Volatility in REIT Preferreds

As of 2/12/2024

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Key Takeaways

- *Over the past four years (2020-2023), the volatility for REIT preferred securities has been extraordinary versus the prior 20-year period (2000-2019).*
- *Moving forward, we believe volatility in the REIT preferred arena will start to subside and trend towards historical averages.*
- *Longer-term track record for REIT preferreds are well in excess of corporate preferreds and broader fixed income.*
- *REIT preferreds' yield advantage remains.*

Volatility in the REIT Preferred Market Spiked Over the Past 4 Years…

	2000-2019 (ex. GFC)	2010-2019	2020-2023
Blended US REIT Preferred	6.7%	5.5%	19.5%
Corporate Preferred	5.2%	4.9%	14.9%
High Yield Debt	5.6%	5.0%	9.7%
Overall Fixed Income	3.2%	2.9%	6.5%

Blended US REIT preferred is a combination of 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 January 2000 until the index was discontinued on 3/31/2021. MSCI REIT Preferred Index returns are reflected from 3/31/2021 to present. Corporate preferred is a combination of ICE BofA Core Fixed Rate Preferred Securities Index from 2000 to 3/30/2012, and ICE BofA Core Plus Fixed Rate Preferred Securities Index from 3/30/2012 to current. High yield debt consists of the ICE BofA BB US High Yield Index. Overall fixed income consists of the Bloomberg US Aggregate Bond Index.
Source: Bloomberg. As of 1/31/2024.

- From 2000 to 2019 (excluding the Great Financial Crisis), the asset class exhibited a relatively low volatility of just 6.7% annualized.
    - From 2010 to 2019, the asset class exhibited an even lower volatility of 5.5%.
- From 2020 to 2023, annualized volatility spiked to 19.5%, which we believe was due to uncertainties surrounding:

    1. The COVID-19 pandemic
    2. The most aggressive Fed rate tightening in 40 years
    3. Fears of a ramp-up in commercial real estate defaults

- Corporate preferreds, high yield debt, and the overall fixed income market exhibited similar trends, with volatility spiking from 2020 to 2023.

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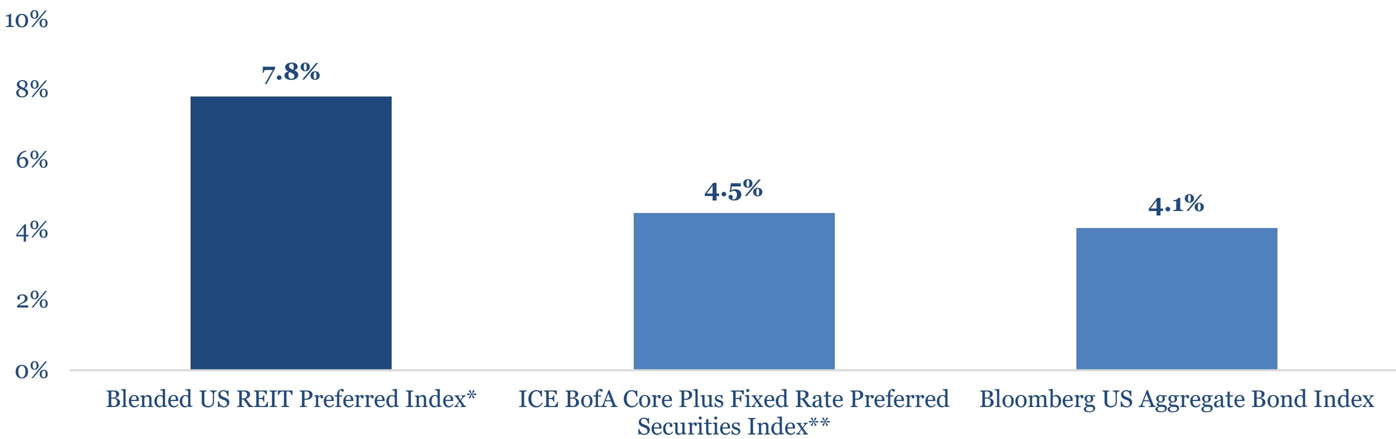
… but we see every reason for volatility in the REIT preferred arena to return to more historical levels going forward, as these issues have either been resolved or priced in.

