

LDR CAPITAL MANAGEMENT



REIT Securities Primer

October 2022

LDR Capital Management, LLC

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I. WHAT ARE REITs?

Overview of REITs

- Real estate investment trusts (REITs) were created in 1960 to enable individuals to invest in commercial real estate. REITs are considered pass-through entities whereby they do not pay corporate income tax.
- To qualify as a REIT, a company must:
 - Distribute 90% of its taxable income to shareholders in the form of common or preferred dividends;
 - 75% of its assets must be considered real estate and they must derive 75% of their gross income from rents from real property or interest on mortgages financing real estate;
 - Have a minimum of 100 shareholders and have no more than 50% of its shares held by 5 or fewer individuals.
- In aggregate, U.S. REITs have a market capitalization of \$1.2 trillion, based on the FTSE NAREIT All REITs index. This universe is comprised of 208 companies.
 - The REIT structure has also been adopted in 35 other countries.
- REITs seek to provide stable and increasing distributions to investors. REITs generally carry long-term leases with tenants ranging from 1 year to more than 10 years. REITs also engage in property development, but that activity typically represents no more than 10% of assets, and more often less than 5% of assets.
- REITs own commercial assets, including apartments, office buildings, retail shopping centers / malls, hotels, industrial buildings, self-storage facilities, data storage centers, communication towers, among other asset classes.
- REITs typically have conservative debt levels – on average, the sector’s debt to capital is 33.1%* and debt to EBITDA was 6.3x as of 10/14/2022**
- The average daily trading volume of all U.S. REITs is approximately around \$9.9 billion as of September 2022*.

*Source: NAREIT. Data as of 09/30/2022

**Source: Greenstreet. Data as of 10/14/2022

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II. WHAT ARE REIT PREFERRED SECURITIES?

Basic Terms of REIT Preferreds

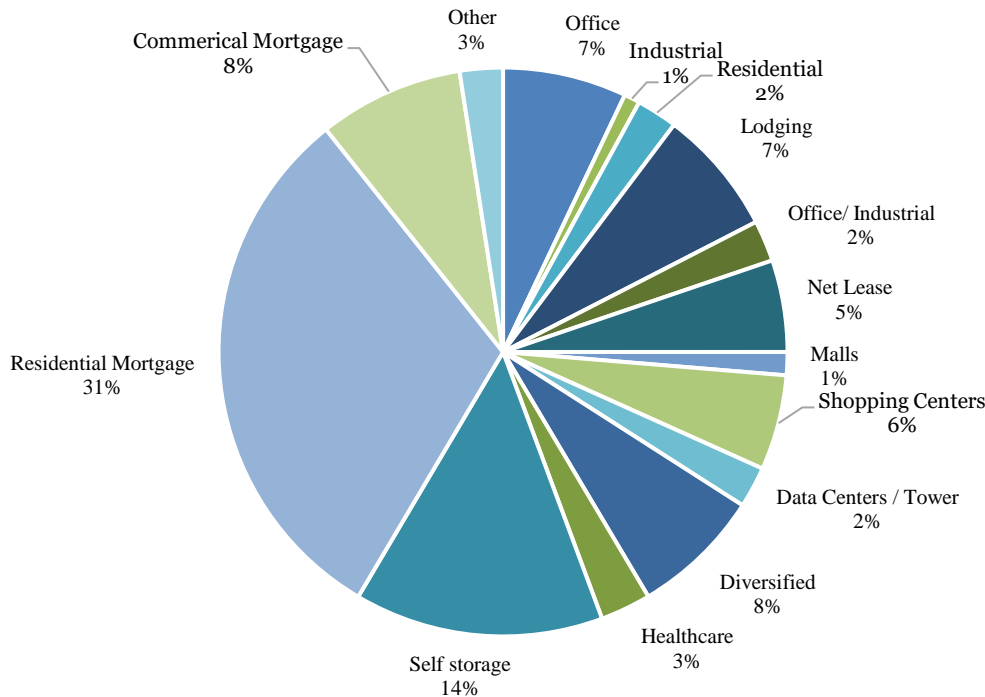
- \$25 par value **perpetual** fixed and floating rate securities
- Dividends paid **in cash** on a **quarterly** basis
- New issues carry **5-year call protection**
- Most REIT preferred securities carry **cumulative** dividend covenants. A cumulative preferred stock requires an issuer to accrue as a liability any and all dividends that have not been paid
- Preferred dividends must be paid **entirely before** paying any **common** dividends
- 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 stand **junior to most forms of debt**
- Most **new issues incorporate change of control provisions**
- REIT preferred securities are normally a **non-voting** class of ownership

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II. WHAT ARE REIT PREFERRED SECURITIES?

REIT Preferreds Are Represented Among Substantially All Property Sectors



- North American market stands at approximately \$42 billion
- Approximately 269 securities issued by 105 real estate companies
- Industry has been growing organically and through REIT conversions, at approximately \$1.4 billion per annum

Source: LDR Capital Management, Bloomberg. Based on U.S. listed REIT preferreds.

