# Access to Capital – REITs vs. Direct Real Estate

As of 5/17/2024



## Key Takeaways

- *Public REITs access to capital sets them apart from the private equity universe*
- *We believe REIT preferred coverages and credit metrics remain sound*
- *Gapping in REIT preferreds between the perception of credit and actual credit has created a potential valuation opportunity*

## Public REITs access to capital sets them apart from the private equity universe

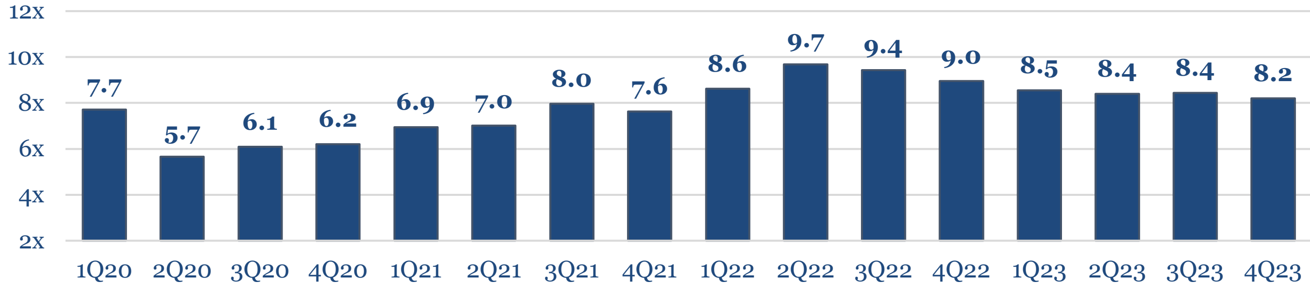
- *Public REITs have access to multiple layers of liquidity…*
  - REIT unsecured debt market:
    - 27 REITs have priced $19 billion in senior notes across maturities and currencies thus far in 2024, per Stifel research
    - For the entirety of 2024, Stifel research expects as much as $30 billion of gross issuance in REIT unsecured bonds
  - REIT preferred market:
    - 4 REITs have priced $361 million in preferreds thus far in 2024
    - REITs issued $224 million of preferreds in 2023, $746 million in 2022, and $7.3 billion in 2021
  - REIT equity market:
    - At least 6 REITs have priced $3.7 billion in equity public offerings thus far in 2024
    - We note that several REITs have also sold substantial equity through private placements and at-the-market programs
- *Running in direct contrast to the private market, which is still licking its wounds…*
  - The NFI-ODCE Index experienced a 17% decline from Q3.2023 through Q4.2023*
    - Hodes Weill & Associates (HWA) reports that many industry participants believe private market write-downs still have a ways to go, potentially another 15-20% in order to reflect current market value*
  - Exit queues with ODCE funds have risen to an estimated 15% of NAV according to HWA*
    - In addition, most funds have either limited or outright closed redemptions

*Source: "ODCE Redemptions Post-GFC and Now", Hodes Weill & Associates as of 4/25/24

## REIT preferred coverages and credit metrics remain sound

- Cash flows from earnings solidly exceed preferred dividends by 8.2 times
- On average, equity REITs pay out 4 times more common dividends than preferred dividends. Of note, REITs must pay preferred dividends in full before any common dividends are paid.*

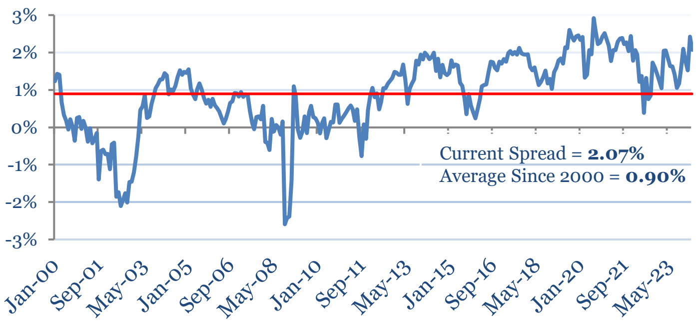
**REIT Preferred Universe Dividend Coverage**



