

# *REIT Preferred Asset Class Update - Second Quarter 2020*



LDR Capital Management LLC  
*July 2020*

These materials do not constitute an offer to sell or a solicitation of any offer to buy securities.

## Summary of Key Themes

- We believe great value still exists in the REIT preferred asset class with, by our calculations, a majority of issues trading at or below par value.
- Aside from the global financial crisis in 2007-2009, the current spread level for REIT preferreds is at its widest point in close to 20 years.
- We believe REIT preferreds carry strong dividend coverages and have the potential to deliver consistent income in an uncertain economic environment.
- We believe REIT preferred investments have the opportunity to generate strong returns between potentially sustainable income and eventual capital appreciation.

# REIT Preferred Asset Class Overview

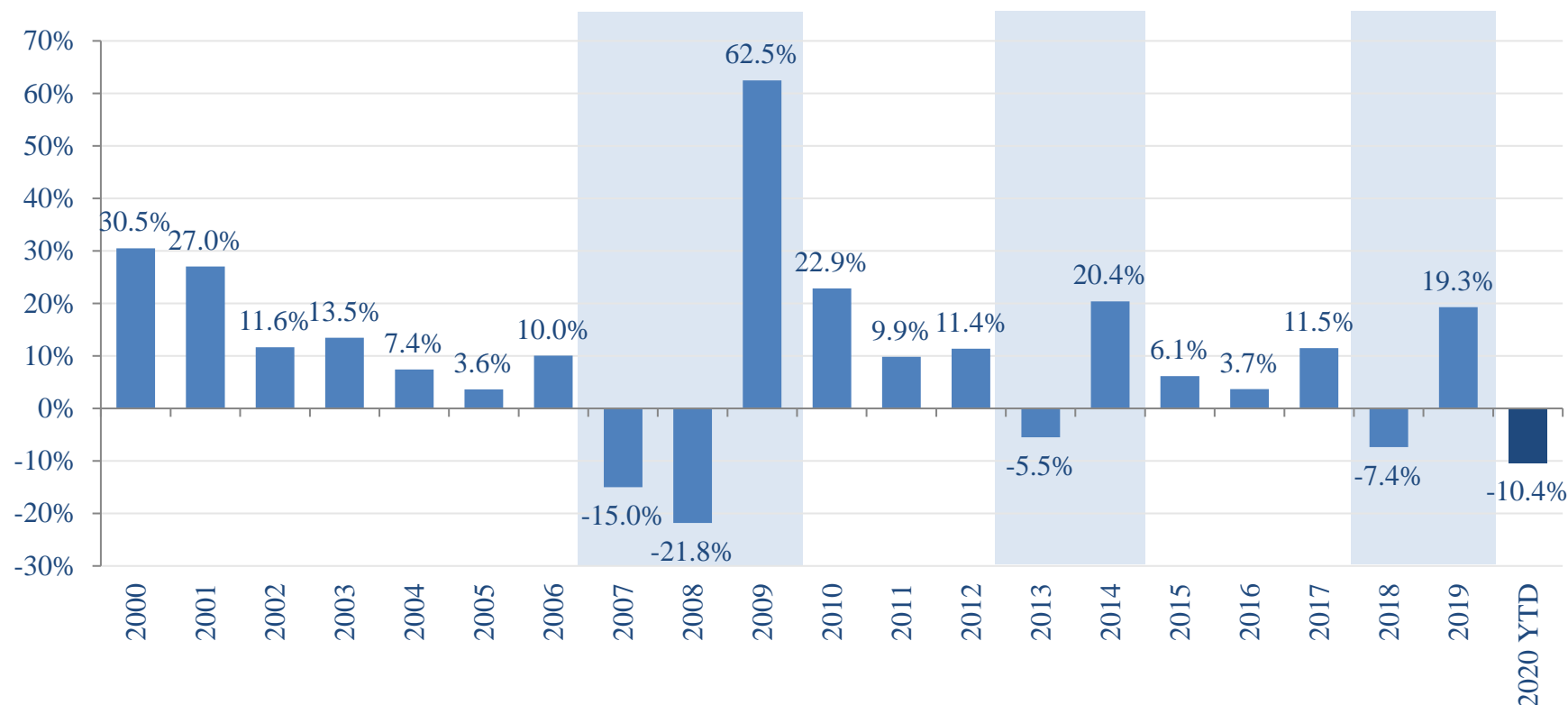
## REIT Preferred Market

- \$47.0 billion market capitalization, consisting of 102 issuers and 277 issues\*
- \$25 par value **perpetual** fixed and floating rate securities
- REIT preferred securities carry **cumulative** dividend obligation\*\*
- Dividends generally paid **in cash** on a **quarterly** basis

\*Source: Proprietary database (LDR Capital Management). \*REIT Preferred market in North America (includes 5 Canada issuers) as of 7/24/20. Reflects the inclusion of convertible real estate related preferred issues.