Data as of 9/30/22

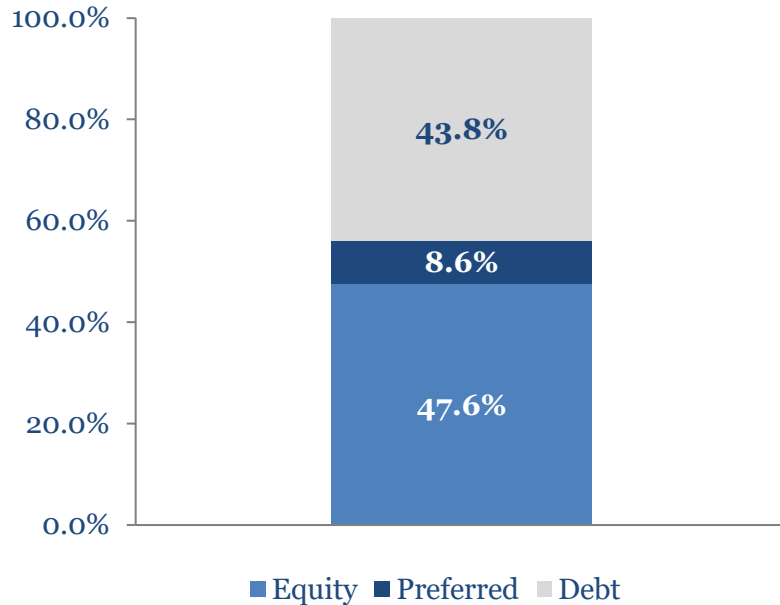
Based on LDR Capital Management proprietary database of REIT preferreds, as of 9/30/22.

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II. WHAT ARE REIT PREFERRED SECURITIES?

Preferred Stocks Represent ~9% of U.S. Equity REIT* Capitalization



**Data excludes mortgage REITs given different leverage profile of mortgage REITs. If mortgage REITs were included, equity, preferred and debt would represent 48%, 9%, and 44%, respectively, of the capital structure. Based on LDR Capital Management proprietary database of REIT preferreds. Data as of 9/30/22.*

Distribution of U.S. REIT Preferred Ratings

S&P Rating	% of REIT Universe
BBB+ to BBB-	27%
BB+ to BB-	15%
B+ to B-	1%
CCC+ or lower	1%
Unrated	56%

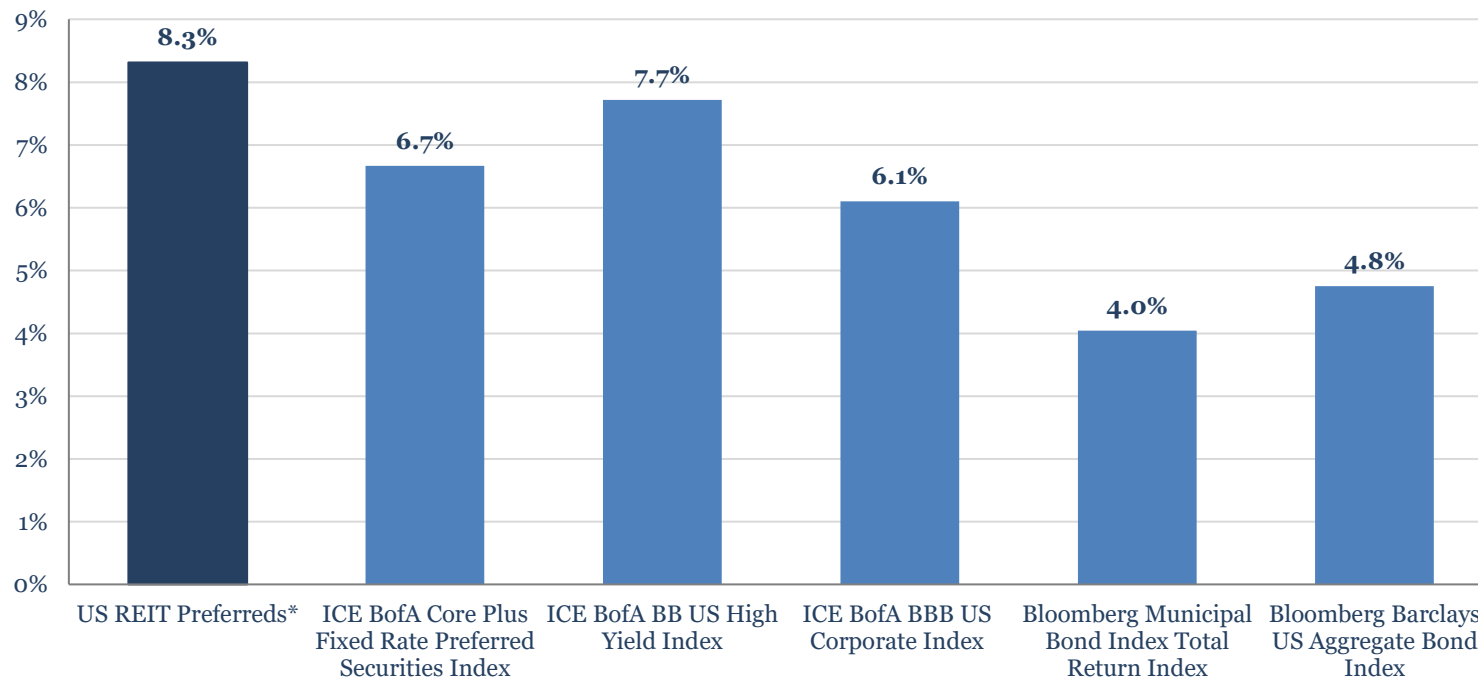
Based on LDR Capital Management proprietary database of U.S. listed REIT preferreds. Source: LDR Capital Management, Bloomberg. As of 9/30/22.

