

# LDR CAPITAL MANAGEMENT

CONFIDENTIAL For internal or pre-qualified purchaser use only. Not for redistribution. These materials do not constitute an offer to sell or a solicitation of any offer to buy securities.



## REIT Preferred Securities Primer

February 2016

### LDR Capital Management LLC

The information provided herein is confidential and not be distributed to others without the prior written consent of LDR Capital Management. These materials do not constitute an offer to sell securities or a solicitation of any offer to buy securities. This presentation may not be altered except by LDR Capital Management. **Past performance is no guarantee or indicator of future results.** Please see "Important Legal Information" on page 1 for important disclosures regarding the data and information contained and the views and opinions expressed in this material.

## I. WHAT ARE REIT PREFERRED SECURITIES?

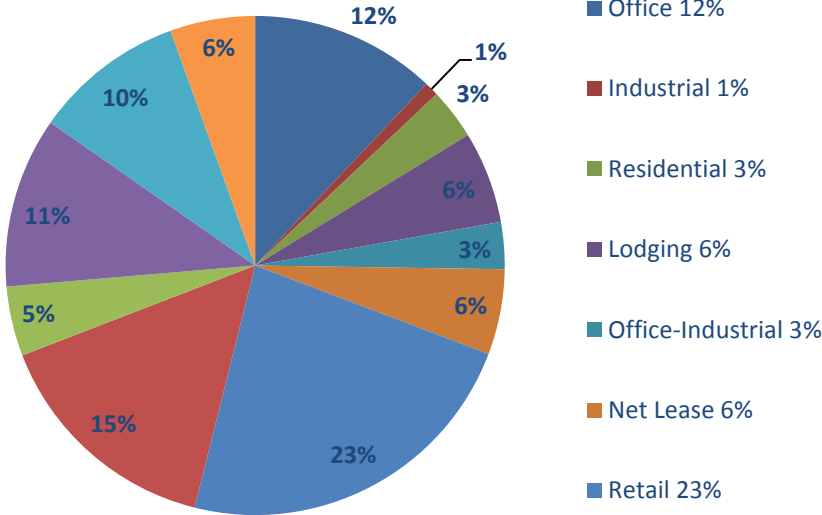
### Basic Terms of REIT Preferreds

---

- \$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



- North American market opportunity is \$43 billion\*
- Approximately 250 securities issued by 115 real estate companies
- Industry is growing organically and through REIT conversions

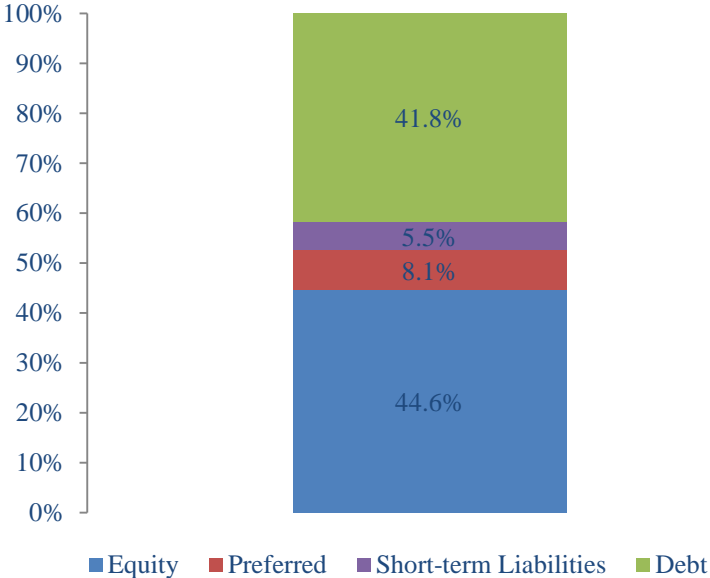
Source: LDR Capital Management, Bloomberg . Sector data as of 1/31/16  
Excluding mortgage REITs

\*According to LDR Capital Management

## I. WHAT ARE REIT PREFERRED SECURITIES?

### Preferred Stocks Represent 8% REIT Capitalization

As of September 30, 2015 (latest quarter available)



