REIT Preferred Securities In The Current Fixed Income Environment

Highlights

- ***A new fixed-income environment:*** *Persistent inflation and higher-for-longer interest rates are challenging the traditional bond portfolio.*
- ***REIT preferreds could offer an attractive alternative:*** *Higher yields could offer an income cushion against inflation and rate volatility, while floating-rate securities and potential tax advantages can further enhance risk-adjusted, after-tax income.*

REIT Preferred Securities in the Current Fixed-Income Environment

For much of the past four decades, fixed-income investing benefited from a powerful structural tailwind: relatively modest inflation and falling interest rates. That environment has changed. Investors today face a fundamentally different question – not simply how much income a portfolio generates, but whether that income is sufficient to compensate for persistent inflation, higher-for-longer interest rates, and greater volatility in the bond market.

The traditional fixed-income playbook may therefore require reconsideration.

Inflation remains above the Federal Reserve's long-term 2% objective, while long-term Treasury yields have moved toward levels not consistently experienced in nearly two decades. At the same time, large federal deficits and substantial Treasury issuance have increased concerns that long-term interest rates could remain structurally higher than they were during the post-Great Financial Crisis era.

This environment creates a particular challenge for conventional bonds. A fixed coupon that appeared attractive when inflation was 2% can become significantly less compelling when inflation rises toward 3% or higher. Rising market yields also reduce the value of existing fixed-rate bonds, with longer-duration securities generally experiencing the greatest price sensitivity.

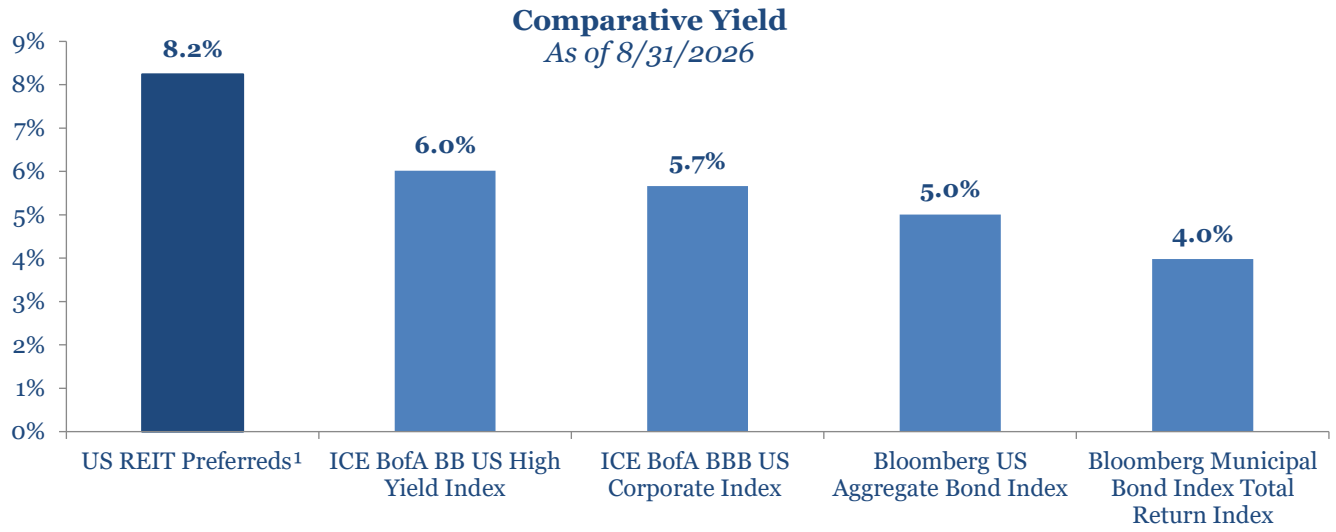
REIT Preferred Securities Could be an Attractive Alternative

Against this backdrop, **REIT preferred securities can represent an attractive alternative to traditional fixed income** for investors.

The first differentiator is higher current income. REIT preferred securities have historically offered substantial yield premiums to Treasuries and many investment-grade bonds. That higher starting yield creates an important income cushion: a portfolio earning 8% has considerably more income available to absorb the effects of inflation, rising rates and price volatility than one earning 4% or 5%.

This post is for informational purposes only and does not constitute advice, a recommendation, or an offer to sell or solicit any security or financial product. Inherent in any investment is the risk of loss. Please refer to "Disclaimers and Disclosures" at the end of this presentation for additional important information.

REIT Preferred Securities In The Current Fixed Income Environment



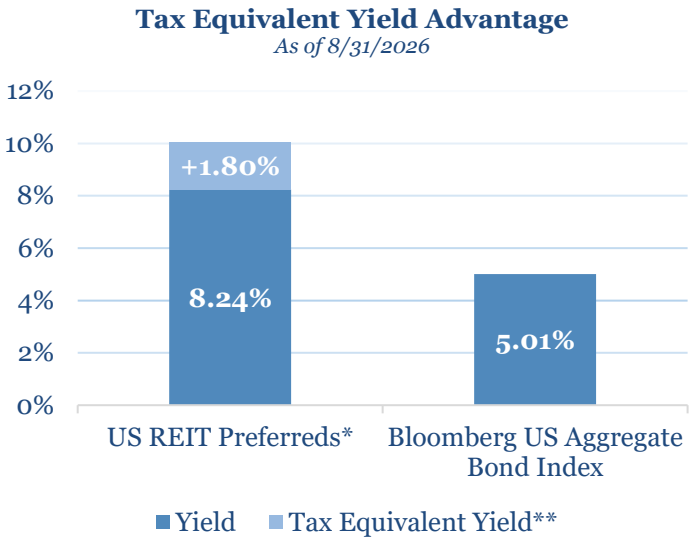
[1]US REIT Preferreds weighted average yield is based on LDR Capital Management's proprietary database of REIT preferreds. It does not represent the yield or performance of an actual client portfolio. Source: Bloomberg, LDR Capital Management. As of 8/31/2026.

