

# REIT Preferreds vs Private Credit

## Overview

Alternative income products are increasingly sought by yield-oriented investors in a low-yield world. Two distinct categories that attract institutional and individual capital are REIT preferred securities and private credit. While both offer attractive yields relative to traditional fixed income, they differ materially in structure, liquidity, risk profile, and performance history.

This note outlines the potential benefits of REIT preferreds compared to private credit, explores issues that have arisen in private credit markets, and offers a balanced framework for evaluating these alternatives.

## 1. What Are REIT Preferreds?

A REIT preferred security is a type of hybrid equity / fixed-income instrument issued by a real estate investment trust (REIT). Preferreds typically:

- Pay fixed or floating dividends at higher yields than common shares
- Rank ahead of common equity in dividend priority
- Often feature cumulative dividends (missed payments accrue)
- Are perpetual in nature, with no fixed maturity
- Are traded on public exchanges (liquid relative to private placements)

REIT preferreds sit between bonds and common equity: they are not debt obligations, but they provide priority cashflow over common dividends.

## 2. What Is Private Credit?

Private credit refers to direct lending to companies, often outside of public markets. Typical strategies include:

- Senior secured loans
- Mezzanine debt
- Unitranche structures that combine senior and subordinated debt into one agreement
- Distressed or special situations lending

Private credit is typically illiquid, negotiated, and sits on balance sheets or private funds and in publicly traded business development companies (BDCs).

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## 3. Potential Benefits of REIT Preferreds vs. Private Credit

### A. Liquidity

#### REIT Preferreds

- Traded on public exchanges (NYSE, NASDAQ, etc.)
- Daily pricing transparency
- Investors can enter/exit positions without gating

#### Private Credit

- Limited secondary markets
- Often long lock-ups
- Liquidity sometimes constrained by fund terms

*We believe REIT preferreds provide greater liquidity and price transparency.*

### B. Transparency and Valuation

#### REIT Preferreds

- Public SEC filings (10-Ks, 10-Qs)
- Market pricing available in real-time
- Terms such as coupon, call date are transparent

#### Private Credit

- Valuations are typically internal or quarterly
- Pricing is model-based, not market-cleared
- Terms may be bespoke and opaque

*We believe REIT preferreds benefit from robust price discovery, public governance, and compliance reporting.*

### C. Yield and Capital Structure

#### REIT Preferreds

- Dividends often cumulative
- Senior to common equity in payout
- Yields typically above investment-grade bonds

#### Private Credit

- Yields reflect negotiated risk spreads
- Can be senior secured but may include covenant-lite or subordinated tranches
- Risk compensations vary with underlying credit quality

*We believe REIT preferreds have historically provided a predictable income stream with seniority in REIT capital structures.*

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## D. Tax Characteristics of Distributions

### REIT Preferreds

- Return of capital
- Capital gains distributions
- Section 199A tax deductions

### Private Credit

- Primarily from interest income rather than capital appreciation
- Generally taxed at ordinary income rates

*We believe REIT preferreds produce more tax efficient distributions.*

## E. Risk Profile

### REIT Preferreds

- Exposure primarily to real estate sector health
- Interest rate sensitivity higher than fixed income because c they are perpetual securities
- Dividend coverage and REIT fundamentals are measurable through public filings

### Private Credit

- Direct exposure to underwriting discipline of the lenders and borrowers
- Concentration and covenant-lite loans can increase risk
- Default and recovery assumptions drive returns

*We believe REIT preferreds can be easier to analyze using public financials, reducing underwriting risk relative to bilateral private credit exposures.*

## F. Regulator and Investor Participation

### REIT Preferreds

- Available to a wide range of retail and institutional investors
- Open-end funds can hold them
- Regulators require ongoing disclosures

### Private Credit

- Institutional or accredited investor orientation
- Net asset value (NAV) may be gated during stress
- Regulatory oversight limited relative to public markets

*We believe REIT preferreds have broader market participation and regulatory clarity.*

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## 4. Recent Issues Within Private Credit Markets

### A. Liquidity Strains

During periods of market stress (e.g., rising rates, credit repricing), private credit has faced:

- Gates or suspended redemptions
- Difficulty in valuing underlying loans
- Lack of secondary markets

As such, investors may be unable to access capital or assess true risk in real time.

### B. Credit Performance Deterioration

- Private credit pricing has recently experienced markdowns and bulk sales
- BDCs have seen significant declines in the public market in 2026
- Select private structures have experienced NAV declines

### C. Valuation Opacity

Without public pricing, private credit valuations are:

- Model-driven
- Lagged (often quarterly)
- Susceptible to subjective assumptions

This can potentially mask underlying deterioration until losses are realized.

## Conclusion

REIT preferreds represent a transparent, liquid, tax-advantaged income alternative that sits between bonds and equities, with priority cashflow and dividend stability.

By contrast, private credit, while offering yield and diversification, has faced liquidity constraints, valuation opacity, and underwriting challenges in the recent market environment that investors should carefully consider.

For investors focused on income with visibility and liquidity, REIT preferreds can serve as a valuable complement or alternative to private credit.

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