- The financial impact of the pandemic on commercial real estate fundamentals appears to be fully priced into public securities.
- The Fed now appears to have ceased its monetary tightening policies.
- A pickup in commercial real estate transactions will provide better transparency in commercial real estate values. We believe any degradation in values has been priced into public REIT preferred pricing.

Returns in REIT Preferreds Over the Past 23+ Years Have Been Solid

- We calculate the asset class generated a 7.8% annualized return since 2000, far outpacing the broader $25 par value preferred market as well as the broader fixed income market.

REIT Preferreds Have Generated Excess Returns Over the Past 23+ Years
Annualized return since 1/2000 to 1/2024

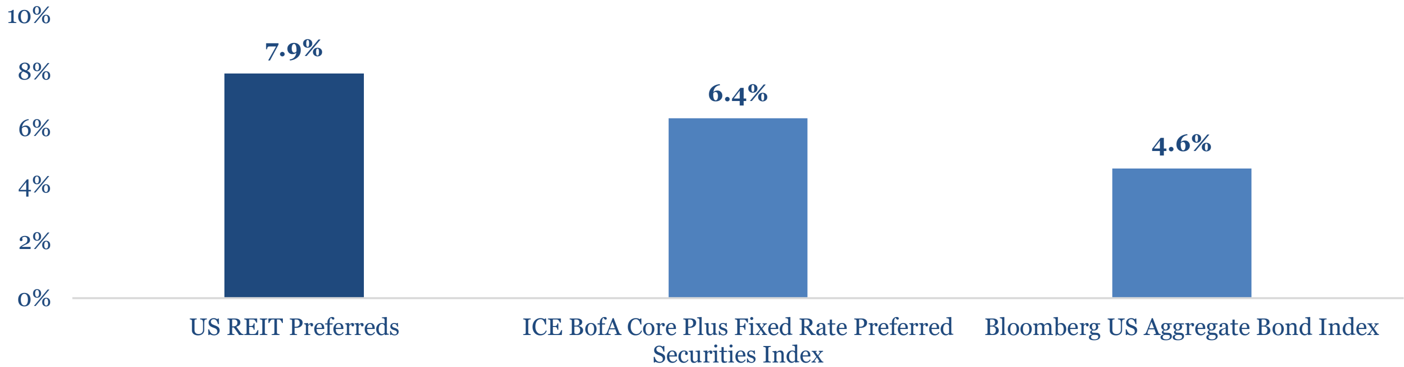


*The Blended US REIT Preferred Index is a combination of Wells Fargo Hybrid and Preferred Securities Index (WHPSR) and the MSCI REIT Preferred Index. Within the period presented, WHPSR returns are reflected from its inception date of January 2000 until the index was discontinued on 3/31/2021. MSCI REIT 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 (P0P4) because it believes that it is the best representation of the corporate preferred asset class. LDR previously used the ICE BofA Core Fixed Rate Preferred Securities Index (P0P2) to represent the performance of this asset class, prior to the inception of P0P4 on March 31, 2012. Had the returns of P0P2 been shown instead of the returns of P0P4, they would have been different.
Source: Bloomberg. As of 1/31/2024.

Update on REIT Preferred Valuations

- As of 1/31/24, we calculate that REIT preferreds traded at a weighted average yield of 8.0% and a straight average yield of 8.3%.
- We calculate the asset class trades at an average 83% price to par value.
- In comparison, we calculate the Bloomberg US Aggregate Bond Index traded at a yield-to-maturity of 4.6%, and the broader preferred universe traded at a yield-to-maturity of 6.4%.

REIT Preferreds Offer Highest Yield



US REIT Preferreds is based on LDR Capital Management's proprietary database of REIT preferreds. For definition of other indices, please see Disclaimers and Disclosures. Source: LDR Capital Management, Bloomberg. As of 1/31/2024.

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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.