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III. INVESTMENT CHARACTERISTICS OF REIT PREFERREDS

REIT Preferred Current Yields in Comparison to Other Fixed Income Alternatives



The Blended US REIT Preferred Index is a combination of the Wells Fargo Hybrid and Preferred Securities Index (WHPSR) and the MSCI REIT Preferred Index. Within the period presented, WHPSR returns are reflected from its inception date of 1/2000 until the index was discontinued on 3/31/2021. MSCI REIT Preferred Index returns are reflected from 3/31/2021 to present. LDR has presented the returns of the ICE BofA Core Plus Fixed Rate Preferred Securities Index because it believes that it is the currently active index that is most representative of the REIT preferred asset class. LDR previously used the ICE BofA Core Fixed Rate Preferred Securities Index (PoP2) to represent the performance of this asset class, but the PoP2 was discontinued on March 31, 2012. Had the returns of the PoP2 been shown instead of the returns of the ICE BofA Core Plus Fixed Rate Preferred Securities Index, they would have been different.

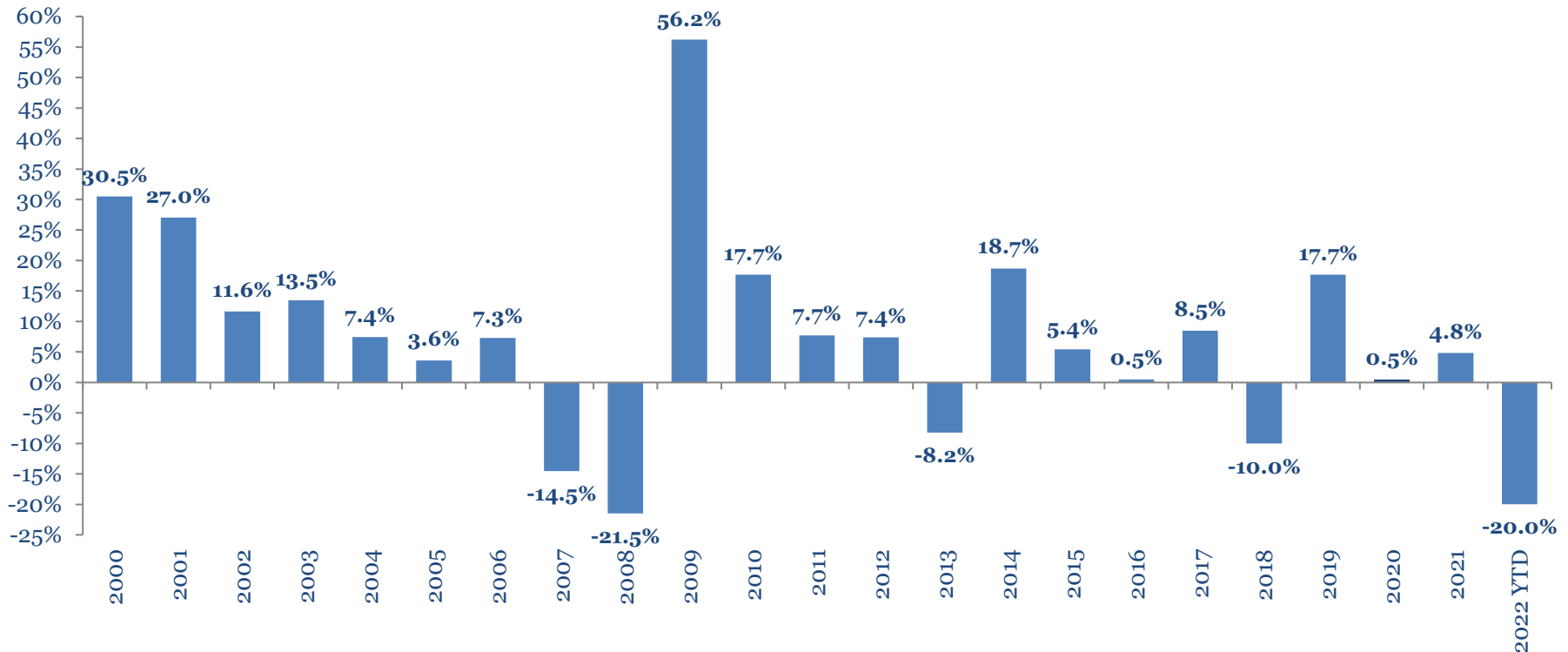
*Source: LDR Capital Management, Bloomberg. As of 9/30/22.
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III. INVESTMENT CHARACTERISTICS OF REIT PREFERRED

REIT Preferred Index Generated Positive Total Returns in 18 of Past 23 Years

Calendar year returns for MSCI US REIT Index 2000 to 2022 YTD*



Data based on a combination of the Wells Fargo Hybrid and Preferred Securities Index (WHPSR) and the MSCI REIT Preferred Index. Within the period presented, WHPSR returns are reflected from its inception date of 1/2000 until the index was discontinued on 3/31/2021. MSCI REIT Preferred Index returns are reflected from 3/31/2021 to present. Past performance is no guarantee of future results. Investment involves a risk of loss.

