



BLUEVAULT™

TERRY COLLEGE OF BUSINESS,
UNIVERSITY OF GEORGIA

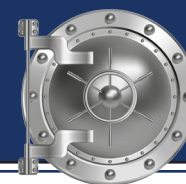
Fourth Edition Nontraded REIT Full-Cycle Performance Study *(Sample)*

January 25, 2016

Dr. Richard Martin, Terry College of Business, University of Georgia,
James Stevens, Terry College of Business, University of Georgia,
James Sprow and Maria Smorgonskaya, Blue Vault

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)

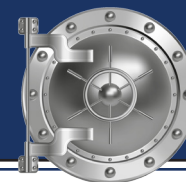


Contents

Introduction			
Executive Summary			
History of the Non-Traded REIT Industry			
Market Trends in Commercial Real Estate and Full-Cycle Events			
Sample Description			
Market Environments and Full-Cycle REIT Life Cycles			
Performance Life Chart			
Average Regional Weights* (averaged across quarters)			
Average Property Type Weights (averaged across quarters)			
Sample Description Summary Statistics			
Return Calculation Methodologies (Overview)			
Return Calculation Methodologies (Formulas and Example)			
Benchmark Construction			
Benchmark Construction (FTSE NAREIT Traded Benchmark construction)			
Performance Relative to Custom Benchmarks			
Performance Relative to Custom NCREIF Benchmarks			
Performance Relative to Custom FTSE NAREIT Benchmarks			
Performance Relative to the NCREIF Index (without customized weightings)			
Performance Relative to FTSE NAREIT Index (without customized weightings)			
Performance vs. the S&P 500 Stock Index and Intermediate Term U.S. Treasury Total Returns			
Performance Relative to S&P 500 Index			
Performance Relative to Intermediate-Term U.S. Treasury Bond Portfolio			
Performance Relative to Changes in Intermediate-Term U.S. Treasury Bond Yields			
Correlation of Nontraded REIT Full-Cycle Returns with Market Index Returns			
Performance by Type of Full-Cycle Event			
Performance by Type of Full-Cycle Event vs Private and Public Benchmarks			
Performance by REIT Sponsors			34
Impact of Fees on Performance	1		37
Impact of Fees on Performance	2		40
Investment Timing	3		42
Performance Attribution	4		43
Investor Returns for Tender Offers	6		44
Investor Returns for Share Redemptions	8		47
Nontraded REITS by Year	9		51
Appendix I (REITs Excluded from Sample)	11		52
Appendix II (Classification of Geographical Regions)	14		53
Appendix III (Scatter Chart Labels)	17		54
Appendix IV (REIT Name Changes)	19		55

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)



Introduction

In June, 2012, Blue Vault published the first comprehensive study of full-cycle events in the nontraded REIT industry. In this updated study, with the addition of 10 full-cycle events that were completed between November 11, 2015 through October 1, 2015, the sample size analyzed totals 45 REITs. This study was prepared in collaboration with Dr. Richard Martin of the Real Estate Program, Terry College of Business, University of Georgia.

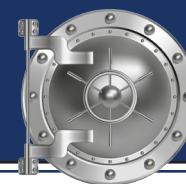
The purpose of this study is to assess the performance of nontraded REITs that have provided shareholders with full liquidity. Full-cycle events in the nontraded REIT industry occur when a REIT completes a listing of its common stock on a public exchange, is acquired by or merges with another entity, or liquidates its real estate portfolio. A full-cycle event provides shareholders with the opportunity to completely liquidate their common stock holdings in arms-length transactions for the first time. While nontraded REITs typically offer above-average distribution yields, one cannot fully assess their performance until their shareholders experience a full-cycle exit event that provides them with liquidity.

