WELLS FARGO Advisors

A guide to investing in Real Estate Investment Trusts (REITs)

What you should know before you buy

Wells Fargo Advisors wants to ensure that you are investing in the REITs that best suit your investment objectives, risk tolerance, time horizon, and diversification needs. This guide will help you better understand the features and costs associated with various REITs, as well as how your financial advisor and Wells Fargo Advisors are compensated when you invest in REITs. As always, if you have any questions about your REITs, please contact your financial advisor.

What is a Real Estate Investment Trust (REIT)?

A Real Estate Investment Trust (REIT) may be a public or private company, trust, or association that combines money from numerous investors and invests in the ownership and, typically, the operation of income-producing real estate or real estate-related assets. Established by Congress in 1960, REITs give individual investors a practical means to invest in large-scale, commercial real estate without having the significant initial capital requirements and daily demands of direct property ownership.

REITs are distinguishable from other real estate investments because they are required to acquire, develop, and operate their underlying real estate holdings as part of the REIT's own investment portfolio, as opposed to simply improving and reselling such properties. In return for an investment in a REIT, a shareholder may earn a pro-rata share of the economic benefit derived from rent payments and other income generated from the REIT's holdings.

We have a responsibility to consider reasonably available alternatives in making a recommendation. We do not need to evaluate every possible alternative either within our products or outside the firm in making a recommendation. We are not required to offer the "best" or lowest cost product. While cost is a factor that we take into consideration in making a recommendation, it is not the only factor.

You should consider factors such as those below prior to accepting a recommendation:

- The potential risks, rewards, and costs in purchasing and in the future selling of a security.
- Your age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, and risk tolerance.

How REITs are structured

To qualify as a REIT, an entity must direct the majority of its assets and income to real estate investments and distribute at least 90% of its taxable income to shareholders via annual dividends. Further, REITs are permitted to deduct shareholders' dividends from the REIT's corporate taxable income. Because of this special tax treatment, REITs generally pay out at least 90% of its taxable income to shareholders. Accordingly, REITs generally do not have corporate tax liability. In addition to these qualifications, REITs must comply with the following provisions of the Internal Revenue Code (IRC):

- REITs must be managed by a board of directors or trustees.
- A REIT's shares must be fully transferable.
- There must be a minimum of 100 shareholders after the REIT's first year in existence.
- No more than 50% of a REIT's shares may be held by five or fewer investors during the last half of the taxable year.
- A REIT must invest at least 75% of its gross income received from rents from real property and/or mortgage interest payments.
- A REIT must derive at least 95% of its gross income from financial investments including dividends and interest and rents from real property.
- A REIT may not allow more than 25% of its assets to consist of non-qualifying securities or stock in taxable REIT subsidiaries.

- The security's investment objectives, characteristics (including any special or unusual features), liquidity, volatility, and likely performance in a variety of market and economic conditions.
- For complex products, you should consider whether less complex or costly products achieve the same objectives.

By accepting a recommendation, you acknowledge that you have considered the above factors to your satisfaction.

REIT holdings may include a broad range of property interests, including office buildings, shopping malls, hotels, healthcare related assets, self-storage facilities, warehouses, apartments, and mortgages or loans. While REITs generally specialize in a particular type of real estate (e.g., retail properties), they may further concentrate real estate holdings in a particular region (e.g., East Coast), state, or metropolitan area.

Listed REITs invest in all property types

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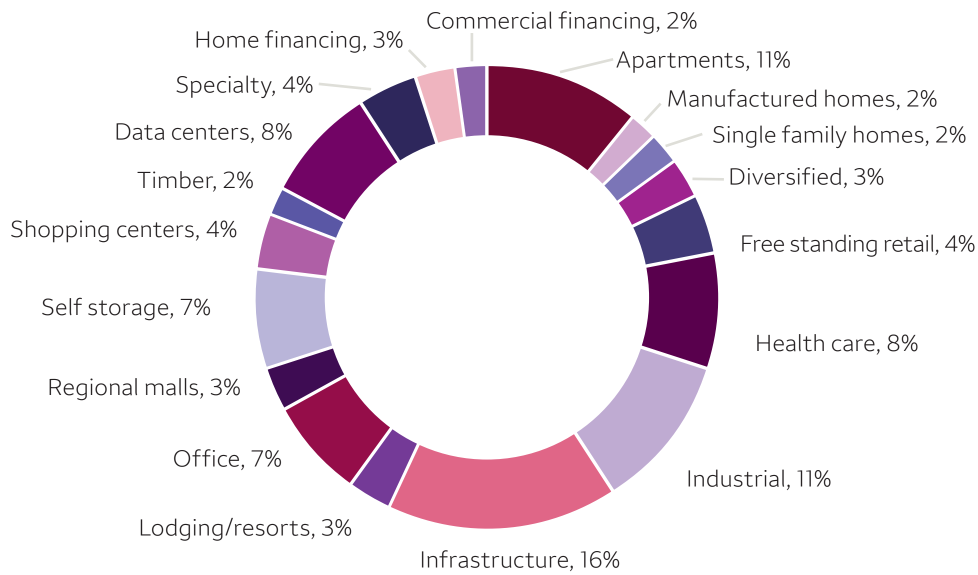

