10 Reasons to Consider InPoint, a Commercial Real Estate Credit REIT

In all market environments, investors seek alternative and reliable sources of income. Commercial real estate (CRE) credit may be a compelling option to support ongoing income needs, specifically during times of market volatility. It is a favorable market environment with more than $2.1 trillion in U.S. CRE loans due to mature over the next five years. InPoint Commercial Real Estate Income, Inc. (InPoint) is a commercial mortgage real estate investment trust (REIT) that originates, acquires and manages a diversified portfolio of CRE investments primarily comprised of floating-rate CRE loans.

Why consider an investment in InPoint?

1. **Offset Market Volatility.** Public equity markets are unpredictable, with ongoing volatility potentially becoming a fact of life. Because InPoint is not a traded security, its value does not fluctuate with the equity markets. The value of a CRE credit REIT, however, may shift due to changes in interest rates, loan prepayment or other risks associated with this type of product. To potentially minimize portfolio volatility, consider diversifying with CRE credit to take a portion of a portfolio out of turbulent equity markets.

2. **Established Portfolio.** InPoint’s capital preservation investment objective has been in place since 2016 and has supported the fund’s steady growth into a mature CRE credit portfolio comprised of first mortgage loans, credit loans and CMBS (commercial mortgage-backed securities). The underlying real estate is based in the U.S. and well-diversified by property type, owner/operator, tenant and geography. It is important to note that there are inherent risks in any investment objective and an individual should be able to withstand the loss of the entire investment.

3. **Lower Correlation Benefits.** Too much correlation in a portfolio, especially in volatile markets, may result in unnecessary risk and asset classes behaving alike. Alternative investment solutions, such as CRE credit, behave differently than equity investments and may mitigate negative equity movements and improve risk-adjusted returns.

4. **Historical Higher Total Returns with Less Volatility.** For over two decades, CRE mortgages have provided a higher total return with less volatility than the investment grade corporate bond market. From December 31, 1996 through June 30, 2019, the LifeComps Commercial Mortgage Loan Index delivered a 6.7% average annual total return with 3.7% volatility, compared to a 5.7% average annual return for the Barclays Investment Grade Corporate Bond Index with 5.2% volatility.¹

5. **Reliable Income Potential.** The cornerstone of many CRE credit offerings is contractual payments from the borrower, thereby potentially providing consistent distributions. If property values drop, the borrower may lose some equity but, in order to protect their overall real estate investment, will likely continue to make loan payments. Nonetheless, distributions are not guaranteed and may not be considered income, but rather a return of capital.

6. **Diversification Opportunity.** Floating-rate CRE credit may be a strategic portfolio consideration to help diversify assets. Modern portfolio theory advocates diversification to minimize overall risk. In other words, investors may reduce overall portfolio risk by allocating their portfolios among a variety of investments to weather different market conditions.

7. **Attractive Investment Solution.** More advisors are turning to alternative investment solutions to build a portfolio that can add value in both bull and bear market environments. Preqin has forecasted substantial growth of alternative assets from $8.8 trillion in 2017 to $14 trillion in 2023. Some of this movement will be headed to private debt, as many sources cite that investors are below their target allocations. In fact, “80% of surveyed investors expect to invest more capital in private debt in the next 12 months.”²

8. **Investor Expansion.** REITs’ greater transparency and reporting have contributed to the strong inflows seen into CRE Credit REIT strategies.³ Longer term growth may include foreign investor capital and development of new investment vehicles to access the defined contribution market.

This sales and advertising literature is neither an offer to sell nor a solicitation of an offer to buy securities. An offering is made only by the prospectus. This literature must be read in conjunction with the prospectus in order to fully understand all of the implications and risks of the offering of securities to which the prospectus relates. A copy of the prospectus must be made available to you in connection with any offering. No offering is made except by a prospectus filed with the Department of Law of the State of New York. Neither the Securities and Exchange Commission, the Attorney General of the State of New York, nor any other state securities regulator has approved or disapproved of these securities or determined if the prospectus is truthful or complete. Any representation to the contrary is a criminal offense. Please see reverse side for important disclosures.
9. **Favorable Investment Environment.** More than $2.1 trillion of U.S. CRE loans are set to mature over the next five years creating attractive loan origination opportunities for alternative lenders. Our portfolio managers see more demand than supply, which bodes well for investors.