Source: Bloomberg, LDR Capital Management  
Excludes mortgage REITs

### Distribution of REIT Preferred Ratings

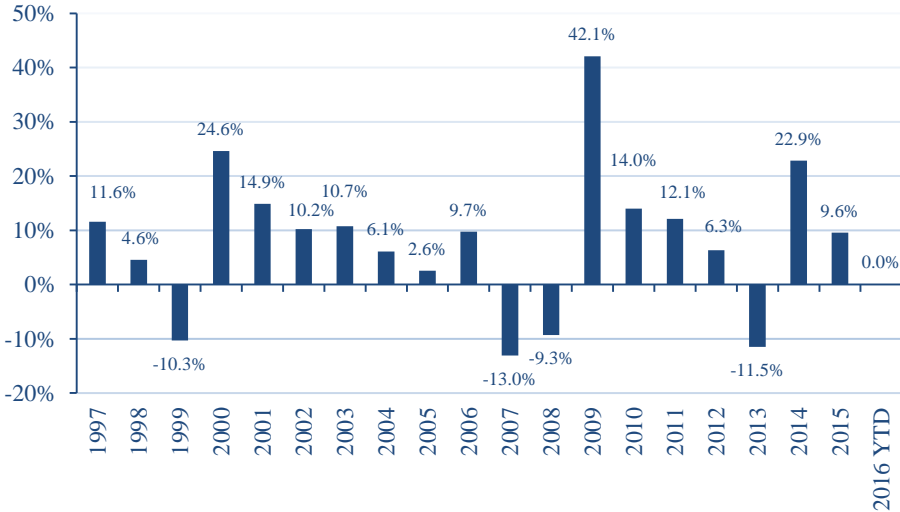
As of January 31, 2016

S&P Rating	% of REIT Universe
BBB+ to BBB-	35%
BB+ to BB-	17%
B+ to B-	2%
CCC+ or lower	3%
Unrated	42%

## II. WHY INVEST IN REIT PREFERREDS?

### REIT Preferreds Generated Positive Total Returns in 15 of Past 19 years

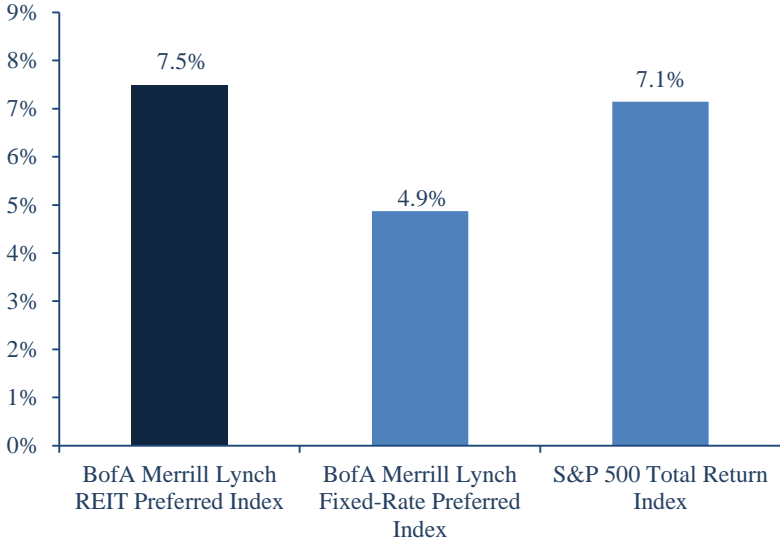
Calendar year returns for BAML REIT Preferred Index 1997-2016 YTD