As of September 30, 2021
Source: FTSE NAREIT All Equity REITs Index

Types of REITs

REITs can be divided into two main types: equity REITs and mortgage REITs.

Equity REITs — When investing in an equity REIT, your ownership interest in the REIT is similar to the ownership interest you would have in traditional stock. Equity REITs may own and operate income-producing real estate assets in one or more of the various property subsectors. For example, some equity REITs may specialize in apartment or healthcare facilities, while others concentrate on a cross-section of retail and industrial facilities. Moreover, equity REITs may engage in a wide range of real estate activities including leasing, maintenance and development of real property, and tenant services. It is important to consider that equity REITs typically use a moderate amount of leverage, or debt, to fund their operations. In addition to the more traditional real estate asset class REITs, you may encounter what are typically described as "specialty" or "niche" REITs. Unlike their counterparts, these REITs generally invest in "non-traditional" assets such as wireless and cellular towers, single family residential, timber, infrastructure, and data centers. You should be sure to understand the unique risks, features, and benefits of such REITs before investing. Traditional and niche equity REITs together comprise approximately 95% of the public REIT market.

Residential mortgage REITs — Residential mortgage REITs invest directly in the form of mortgages and other types of real estate loans, or indirectly through the acquisition of mortgage-backed securities. Agency mortgage REITs borrow money in the short-term repurchase market (repos) and then buy longer-duration residential mortgage-backed securities (RMBS) issued by the Government National Mortgage Association (Ginnie Mae), a government agency backed by the full faith and credit of the U.S. government as to payment of principal and interest, or by government sponsored enterprises (GSEs), such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). While GSE securities carry the implicit guarantee of the U.S. government, they are not direct obligations. Agency mortgage REITs earn spread income between short-term funding and long-term assets and employ significant leverage. The leveraged duration gap causes high sensitivity to changes in the yield curve; therefore, interest rate risk is the primary risk factor when investing in agency mortgage REITs. Non-agency mortgage REITs also borrow in short-duration repo markets to invest in non-agency mortgage-backed securities (MBS) (e.g., jumbo prime, Alternative-A, and subprime). The primary risk factor regarding non-agency mortgage REITs is defaults or foreclosures. Leverage for non-agency is lower than agency mortgage REITs but is still elevated, and investorstake on some degree of interest rate as well as credit risk. The underlying residential mortgage securities may include fixed-rate, adjustable-rate, and hybrid adjustable-rate mortgages. Revenues are generated by interest the REIT earns on mortgage loans. An important factor to consider when investing in mortgage REITs is that when interest rates fall, many homeowners refinance. As a result, mortgage REITs may be negatively affected by homeowner prepayments. Compared to equity REITs, mortgage REITs are considerably more leveraged and pose a significant amount of market risk and interest-rate risk to investors. Furthermore, many mortgage REITs attempt to manage their interest rate and credit risks through the use of complex derivatives and other hedging strategies.

Commercial mortgage REITs — The commercial mortgage real estate sector encompasses a host of assets including multi-family, office, industrial, retail, and hospitality properties. Generally, commercial real estate is a capital-intensive business that relies heavily on debt capital to develop, acquire, maintain, and refinance commercial properties. Real estate companies have gained access to the public equity markets, and commercial mortgage debt is increasingly held in the form of rated securities.

Non-traded public and private REITs

Whether a REIT is equity-focused or invests in mortgages, you can further organize REITs into three categories: publicly traded equity REITs (exchange-traded REITs), public non-listed REITs (non-traded REITs), and private REITs. You should carefully consider the features, risks, costs, and benefits of each type of REIT before investing.

