STIFEL REAL ESTATE INVESTMENT TRUST (REIT) DISCLOSURE

Investing in REITs at Stifel

A Real Estate Investment Trust (REIT) is a company that owns and generally operates income-producing real estate and/or invests in income-generating real estate assets, whether real estate property or real estate loans. REITs generate revenue primarily through the ownership and management of income-producing real estate properties through leasing of space, tenant rent collection, and interest from mortgages.

The most common form of REITs are Equity REITs that are publicly traded on the exchanges. REITs are managed by real estate professionals and provide investors with an opportunity to invest in real estate without purchasing the physical asset. There are several types of REIT sectors, such as Office, Industrial, Retail, Lodging/Resorts, Residential, Timberlands, Health Care, Self-Storage, Infrastructure, Data Centers, Diversified, Specialty, and Mortgage. REITs commonly specialize in one sector and can be purchased on an exchange through a stock, mutual fund, or exchange traded fund. REITs pool the capital of numerous investors and make distributions to investors in the form of dividends and *are required to distribute at least 90 percent of the REIT's taxable income annually as dividends.* In addition, a REIT must:

- Be an entity that would be taxable as a corporation but for its REIT status;
- Be managed by a board of directors or trustees;
- Have shares that are fully transferable;
- Have a minimum of 100 shareholders after its first year as a REIT;
- Have no more than 50 percent of its shares held by five or fewer investors during the last half of the taxable year;
- Invest at least 75 percent of its total assets in real estate assets and cash;
- Derive at least 75 percent of its gross income from real estate-related sources, including rents from real property and interest on mortgages financing real property;
- Derive at least 95 percent of its gross income from such real estate sources and dividends or interest from any source; and
- Have no more than 25 percent of its assets consist of non-qualifying securities or stock in taxable REIT subsidiaries.[1]

Types of REITs

- **Equity REITs:** Lower to moderate risk, as they own and operate income-producing real estate, depending on the degree of financial leverage.
- **Mortgage REITs (mREIT):** A moderate to higher-risk investment, mREITs invest in mortgages and mortgage-backed securities of commercial/residential properties and are also listed on the national exchanges. mREITs can or may manage their interest rate and credit risk using derivatives and other hedging techniques. mREITs commonly use financial leverage to achieve target returns.

REIT Classifications

- **Publicly Traded REITs:** Bought and sold on national exchanges and are regulated by the Securities and Exchange Commission (SEC). Investors can purchase REIT common stock, preferred stock, or debt securities traded on a stock exchange.
- **Public Non-Traded REITs:** Regulated by the SEC, but are not traded on a national exchange. These REITs typically fall into one of two classifications:
  1) Net asset value (NAV) REITs, regularly calculate the value of the holdings in their portfolios and offer to sell or redeem shares in the REIT based on the latest NAV per share.
     - NAV REITs may be less volatile than traditional REITs. For investors, NAV REITs have greater price stability which may reduce risk while diversifying a portfolio.
  2) Fixed-priced REITs offer shares at a set price. These public non-traded REITs typically appraise their assets far less frequently than NAV REITs (perhaps only once per year) and tend to be less liquid.[2]
- **Private Non-Traded REITs:** Neither regulated by the SEC, nor traded on national exchanges and are primarily sold to institutional or accredited investors. These REITS generally are lower in liquidity and may be of higher risk. Furthermore, private non-traded REITs may be subject to specific investor qualifications, minimum investment thresholds, and required holding periods.

  Investors should be aware of their own state statutes around concentrations in illiquid securities such as private non-traded REITs.

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[1] https://www.sec.gov/files/reits.pdf
[2] https://www.finra.org/investors/insights/reits-alternatives-to-ownership#:~:text=Other%20fixed%2Dpriced%20REITs%20offer,tend%20to%20be%20less%20liquid

If you do not have a comprehensive understanding of how Real Estate Investment Trusts (REITs) operate and the risks involved, it is advisable not to invest in these products. This document is not exhaustive; instead, it aims to emphasize key factors and specific risks associated with REITs.

General Risk Factors:

1. **Concentration Risk**: Concentration risk refers to the potential negative impact on a REIT's performance due to a lack of diversification in its property holdings or tenant base. This risk arises when a REIT is heavily invested in a specific type of property, geographic location, or tenant sector, making it vulnerable to market fluctuations or downturns in those areas.
2. **Credit Risk**: Most mortgage-backed REITs (mREITs) invest in commercial or residential mortgages, are usually backed by a federal agency, and federal credit risks may apply. Those that are not federally backed may be subject to additional risk if the borrower defaults.
3. **Default Risk**: If the assets in the underlying REIT default on debt, dividend payments may be impacted or halted.
4. **Geographic Risk**: If the property contained in a REIT is located in a specific area or region, it can influence the outcome of the investment.
5. **Interest Rate Risk**: In a rising interest rate environment, the demand for REITs typically declines; therefore, the share price can be more volatile. REITs are typically sensitive to changes in interest rates, which can affect property values and occupancy demand.
6. **Leverage Risk**: Leverage risk refers to the potential financial risk associated with the use of borrowed funds or loans to finance property acquisitions and operations. While leverage may enhance returns when property values increase, it may amplify risk, particularly in adverse market conditions.
7. **Management Risk**: Management risk refers to the potential for losses or underperformance due to the decisions and actions of the REIT's management team. Since REITs are often structured as externally managed entities, the quality and effectiveness of the management can significantly impact their performance.
8. **Occupancy Rates**: REITs must maintain certain occupancy levels, as lower rents and occupancy rates may negatively impact a REIT's value.
9. **Taxes**: The dividends received by shareholders may be taxed as ordinary income, capital gains, and return of capital. Consult with a qualified tax professional to understand the specific tax implications of investing in REITs.
10. **Timeframe**: REITs may not be ideal for short-term investors, but they may be a valuable component of a diversified long-term investment strategy for those seeking income and stability/balance in their portfolio.
11. **Valuation Risk**: The market value of a REIT's shares can fluctuate based on various factors, including changes in property values, interest rates, and investor sentiment.
12. **Volatility Risk**: REITs can experience significant price volatility due to changes in market conditions, economic factors, and investor perceptions.
13. **Yield Risk**: The income generated by a REIT, in the form of dividends, can vary based on the performance of the underlying properties and the overall market conditions.

Conclusion

You should carefully consider the specific characteristics of any investment, including REITs, before proceeding with any transaction. This disclosure document is not intended to enumerate all of the risks associated with investing in REITs. As you would with any investment, please undertake a thorough review of the legal, credit, tax, accounting, and economic considerations associated with REITs in reaching a determination as to their appropriateness for you.

As a reminder, Stifel does not provide tax, legal, or accounting advice, and you should discuss those matters with your tax or legal advisor. Should you have any questions, please contact your Stifel Financial Advisor.

Additional Information

Please discuss your particular needs and circumstances with your Financial Advisor to determine if REITs are best suited for your investment needs. For additional information on REITs and share class options available, consult the following websites: the Securities and Exchange Commission (SEC) (www.sec.gov), the Financial Industry Regulatory Authority (FINRA) (www.finra.org), or the National Association of Real Estate Investments (NAREIT) (www.reit.com).