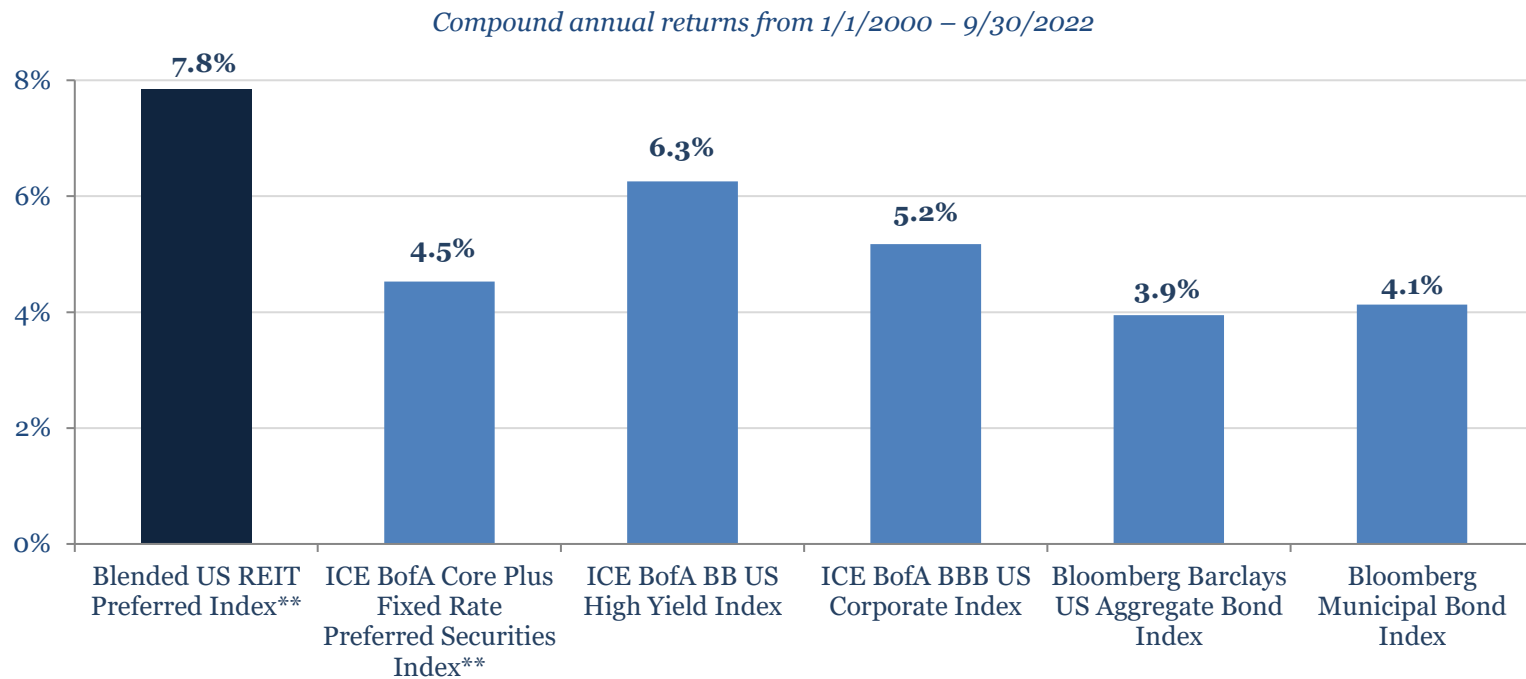
Source: Bloomberg. YTD 2022 results as of 9/30/2022

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III. INVESTMENT CHARACTERISTICS OF REIT PREFERRED

Comparative Returns of REIT Preferred Index Over Past 23 Years



The Blended US REIT Preferred Index is a combination of the Wells Fargo Hybrid and Preferred Securities Index (WHPSR) and the MSCI REIT Preferred Index. Within the period presented, WHPSR returns are reflected from its inception date of 1/2000 until the index was discontinued on 3/31/2021. MSCI REIT Preferred Index returns are reflected from 3/31/2021 to present. LDR has presented the returns of the ICE BofA Core Plus Fixed Rate Preferred Securities Index because it believes that it is the currently active index that is most representative of the REIT preferred asset class. LDR previously used the ICE BofA Core Fixed Rate Preferred Securities Index (PoP2) to represent the performance of this asset class, but the PoP2 was discontinued on March 31, 2012. Had the returns of the PoP2 been shown instead of the returns of the ICE BofA Core Plus Fixed Rate Preferred Securities Index, they would have been different.