In January 2016, the release of the fourth annual Nontraded REIT Full-Cycle Performance Study will update results from the 2014 study and will again utilize custom benchmarks designed to match the individual REIT portfolios in regard to asset type and geographic diversification, and will answer the following questions:

- How did the average returns to shareholders in all nontraded REITs that have completed full-cycle events compare to the returns to shareholders in traded REITs over matched holding periods, adjusted for asset types, leverage and costs of debt?
- How did the average returns to shareholders in all nontraded REITs that have completed full-cycle events compare to the returns to private commercial real estate portfolios over matched holding periods, adjusted for asset types, regional diversification, leverage and costs of debt?
- How did the average returns to shareholders in all nontraded REITs that have completed full-cycle events compare to the returns to the unweighted NCREIF Total Index and unweighted FTSE-NAREIT All Equity REIT Index over matched holding periods?
- How did the average returns to shareholders in all nontraded REITs that have completed full-cycle events compare to total returns on the S&P 500 Index and Intermediate Term Treasury Bonds over matched holding periods?
- Did the average returns to nontraded REIT shareholders differ significantly depending upon the timing of their investments made during their respective public offering periods?
- How would the average nontraded REIT shareholder returns from full-cycle events compare to custom benchmark returns when adjusted for a hypothetical average front-end load of 12%?
- How did those shareholders who redeemed shares via share redemption programs fare compared to investors who held shares until the full-cycle event?
- How did those shareholders who tendered shares to third parties prior to the full-cycle events fare compared to investors who held shares until the full-cycle event?
- Was there a significant relation between the annualized returns of the full-cycle REITs and the changes in interest rates over the life cycles of the REITs as represented by changes in yields on 10-Year U.S. Treasury Bonds?

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)



Executive Summary

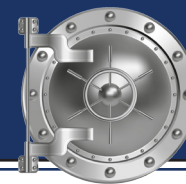
- Between April, 1997 and October 1, 2015, 45 nontraded REITs have experienced full-cycle events, providing investors with full liquidity for their common shares.
- Two additional nontraded REITs as referenced in the Appendix I on page 48 have not yet provided full liquidity to their common shareholders due to the fact that they have created “tranches” of common share types that are not, as yet, exchange trade-able or have not yet reported terminal cash payouts to common shareholders upon total liquidation of portfolios.
- The 10 most recent full-cycle events that took place between November 2014 and October 2015 consist of firms with average asset values of approximately \$1.34 billion vs. \$1.01 billion in the first study published in 2012. The average asset value for all 45 REITs over their lives was \$1.36 billion.
- The latest set of full-cycle REITs includes a self-storage REIT and a timberland REIT for the first time (SmartStop Self Storage, Inc. and CatchMark Timber Trust, Inc. respectively).
- The 10 REITs with full-cycle events since November, 2014 had average full-cycle returns of 4.43% and median returns of 5.80%, and two experienced negative returns.
- For the full sample of 45 nontraded REITs, 23 listed on public exchanges, 11 were acquired by publicly-traded firms, eight were acquired by or merged with nontraded REITs, and three were acquired by a private firm for cash.
- For each nontraded REIT, we calculate an internal rate of return (IRR), or average compounded rate of return experienced by investors in two ways. The first IRR calculation assumes no reinvestment of distributions. The second calculation assumes that all distributions were reinvested at the then-prevailing price for reinvestments (which may include DRIP discounts).
- Realized common shareholder returns for the 45 full-cycle REITs assuming reinvestment of distributions ranged from -7.75% to 20.52%, with an average of 7.50% and a median of 8.13%. Assuming no reinvestment of distributions, the average IRR was 6.92% and the median was 7.35%.
- The average annual distribution yield over the lives of the 45 REITs in this study was 6.90%, using quarters in which distributions were paid and based upon the initial offering prices.
- Consistent with prior studies, this updated study also constructs unique custom benchmark return comparisons for each REIT, utilizing NCREIF appraisal-based quarterly returns as reported by institutional investors and FTSE NAREIT indices for the returns of publicly-traded REITs.
- The average IRR for the custom benchmarks constructed by matching location and property type data for each REIT and the appropriately weighted and levered NCREIF indices was 11.60% with a median of 11.05%, 2.92% higher than the actual median IRR, with DRIP, for the 45 nontraded REITs.
- The average IRR for the custom benchmarks constructed by weighting returns on the FTSE NAREIT indices for each property type to match the nontraded REITs’ portfolios over time, again adjusting for differences in leverage, was 11.28% with a median of 11.29%, 3.16% higher than the actual median IRR for the 45 nontraded REITs.
- When comparing the full-cycle IRRs of the 45 nontraded REITs to the custom benchmarks, we find that 20 of 45 REITs (44%) outperformed one or both of their respective custom benchmarks. Of the 45 REITs, 14 (31.1%) outperformed the private (NCREIF) benchmark and 12 (26.7%) outperformed the publicly-traded (FTSE NAREIT) benchmark, while six (13.3%) outperformed both.

