BlueVault PARTNERS, LLC

Top Line Assessment of the Nontraded REIT Industry – 2nd Quarter 2013

The nontraded REIT industry continues to break records and exceed expectations as sponsors raised 96% more from investors in 2Q 2013 than they did during 2Q 2012. In addition, new capital received from investors during the first half of 2013 totaled $8.8 billion, more than the total capital raised in all of 2011. Driven primarily by the full-cycle events that have occurred to date, the industry is on pace to raise at least $15 billion for the year.

Given the accelerated pace of fundraising, one would expect that the industry would have difficulty placing the capital quickly. However, acquisitions have maintained a steady pace and are in line with the overall commercial real estate sector. In fact, according to Real Capital Analytics, commercial property transaction activity for the first half of the year was up over 25% compared to 2012. Transaction activity during the first half of the year within the nontraded REIT industry has been even higher with a 38% increase in acquisition volume. In terms of actual dollars, real property purchases through June 30, 2013 totaled $7.9 billion compared to $5.8 billion purchased during the first six months of 2012.

Nontraded REITs have also been the key topic of conversation among its publicly traded REIT peers as a result of the unprecedented number of full-cycle events that have occurred and announced year to date. With six deals valued at $12.8 billion having been completed through August 2013 and five more expected to be completed by the end of the year, total industry assets are expected to decline back to 2009 levels by early 2014.

Key Nontraded REIT Trends

- **Acquisitions** – Transactions for 2Q 2013 increased to $5.1 billion, 76% greater compared to 1Q 2013 and roughly $2.5 billion more than 2Q 2012.
- **Dispositions** – Real property sales by nontraded REITs totaled $1.5 billion in 2Q 2013, a slight increase from the $1.1 billion sold in 1Q 2013 and a 223% increase compared to 2Q 2012.
- **Most Active REITs** – The five most active REITs acquiring properties were responsible for $3.0 billion of real property purchases representing 59% of all transactions that occurred during 2Q 2013. The five most active REITs disposing of properties during 2Q 2013 were responsible for 95% of all transactions.
- **Capital Raise** – Nontraded REITs raised $4.9 billion in 2Q 2013, up by roughly 104% compared to the $2.4 billion raised during 2Q 2012 and up $1.0 billion and a 26% increase over 1Q 2013.
- **New Offerings** – Eight new offerings have been introduced through August 2013 with two out of the eight being managed by “first-time” nontraded REIT sponsors.
- **Full-Cycle Events** – Six full-cycle events were completed during the first eight months of 2013 with three having been acquired by a third-party entity and three having listed directly on a national stock exchange.

This issue of the Nontraded REIT Industry Review will focus on the Retail sector and offers detailed commentary for thirteen REITs that focus primarily on purchasing retail properties or own a significant amount of retail assets within their portfolios. In addition, a discussion of the full-cycle events completed by Cole Credit Property Trust II, Inc., Cole Credit Property Trust III, Inc. and Independence Realty Trust can be found at the back of the report.

Capital Market Overview

As both private and foreign investors have returned to the U.S. looking to purchase commercial real estate investments, that same optimism has spilled over to the retail sector as individual investors are investing unprecedented amounts of capital into nontraded REITs. And as long as the industry continues to generate good news and consistently return capital to investors via full-cycle events, this trend may well continue into 2014.

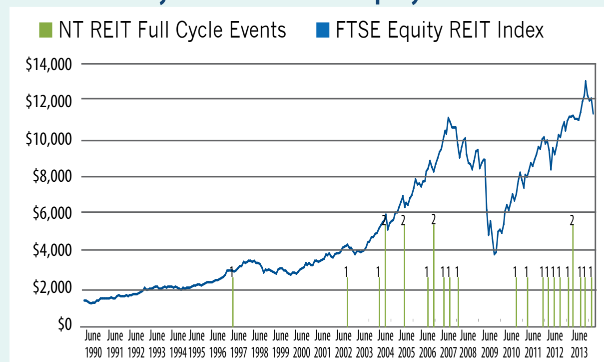
The year 2013 has already seen more announced full-cycle events for nontraded REITs than any previous year. To date, six nontraded REITs have completed liquidity events and five more have made public announcements that they intend to do so by the end of the year. With less than four months remaining, 2013 will produce as many liquidity events as the previous five years combined.