Second, the REIT preferred universe includes floating-rate securities whose coupons can reset as benchmark interest rates change. These structures can reduce duration exposure and, in most circumstances, allow income to increase when short-term interest rates rise.

Third, REIT preferreds can provide meaningful tax advantages. REIT preferred dividends may benefit from the Section 199A deduction applicable to qualified REIT dividends. For eligible taxable investors, this can make the after-tax yield materially more attractive than an equivalent amount of ordinary taxable bond interest.

Finally, REITs are backed by portfolios of income-producing real estate, which can experience rent and cash-flow growth through contractual rent escalators and rising replacement costs. As such, commercial real estate, commonly known as an inflation hedge, can fundamentally benefit from higher inflation and rising interest rates.

The case for REIT preferreds is not that they eliminate interest-rate or inflation risk. Preferreds can decline when Treasury yields rise. Rather, their potential role is as a **high-income complement to traditional fixed income,** offering investors another way to balance current income, interest-rate exposure and after-tax returns in the current fixed income environment.



*US REIT Preferreds weighted average yield is based on LDR Capital Management's proprietary database of REIT Preferreds.
**Tax Equivalent Yield calculation is based on a 40.8% tax rate (37% highest federal income tax bracket plus the 3.8% Medicare surcharge). Tax treatment of our distributions vary; investors should consult a tax advisor to determine if the Fund is appropriate for them. Hypothetical illustration does not factor in each investor's actual federal tax rate which will vary depending on income, deductions, and investments. The tax information displayed is current but subject to change. Investors should consult their tax advisor to understand how changes in tax legislation may affect them. These calculations are for illustrative purposes only and do not include any fees or expenses associated with investing in a Fund, which will impact performance.

This post is for informational purposes only and does not constitute advice, a recommendation, or an offer to sell or solicit any security or financial product. Inherent in any investment is the risk of loss. Please refer to "Disclaimers and Disclosures" at the end of this presentation for additional important information.

DISCLAIMERS AND DISCLOSURES

General

This document has been prepared by LDR Capital Management, LLC ("LDR") for informational purposes only. This document should not be construed as providing any investment, legal, tax or other advice to you and must not be relied upon as such. Further, it does not constitute an offer to sell any securities, the solicitation of an offer to buy any securities or a recommendation or endorsement of any securities or other financial instruments. An investment in REIT preferred securities is suitable only for qualified investors that fully understand the risks of such investment and have no need for liquidity in such investment. You should consult your professional advisors on the suitability and legal, tax and economic consequences of an investment in such instruments.

This document and any opinions contained herein are current only as of the date appearing on the first page unless otherwise noted, are subject to change without notice, and are based upon numerous factors, such as further analyses, economic, market, political and other conditions that may impact the U.S. REIT preferred market. LDR disclaims any obligation to update this document to reflect subsequent developments and expressly disclaims liability for errors or omissions herein to the extent permitted by law. Certain information contained herein has been obtained from sources prepared by other parties, which in some instances has not been updated through the date hereof. While such information is believed to be reliable for the purpose used herein, no representations or warranties, expressed or implied, are made regarding the accuracy, reliability or completeness of the information herein nor its appropriateness for any use which any recipient may choose to make of it. All statements made within this document are opinions of LDR and should not be construed as investment advice or recommendations. There is no assurance that such views are correct or will prove to be correct over time.

This document contains certain forward-looking statements. Such statements are subject to several assumptions, risks and uncertainties which may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements or projections. You are cautioned not to invest based on these forward-looking statements. Any prospective investment, projection, forecast or return on investment illustrations herein is for illustrative purposes only, and actual investments and returns may vary materially from those illustrated or anticipated.

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.

Index Definitions

ICE BofA BB US High Yield Index tracks the performance of USD-denominated corporate debt rated BB1 through BB3, that are publicly issued in the U.S. domestic market with at least 1-year remaining term and a minimum amount outstanding of $250 million.
ICE BofA BBB US Corporate Index racks the performance of USD-denominated corporate debt rated BBB1 through BBB3, that are publicly issued in the U.S. domestic market with at least 1-year remaining term and a minimum amount outstanding of $250 million.
Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.
Bloomberg Municipal Bond Index Total Return Index covers the USD-denominated long-term tax exempt bond market.

This post is for informational purposes only and does not constitute advice, a recommendation, or an offer to sell or solicit any security or financial product. Inherent in any investment is the risk of loss. Please refer to "Disclaimers and Disclosures" at the end of this presentation for additional important information.