Market Trends in Commercial Real Estate and Full-Cycle Events

The following chart relates the occurrence of full-cycle events in this study to the valuation trends in the commercial real estate market as represented by the FTSE All REIT Price Index and the NCREIF Index. Both of these indices measure the valuations of component portfolios, not the total returns on those portfolios. The valuations in the commercial real estate markets were impacted by the three recessions that have occurred since the inception of the first non-traded REITs in our sample in 1990. Clearly, there appears to be a relation between the occurrence

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)

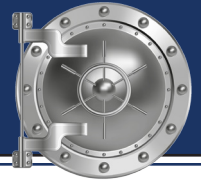


of full-cycle events and market conditions. The timing of a REIT's inception, property portfolio investments and full-cycle event relative to these market trends will play a critical role in determining investor returns.

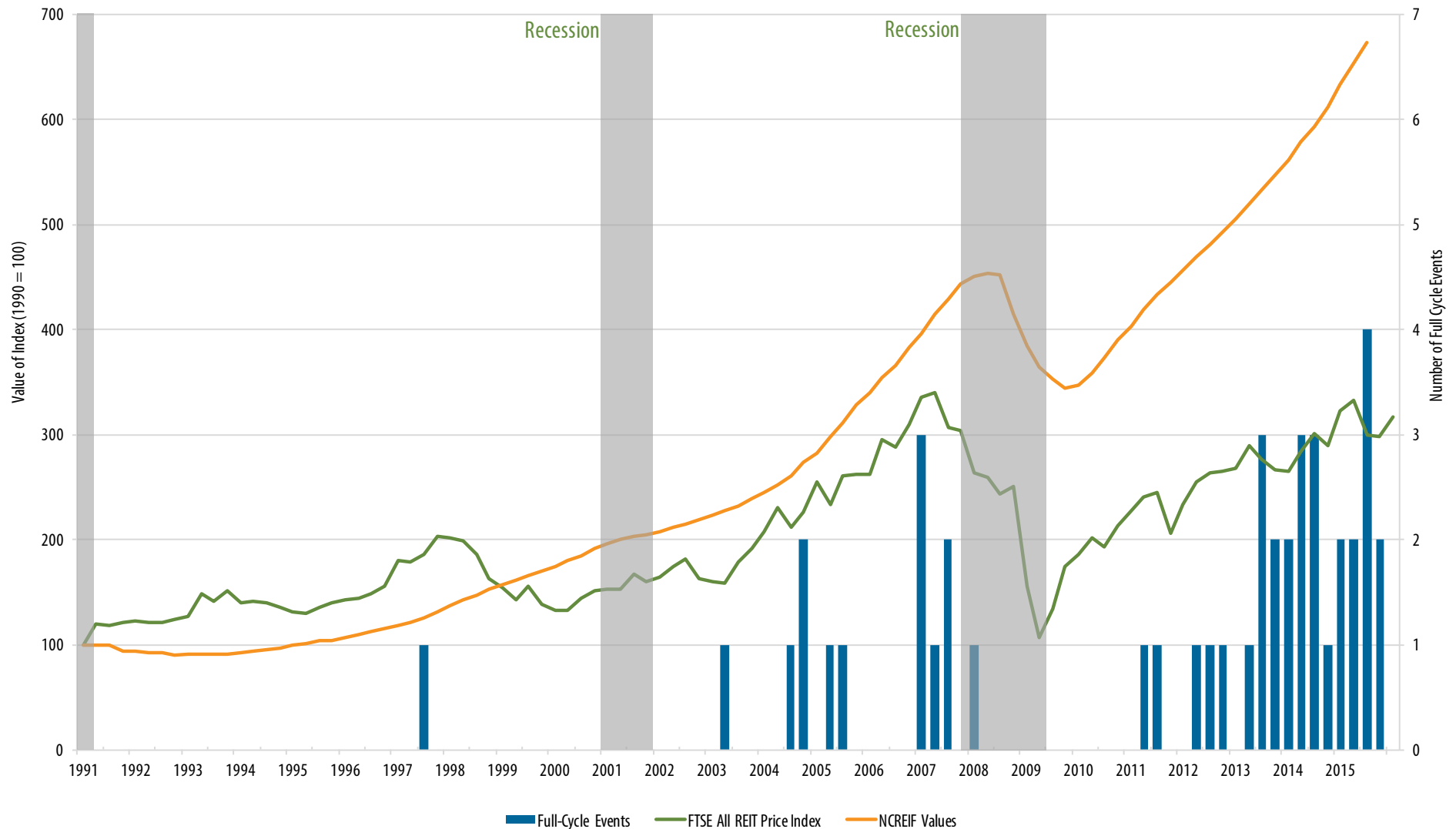
The 10 full-cycle events that have been added to the sample for this updated study had inception dates ranging from February 19, 2003 to April 20, 2012 and experienced market conditions, on average, more favorable in terms of price appreciation compared to their counterparts in the earlier studies. The average annual return in the FTSE NAREIT All Equity Index over the total holding periods of the latest 10 full-cycle REITs was 11.1%. The average annual increase in the NCREIF National Index over the total holding periods of the latest 10 full-cycle REITs was 9.2%. The following chart illustrates the cycles experienced by the commercial real estate markets over the life of the non-traded REITs in this study. Recessions are shaded.