Source: Bloomberg, as of 1/31/16

### Comparative Returns of REIT Preferreds Over Past 19 Years

Compound annual returns from 12/31/1996 - 1/31/2016



Source: Bloomberg, LDR Capital Management

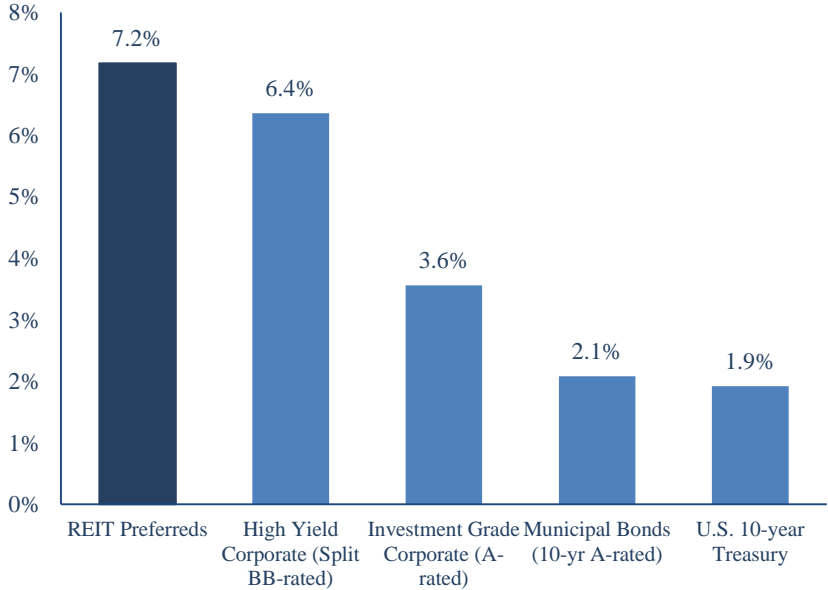
See Disclaimers and Disclosures at the end of this presentation

II. WHY INVEST IN REIT PREFERREDS?

REIT Preferreds Offer Attractive Current Yields

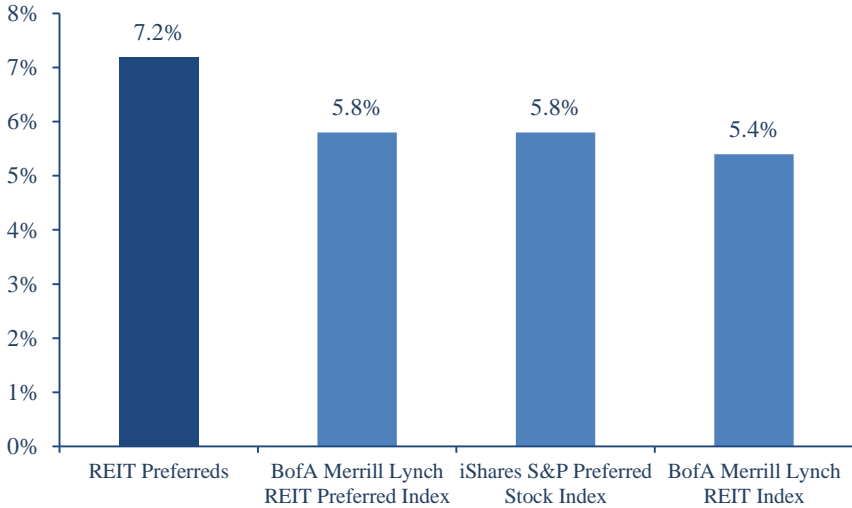
REIT Preferreds vs. Various Alternatives

As of January 31, 2016



REIT Preferreds vs. Other Preferreds

As of January 31, 2016



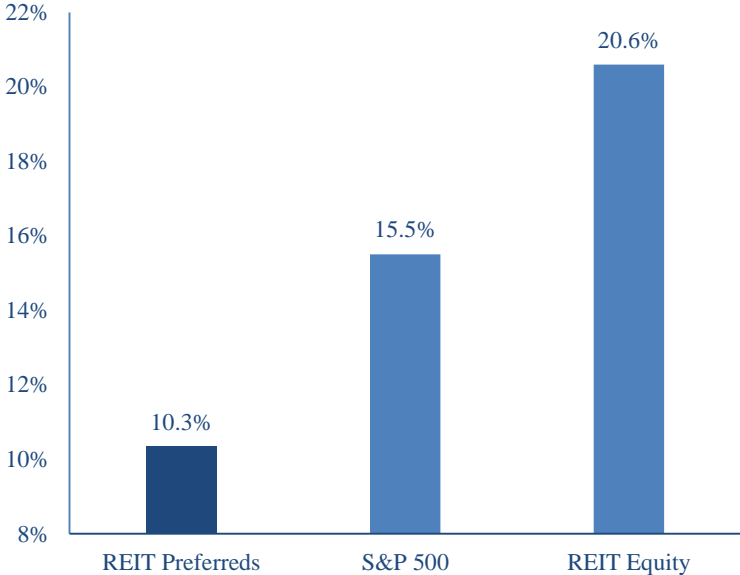
Source: Bloomberg, Credit Suisse, LDR Capital Management

