REIT Preferred Securities Primer
I. WHAT ARE REIT PREFERRED SECURITIES?

Basic Terms of REIT Preferreds

• $25 par value perpetual fixed and floating rate security

• Dividends paid in cash on a quarterly basis

• New issues carry 5-year call protection

• REIT preferred securities carry cumulative dividend covenants. A cumulative preferred stock requires that if a company fails to pay any dividend or any amount below the stated rate, it must make up for it at a later time

• Preferred dividends are paid entirely before paying any common dividends

• REIT preferred securities are normally a non-voting class of ownership

• Preferred shareholders have the right to elect 2 directors in the event that preferred dividends are deferred for 6 quarters

• Priority over common stock on the assets in the event of liquidation

• REIT preferred securities and their ratings are usually junior to, and lower than, most forms of debt since preferred dividends do not carry the same covenant protection as interest payments from bonds

• Almost all new issues incorporate change of control provisions
I. WHAT ARE REIT PREFERRED SECURITIES?

REIT Preferreds Are Diversified Among All Property Sectors

- Retail 17%
- Office 15%
- Self storage 12%
- Specialized 10%
- Residential Mortgage 19%
- Commercial Mortgage 8%
- Lodging 8%
- Net Lease 6%
- Health care 5%
- Office-Industrial 5%
- Residential 4%
- Industrial 1%

Source: LDR Capital Management, Bloomberg. Sector data as of May 1, 2015

- North American market opportunity is $43 billion*
- Approximately 253 securities issued by 118 real estate companies
- Industry is growing organically and through REIT conversions

*According to LDR Capital Management
I. WHAT ARE REIT PREFERRED SECURITIES?

Preferred Stocks Represent 8% REIT Capitalization

As of March 31, 2015 (latest quarter available)

- Equity: 46.4%
- Preferred: 4.8%
- Short-term Liabilities: 8.2%
- Debt: 40.6%

Distribution of REIT Preferred Ratings

As of May 1, 2015

<table>
<thead>
<tr>
<th>S&amp;P Rating</th>
<th>% of REIT Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBB+ to BBB-</td>
<td>36%</td>
</tr>
<tr>
<td>BB+ to BB-</td>
<td>15%</td>
</tr>
<tr>
<td>B+ to B-</td>
<td>2%</td>
</tr>
<tr>
<td>CCC+ or lower</td>
<td>3%</td>
</tr>
<tr>
<td>Unrated</td>
<td>44%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, LDR Capital Management
II. WHY INVEST IN REIT PREFERREDS?

REIT Preferreeds Generated Positive Total Returns in 14 of Past 18 years

Calendar year returns for BAML REIT Preferred Index 1997-2015 YTD

Comparative Returns of REIT Preferreeds Over Past 18 Years

Source: Bloomberg, as of 4/30/15

Source: Bloomberg, LDR Capital Management

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II. WHY INVEST IN REIT PREFERREDS?

REIT Preferreeds Offer Attractive Current Yields

As of May 1, 2015

Source: Bloomberg, Credit Suisse, LDR Capital Management

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II. WHY INVEST IN REIT PREFERREDS?

REIT Preferreds Carry Relatively Low Volatility and Correlations

REIT Preferreds Have Exhibited Less Volatility than the S&P 500
12/31/1996-4/30/2015

- REIT Preferreds: 10.5%
- S&P 500: 15.5%
- REIT Equity: 20.8%

REIT Preferred Correlation Versus Various Indexes
11/30/2000-4/30/2015

- BofA Merrill Lynch REIT Preferred vs 10-year Treasury: 0.24
- BofA Merrill Lynch REIT Preferred vs S&P 500: 0.36
- BofA Merrill Lynch REIT Preferred vs CS Split B High Yield: 0.48
- BofA Merrill Lynch REIT Preferred vs iBoxx Inv Grade Index: 0.58
- BofA Merrill Lynch REIT Preferred vs REIT common stock: 0.60

Source: Bloomberg, LDR Capital Management
REIT Equity is the FTSE NAREIT All Equity Total Return Index
See Disclaimers and Disclosures at the end of this presentation
III. POTENTIAL RISKS TO REIT PREFERREDS

Fundamental Risk: Exposure in event of economic recession
  • In the event of severe economic recession, REITs could experience substantial rent and occupancy
    pressure. In turn, their underlying cash flow and dividend paying capability could be impaired.