Publicly traded REITs — Publicly traded REITs are listed on the major stock exchanges (NYSE, Nasdaq, and NYSE MKT) and are traded like stock. As of November 1, 2021, there were approximately 225 REITs trading on stock exchanges. An investment in an exchange-traded REIT is typically a liquid investment.

Public non-traded REITs — Non-traded REITs are registered with the U.S. Securities and Exchange Commission (SEC), but their shares do not trade on national stock exchanges. Non-traded REITs generally require a minimum holding period, and redemption options may be limited. Because these REITs are not publicly traded, there may be no readily available market for their securities. Therefore, they pose different risks than those associated with an exchange-traded REIT.

Private REITs — Private REITs are neither registered with the SEC nor do they trade on national stock exchanges making them hard to value and trade. In addition, private REITs do not file regular reports with the SEC. This makes it difficult to keep informed about an investment in the REIT. Private REIT offerings are made through private placements which rely on an exemption from the obligation to register with the SEC.

	Stock exchange-listed REITs	Public non-listed REITs	Private REITs
Overview	REITs registered with the SEC whose shares intentionally trade on national securities exchanges, such as the NYSE and Nasdaq.	REITs that are registered with the SEC but whose shares intentionally do not trade on a national securities exchange. Offerings are subject to review by state securities regulators, commonly referred to as "Blue Sky" review.	Private REITs, sometimes called private placement REITs, are offerings that are exempt from SEC registration under Regulation D of the Securities Act of 1933 and whose shares intentionally do not trade on a national securities exchange. Private REITs generally can be sold only to institutional investors, such as large pension funds, and/or to "Accredited Investors" generally defined as individuals with a net worth of at least $1 million (excluding primary residence) or with income exceeding $200,000 over two prior 2 years ($300,000 with a spouse).

Source: National Association of Real Estate Investment Trusts (NAREIT)

	Stock exchange-listed REITs	Public non-listed REITs	Private REITs
Liquidity	Shares are listed and traded, like any other publicly traded stock, on a national securities exchange, such as the NYSE and Nasdaq.	Shares are intentionally not listed on national securities exchange. Liquidity options vary and may take the form of share repurchase programs or secondary marketplace transactions, but are generally limited. Certain "daily net asset value (NAV) REITs" may provide enhanced liquidity by offering periodic, e.g., daily (or less frequent) repurchase options at net asset value. Traditionally, public non-listed REITs have aimed at providing liquidity through an event such as listing on a national securities exchange, selling all or substantially all its assets, or entering into a merger or business combination.	Shares are not traded on a public securities exchange and are not generally liquid. Redemption programs for shares vary by company and may be limited, non-existent, and/or subject to change.
Transaction costs	Brokerage costs the same as for buying or selling any other publicly traded stock.	Brokerage costs vary by company and may include upfront commissions and/or trail fees.	Brokerage costs vary by company, but may include formation fees, annual management fees, and a percentage of profits in the form of a "promoted interest."
Management	Typically self-advised and self-managed.	Typically externally advised and managed.	Typically externally advised and managed.
Minimum investment amount	One share.	Typically $1,000 – $2,500 initial investment.	Typically $1,000 – $25,000; private REITs that are designed for institutional or accredited investors generally require a much higher minimum investment.
Independent directors	Stock exchange rules require a majority of directors to be independent of management. NYSE and Nasdaq rules generally call for fully independent audit, nominating and corporate governance, and compensation committees.	Subject to state "Blue Sky" securities regulations that generally follow the North American Securities Administrators Association (NASAA) Statement of Policy Regarding Real Estate Investment Trusts, which recommends that boards consist of a majority of independent directors and that a majority of each board committee consist of independent directors.	Generally exempt from regulatory requirements and oversight, unless managed by a registered investment advisor under the Investment Advisers Act of 1940.
Investor control	Investors re-elect directors.	Investors re-elect directors.	Investors generally re-elect directors.
Corporate governance	Subject to state general corporate law and regulation, and NYSE or Nasdaq exchange rules on corporate governance.	Subject to the same state law corporate law provisions as Stock Exchange-listed REITs as well as state securities laws and regulations which generally follow the North American Securities Administrators Association (NASAA) Statement of Policy Regarding Real Estate Investment Trusts.	Not required other than the Internal Revenue Code's requirement that a REIT needs to have a board of directors or board of trustees.
Disclosure obligation	Required to make regular financial disclosures including quarterly unaudited and annual audited financial results under the Securities Exchange Act of 1934, including 10-Qs, 10-Ks, 8-Ks and proxy statements.	Required to make regular financial disclosures including quarterly unaudited and annual audited financial results under the Securities Exchange Act of 1934, including 10- Qs, 10-Ks, 8-Ks, and proxy statements. Pursuant to FINRA Notice 15-02, Financial Industry Regulatory Authority (FINRA) rules require additional broker-dealer disclosure of valuation methodology.	Exempt from SEC registration and related disclosure requirements under Regulation D.