## 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

12/31/1996-1/31/2016

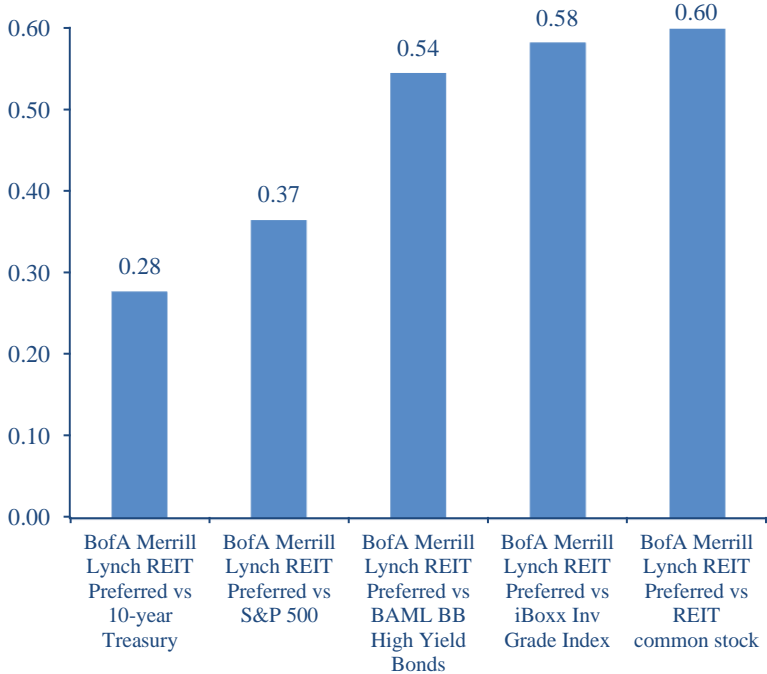


Source: Bloomberg, LDR Capital Management  
 REIT Equity is the FTSE NAREIT All Equity Total Return Index

See Disclaimers and Disclosures at the end of this presentation

#### REIT Preferred Correlation Versus Various Indexes

11/30/2000-1/31/2016



Source: Bloomberg, LDR Capital Management  
 REIT Common Stock is the FTSE NAREIT All Equity Return Index