\*\*In the event of a missed dividend payment, the dividend payments accumulate until fully paid; common dividends cannot be paid until all preferred dividends have been paid.

## REIT Preferreds Have Historically Been a Resilient Asset Class



*Calendar Year Returns for Wells Fargo Hybrid & Preferred Securities REIT Index 2000-2020 YTD*

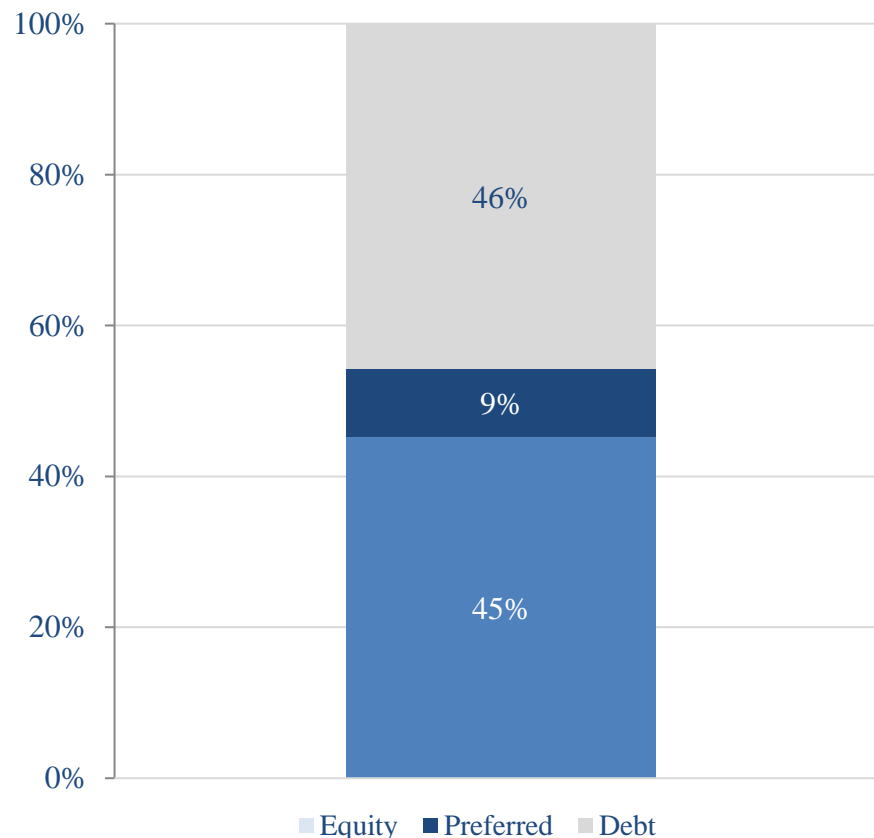
**REIT Preferreds Have Produced Positive Returns in 16 of Past 20 Years**

Source: Bloomberg. YTD 2020 results as of 6/30/2020. Wells Fargo Hybrid & Preferred Securities REIT Index used in lieu of ICE BAML REIT Preferred Index due to index composition. See attached Appendix for specific disclaimers and disclosures regarding indexes. Past performance is not indicative of future results.

# REIT Preferred Credit Standing & Dividend Sustainability

## REIT Preferreds Credit Quality

- REIT equity universe is approximately \$800B and pays out approximately \$37B in annual common dividends.\*
- REIT preferreds sit atop the entire REIT equity stack.
- REIT equity shareholders must absorb all losses before preferred dividends are impacted.



\* Represented by the MSCI US REIT Index (RMZ). Annual dividend distribution calculated by using 12-month trailing dividend yield. Data as of 7/14/2020. Source: Proprietary database (LDR Capital Management). Latest data available (Q1 2020) for REIT capital stack composition.