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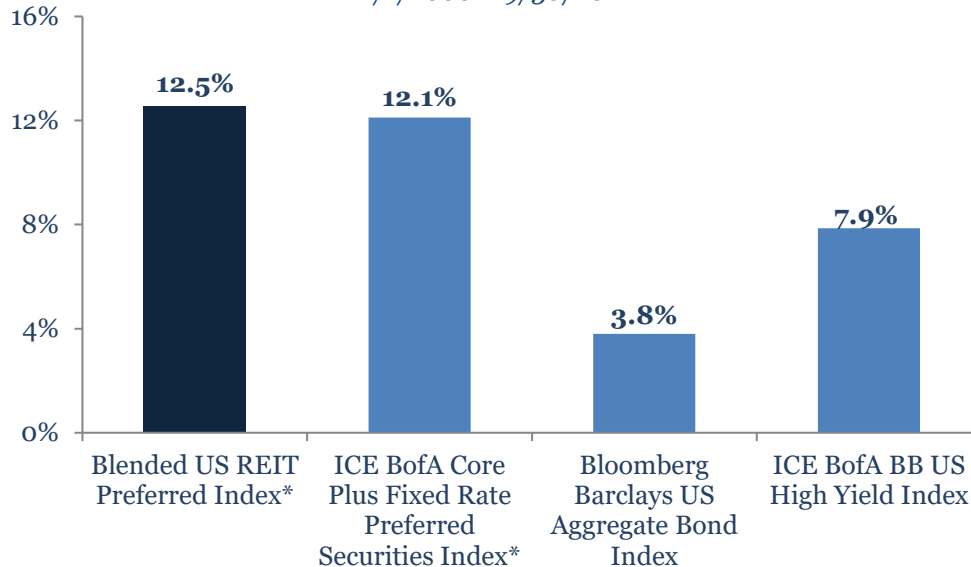
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III. INVESTMENT CHARACTERISTICS OF REIT PREFERRED

REIT Preferreds Exhibit Relatively Low Volatility and Correlations

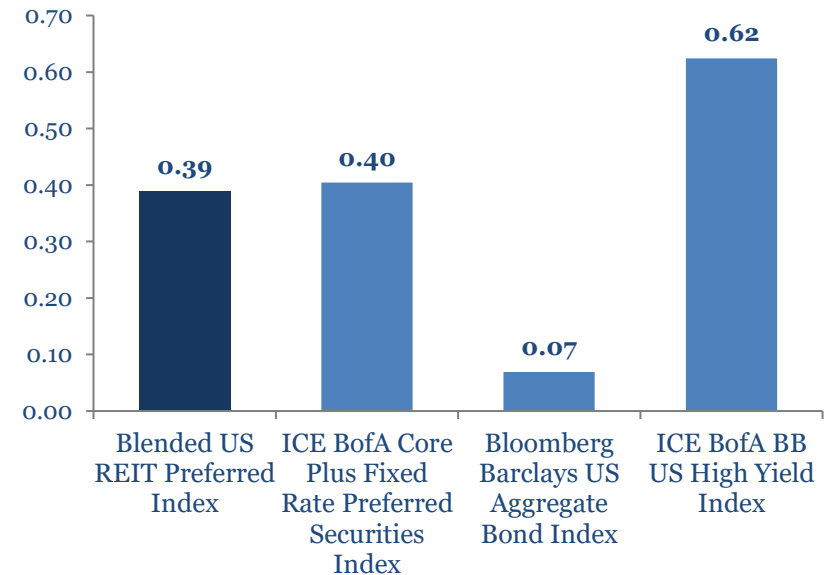
Comparative Annualized Standard Deviation

1/1/2000 – 9/30/2022



Comparative Correlation to S&P 500

1/1/1997 – 9/30/2022



REIT preferred index based on ICE BAML REIT Preferred Securities Index. Overall preferred index based on ICE BAML Fixed Rate Preferred Securities Index. US aggregate investment grade bond index based on Bloomberg Barclays US Aggregate Bond Index, US high yield index based on ICE BAML BB US High Yield Index. Source: Bloomberg.

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IV. FREQUENTLY ASKED QUESTIONS

1. What happens to REIT preferreds during and after short bursts in interest rates?

Performance of REIT Preferreds During and After Short Bursts in Interest Rates

Period	# of months	10-year Treasury Rate			REIT Preferred	
		Start rate	End rate	Difference	During rising rates	6-month after
Nov 2001 - Mar 2002	5	4.2%	5.4%	1.2%	8%	6%
Jun 2003 - Jul 2003	2	3.1%	4.1%	0.9%	0%	7%
Apr 2004 - May 2004	2	3.7%	4.9%	1.2%	-7%	11%
Sept 2005 - June 2006	10	4.0%	5.1%	1.1%	2%	7%
Nov 2010 - Dec 2010	2	2.6%	3.3%	0.7%	1%	7%
Feb 2012 - Mar 2012	2	1.8%	2.4%	0.6%	1%	7%
May 2013 - Dec 2013	8	1.7%	3.0%	1.4%	-10%	15%
Feb 2015 - Jun 2015	5	1.6%	2.4%	0.7%	0%	3%
Oct 2016 - Dec 2016	3	1.6%	2.6%	1.0%	-5%	9%
Sep 2017 - Feb 2018	6	2.1%	2.9%	0.7%	-2%	5%
Jan 2021 - Mar 2021	3	0.9%	1.7%	0.8%	3%	3%
Jan 2022 - Jun 2022	6	1.5%	3.5%	2.0%	-17%	NA
Aug 2022 - Current	3	2.6%	3.4%	0.8%	-15%	NA
Average	4			1.0%	-3%	7%

Short bursts in interest rates defined as at least 0.5% rise in the 10-year yield within 12 months. REIT preferred total return based on the Wells Fargo Hybrid & Preferred Securities REIT Index (WHPSR).

Source: Bloomberg.

See Note A of the Notes on Frequently Asked Questions on page 17 of this presentation, which includes important information about the relevant indices presented and certain periods which were omitted from this calculation, along with the rationale for such omissions.