But what makes 2013 so special? First, we should recognize that the industry has seen a record number of nontraded REITs enter the Maturing and Liquidating LifeStages. As of June 30, there were a total of 30 REITs which accounted for 72% of the total industry assets. And of those 30

, seven were classified in the “Liquidating” LifeStage, positioning their portfolios for listing, sale or merger.

Besides the obvious signs related to LifeStage transition, if we dissect the broader REIT industry, we are able to identify additional market trends to help explain the surge in full cycle announcements. For example, looking back at all of the full cycle events which have occurred in the nontraded REIT industry since its inception, it is interesting to plot the timing of those full cycle events against the backdrop of equity REIT performance in general. We can use the FTSE NAREIT Equity REIT Index as a proxy for market valuations of REIT shares. In the chart below, it is clear that the number of full cycle events taking place in the nontraded REIT space is related to market valuations for the traded REITs. A simple observation might be that nontraded REIT sponsors are more likely to announce liquidity events in a strong REIT market than in a weaker valuation environment. That certainly makes intuitive sense.

NT REIT Full Cycle Events & FTSE Equity REIT Index



At first glance, it appears that sponsors were able to "time the market" and avoided going full-cycle when their portfolio valuations were lower. To further test this idea, through the period ending June 30, 2013, we examined the 12-month trend in the FTSE index both prior to and after the full cycle events for 18 REITs for which both periods can be calculated. The average annual increase in the index immediately prior to the full cycle events was 23.4%, while the average increase after the events was 9.9%. Of the REITs in the sample, five timed their full cycle events to avoid a subsequent 12-month loss in the index, and 12 of 18 timed their events such that the prior 12-month return on the index exceeded the returns during the following year. The probability that 12 of 18 REITs would successfully time their liquidity events in such a way by chance is only about 12%.

Even allowing for the small sample size, it is interesting to consider that the bumper crop of full cycle events among nontraded REITS in 2013 might be related in some way to sponsors taking advantage of current market conditions to "strike while the iron is hot." And for those sponsors that have, the capital flowing back into their open offerings has also been record breaking. Of particular note are AR Capital and Cole Capital. As the top two fundraising sponsors, these two companies were responsible for raising over 50% of all capital during the first half of the year with AR Capital raising over 42% alone. In terms of individual REITs, the top-5 nontraded REITs noted below raised over 50% of all new capital during the first half of the year.

1.	American Realty Capital Trust IV, Inc.	$1,477.8 million
2.	American Realty Capital Healthcare Trust, Inc.	$1,247.0 million
3.	Griffin-American Healthcare REIT II, Inc.	$ 719.4 million
4.	Industrial Income Trust Inc.	$ 533.4 million
5.	NorthStar Real Estate Income Trust, Inc.	$ 473.6 million

Acquisitions

As a result of the significant capital raise, acquisitions volumes are also breaking new records. As noted in the chart below, nontraded REITs (both open and closed) purchased approximately $4.7 billion of commercial real estate properties during the three months ending June 30. This represents a 62% increase over the prior quarter and a 81% increase over 2Q 2012.

During 2Q 2013, 37 nontraded REITs were active in acquisitions compared to 29 during 1Q 2013. Five REITs which did the greatest volume of acquisition transactions were responsible for roughly 57% of the total.

Nontraded REIT Real Property Acquisitions by Quarter
as of June 30, 2013 (in $ Billions)

The five most active nontraded REITs in terms of acquisitions during 2Q 2013 were:

1.	American Realty Capital Trust IV, Inc.	$916.0 million
2.	Cole Corporate Income Trust, Inc.	$539.3 million
3.	Hines Global REIT, Inc.	$510.7 million
4.	Industrial Income Trust, Inc.	$448.2 million
5.	KBS Real Estate Investment Trust III, Inc.	$266.5 million

Dispositions

We continue to note that due to the increase in the number of nontraded REITs transitioning into the Maturing and Liquidating LifeStages during the first half of the year, we continue to see large increases in both the number and volume of commercial properties being sold. During the second quarter, there were 14 REITs that were actively disposing of properties with the top-5 representing 92% of the total volume in terms of dollars.

