 7.25% cap rate can become problematic at a 5.0% or 6.0% cap rate. When the going-in yield is below or only marginally above the cost of debt, the investor experiences negative leverage or inadequate positive leverage. In that scenario, the cash-on-cash return is weak, refinancing flexibility is reduced, and the investment thesis depends too heavily on lower future interest rates or cap rate compression.

This is especially problematic because net lease cash flows are inherently inelastic. Unlike apartments or hotels, where rents can reset relatively quickly, net lease income is largely fixed by a long-term contract. If interest rates rise materially, the owner cannot rapidly reprice the rent stream to offset the higher cost of capital. The result is duration risk: the owner is locked into a relatively static income stream while financing and market cap rates move against the investment.

There is also residual risk at lease expiration. A property can appear highly secure during the lease term, but if the tenant chooses not to renew, the owner may face substantial downtime, tenant improvement costs, leasing commissions, reconfiguration expenses, or even functional obsolescence. This is particularly true for special-purpose buildings or properties in weaker markets. Investors who focus only on current yield and ignore end-of-term value often understate the true risk.

Finally, there is credit migration risk. A tenant may be investment grade at acquisition but weaken materially over the hold period due to industry disruption, leverage, poor management, or secular shifts in demand. The market will quickly reprice such assets, often long before the lease actually defaults. Therefore, net lease investing requires continuous monitoring of both the real estate and the tenant's business condition.

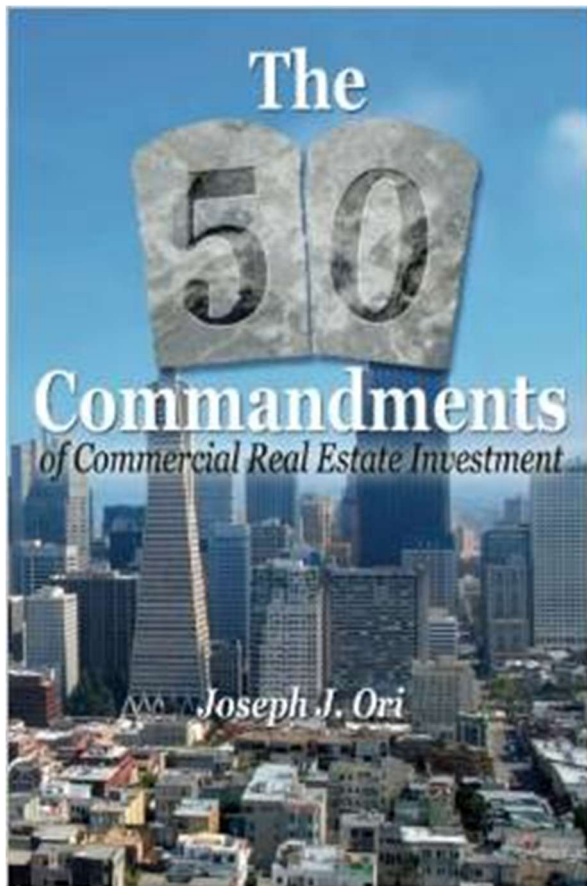
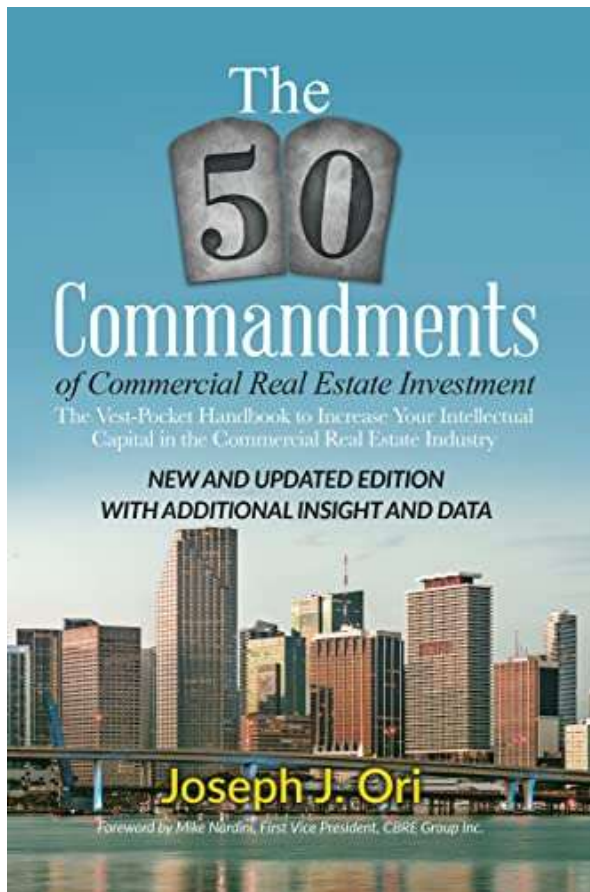
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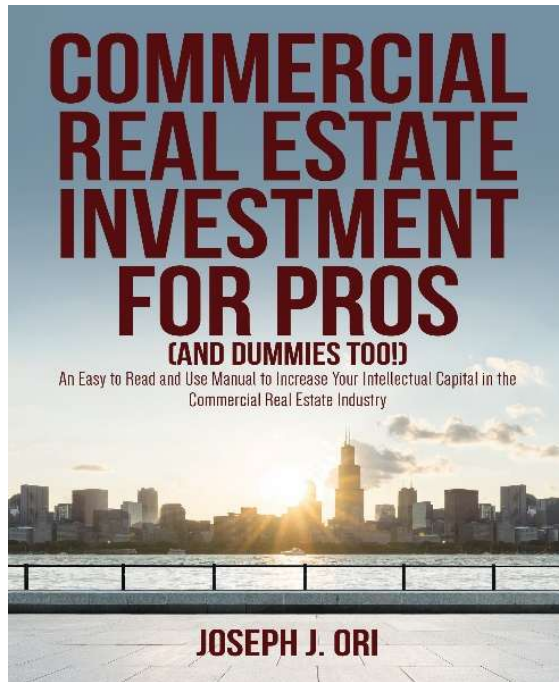
The editor of this newsletter, Joseph Ori, is pleased to offer his three CRE books for sale: "The Fifty Commandments of Commercial Real Estate Investment," Edition I and II and "Commercial Real Estate Investment for Pros (and Dummies Too!)." All books are available on Amazon and other book outlets on 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	5.08%-8.75%+	30	10	70%
Conduit-CMBS	5.92%-7.79%+	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	5.42%-8.62%+	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)	3.63%
1 Year Swap	3.71%
10 Year Swap	3.87%
5 Year Treasury	3.94%
10 Year Treasury	4.31%
Federal Funds Rate	3.50%