10. **Loans Have Performed Well Across Market Cycles.** CRE quarterly loan losses have averaged 0.42% over 25 years ended December 31, 2018. CRE loan losses have historically only spiked during major financial crises such as the late 1980s Savings & Loan crisis and the 2008 Great Recession. Outside of major liquidity crises, CRE loans have performed well through volatile and stable interest rate environments.5,6

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**How does a CRE credit REIT work?**

Some CRE credit investments can be confusing to investors because credit is also called debt and can be associated with borrowing. However, a common form of investment is in a CRE credit or commercial mortgage REIT. In this instance the CRE credit REIT serves as the lender and makes a profit from the difference between interest income on mortgage assets and funding costs. The typical goal of these types of products is to primarily originate loans that are in a senior position within the capital structure. Therefore, if property values drop, the equity portion may lose value, but the borrower frequently continues to make loan payments to protect their equity portion. However, it should be noted that CRE credit REITs are also subject to default risk, which means the borrower may stop making loan payments, and that would negatively affect the performance of the loan. So, while credit is senior to equity in the capital structure, it does not prevent CRE credit REITs from suffering losses.

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**Capital Stack**

- **Common Equity**
- **Preferred Equity**
- **Mezzanine Debt**
- **Senior Debt**

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**Footnotes**

1. All data as of June 30, 2019. Past performance is not a guarantee of future results. Benchmarks shown are for illustrative purposes only. An investment cannot be made directly in an index. InPoint's performance may be lower or higher and differ substantially than the indices shown. CRE first mortgages are represented by the LifeComps Commercial Mortgage Loan Index. The LifeComps Commercial Mortgage Loan Index measures actual private commercial mortgage market loan cash flow and performance data collected quarterly from participating life insurance companies since 1996. Commercial mortgages may be subject to default risk. Investment Grade Corporates are represented by the Bloomberg Barclays Investment Grade Corporate Bond Index. The Bloomberg Barclays Investment Grade Corporate Bond Index measures the U.S. dollar-denominated investment grade, fixed rate, taxable corporate bond market. Corporate bonds may be subject to default and interest rate risk. Each asset class is suitable for specific investor objectives, which vary greatly.


4. Trepp – Based on Federal Reserve Flow of Funds Data. September 2019. There is no guarantee that market conditions will continue to be favorable.


Investing in our common stock involves a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment. You should carefully review the “Risk Factors” section of the prospectus for a more detailed discussion. Some of the more significant risks relating to an investment in our shares include:

- We have a limited operating history, and there is no assurance that we will achieve our investment objectives.
- This is a “blind pool” offering. You will not have the opportunity to evaluate our future investments before we make them.
- Since there is no public trading market for shares of our common stock, repurchase of shares by us will likely be the only way to dispose of your shares. Our share repurchase plan will provide stockholders who have held their shares for at least one year with the opportunity to request that we repurchase their shares on a monthly basis, but we are not obligated to repurchase any shares and may choose to repurchase only some, or even none, of the shares that have been requested to be repurchased in any particular month at our discretion. In addition, repurchases will be subject to available liquidity and other significant restrictions.
- We cannot guarantee that we will make distributions, and if we do we may fund such distributions from sources other than cash flow from operations, including, without limitation, the sale of assets, borrowings, return of capital or offering proceeds, and we have no limits on the amounts we may pay from such sources.
- Following the NAV Pricing Date, the purchase and repurchase price for shares of our common stock are generally based on our prior month’s NAV (subject to material changes as described above) and are not based on any public trading market. The valuation of our investments is inherently subjective, and our NAV may not accurately reflect the actual price at which our investments could be liquidated on any given day.
- We have no employees and are dependent on the Advisor and the Sub-Advisor to conduct our operations. The Advisor and the Sub-Advisor will face conflicts of interest as a result of, among other things, the allocation of investment opportunities among us and Other Sound Point Accounts, the allocation of time of their investment professionals and the substantial fees that we will pay to the Advisor and that the Advisor will pay to the Sub-Advisor.
- This is a “best efforts” offering. If we are not able to raise a substantial amount of capital on an ongoing basis, our ability to achieve our investment objectives could be adversely affected.
- If we fail to maintain our qualification as a REIT and no relief provisions apply, we will have to pay corporate income tax on our taxable income (which will be determined without regard to the dividends paid deduction available to REITs) and our NAV and cash available for distribution to our stockholders could materially decrease.

As with any investment, there are certain risks associated with credit investing. Such risks include, but are not limited to:

- The risk of nonpayment of scheduled interest or principal payments on a credit investment, which may affect the overall return to the lender;
- Interest rate fluctuations, which will affect the amount of interest paid by a borrower in a floating-rate loan that adjusts to current market conditions;
- Default risk, which means that the loan may not be repaid by the borrower; and
- The risks typically associated with real estate assets, such as changes in national, regional and local economic conditions, local property supply and demand conditions, ability to collect rent from tenants, vacancies or ability to lease on favorable terms, increases in operating costs, including insurance premiums, utilities and real estate taxes, federal, state or local laws and regulations, changing market demographics, changes in availability and costs of financing and acts of nature, such as hurricanes, earthquakes, tornadoes or floods.

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