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)

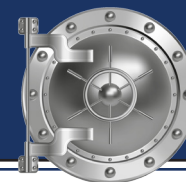


Full-Cycle Events to the Valuation Trends in the Commercial Real Estate Market as Represented by the FTSE All REIT Price Index and NCREIF Index



Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)



Sample Description

In this updated study, we analyze the performance of 45 nontraded REITs whose investors have experienced a full-cycle liquidity event between April 1997 and October 2015. To be considered a full-cycle liquidity event, shareholders must have had the ability to convert their entire investment to cash. The qualifying means of conversion include an acquisition of the REIT's shares by another firm in exchange for cash, a merger with a private entity or an entity that is or ultimately becomes publicly traded, or the REIT's listing of all of its common shares on a stock exchange. For those nontraded REITs that were acquired by another nontraded REIT, we keep track of the number of shares involved and use the subsequent liquidity event for the acquirer as the final liquidity event date for the acquired REIT.

Our assumption is to consider the first date at which a shareholder could receive cash as the liquidity event. In other words, for acquisitions where shareholders had the option of receiving cash or shares, we assume that the shareholders received cash. For nontraded REITs that were acquired by publicly-traded firms, we use the first date at which the nontraded REIT's shareholders could sell their holdings in the public market as the liquidity-event date. For several REITs, common shares were converted into different classes of shares via a stock distribution, and over time a portion of the outstanding shares became exchange trade-able. For those REITs, we consider the date when all shares could be traded on an exchange as the full cycle date. We define the date of inception as the date that the REIT began to raise external capital.