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IV. FREQUENTLY ASKED QUESTIONS

2. What happens to REIT preferreds during and after more extended periods of interest rate increases?

Performance of REIT Preferreds During and After Extended Periods of Rising Interest Rates

Period	# of months	10-year Treasury Rate			REIT Preferred	
		Start rate	End rate	Difference	During rising rates	6-month after
Oct 1998 - Dec 1999	15	4.4%	6.4%	2.0%	-9%	25%
Jun 2003 - Jun 2006	37	3.1%	5.1%	2.0%	21%	8%
Aug 2012 - Dec 2013	17	1.5%	3.0%	1.6%	-3%	20%
Jul 2016 - Oct 2018	28	1.5%	3.1%	1.7%	-1%	6%
Jan 2021 - Current	22	0.9%	3.4%	2.5%	-18%	NA
Average	23			1.9%	3%	18%

Extended rise in interest rates defined as at least 1.5% increase in 10-year yield over more than 12 months. REIT preferred total return based on the ICE BAML REIT Preferred Securities Index prior to 2000 and based on the Wells Fargo Hybrid & Preferred Securities REIT Index (WHPSR) subsequent to 2001, as the WHPSR began in January 2001. Source: Bloomberg.

See Note B of the Notes on Frequently Asked Questions on page 17 of this presentation, which includes important information about the relevant indices presented and certain periods which were omitted from this calculation, along with the rationale for such omissions.

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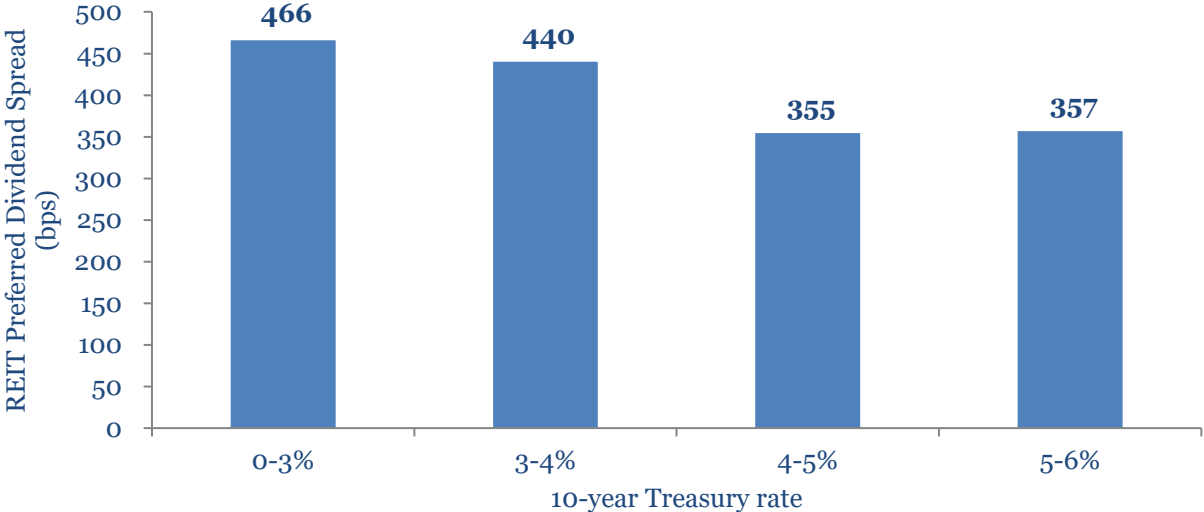
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IV. FREQUENTLY ASKED QUESTIONS

3. What happens to REIT preferreds when rates rise?

As Treasury Rates Rise, REIT Preferred Spreads Generally Tighten

Data from January 31, 2001 – September 30, 2022, excluding 2008-2009



REIT preferred dividend spread based on Wells Fargo Hybrid & Preferred Securities REIT Index, which started in 2001. Data as of 9/30/22. Source: Wells Fargo, Bloomberg. See Note C of the Notes on Frequently Asked Questions on page 17 of this presentation, which includes important information about the relevant indices presented and certain periods which were omitted from this calculation, along with the rationale for such omissions.

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IV. FREQUENTLY ASKED QUESTIONS

4. What happens to REIT preferreds after a downdraft?

Trailing Months After a Decline in REIT Preferreds

	Cumulative Decline in REIT Preferreds	Next 6 Months Return	Next 12 Months Return
Apr 2004	-4.69%	7.83%	10.80%
Jul 2007 - Feb 2009	-42.65%	65.20%	97.00%
May 2013 - Aug 2013	-8.15%	5.42%	15.58%
Sep 2016 - Nov 2016	-4.82%	7.33%	11.05%
Jan 2018 - Dec 2018	-7.36%	14.19%	19.27%
Feb 2020 - Mar 2020	-24.64%	26.31%	38.40%

Time periods represents months when the Wells Fargo Hybrid and Preferred Securities REIT Index declined more than 4% cumulatively.
Source: LDR Capital Management, Bloomberg.

REIT preferred dividend spread based on Wells Fargo Hybrid & Preferred Securities REIT Index, which started in 2001. Data as of 9/30/22. Source: Wells Fargo, Bloomberg. See Note C of the Notes on Frequently Asked Questions on page 17 of this presentation, which includes important information about the relevant indices presented and certain periods which were omitted from this calculation, along with the rationale for such omissions.