The five nontraded REITs representing 92% of the total volume in terms of dollars during 2Q 2013 were:

1.	Inland American Real Estate Trust, Inc.	$667.7 million
2.	Hines Real Estate Investment Trust, Inc.	$455.2 million
3.	Behringer Harvard Multifamily REIT I, Inc.	$139.3 million
4.	Dividend Capital Diversified Property Trust, Inc.	$111.4 million
5.	Behringer Harvard Opportunity REIT II	$40.4 million

Retail Sector Overview

All eyes are on consumer spending to continue to lead the U.S. economy out of the worst recession since the Great Depression. Per a recent report by Marcus & Millichap, since the recession, core retail sales have jumped by approximately 20 percent and are now 13 percent above their pre-recession peak.

And in terms of retail properties, while demand for retail locations has only increased by about 2.4%, according to Real Capital Analytics, this sector of the commercial real estate market has had the biggest increase in volume and price appreciation with anchored shopping centers up 12% in price and home-improvement stores, auto retailers and fast-casual restaurant's "paving the way for retail's recovery".[1] Additionally, recent survey results published by PriceWaterhouseCoopers indicates that national retail cap rates are between 6 and 7 percent while Regional Malls have the lowest cap rates at 6.5% and strip centers have the highest with 6.95%.

As retail property types are varied, the following is a brief overview with descriptions:

- **Mall** – the largest properties with multiple anchors and a broad assortment of shops. Malls are predominantly owned by a few traded REITs and institutional owners.
- **Big Box** – large shopping centers with only a few, three to seven, very large retailers.
- **Lifestyle** – a combination of mall and big box tenancy in an outdoor, car and pedestrian friendly setting that can include town squares and other community friendly amenities.
- **Grocery Anchored** – a shopping center built around a chain grocery store. The center sometimes includes a drug store as well or other smaller anchor tenants.
- **Strip Center** – smaller, unanchored retail centers with two to ten tenants.
- **Free Standing/Single Tenant** – typically banks, drug stores and fast food restaurants generally located on the edges of grocery anchored and larger shopping centers including the corners of intersections.
- **Pad Site** – small land parcels upon which single tenant facilities are built.

Retail construction volume remains low as lending for new construction projects remains difficult to obtain. This trend is expected to continue for the next few years as developers focus on redevelopment of existing properties in order to attract and retain tenants. However, this slow down in construction has also been good for the industry and will enable the retail sector to recover as tenants are finding it difficult to relocate to new properties which in turn are resulting in higher rents and occupancy levels in the more desirable locations and centers.

Of the 72 REITs reviewed during 2Q 2013, there were thirteen companies with significant investments in retail properties. In addition to the commentary at the end of this report outlining the full cycle events completed by Cole Credit Properties Trust II and Cole Credit Properties Trust III, for those nontraded REITs that were highly active in acquiring and disposing of properties, the following are significant events of note.

AR Capital, sponsor of three open nontraded REITs that primarily invest in single-tenant, net-lease properties, announced that it plans to shift its focus away from the sector. Based on a belief that the markets are shifting, the Company has begun to turn its attention to other sectors that will allow for more growth over the coming years. In addition, the following are specific highlights on the two largest nontraded REITs currently managed by the firm:

American Realty Capital Trust IV, Inc.

- Between June 2012 and April 2013, the Company raised over $1.7 billion in capital from new investors.
- Subsequent to June 30, 2013, the Company acquired 913 total properties from GE Capital totaling approximately 3.2 million rentable square feet for a contract purchase price of $1.35 billion, exclusive of closing costs.
- On July 1, 2013, the Company entered into an Agreement and Plan of Merger with American Realty Capital Properties, Inc. Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, each outstanding share of common stock of the Company will be converted into the right to receive (i) $30.00 in cash, but in no event will the aggregate consideration paid in cash be paid on more than 25% of the shares of Company Common Stock issued and outstanding as of immediately prior to the closing of the Merger or, in ARCP's discretion, (ii) either (A) a number of shares of ARCP common stock equal to the Exchange Ratio or (B) only if the ARCP Market Price is less than $14.94, 2.05 shares of ARCP Common Stock and an amount in cash equal to the product obtained by multiplying the excess of the Exchange Ratio over 2.05 by the ARCP Market Price.