Interest rates inched up this month, with the 10-Year Treasury at 4.31%. 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
Harbor Group International	AH Realty Trust	Eleven Asset Portfolio	\$562M	An 11-asset portfolio of apartments with 2,433 units.
Redwood West, Panattoni, Prime Finance and Prism Places	Brookfield Properties	Empire Retail Property, Rancho Cucamonga, CA	\$530M	A 1.2 million square foot lifestyle center that is 98% leased.
Cedars-Sinai	Ashkenazy Corp.	Beverly Connection, Beverly Hills, CA	\$270M	A 334,566 square foot retail center that is 95% leased.
Eagle Partners	MG Properties and Intercontinental Real Estate Group	Senior Apartments, Escondido, CA	\$162.5M	Two apartment properties with 551 units.
Amazon	Walton Street Capital	Chattahoochee Logistics Center, Atlanta, GA	\$129.8M	A 1.1 million square foot industrial property built in 2020.
AEW Capital Management	Scuderia Development	Two-Building Industrial Portfolio, Riverside, CA	\$110.6M	Two industrial properties with 1 million square feet.

Prologis	The Pizzuti Cos.	303 Logistics Center, Glendale, AZ	\$104M	A 915,160 square foot industrial property built in 2022.
RPM Living	S.R. Jacobson and Lomax Stern Co.	Orland Ridge, Orland Park, IL	\$102M	A 294-unit apartment complex built in 2021.
East West Bank	Irvine Co.	Western Asset Plaza, Pasadena, CA	\$98M	A 270,000 square foot office building.
Northbridge Partners	Harbert Management Corp.	Industrial Portfolio, Lauderdale Lakes, FL	\$81.5M	A 359,460 square foot industrial portfolio.