Source: National Association of Real Estate Investment Trusts (NAREIT)

	Stock exchange-listed REITs	Public non-listed REITs	Private REITs
Performance measurement	Numerous independent performance benchmarks available for tracking listed industry REITs. Wide range of analyst reports available to the public.	FINRA rules require that investors be furnished with per share estimates pursuant to specified timeframe. Independent publications track activities and results of public non-listed REITs.	No public or independent source of performance data available for tracking private REITs.

Source: National Association of Real Estate Investment Trusts (NAREIT)

Investor characteristics

REITs are typically considered total-return investments. This means that when measuring the performance of a REIT, an investor should consider interest, capital gains, dividends, and distributions realized over a set time period. Because of the underlying rents and other payments REITs receive and then distribute, REITs may provide competitive dividends plus the potential for moderate, long-term capital appreciation. Investors in REITs are generally interested in the following:

Income — Purchasers of REITs are typically looking for a dependable income stream. REITs may offer investors attractive dividends compared to other investments since REITs are required to distribute at least 90% of their taxable income to shareholders annually in the form of dividends. Nevertheless, you should not purchase a REIT solely for income potential, but you should always consider the various risks (e.g., market, interest-rate) that are associated with your REIT investment. For example, mortgage REIT income may vary.

Liquidity — REITs operate in perpetuity. For that reason, they may be ideal for investors focused on strategic long-term investing. Likewise, REITs may be ideal for investors looking for exposure to the real estate asset class but who are also seeking the liquidity that comes with active trading on the major stock exchanges (publicly-traded REITs only). While shares of publicly-traded REITs are more readily converted to cash because they trade on the major stock exchanges, an investor should keep in mind that redemption options for non-listed and private REITs are more limited. As a result, an investor in a non-listed or private REIT will not have immediate access to your funds.

Portfolio diversification — Historically, investors have chosen REITs to help achieve portfolio diversification goals. Many investors view REITs as a reliable complement to a core portfolio of stocks and bonds, and a practical means for gaining exposure to the real estate sector. In addition to considering these advantages, you should consider how REITs fit within your particular portfolio before investing in them.

REIT categories

Equity REITs may specialize in specific underlying real estate categories as outlined below.

Retail/shopping center/ enclosed malls: Retail REITs typically invest in strip and enclosed malls.

Office: Office REITs invest in office buildings comprised of long-term lease holders.

Healthcare: Healthcare REITs typically own three kinds of properties: senior housing, skilled nursing facilities (SNHs), and medical office buildings (MOBs).

Residential/apartment: Residential REITs own and operate multi-family apartment buildings, single family homes, and manufactured home communities.

Industrial REITs: Industrial REITs lease industrial facilities (e.g., warehouses) to manufacturers, retailers, transportation companies, and third-party logistics providers.

Hotel/lodging: Hotel REITs typically own, acquire, and renovate upscale hotel properties located in coastal markets.

Non-traditional/niche property types: Certain property types, including self-storage, infrastructure, timber, cell phone towers, and data centers are generally considered niche assets.

Risks

While investors are typically attracted to REITs for current income and long-term growth potential, there are certain risks associated with them. Several of these risks are outlined below:

Interest rates — Investors should consider that rising interest rates could make other yield opportunities more attractive, which may lead to investors drawing funds away from equity REITs and lowering their share prices. In addition, when investing in mortgage REITs, investors should keep in mind that these REITs manage their interest-rate and credit risks through the use of derivatives and other hedging strategies.

Leverage — While non-traded and private REITs may offer competitive dividend yields compared to publicly traded REITs, these REITs often pay distributions in excess of their funds from operations through the use of offering proceeds and leverage. This strategy is not typically employed by publicly-traded REITs. The leveraging of these assets reduces the value of the shares of these REITs and reduces the cash available to the REIT to purchase further assets. Remember, non-traded and private REITs should only be purchased by sophisticated investors who understand the complex nature of these investments. Mortgage REITs generally contain the highest amount of leverage in the REIT sector. It should be noted that all REITs employ some type of leverage given the large and long-term nature of most real estate investments.