American Realty Capital Trust V, Inc.

- On August 9, 2013, the Company announced that it planned to purchase a $1.45 billion, 247-property portfolio of net-lease properties from Inland American Real Estate Trust Inc.
- On August 30, 2013, the Company disclosed that within only two months of being declared effective by the SEC, it had raised approximately $1.2 billion of its $1.7 billion offering of common stock and that the offering will close on September 18, 2013.

Other significant investments in retail properties among nontraded REITs:

Phillips Edison – ARC Shopping Center REIT Inc.

- As of June 30, 2013, the Company owned fee simple interests in 46 real estate properties, 20 of which the Company owned through a joint venture with a group of international investors advised by CBRE Investors Global Multi-Managers.
- During the first sixth months of 2013, the Company acquired 20 grocery-anchored shopping centers totaling approximately 2.4 million square feet for an aggregate purchase price of $343.6.
- Subsequent to the end of the quarter, the Company acquired six grocery-anchored shopping centers for an aggregate purchase price of $95.7 million.

Cole Credit Property Trust IV, Inc.:

- As of June 30, 2013, the Company owned178 properties and had $1.28 billion in total assets.
- During the first sixth months of 2013, the Company acquired 89 properties representing 3.3 million square feet for a total purchase price of $717.7 million.
- Between July 27, 2013 and August 23, 2013, the Company acquired 16 properties for an aggregate purchase price of $54.8 million.

[1] National Real Estate Investor, "Time to Buy Retail Properties?," August 22, 2013

Inland American Real Estate Trust, Inc.

- Acquired 396,000 square feet of retail space year to date 2013 for $67.9 million.
- Sold approximately 1,081,000 square feet in 216 retail properties year to date 2013 for approximately $373 million.
- On August 8, 2013, the Company entered into an equity interest purchase agreement with AR Capital, LLC, to sell its core net lease assets, including 294 properties in an all-cash transaction valued at approximately $2,300,000.

Blue Vault Partners 2013 Nontraded REIT Full-Cycle Performance Study Preview

In October 2013, Blue Vault Partners in conjunction with the University of Texas McCombs School of Business will publish its second white paper examining the full cycle performance results of the nontraded REITs. Led by Jay C. Hartzell, Chair of the Department of Finance and Executive Director of the Real Estate Finance and Investment Center, this project compliments previous research Dr. Hartzell has published on real estate investment trusts and alternative means of benchmarking real estate mutual fund performance.

While the first study analyzed data for 17 nontraded REITs that experienced full-cycle liquidity events between 1990 and May 2012, the 2013 report will include results for a total of 26 companies. Along with providing performance results for nine additional nontraded REITs that have recently completed full-cycle events, the updated study will also attempt to provide new insights:

- Compare the return differences of the non-traded REITs to the actual indices (NAREIT, NCREIF).
- Compare the returns of investors who redeemed shares prior to full-cycle events to those who received liquidity as a result of the full-cycle event.
- Compare the time lags involved in net asset values (NAVs) determined by appraisals versus traded REIT values and measure how well traded REIT values forecast NAVs.
- Compare the returns of nontraded REITs by type of full-cycle event (listing, merger, liquidation).
- Include a comparison of nontraded REIT returns to traditional benchmarks such as stocks and bonds.

Furthermore, notable items on the entire data set being examined will include:

- A decline in the amount of time between nontraded REITs being declared effective by the SEC and completing a full-cycle liquidity event from 3.75 years to 23 months.
- An increase in the number of nontraded REITs that listed their stock on a public exchange from five to nine.
- A comparison of individual nontraded REIT returns to custom benchmarks based on institutional and public commercial real estate returns adjusted for leverage, property type and geographic location.
- Return analysis based on an investment made during the beginning, middle and end of the capital raising period to determine if there were timing effects.

As part of an ongoing effort to increase the awareness and education of nontraded REITs, this study was designed to provide a better understanding of the long-term returns, risks and rewards associated with these types of real estate offerings. Additional details regarding the actual release date will be made available in the coming weeks.