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. Federal Decentralization: Strengths

Drucker argues that federal decentralization is one of the strongest organizational forms because it breaks a large enterprise into autonomous business units, each accountable for its own results. This structure keeps managers close to actual performance, which improves judgment, discipline, and operating focus. It also reduces the risk that managers become absorbed in narrow functions instead of broader business outcomes. Most importantly, Drucker sees it as a superior system for developing future top management because it gives leaders real responsibility early in their careers.

II. Reservation of Authority

Drucker's point here is that decentralization does not mean abdication by top management. Senior leadership must explicitly retain authority over decisions that affect the company as a whole, especially long-range direction, core values, capital allocation, and key people decisions. These are enterprise-level judgments that cannot be left entirely to autonomous units because they determine the organization's cohesion and future. In effect, Drucker is defining the balance: operating decisions should be decentralized, but strategic stewardship must remain centralized.

III. Building Blocks of Organization

Drucker's insight is that organizations should be designed by carefully analyzing the contribution each activity makes to results, rather than by habit, hierarchy, or technical specialization alone. Activities that make similar contributions belong together, while unlike activities should generally be separated to avoid confusion and inefficiency. He distinguishes among result-producing work, support work, housekeeping work, and top-management work, and stresses that these should not be mixed indiscriminately. The core principle is that organization design should follow contribution to performance, with the most critical activities clearly identified and properly placed.

IV. Fundamentals of Communications

Drucker emphasizes that communication is determined by the recipient, not the sender; if the recipient does not understand or accept the message, communication has not occurred. People perceive messages through their own expectations, language, values, and experience, so effective communication must be framed in terms meaningful to them. He also distinguishes communication from information: information is formal and coded, while communication depends on shared understanding and perception. His practical conclusion is that communication improves when leaders engage recipients actively and ground exchanges in their real objectives, motivations, and context.



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</i>
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				<i>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 Vornado Realty Trust (“VNO”), a publicly traded REIT that is engaged in the ownership, operation, acquisition, and development of office, retail and apartment properties in New York City, Chicago, San Francisco, and other markets. VNO owns or controls over 70 properties with over 30 million square feet. The top three tenants are Meta Platforms, Inc. (4.5% of annualized base rent), IPG and Affiliates (3.5% of annualized base rent), and Citadel (3.4% of annualized base rent). The average occupancy as of 12/31/25 was 87%, and the same-store net operating income growth YoY was 3.6%.

DEVELOPMENT

As of December 31, 2025, VNO had four projects under development at a total cost of approximately \$1.4 billion and over 2.4 million square feet.

Corporate Data

VNO is traded on the New York Stock Exchange, is incorporated in Maryland, and is located in New York, NY. VNO has 207.3 million common shares outstanding and a market capitalization of approximately \$5,632 billion. VNO is rated BB+ by Fitch Ratings, Baa1 by Moody's, and BBB- by Standard and Poor's. VNO owns a 93.1 % interest in its UpReit partnership, VNO Realty L.P.

Management

Steven Roth, 84, Chairman and CEO

Steven Roth is Chairman of the Board and Chief Executive Officer of Vornado Realty Trust. Mr. Roth has been Chairman of the Board since May 1989 and Chairman of the Executive Committee of the Board since April 1980. He was the Chief Executive Officer from May 1989 through May 2009 and was reappointed on April 15, 2013. Mr. Roth is the co-founder and Managing General Partner of Interstate Properties and Chairman and Chief Executive Officer of Alexander's, Inc. Mr. Roth is the Chairman Emeritus of JBG Smith Properties and served as a Trustee of Urban Edge Properties from 2015-2023. Barron's Magazine has three times named Mr. Roth one of the World's Thirty Most Respected CEOs and, in a ranking of Best CEOs in America, Institutional Investor magazine has called Mr. Roth the top CEO in the REIT industry. Mr. Roth was the 2002 - 2003 Chair of the National Association of Real Estate Investment Trusts (NAREIT). From 1981 through 1987, Mr. Roth served on the Board of the Amos Tuck School. Mr. Roth served as a Trustee of Dartmouth College from 2008 to 2016 and was Chair of the Finance Committee. Mr. Roth is a graduate of DeWitt Clinton High School in the Bronx. He received his AB degree from Dartmouth College and an MBS degree with High Distinction from Dartmouth's Amos Tuck School of Business Administration.