## REIT Preferreds Credit Quality

- The aggregate credit loss over 25 years for all equity REIT issuances is just 0.8%.
- The cumulative losses for all REIT preferreds is approximately 11 bps per annum.\*

### Historical Credit Loss of REIT Preferreds\*\*

	Partial Credit Loss		Total Credit Loss		Cumulative
	# of Issuers	Loss as a % of Total Par Value of Preferred Issued	# of Issuers	Loss as a % of Total Par Value of Preferred Issued	Loss as a % of Total Par Value of Preferred Issued
<b>Equity REIT Preferreds</b>	3	0.41%	4	0.40%	<b>0.81%</b>
<b>Mortgage REIT Preferreds***</b>	2	0.96%	8	11.48%	<b>12.44%</b>
<b>Total REIT Preferreds</b>	5	0.50%	12	2.14%	<b>2.64%</b>

Source: Proprietary database (LDR Capital Management) as of 12/31/2019.

\* Calculated by dividing the total REIT preferred cumulative credit loss over 25 years.

\*\*Loss is calculated as the amount of the loss as a percentage of total par value of preferred issued.

\*\*\*One issuer represents 53% of the total mortgage REIT credit loss.

Past performance is not indicative of future results. See Disclaimers and Disclosures for further information.



## REIT Preferred Dividend Sustainability

- Thus far in the crisis, 78 REITs have taken negative action on their common dividends.
- Initially, 9 REITs that suspended their preferred dividends since the pandemic commenced. Interestingly, 4 have already reinstated their preferred dividends.
- Only 5 REITs carry suspended preferred dividends at this time.

As of 7/14/2020	# of REITs
Suspended Preferred Dividends*	5
Reduced or Suspended Common Dividends**	78

REIT preferreds and REIT equities based on proprietary database. Source: LDR Capital Management, Bloomberg. As of 7/14/2020.

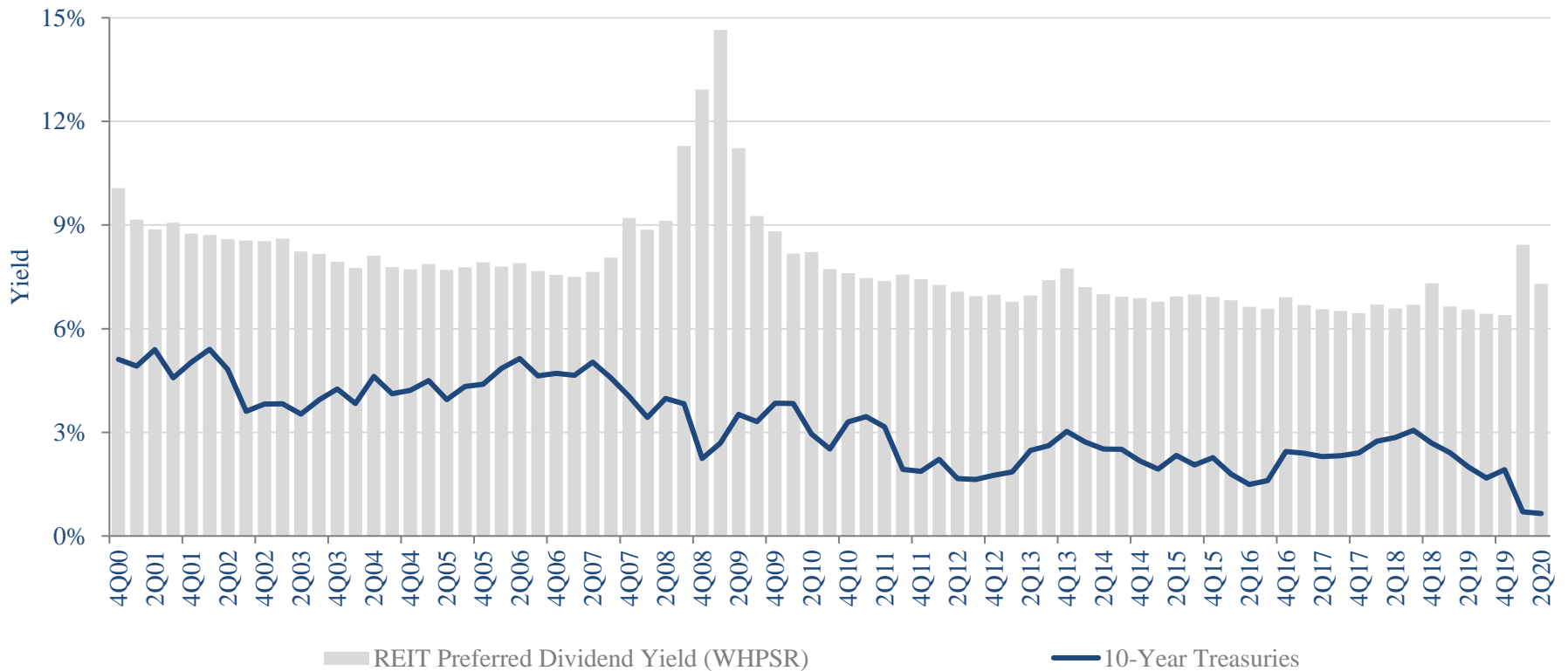
\*Total count of REITs currently with suspended preferred dividends. Does not include REITs that have reinstated preferred dividends.