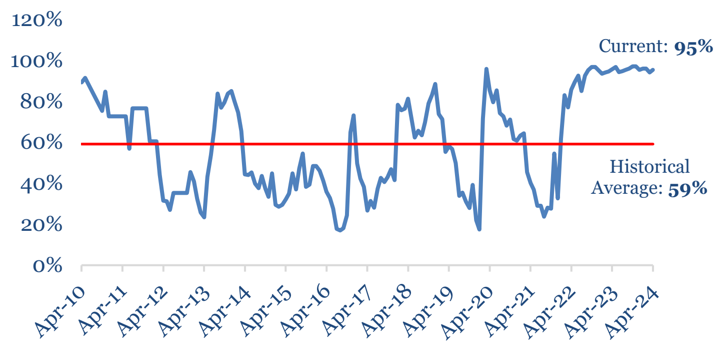

## Gapping in REIT preferreds between the perception of credit and actual credit has created a potential valuation opportunity

- Percentage of issues trading at or below par value near historic highs**
- Spread between REIT preferred yields and BB Corporate bonds is also close to historic highs***

**REIT Preferred Dividend Yield to BB-rated Corporate Bond Yield**




**% Trading At or Below Par**




*Calculated as free cash flow after maintenance capital expenditures, divided by preferred coupon payments. Source: LDR Capital Management, company reports
**Based on price less accrued dividend. As of 4/30/2024.
Source: LDR Capital Management, Bloomberg.
***REIT preferred yield based on Wells Fargo Hybrid & Preferred Securities REIT Index until 3/31/21 and based on LDR proprietary database starting 4/30/21. Corporate bonds based on BAML US High Yield BB Option-Adjusted Spread. Source: Wells Fargo, LDR Capital Management, Federal Reserve of St. Louis. As of 4/30/24.

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There are several risks associated with investing in real estate of which investors must be aware, which may include, but are not limited to, fluctuations in the value of underlying properties, defaults by borrowers or tenants, market saturation, changes in general and local operating expenses, and other economic, political or regulatory occurrences affecting companies in the real estate industry. In addition to those in general, investing in REITs involves certain other risks related to their structure and focus, which can include, but are not limited to, dependency upon management skills, limited diversification, the risks of locating and managing financing for projects, heavy cash flow dependency, possible default by borrowers, the costs and potential losses of self-liquidation of one or more holdings, the risk of a possible lack of mortgage funds and associated interest rate risks, overbuilding, property vacancies, increases in property taxes and operating expenses, changes in zoning laws, losses due to environmental damages, changes in neighborhood values and appeal to purchasers, the possibility of failing to maintain exemptions from registration under the Investment Company Act of 1940 and, in many cases, relatively small market capitalization, which may result in less market liquidity and greater price volatility. REITs are also subject to the risk that the real estate market may experience an economic downturn generally, which may have a material effect on the real estate in which the REITs invest and their underlying portfolio securities. Investors should carefully consult all offering and legal documents to ensure suitability before investing.

**LDR Database Definitions**
LDR's calculations regarding REIT preferreds described herein are derived from its proprietary database, which strives to track the performance and valuation metrics for all currently outstanding publicly-traded REIT preferreds issued in North America (excluding $1000-par preferreds, as they are not exchange-listed). LDR's 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 indicated, includes U.S. and Canada-issued fixed-rate and convertible REIT preferreds. Yield data consists only of U.S.-issued fixed-rate preferreds. All pricing and trading data for the database are derived from Bloomberg.

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

**Indices**
REIT Preferreds is based on the LDR Capital Management proprietary database. Overall Preferreds are represented by the ICE BofA Core Plus Fixed Rate Preferred Securities Index, which tracks the performance of fixed U.S. dollar-denominated preferred securities issued in the U.S. domestic market. Bloomberg US Aggregate Bond Index tracks the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bonds, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS. High Yield Bonds are represented by the ICE BofA BB US High Yield Index which tracks the performance of the U.S. dollar-denominated below investment grade corporate debt rate BB1 through BB3 publicly issued in the U.S. domestic market. Investment Grade Bonds use the ICE BofA BBB US Corporate Index which tracks the performance of U.S. dollar-denominated investment grade corporate debt rates BBB1 through BBB3 publicly issued in the U.S. domestic market. Municipal Bonds use the Bloomberg Municipal Bond Total Return Index, which covers the USD-denominated long-term tax-exempt bond market. The TNX Index represents the U.S. 10-Year Treasury. NFI-ODCE Index stands for Open-end Diversified Core Equity index, which is a capitalization weighted index that tracks the return of open-end core real estate funds. Qualified Dividend Income ("QDI") are ordinary dividends that meet specific criteria to be taxed at the lower long-term capital gains tax rate of 20% rather than at the higher tax rate for an individual's ordinary income.