Interest Rate Risk: Sensitive to rising rates
  • As interest sensitive securities, REIT preferreds have exposure to changes in the Treasury curve. 
    Historically, REIT preferreds have traded at a yield premium to Treasury rates. Hence, a rise in Treasury
    yield could cause a deleterious impact on the trading values of REIT preferreds.

Takeover Risk: Privatization risk for selected issues
  • REIT preferreds stand as unsecured indebtedness that rank junior to senior bonds. Hence, any corporate
    event that adds significant senior leverage could impact the credit standing of REIT preferreds.
    ➢ We do note that recent REIT preferred issues incorporate change-of-control provisions, thereby
      enabling holders to sell shares at par value, without the aforementioned risk.

Liquidity Risk: Less liquid than most common stock
  • Preferred shares generally trade with substantially less volume than common stock. Therefore, during
    periods of extreme market duress, REIT preferred shares could be subject to significant volatility.
IV. FREQUENTLY ASKED QUESTIONS

1. What happens to REIT preferreds when rates rise?

As Treasury rates rise, REIT preferred spreads generally tighten

Data from January 2000 – April 2015, excluding 2008-2009

Historically REIT preferreds have carried a 365 basis point spread to 10-Year Treasury rates

As of May 1, 2015

REIT preferred dividend spread based on Wells Fargo Hybrid & Preferred Securities REIT Index.
Source: Wells Fargo, Bloomberg, LDR Capital Management

REIT preferreds based on Wells Fargo Hybrid & Preferred Securities REIT Index.
Source: Wells Fargo, Bloomberg, LDR Capital Management
IV. FREQUENTLY ASKED QUESTIONS

1. What happens to REIT preferreds when rates rise?

REIT Preferred Total Returns Were Mostly Positive Over More Protracted Periods of Rising Interest Rates

<table>
<thead>
<tr>
<th>Period</th>
<th># of months</th>
<th>10-year Treasury Rate</th>
<th>REIT Preferred Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep 1998 - Dec 1999</td>
<td>15</td>
<td>4.41% 6.44% 2.03%</td>
<td>-9%</td>
</tr>
<tr>
<td>Oct 2001 - Mar 2002</td>
<td>5</td>
<td>4.23% 5.41% 1.18%</td>
<td>3%</td>
</tr>
<tr>
<td>Jun 2003 - May 2004</td>
<td>11</td>
<td>3.37% 4.79% 1.42%</td>
<td>-1%</td>
</tr>
<tr>
<td>Jun 2005 - May 2006</td>
<td>11</td>
<td>3.92% 5.15% 1.23%</td>
<td>1%</td>
</tr>
<tr>
<td>Dec 2008 - May 2009</td>
<td>5</td>
<td>2.21% 3.47% 1.26%</td>
<td>13%</td>
</tr>
<tr>
<td>Nov 2009 - Mar 2010</td>
<td>4</td>
<td>3.20% 3.83% 0.63%</td>
<td>10%</td>
</tr>
<tr>
<td>Aug 2010 - Jan 2011</td>
<td>5</td>
<td>2.47% 3.47% 1.00%</td>
<td>1%</td>
</tr>
<tr>
<td>Jul 2012 - Dec 2013</td>
<td>17</td>
<td>1.49% 3.03% 1.54%</td>
<td>-10%</td>
</tr>
</tbody>
</table>

REIT preferreds based on Bank of America Merrill Lynch REIT Preferred Index
Source: Bloomberg, LDR Capital Management
IV. FREQUENTLY ASKED QUESTIONS

2. How well covered are REIT preferred dividends?

• After deducting for senior debt service (a priority financial claim), REIT cash flows exceed preferred dividend distributions by 12.3 times.