Ownership

Top Institutional Holders	Shares (millions)	%
Vanguard, Inc.	23,360	12.25
Blackrock, Inc.	21,640	11.35
Norges Bank	17,420	9.14
Franklin Resources	12,500	6.56
T. Rowe Price Associate, Inc.	9,050	4.75

	Ownership Breakdown
% of Shares Held by All Insiders and 5% Owners	7.32
% of Shares Held by Institutional & Mutual Fund Owners	95.14
Number of Institutions Holding Shares	541

All amounts above per Yahoo Finance

Financial Analysis and Valuation

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

(In millions where applicable)

Financial Data	Amounts
Real Estate Assets, Gross	\$14,346
Total Assets	\$15,521
Property Debt (at weighted average interest rates of approximately 4.93%)	\$7,184
Stockholders' Equity	\$6,156
Revenue	\$1,810
Net Income (Loss)	\$842
Cash Flow from Operations	\$1,285
Unsecured Credit Facility (\$2.13B with \$720M drawn)	\$1,410
Market Capitalization	\$5,632
	Property Debt to:
Gross Real Estate Assets	50%

Market Capitalization	127%
Enterprise Value	56%
Dividend and Yield (\$.74)	2.76%
Shares Sold Short (in millions per Yahoo Finance)	45,630

Valuation Methodology	
2025 Real Estate Revenue	\$1,810
2025 Real Estate Operating Expenses (excluding depreciation, amortization, interest expense, and impairment charges)	<u>\$1,085</u>
2025 Net Operating Income	\$725
Proforma Annualized Net Operating Income at 102%	\$740
Projected Average Cap Rate	<u>7.5%</u>
Projected Value of Real Estate Assets	\$9,867
Add: Net Operating Working Capital (at book value)	\$1,893
Investment in Partially Owned Entities (at 1.25% of book value)	<u>\$2,426</u>
Total Projected Value of the Assets of the Company	\$14,186
Less: Total Debt per Above	(\$7,184)
Preferred Shares (at \$25/sh. liquidation value)	<u>(\$1,223)</u>
Projected Net Asset Value of the Company	\$5,779
Common Shares Outstanding, 207.32M (190.67M Common Shares plus 16.650	

partnership units)	
Projected NAV Per Share	\$28
Market Price Per Share on 4/15/26	\$27
Premium (Discount) to NAV	(3.5%)

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 VNO 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	\$12,087	\$13,217	\$13,314	\$13,801	\$14,091	\$14,346
Property Debt	\$7,397	\$8,614	\$8,388	\$8,250	\$8,241	\$7,184
Revenue	\$1,527	\$1,589	\$1,799	\$1,811	\$1,787	\$1,810
Net Income (Loss)	(\$348)	\$101	\$43	(\$408)	\$8	\$842
Funds from Operations (FFO)	\$1,099	\$469	\$637	\$502	\$470	\$486
Return on Invested Capital (1)	4.6%	6.6%	7.4%	7.1%	6.8%	12.0%

Dividend Coverage (2)	1.19	.94	1.15	2.19	2.12	2.15
Dividends Paid Per Share	\$2.38	\$2.12	\$2.12	\$.675	\$.74	\$.74(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 2026 is \$.185 per quarter.

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

VNO Total Return	12/2025	1-Yr	3-yr	5-Yr
	-19.09%	-19.09%	19.42%	1.34%

As shown above, our net asset value per share for VNO is \$28/sh., compared to a market price of \$27/sh. Current average cap rates for office and mixed-use assets, per our industry experience and CBRE's Cap Rate Survey, are in the 5.0% to 9.0%+ range, depending on the location, quality and tenancy of the property. We have used an average cap rate of 7.50% due to VNO's concentration of assets in New York, Chicago, and San Francisco.

Strengths:

- The stock is trading at a 3.5% discount to our NAV.