\*\* Total count of REITs that have reduced or suspended common dividends. 41 REITs have reduced common dividends, while 37 REITs have suspended common dividends.

See Disclaimers and Disclosures for further information regarding the pandemic.

## The REIT Preferred Asset Class Has Delivered Consistent Dividends

REIT Preferred Dividend Yield vs. 10-Year Treasury



REIT preferred yield based on Wells Fargo Hybrid & Preferred Securities REIT Index. Source: Wells Fargo, Bloomberg. As of 6/30/2020.

# Current Pricing for REIT Preferred Market

## Current Pricing of the REIT Preferred Market

### The Majority of REIT Preferred Issuances Trade At or Below Par Value

**We Calculate that 80% of REIT Preferreds Trade At or Below Par Value....**

**... With Substantial Discounts and High Yields**

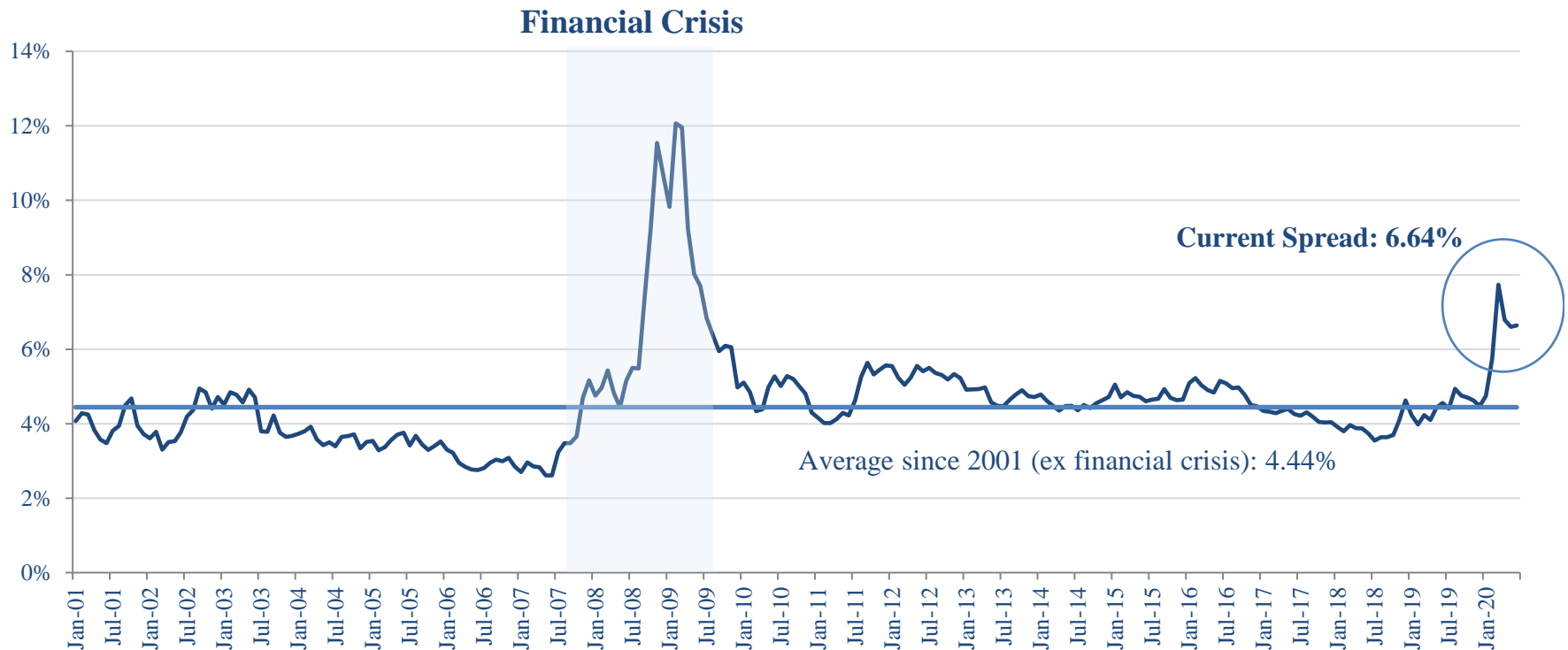
	<b>% of Universe</b>
<b>Trading &lt; par</b>	73%
<b>Trading at par</b>	7%
<b>Trading &gt; par</b>	20%

	<b>Weighted Average</b>
<b>Discount to Par</b>	-14.09%
<b>Average Dividend Yield</b>	7.25%

Source: Proprietary database (LDR Capital Management) as of 7/13/2020. See Disclaimers & Disclosures for further information.