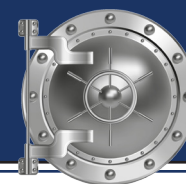
The table on the following page describes the nontraded REITs in the 2015 sample in more detail. Dates of inception range from June 1990 to June 2012, while the full-cycle liquidity events range from April 1997 through October 2015. For each nontraded REIT, we collected several pieces of information from their quarterly and annual filings. First among these are the data needed to compute returns – prices with and without a discount for any distribution Reinvestment Program (DRIP) and quarterly distributions to shareholders. Next, we collected for each quarter the fraction of each REIT's portfolio (i.e., the weight) that was invested across eight different regions of the US and internationally, and across 10 property types (apartment, office, industrial, retail, hotel, self storage, timberland, other, healthcare and mortgages/CRE debt). These regional and property-type weights both sum to 100%, where we used book values to determine the relative size of each investment. Finally, we collected the total assets

and leverage for each nontraded REIT during all quarters (again, using book values), along with the amount of capital that was raised and reinvested each quarter throughout the REIT's lifecycle.

The goal of the 2015 full-cycle performance study is to provide an assessment of performance for those nontraded REITs that have experienced a full-cycle event since the inception of the industry. While more than 45 nontraded REITs have experienced liquidity events during this time frame, performance for only 45 nontraded REITs are included in the 2015 study, as listed on the next page. We note that three nontraded REITs were excluded from the sample because their shareholders have not yet achieved full liquidity as explained in Appendix I. As of January 17, 2016, there have been no other full-cycle events by nontraded REITs after the latest such event in our sample (September 29, 2015).

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)

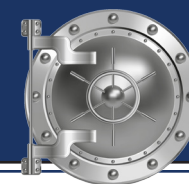


Sample Description Table

Nontraded REIT*	Date of Inception	Date of Full Liquidity Event	Liquidity Event Type
American Realty Capital Global Trust, Inc.	4/20/2012	6/2/2015	Listed NYSE
American Realty Capital Healthcare, Inc.	2/18/2011	4/7/2014	Listed on NASDAQ
American Realty Capital NY Recovery, Inc.	9/2/2010	4/15/2014	Listed on the NYSE (NYRT)
American Realty Capital Trust, Inc.	1/25/2008	3/1/2012	Listed on NASDAQ
American Realty Capital Trust III, Inc.	3/31/2011	2/28/2013	Merged with American Realty Capital Properties, Inc. (ARCP)
American Realty Capital Trust IV, Inc.	6/8/2012	1/3/2014	Merged with American Realty Capital Properties, Inc. (ARCP)
Apple Hospitality Five, Inc.	12/3/2002	10/11/2007	Acquired by Inland American Real Estate Trust
Apple Hospitality REIT, Inc.	4/25/2008	5/18/2015	Listed NYSE
Apple Hospitality Two, Inc.	5/1/2001	5/23/2007	Acquired by Lion ES Hotels, LP (ING Clarion Partners)
Apple REIT Eight, Inc.	7/19/2007	5/18/2015	Listed NYSE (merged with Apple Hospitality)
Apple REIT Seven, Inc.	7/28/2006	5/18/2015	Listed NYSE (merged with Apple Hospitality)
Apple REIT Six, Inc.	1/23/2004	5/14/2013	Acquired by BRE Select Hotels
Apple Residential Income Trust, Inc.	11/19/1996	4/14/2005	Merged with Cornerstone Realty Income Trust, Inc.
Apple Suites, Inc.	7/26/1999	1/31/2003	Merged with Apple Hospitality Two
Carey Institutional Properties Inc.	8/1/1991	8/25/2004	Merged with Corporate Property Associates 15
CatchMark Timber Trust, Inc.	8/14/2006	2/27/2015	Class B-3 shares converted to Class A, eligible to trade on NYSE
Chambers Street Properties	10/24/2006	5/21/2013	Listed on NYSE
CNL Hotels & Resorts, Inc.	7/9/1997	4/12/2007	Acquired by MS Resort Purchaser MSREF, Ashford Hospitality Trust
CNL Restaurant Properties, Inc.	4/29/1995	2/25/2005	Merged with U.S. Restaurant Properties
CNL Retirement Properties, Inc.	9/18/1998	10/5/2006	Acquired by Health Care Property Investors
Cole Credit Property Trust II, Inc.	6/27/2005	7/18/2013	Listed on NYSE
Cole Credit Property Trust III, Inc.	10/1/2008	6/20/2013	Listed on NYSE
Cole Corporate Income Trust, Inc.	2/10/2011	1/29/2015	Merger with SIR
Columbia Property Trust, Inc.	12/1/2003	10/10/2013	Listed on NYSE
Cornerstone Realty Income Trust, Inc.	12/31/1992	4/18/1997	Listed on NYSE
Corporate Property Associates 10, Inc.	6/20/1990	8/25/2004	Merged with Carey Institutional Properties Inc.
Corporate Property Associates 12, Inc.	2/18/1994	12/1/2006	Merged with Corporate Property Associates 14
Corporate Property Associates 14, Inc.	12/11/1997	5/2/2011	Merged with Corporate Property Associates 16 - Global