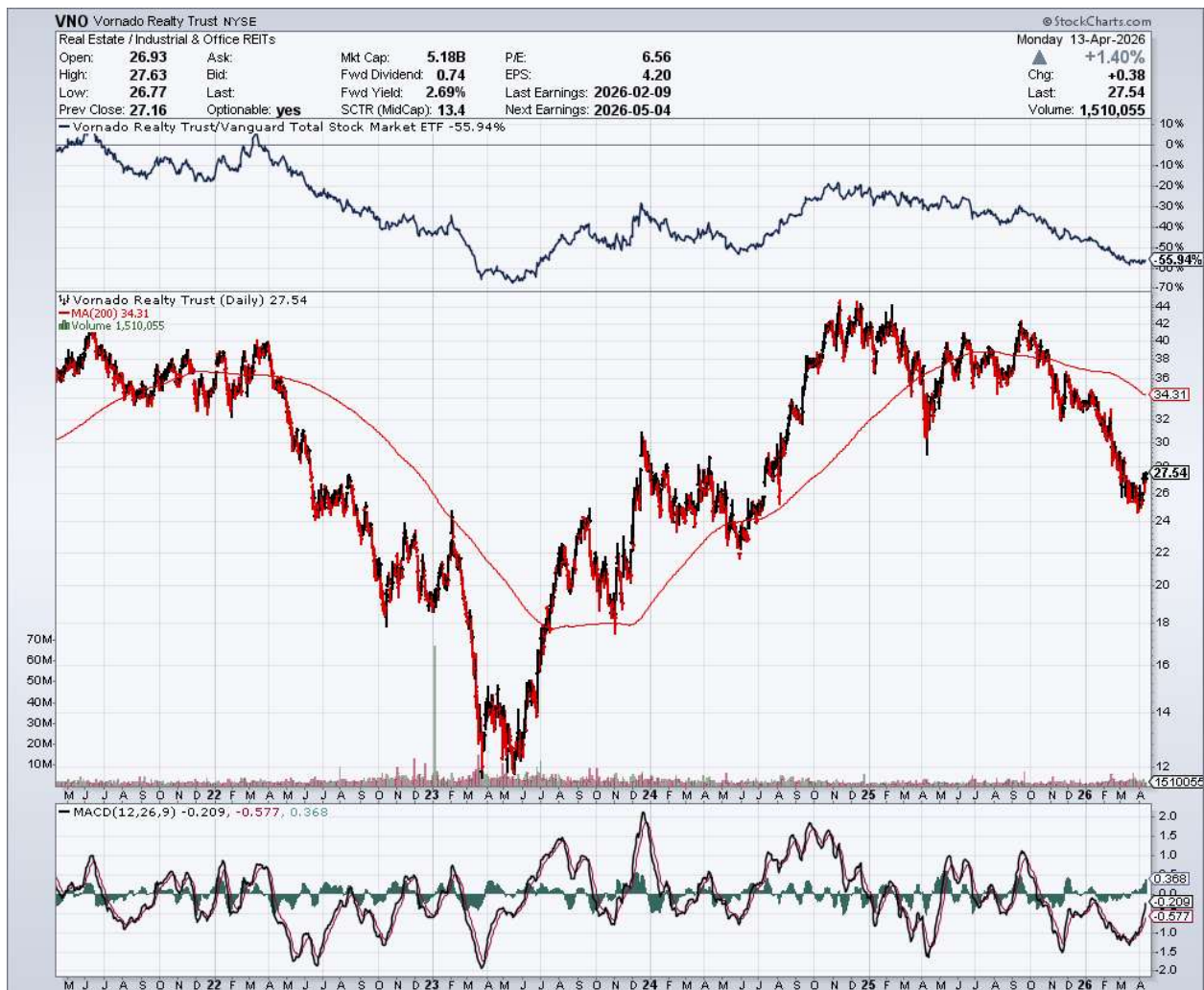
Concerns:

- REIT prices will decline if interest rates increase.
- A high debt to enterprise value of 56%.
- The dividend has declined from \$2.38/sh. in 2000 to \$.74/sh. in 2026.
- The dividend yield is only 2.76%.
- A high concentration of assets in high-tax and high out-migration states and cities.

Recommendation:

VNO is trading at a 3.5% discount to our NAV per share; however, we are not recommending purchasing the stock.

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





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