## III. POTENTIAL RISKS TO REIT PREFERRED

### **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.

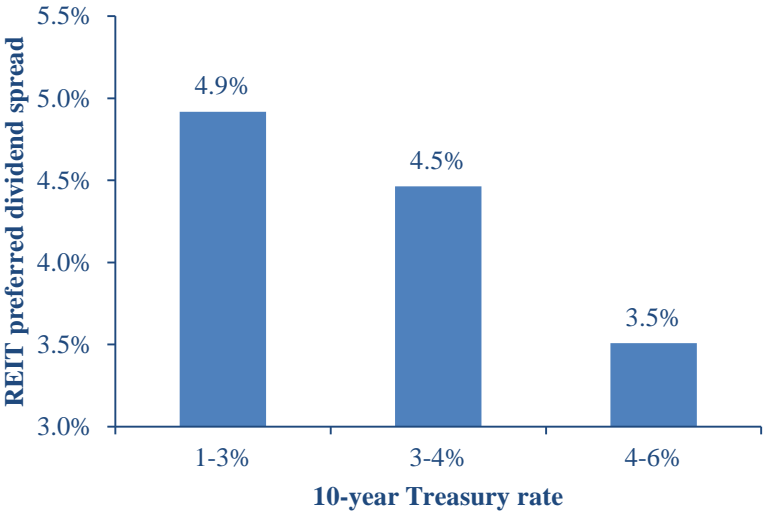


## IV. FREQUENTLY ASKED QUESTIONS

### 1. What happens to REIT preferreds when rates rise?

As Treasury rates rise, REIT preferred spreads generally tighten

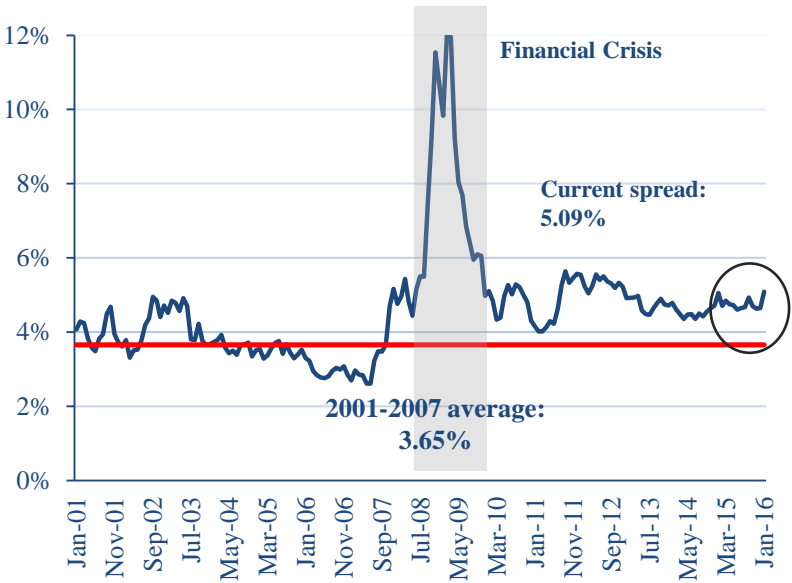
Data from January 2000 – January 2016, excluding 2008-2009



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

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

As of January 31, 2016



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

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

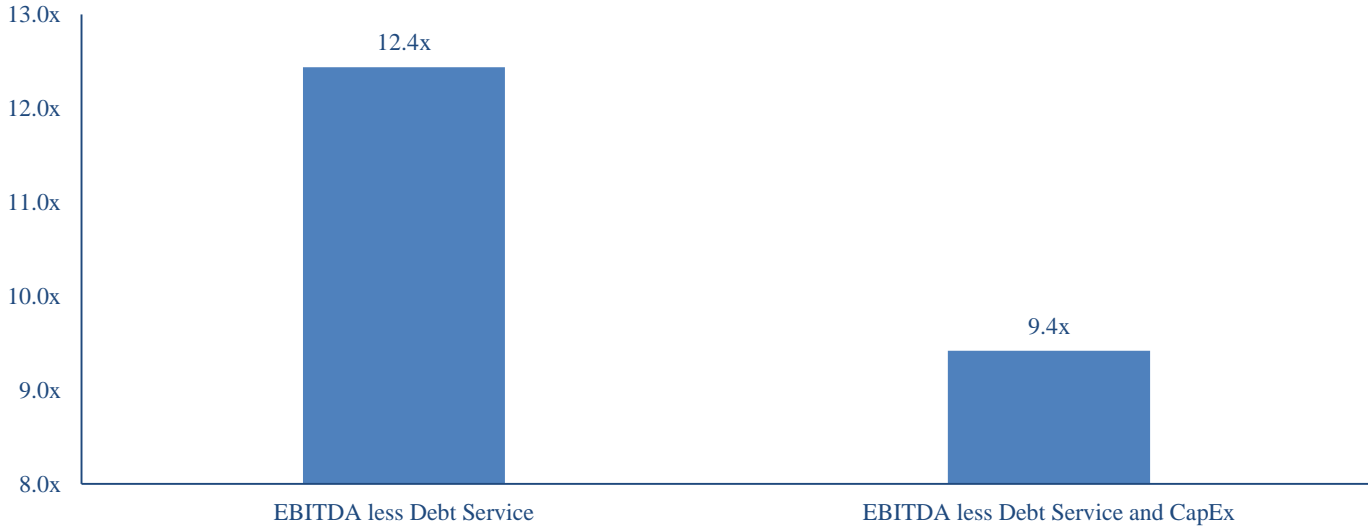
REIT preferreds based on Bank of America Merrill Lynch REIT Preferred Index  
 Source: Bloomberg, LDR Capital Management

