

# REIT Preferred Market Overview

LDR CAPITAL MANAGEMENT

## REIT Preferred General Characteristics

- \$25 par value, perpetual fixed (and floating) rate securities that carry cumulative dividend provisions
- Quarterly cash dividends that must be paid in entirety before any distributions can be made to common shareholders
- New issues carry 5-year call protection
- Some REIT preferreds are convertible into common stock
- Senior in balance sheet status to common stock and junior in balance sheet status to debt
- New issues incorporate change of control protection
- Preferred shareholders may be entitled to board representation if preferred dividends are not paid
- In liquidation, all preferred dividends and principal must be paid in entirety before distributions can be made to common stockholders
- REIT preferreds are backed by U.S. commercial real estate and underlying assets generally contain long lease duration
- Qualify as part of the 90% income distribution requirement for REITs

## The North American REIT and Real Estate Related Preferred Market

- Positive returns in 18 of the past 23 years<sup>1</sup>
- ~\$42 billion par value outstanding<sup>2</sup>
- Approximately 220 securities issued by over 105 REIT and real estate related companies
- Distinguished by high current yield and minimal historical defaults
- Low volatility as compared to many other asset classes<sup>2</sup>
- Publicly-listed and transparent pricing

## Taxability of REIT Preferred Dividend Distributions

- REIT preferred dividend distributions offer tax efficiency due to a combination of return on capital, long-term capital, and 199A exclusion
- Selected dividends may be treated as capital gains distributions and/or returns of capital
- Taxability of preferred dividends dependent upon REIT operating income levels, transaction activity, and tax-basis in underlying properties

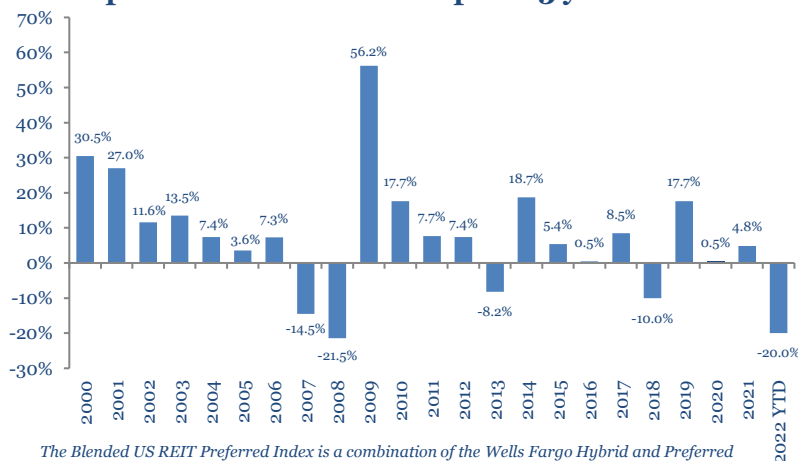
## Liquidity of REIT Preferreds

- Average monthly volume is approximately \$2.1 billion of par value outstanding<sup>2</sup>
- The asset class turns over 4% of par value outstanding per month<sup>2</sup>

## Material Investment Risks in REIT Preferreds

- Fundamental risk - Economic recession can impact rent and occupancy rates and underlying REIT cash flow
- Interest rate risk - As high-income paying securities, REIT preferreds can be exposed to adverse changes in interest rates
- Liquidity risk - Preferred shares trade with less volume than common stock
- Takeover risk - Securities without change of control provisions are susceptible to a corporate event that negatively impacts credit standing

### REIT preferred asset class has produced positive returns in 18 of 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. Past performance is no guarantee of future results. Investment involves a risk of loss  
Source: Bloomberg. YTD 2022 results as of 9/30/2022

<sup>1</sup>Source: Bank of America/Merrill Lynch <sup>2</sup>Source: LDR Capital Management proprietary database and Bloomberg

### Breakdown of credit ratings in the REIT preferred universe

As of 9/30/2022

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

Source: LDR Capital Management and Bloomberg

## Important Notes and Disclaimers

### General

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### 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 9/30/22 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.

### Use of Indices

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, taxes or other expenses, and investors should not rely on them as accurate means of comparison.