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)



Sample Description Table

Nontraded REIT*	Date of Inception	Date of Full Liquidity Event	Liquidity Event Type
Corporate Property Associates 15, Inc.	11/30/2001	9/28/2012	Merged with W.P. Carey, Inc.
Corporate Property Associates 16 Global, Inc.	12/1/2003	1/31/2014	Merged with W.P. Carey, Inc.
DCT Industrial Trust Inc.	7/17/2002	12/13/2006	Listed on NYSE
Griffin-American Healthcare REIT II, Inc.	8/24/2009	12/3/2014	Merger with NorthStar
Healthcare Trust of America, Inc.	9/20/2006	11/8/2013	Class B-3 shares converted to listed Class A shares
Independence Realty Trust, Inc.	6/10/2011	8/13/2013	Listed on NYSE
Inland Diversified Real Estate Trust, Inc.	8/24/2009	7/1/2014	Merged with Kite Realty Group (KRG)
Inland Real Estate Corporation	10/14/1994	6/9/2004	Listed on NYSE
Inland Retail Real Estate Trust, Inc.	2/11/1999	3/14/2007	Acquired by Developers Diversified Realty Corp.
Inland Western Retail Real Estate Trust, Inc.	9/15/2003	10/7/2013	Class B-3 common shares converted to listed Class A shares
Monogram Residential Trust, Inc.	9/5/2008	11/21/2014	Listed on NYSE
Paladin Realty Income Properties, Inc.	2/25/2005	1/31/2014	Acquired by Resource Real Estate Opportunity REIT for cash
Piedmont Office Realty Trust, Inc.	1/30/1998	1/30/2011	Listed on NYSE (2/10/2010)
SmartStop Self Storage, Inc.	3/17/2008	9/29/2015	Merger with EXR
TIER REIT, Inc.	2/19/2003	7/23/2015	Listed NYSE
United Development Funding IV	11/12/2009	6/4/2014	Listed on NASDAQ Global Select Market
Whitestone REIT	9/15/2004	6/27/2012	Class A unlisted common shares converted to listed Class B shares

*See Appendix IV for a list of REIT name changes.

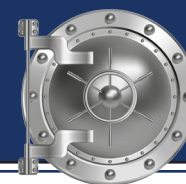
Market Environments and Full-Cycle REIT Life Cycles

The following charts illustrate the lives of the 45 full-cycle REITs in this study, along with real estate prices over time. The earliest REIT was Corporate Properties Associates 10, which was started in 2Q 1990. The most recent was American Realty Capital Global Trust, which launched in 2Q 2012. The FTSE Relative Price Index (Base Year 1990 = 100) shown as an overlay illustrate the different valuation environments in which the nontraded REITs were raising funds, deploying investments, and achieving liquidity, all of which can have a significant effect on full-cycle return.