Private & Confidential - For Information Purposes Only

## 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 9.4 times.

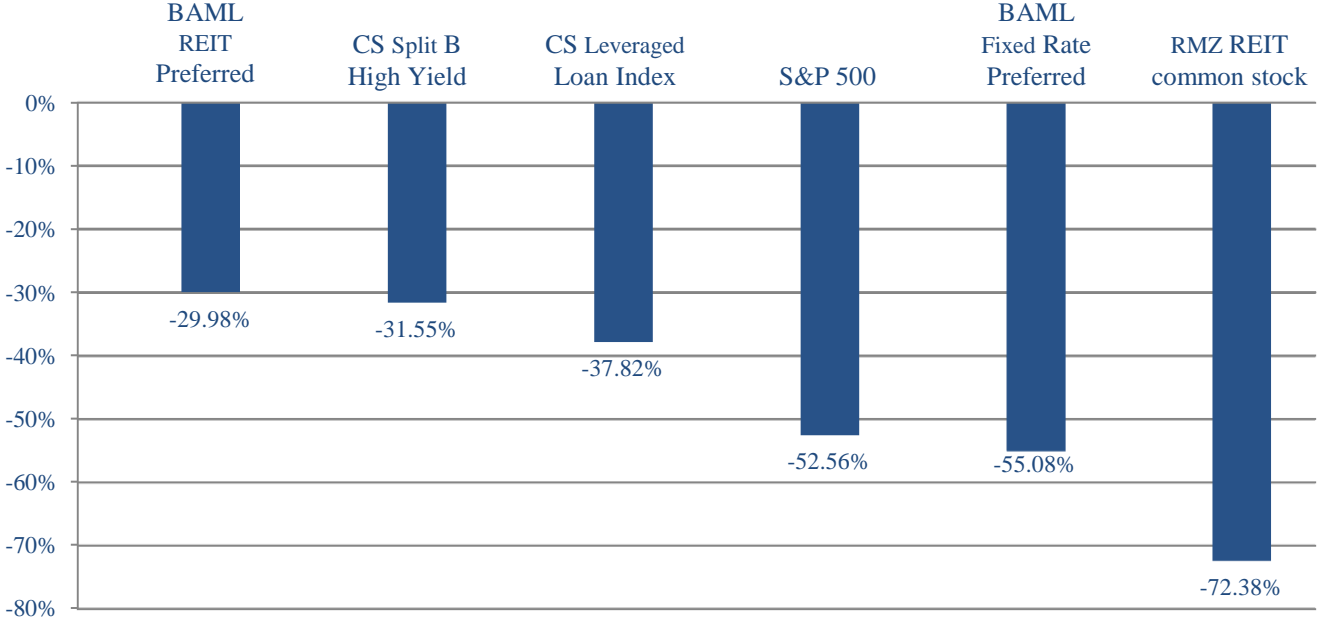


Source: Bloomberg, LDR Capital Management data as of 9/30/2015.