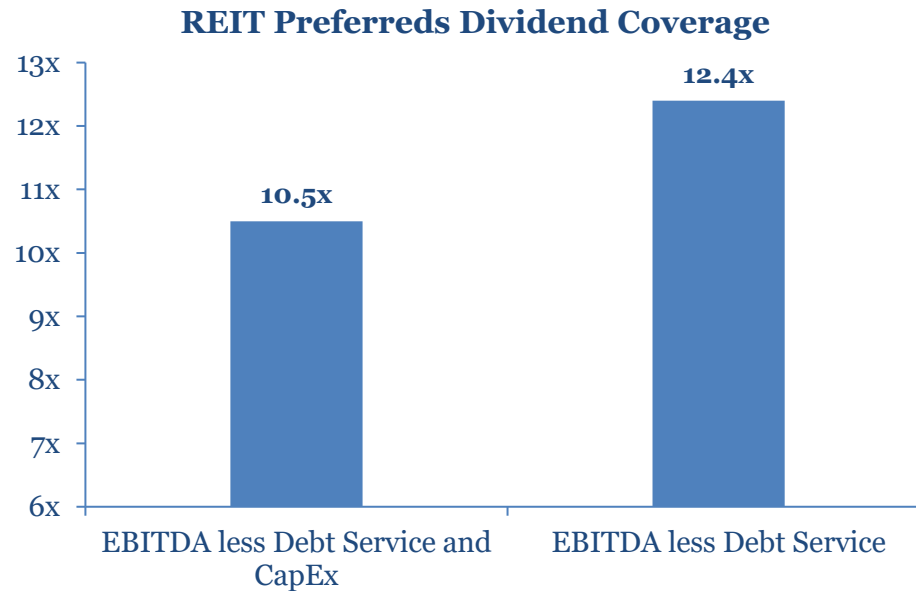
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IV. FREQUENTLY ASKED QUESTIONS

5. How well do cash flows cover REIT preferred dividends?

- After deducting for senior debt service (a priority financial claim), we calculate that REIT cash flows exceed preferred dividend distributions by an average 12.4 times.
- After deducting for senior debt service and maintenance capital expenditures (a financial, but non-priority claim), we calculate REIT cash flows exceed preferred dividend distributions by an average 10.5 times.



Coverage represents the average of all U.S. REITs that issue preferreds. Source: Bloomberg, company filings. Data as of 2Q22.

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IV. FREQUENTLY ASKED QUESTIONS

6. What is the taxability of REIT preferred dividend distributions?

- REIT preferred dividend distributions offer a tax efficiency due to a combination of return on capital, long-term capital, and 199A exclusion
- Ultimate determinant of taxability of REIT preferred dividends is dependent upon company-specific operating income levels, transaction activity, and tax-basis in underlying properties
- REIT preferreds benefit from the recent Tax Cuts and Jobs Act (TCJA)
 - Pass-through business income tax rate for U.S.-based investors would be lowered through the creation of a new 20% deduction for individuals, estates, and trusts of their Combined Qualified Business Income Amount (CQBIA).
 - For non-U.S. based investors, the TCJA reduces the withholding tax rate applicable to REIT capital gain distributions. The withholding tax rate declines to 21% (the highest corporate tax rate in effect for 2018), from 35% previously.

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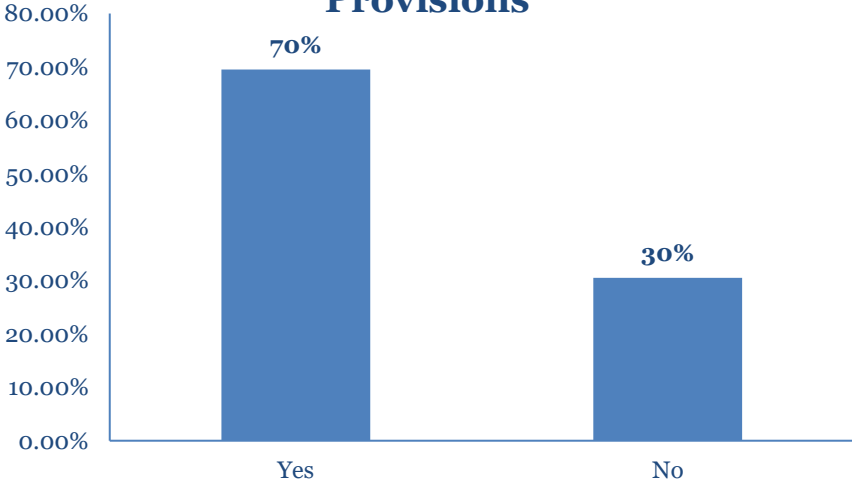
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IV. FREQUENTLY ASKED QUESTIONS

7. Do REIT preferreds offer covenant protection that limit the use of excess leverage?

- No, but REIT preferreds are beneficiaries of any unsecured debt covenants that inhibit leverage levels above certain thresholds. As such, REITs generally carry relatively low leverage.
- We calculate that ~70% of US REIT straight preferreds contain Change of Control provisions, which offer a level of credit protection pursuant to a leveraged-buyout, merger or other defined corporate transaction. Investors can convert these preferred shares in a defined change of control transaction into cash or common stock.