• After deducting for senior debt service (a priority claim) and also capital expenditures (a non-priority claim), REIT cash flows exceed preferred dividend distributions by 9.8 times.

Source: Bloomberg, LDR Capital Management data as of 3/31/2015
IV. FREQUENTLY ASKED QUESTIONS

3. What was the maximum drawdown versus other asset classes during the recent financial downturn?

Calculated from peak-to-trough for each asset class during downturn (11/1/2007-2/28/2009)

Source: LDR Capital Management, Bloomberg
IV. FREQUENTLY ASKED QUESTIONS

4. **What is the taxability of REIT preferred dividend distributions?**
   - REIT preferred dividends are generally taxed at ordinary income rates
   - Selected dividends may be comprised of capital gains distributions and/or returns of capital
   - Ultimate determinant of taxability of REIT preferred dividends is dependent upon company-specific operating income levels, transaction activity, and tax-basis in underlying properties

5. **What is the liquidity of REIT preferreds and where are sources of industry growth?**
   - Asset class is now about $43 billion*
   - Average daily volume is about 30bps of par value outstanding*
   - With 20 trading days in a month, the asset class turns over 4-5% per month*
   - REITs are growing their asset base through acquisition and development, thereby requiring more capital issuance
   - Industry growth also occurring as companies are converting to REIT structure, such as Outfront Media, Lamar Advertising, Gaming & Leisure Properties, Iron Mountain, American Tower, Equinix, Plum Creek Timber, Rayonier, Potlach, Weyerhaeuser and Corrections Corp. of America
   - To date, preferreds have not been issued from overseas REITs, a likely growth driver to the universe

* Source: LDR Capital Management, Bloomberg
IV. FREQUENTLY ASKED QUESTIONS

6. Do REIT preferreds offer covenant protection limiting the use of excess leverage?

- No, but REIT preferreds are beneficiaries of unsecured debt covenants which do inhibit leverage levels above certain thresholds. As such REITs carry relatively low leverage.

- Additionally, about 50% of REIT preferreds have Change of Control provisions, offering some level of protection during an LBO. In these securities, investors can convert preferred shares to cash as part of the LBO transaction.

* Source: LDR Capital Management, Data as of 3/31/2015

Percentage of REIT Prefereds with Change of Control Provisions

- Yes: 53%
- No: 47%
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Index Definitions
BoFA Merrill Lynch REIT Preferred Index (BAML REIT Preferred Index) is a proprietary index representing the performance of fixed rate REIT preferred securities.
BoFA Merrill Lynch Fixed-Rate Preferred Index (BAML Fixed-Rate Preferred Index) is a proprietary index representing the performance of fixed rate preferred securities of all types. Total returns of the BoFA Merrill Lynch Preferred Index include investment-grade $25-par preferred securities.
The S&P 500 Stock Index is an unmanaged market capitalization index of 500 U.S. equities generally considered to be representative of U.S. stock market activity.
Credit Suisse High Yield BB is a proprietary index representing the performance of BB rated bonds.
The RMZ REIT Common Stock Index is the MSCI REIT Index representing approximately 85% of the US REIT universe of common stocks.
Municipal Bond Yield is based on composite of 10 year A-Rated bonds tracked by Knight BondPoint
REIT Common Stock is the FTSE NAREIT All Equity Return Index
iShares S&P U.S. Preferred Stock Index (PFF) is the largest exchange traded fund (ETF) that invests in preferred securities.
The Powershares iBoxx $ Investment Grade Bond Index tracks the performance of U.S. investment grade corporate bonds.
The PowerShares iBoxx $ High Yield Corporate Bond Fund invests in U.S. high-yield corporate bonds.
Wells Fargo Preferred Stock (PSK) is an exchange-traded fund that seeks to provide investment results that correspond generally to the total return performance of an index based upon Preferred Securities.
Wells Fargo Hybrid and Preferred Securities REIT Index is a proprietary index representing the performance of preferred shares and depository shares of REIT preferred securities.