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?*

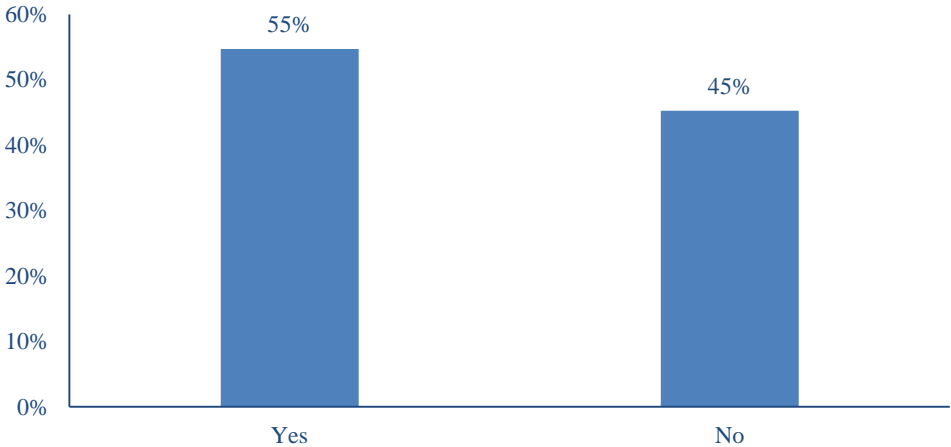
- Asset class is now about \$43 billion\*
- Average daily volume is about 24bps of par value outstanding\*
- With 20 trading days in a month, the asset class turns over 4-5% per month\*
- REITs are growing their asset base through acquisition and development, thereby requiring more capital issuance
- Industry growth also occurring as companies are converting to REIT structure or spinning out their real estate, such as Outfront Media, Lamar Advertising, Gaming & Leisure Properties, Iron Mountain, American Tower, Equinix, Plum Creek Timber, Rayonier, Potlatch, Weyerhaeuser and Corrections Corp. of America can also include Seritage, CSAL, Four Corners Property Trust.
- To date, preferreds have not been issued from overseas REITs, a likely growth driver to the universe

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 55% 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.

Percentage of REIT Preferreds with Change of Control Provisions



\* Source: LDR Capital Management,; Data as of 1/31/2016

## DISCLAIMERS AND DISCLOSURES

### Performance Information

This presentation has been prepared by LDR Capital Management, LLC (“LDR”) solely for informational purposes. These slides are in a presentation format and therefore, are very limited in their scope and not meant to provide a comprehensive description or discussion of the topics mentioned herein. This presentation should not be construed as providing any type of investment, legal, tax or other advice to you and must not be relied upon as such, nor should you consider it as a solicitation, recommendation, endorsement or offer to you to purchase or sell any financial security or other financial instrument. The risk factors set forth herein do not purport to be a complete enumeration or explanation of the risks involved in REIT preferred securities. An investment in REIT preferred securities is suitable only for qualified investors that fully understand the risks of such investment and have no need for liquidity in such investment. You should consult your own professional advisors as to the suitability of, and legal, tax and economic consequences of, an investment in such instruments.

This presentation is strictly confidential and intended exclusively for the use of the person to whom it was delivered by LDR and its authorized representatives. This presentation is proprietary and confidential and neither this presentation nor the information contained herein may be reproduced, circulated or distributed by the recipient hereof without the prior written consent of LDR.

This presentation and any opinions contained herein are current only as of the date appearing on the first page. The information and opinions are provided by LDR for informational purposes only and are subject to change without notice and are based upon numerous factors, such as further analyses, changes in economic, market, political and other conditions that may impact the securities markets. There is no assurance that such views are correct or will prove, with the passage of time, to be correct. LDR disclaims any obligation to update this document to reflect subsequent developments. No representations or warranties, expressed or implied, are made as to the accuracy, reliability or completeness of information in this presentation nor as to the appropriateness of the information for any use which any recipient may choose to make of it.

Any prospective investment, projection, forecast or return on investment illustrations set forth herein is for illustrative purposes only and actual investments and returns may vary materially from those illustrated or anticipated. There can be no assurance that investment objectives will be achieved, or that investments will achieve results comparable to those shown herein, or those investments will avoid losses. Indeed, wherever there is the potential for profit, there is also the possibility of loss. Past performance is not indicative of future results.

### Use of Indexes

Market index information shown herein is included to show relative market performance for the periods indicated and not as standard of comparison, since these are unmanaged, broadly based indexes which differ in numerous respects from a managed portfolio. Market index information was compiled from sources that LDR believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data. The indices presented herein are not representative of any LDR account and no such account will seek to replicate an index. You cannot invest directly in an index and investors should not rely on them as accurate means of comparison.

### 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.