Percentage of REIT Preferreds with Change of Control Provisions



Source: Company filings, Data as of 9/30/2022

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NOTES TO FREQUENTLY ASKED QUESTIONS

Note A. REIT preferred total return shown on page 10 are based on the Wells Fargo Hybrid & Preferred Securities REIT Index (WHPSR) instead of the ICE BAML REIT Preferred Securities Index because the WHPSR index includes REIT preferreds across all credit ratings, which in our view, is more representative of the asset class performance in reaction to macro catalysts. If the ICE BAML REIT Preferred Securities Index were used, the results would likely have been different than those presented in the table on page 10. See the definition of both indices in Use of Indexes section below. Moreover, the table on page 10 omits two time periods that satisfied our criteria for abrupt increases in interest rates because we believe performance of REIT preferreds was primarily driven by macroeconomic factors other than interest rates (including them would have favorably skewed our results for REIT preferreds). Specifically, we omitted the period before the bursting of the “tech bubble” from April 1999 to June 1999, during which REIT preferreds rose 2%, and fell 12% in the subsequent six months, along with the broader market. We also omitted the period from January 2009 to March 2009, right after the great financial crisis. The asset class rose 18% during that period and rose another 30% in the subsequent six months. REIT preferred performance from January 2018 to present (during which 10-year U.S. Treasury yields have risen by ~50 bps) was also excluded, as subsequent returns are definitionally not available.

Note B. REIT preferred total return shown on page 11 are based the ICE BAML REIT Preferred Securities Index for the 1998-1999 period because the Wells Fargo Hybrid & Preferred Securities REIT Index (WHPSR) was unavailable before its inception in 2001. The subsequent two time periods use the Wells Fargo Hybrid & Preferred Securities REIT Index because it includes REIT preferreds across all credit ratings, which in our view, is more representative of the asset class performance in reaction to macro catalysts. If the ICE BAML REIT Preferred Securities Index were used, the results would likely have been different than those presented in the table on page 11. See the definition of both indices in Use of Indexes section below. Moreover, in the table on page 11 of this presentation, the period of August 2012 to December 2013 was omitted. Even though this time period meets our criteria for an extended period of rising interest rates, much of this increase was attributable to a short term burst from May to December 2013, which is shown on the prior page. We have also excluded asset class performance from July 2016 to present (during which 10-year U.S. Treasury yields have risen ~150bps) as subsequent returns are definitionally not available.

Note C. REIT preferred spreads shown on page 12 are based on the yield on the Wells Fargo Hybrid & Preferred Securities REIT Index (WHPSR) instead of the ICE BAML REIT Preferred Securities Index because daily yield data is published by Wells Fargo, whereas it is unavailable on a historic basis for the ICE BAML REIT Preferred Securities Index. If the ICE BAML REIT Preferred Securities Index were used, the results would likely have been different than those presented in the graph on page 12. See the definition of both indices in Use of Indexes section below. Moreover, in both graphs on page 12 of this presentation, yield spread data during the financial crisis is excluded from the REIT preferred spreads relative to Treasury rates graph because spreads widened considerably during the financial crisis (similar to most asset classes). We view the significant widening of credit spreads as not representative of historical trends and averages.

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Use of Indexes

Market index information shown herein is for illustrative purposes only and is included to show relative market performance and other metrics for the periods indicated. The indices presented herein are not representative of any LDR account and no such account will seek to replicate an index. Market participants cannot invest directly in an index, the index is not actively managed, not subject to management fees, broker commissions or other expenses, and investors should not rely on them as accurate means of comparison.

Index Definitions

ICE BAML REIT Preferred Securities Index is a market-cap weighted index that tracks the performance of \$25-par, investment-grade rated, fixed rate REIT preferred securities. The index began in January 1997; therefore, all references herein to the ICE BAML REIT Preferred Index performance “since inception” refers to data starting from January 1997.

ICE BAML Fixed-Rate Preferred Securities Index is a market-cap weighted index that tracks the performance of \$25-par, investment-grade rated, fixed rate preferred securities from all sectors.

ICE BAML BB US High Yield Index is a market-cap weighted index that tracks the performance of USD-denominated BB-rated corporate debt publicly issued in the U.S. market with at least 1-year remaining term.

ICE BAML BBB US Corporate Index is a market-cap weighted index that tracks the performance of USD-denominated BBB-rated corporate debt publicly issued in the U.S. market with at least 1-year remaining term.

The S&P 500 Total Return Index tracks the performance, including dividends, of 500 large U.S. publicly traded equities. It is generally considered to be representative of U.S. stock market activity.

The FTSE NAREIT All Equity REITs Total Return Index is a free float adjusted market-cap weighted index that includes all tax qualified REITs listed in the U.S.

Bloomberg Barclays US Aggregate Bond Index is a broad-based index that measures the investment grade, USD-denominated, fixed-rate taxable bond market. It includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities, and commercial mortgage backed securities (CMBS).

Wells Fargo Hybrid and Preferred Securities REIT Index (WHPSR) tracks the performance, including dividends, of preferred shares and depository shares of preferred securities issued in the U.S. by REITs. The index began in January 2000. All WHPSR metrics presented as “since inception” herein refers to data starting from January 2000.

iShares National Municipal Bond ETF is an exchange-trade fund that seeks to track the investment results of the S&P National AMT-Free Municipal Bond Index, which is composed of investment-grade U.S. municipal bonds.

LDR Proprietary Database of REIT Preferreds

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 institutional 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 7/31/18 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.

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