## Current Pricing of the REIT Preferred Market

### Current Credit Spreads Have Not Been Seen in Over a Decade



REIT preferred yield based on Wells Fargo Hybrid & Preferred Securities REIT Index. Source: Wells Fargo, Bloomberg. As of 6/30/2020.

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### Coronavirus and Other Global Health Events Risk

Epidemics, pandemics and other widespread public health problems could adversely affect asset class performance. For example, in late 2019, a novel virus started causing a disease (“COVID-19”) with severe acute respiratory syndromes in humans, at times with serious health complications that sometimes result in death. What began as a local outbreak in Wuhan, China, spread globally over the course of weeks, stressing advanced healthcare systems of Western countries and resulting in financial disruptions to an extent that remains unclear. On March 11, 2020, the World Health Organization assessed that the outbreak can be characterized as a pandemic. Many countries imposed restrictions on travel and strict measures of social distancing.

As the potential impact on global markets from COVID-19, or future epidemics, pandemics or other health crises, is impossible to predict, the extent to which any such crisis may negatively affect the asset class performance or the duration of any potential business disruption is uncertain. Precautions or restrictions imposed by governmental authorities and public health departments related to this pandemic are expected to result in indeterminate periods of decreased economic activity throughout the U.S. and globally, including reduced or ceased business operations, decline in international trade and shortages of supplies, goods and services. An outbreak such as COVID-19, and the reactions to such an outbreak, are expected to cause uncertainty in the markets and businesses and are generally expected to adversely affect the performance of the U.S. and global economy, including due to market volatility, market and business uncertainty and closures, supply chain and travel interruptions, the need for employees to work at external locations and extensive medical absences among the workforce. As a reaction to such an outbreak, it is possible that governmental fiscal and economic measures will lead to an increase in spending and other forms of financial stimuli, and it is difficult to predict what effect such measures will have on the U.S. and global economies.

The impact that pandemics and other public health events will have on the performance of the asset class in particular is uncertain, and it will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of the coronavirus or other health crisis, and the actions taken by authorities and other entities to contain such crisis or treat its impact, all of which are beyond LDR Capital Management’s control.

## DISCLAIMERS AND DISCLOSURES (continued)

### **LDR Database Definitions**

LDR's calculations regarding REIT preferreds that are described in this letter are derived from its proprietary database of REIT preferreds, which is described in this paragraph. LDR seeks to track performance and various valuation metrics for all REIT publicly-traded preferreds issued in North America that are currently outstanding. This database does not include \$1000-par preferreds, as they are not exchange listed. Otherwise, LDR believes that its database captures the universe of publicly-traded REIT preferreds in North America that are currently outstanding. However, the LDR proprietary database does not include historical data, so references to historical yields and returns prior to 12/31/19 are based on relevant indices as noted. Overall issuance data, where noted, includes U.S. and Canada-issued fixed-rate and convertible REIT preferreds. Yield data includes only U.S.-issued fixed-rate preferreds. All pricing and trading data for the database are derived from Bloomberg.

### **Index Definitions**

Wells Fargo Hybrid & Preferred Securities Index (WHPSR) tracks the performance of preferred securities issued in the US market by Real Estate Investment Trusts. The index is composed of preferred stock and securities that, in Wells Fargo's judgment, are functionally equivalent to preferred stock including, but not limited to, depositary preferred securities, perpetual subordinated debt and certain capital securities. Wells Fargo Hybrid & Preferred Securities REIT Index used in lieu of ICE BAML REIT Preferred Index due to index composition.

MSCI US REIT Index (RMZ) is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (REITs). The index is based on the MSCI USA Investable Market Index (IMI), its parent index, which captures the large, mid and small cap segments of the USA market. With 142 constituents, it represents about 99% of the US REIT universe and securities are classified under the Equity REITs Industry (under the Real Estate Sector) according to the Global Industry Classification Standard (GICS®), have core real estate exposure (i.e., only selected Specialized REITs are eligible) and carry REIT tax status.