On the chart, the colored bars represent the life of each REIT. The outlined periods represent approximately the equity offering quarters. Red represents the lowest relative FTSE NAREIT Price Index values within the REIT's life. Green represents the relatively highest price index values within the REIT's life.

Fourth Edition Nontraded REIT Full-Cycle Performance Study

(Sample)



Correlation of Nontraded REIT Full-Cycle Returns with Market Index Returns

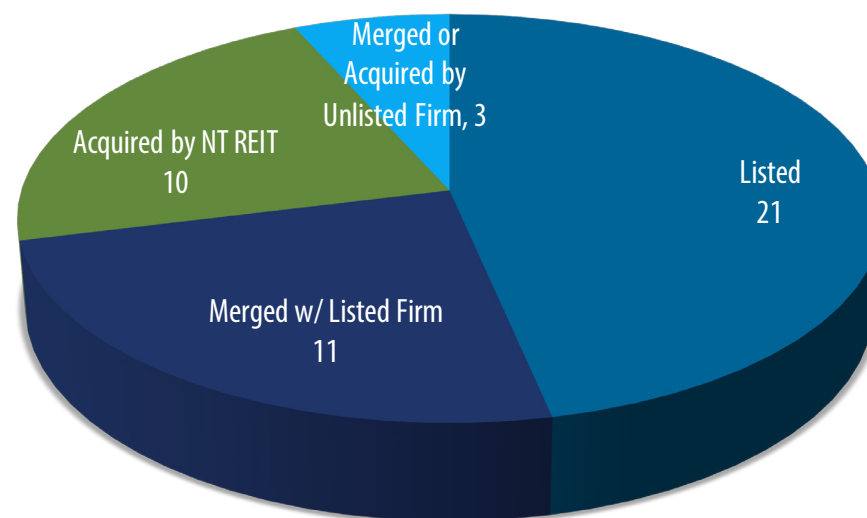
Given the difficulties in calculating a full time-series of returns for all nontraded REITs due to the lack of market valuations during most of their respective lives, we examine the cross-sectional correlations of their total average returns to the average returns on other indices over matched holding periods to shed light on the relations between nontraded REIT returns and other asset classes.

The returns on full-cycle nontraded REITs show positive cross-sectional correlations with both the private portfolios in the NCREIF index (+0.312) and the publicly traded REIT portfolios in the NAREIT index (+0.350). Interestingly, the cross-sectional correlation of full-cycle nontraded REIT returns with the S&P 500 stock index is lower (+0.178), indicating these REITs could provide diversification benefits within a portfolio context with well-diversified common stocks. Further, the cross-sectional correlation of nontraded REIT returns with the Intermediate-Term Bond returns was significantly negative, indicating potential diversification benefits when a group of nontraded REITS are combined with bonds in a portfolio.

Correlations Matrix	Nontraded REIT Return	NCREIF Return	FTSE NAREIT Return	S & P 500 Return	Int Bond Returns
Nontraded REIT Return		0.31	0.35	0.18	-0.16
NCREIF Return	0.31		0.69	0.26	-0.15
FTSE NAREIT Return	0.35	0.69		0.32	-0.05
S & P 500 Index Returns	0.18	0.26	0.32		-0.63
Intermediate Treasury Bond Returns	-0.16	-0.15	-0.05	-0.63	

Performance by Type of Full-Cycle Event

Within the 45 nontraded REITs that experienced full-cycle events, we next examined whether there were differences in average investor rates of return depending upon the nature of the full-cycle event.





BLUEVAULT™

www.BlueVaultPartners.com

407 E. Maple St., Suite 305

Cumming, GA 30040

Toll Free: 877-256-2304

Connect with us socially!

Interested in learning more about nontraded REITs and BDCs? Blue Vault offers free educational tools, videos, blogs and more to help educate financial advisors and protect investors.

Visit us at www.BlueVaultPartners.com to learn more about what we offer!

Interested in breaking news and industry updates? Sign up for our free NewsWire and receive industry news throughout the week. For more frequent updates and news delivered as it breaks, please connect to us socially!