Valuation — At times, the stock price of a REIT may be higher or lower than its estimated net asset value (NAV). Keep in mind that it is more difficult to assess the value of private REITs due to the lack of publicly available performance data and disclosures. An additional consideration is that private REITs have the option to convert to publicly traded REITs. Since private REITs often lack valuation transparency, these REITs could have depressed values when converted to listed-REIT status.

Market volatility — Although publicly traded equity REITs do not typically move in lockstep with the stock market, these REITs can experience the similar market volatility as other equities. For example, REITs often use follow-on capital market transactions as the oxygen for growth. Investors should recognize that REITs are not immune from broader market forces and potential losses.

Management — REITs are typically managed by professional managers. As such, REITs are sensitive to manager risk. The success of a REIT is largely tied to the experience and expertise of the management team. Neither you nor your financial advisor has control over or the power to influence the management of the REIT. If there is significant turnover or changes in the key management of the REIT, performance of the REIT may be impacted. Consider the background of the REIT management team before investing.

Real estate supply — REITs may invest in a particular property type and/or geographic location. Consider how well balanced the supply of new buildings is and whether there is demand for new space. If new space is added more rapidly than it can be absorbed, building vacancy rates increase and rents may weaken. Property values may decline and thereby depress the REIT's NAV.

Additional information

To learn more about REITs, contact your financial advisor or visit the following websites:

Wells Fargo Advisors
wellsfargoadvisors.com

U.S. Securities and Exchange Commission
sec.gov

Securities Industry and Financial Markets Association
sifma.org

Financial Industry Regulatory Authority
finra.org

National Association of Real Estate Investment Trusts (NAREIT)
reit.com

Property diversification — Investors should consider the diversity of properties a given REIT invests in as well as the REIT's geographical diversity. Overconcentration in a particular property type or region could pose greater risk to the REIT's holdings in times of economic or market volatility.

Property taxes — Investors should be aware that property taxes are primarily within the jurisdiction of state and municipal governments and may represent as much as 25% of a REIT's operating expenses. Consider the potential impact property tax increases may have on the performance of your REIT investment.

Tax treatment

Generally, dividend distributions to REIT shareholders are taxed as ordinary income, while capital gains may be taxed at different rates. Keep in mind that common dividends for REITs are generally non-qualified and do not qualify for the 20% maximum dividend rate. REIT shareholders are responsible for paying taxes on the dividends they receive and on any capital gains associated with their REIT holdings. Considering their tax treatment, some investors prefer to hold REITs inside of a tax-deferred account in order to defer taxes on dividends received and capital gains earned.

Neither Wells Fargo Advisors nor your financial advisor can offer tax, legal, or accounting advice. As a result of complex tax-reporting requirements, investors should consult with their tax advisor or attorney before investing in REITs.

Talk to your financial advisor

Determining whether REITs are an appropriate investment strategy for you requires an in-depth evaluation of your individual financial situation and the objectives you want to achieve. Each REIT is subject to specific risks that vary depending on the REIT's portfolio composition. For more details, talk to your financial advisor about REITs.

How are your financial advisor and Wells Fargo Advisors compensated on REIT transactions?

For helping you invest in REITs, Wells Fargo Advisors and your financial advisor are compensated in ways that vary depending on the selected investment. Your financial advisor will receive compensation in the form of a commission from most transactions.

For most purchases, a financial advisor's compensation is based on the dollar amount purchased or sold in the REIT transaction. In certain fee-based accounts, a financial advisor's compensation is based on a percentage of assets in the account. The compensation formula that determines the amount of payment to your financial advisor is generally the same for all REITs.

In addition to receiving compensation, your financial advisor may receive internal credits in the syndicate allocation process for sales in REITs and other products. Financial advisors may receive allocations of new syndicate deals based on the number of internal credits accumulated. For example, a financial advisor accumulating a large number of internal credits based on past sales of those transactions, may receive a greater allocation of a new syndicate issue than a financial advisor with fewer credits.

Within the division that operates in Wells Fargo financial centers and some Wells Fargo branches, a licensed banker may refer you to a financial advisor, as they generally work as a team. In this case, the licensed banker will be compensated through a referral arrangement with the financial advisor. Wells Fargo Securities, LLC (WFS), may receive compensation for making a market and keeping an inventory in the common stock of select REITs. WFS or its affiliates may receive compensation for investment banking services of select REITs.