BlueVault PARTNERS, LLC

Nontraded REIT Industry Overview: Looking Back While Looking Ahead

In 2013, the nontraded REIT industry set records both in terms of the number of full-cycle events that have been completed and the record levels of new capital that have been raised. Nontraded REITs raised $4.7 billion in 4Q 2013, down from $6.5 billion in 3Q 2013. Fundraising for the year reached $19.9 billion representing a 89.5% increase compared to 2012.

Historical Nontraded REIT Capital Raised by Year
(in $ Billions)

New capital received from investors during 2013 totaled more than the total capital raised in 2011 and 2012 combined. The primary driver behind this significant increase was an increase in full-cycle events. During 2012, there were four full-cycle events providing over $6 billion in liquidity for shareholders. In 2013, full-cycle events doubled to eight providing over $16 billion in liquidity for shareholders.

Because a significant portion of those funds were "recycled" by investors from liquidating REITs into effective REITs, it is no surprise that the top two sponsors, AR Capital and Cole, also raised the most capital from investors as collectively, the two sponsors were responsible for 3 full-cycle events totaling approximately $9.4 billion in value.

As we have seen in prior quarters, the top-10 sponsors have continued to capture the majority of new investments entering the market. During all of 2013, the top-10 sponsors raised approximately $17.6 billion or 89% of all new capital. This is up from 78% in 2012.

The top-10 nontraded REITs during 4Q 2013 were:

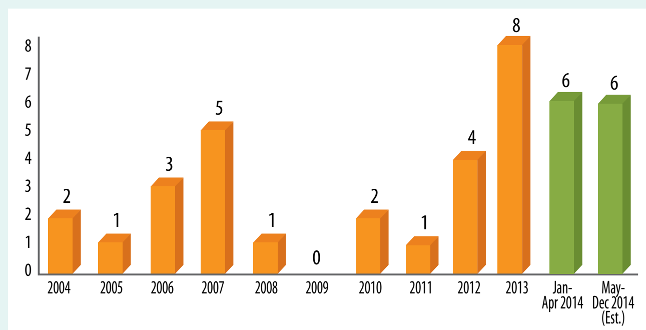
1. AR Capital	$	6,241.4
2. Cole Real Estate	$	3,617.6
3. Griffin Capital	$	2,181.5
4. Phillips Edison	$	1,603.5
5. Hines	$	833.8
6. Dividend Capital	$	815.7
7. WP Carey	$	687.6
8. Northstar	$	591.8
9. Carter	$	523.1
10. Steadfast	$	523.1

As of year-end 2013, total assets for the industry remained relatively stable at around $84 billion as new offerings quickly ramped up to take the place of those REITs that had completed full cycle events. However, through April 15, 2014, total industry assets have declined sharply to an estimated $74.6 billion as the industry has already seen the completion of six full-cycle events valued at roughly $9.6 billion in assets.

Total Nontraded REIT Industry Assets:
2008 – April 2014 (in $ Billions)

The trend in full-cycle events among nontraded REITs appears to be on a record pace for 2014. As the chart below illustrates, six transactions have been completed in the first four months of the year and we estimate that at least six more will be completed by year-end. This estimate is based on the assumption that the public markets will continue to be receptive to nontraded REIT listings as well as the following sponsor trends of note.

Nontraded REIT Full-Cycle Events
2004-2014



Nontraded REIT Acquisitions

As a result of the significant capital raise during 2013, nontraded REIT commercial property acquisition volumes have also broken new records. As noted in the on the next page, nontraded REITs (both open and closed) purchased approximately $23.6 billion of commercial real estate properties, the most ever in one year. This compares to only $13.9 billion purchased in 2012, a 69% increase.

Similar to prior quarters, a total of 38 nontraded REITs completed real property acquisitions during Q4 2013. Total purchase volume was roughly $8.1 billion, up slightly from the $7.9 billion purchased during 3Q 2013. Additionally, only ten REITs were responsible for approximately 69% of all real property acquisitions during the quarter.

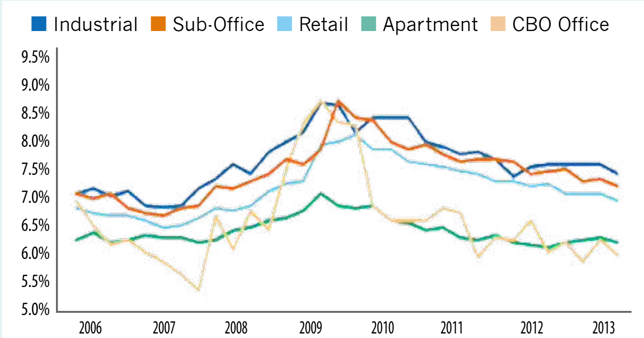
The five most active REITs acquiring properties were responsible for $3.6 billion of real property purchases representing 45% of all transactions that occurred during 4Q 2013.

The five most active nontraded REITs in terms of acquisitions during 4Q 2013 were:

1.	Cole Corporate Income Trust, Inc.	$ 947.4
2.	American Realty Capital New York Recovery REIT	$ 927.0
3.	Griffin Capital Essential Asset REIT, Inc.	$ 607.8
4.	Cole Credit Property Trust IV, Inc.	$ 603.1
5.	Griffin-American Healthcare REIT II, Inc.	$ 554.9

Looking forward to expectations for 2014, cap rate compression is still a concern, especially for REITs in the Emerging and Growth LifeStages as low cap rates make it more difficult to find attractive acquisitions. Increases in interest rates in combination with low cap rates have the potential to squeeze the returns of some REITs, but those that are able to increase leverage while historically low interest rates persist may benefit.

Capitalization Rates by Property Type
2006 – 2013



Source: Real Capital Analytics

Nontraded REIT Dispositions

As discussed in previous quarterly reports, we continued to see a growth trend throughout the year in terms of the number and volume of commercial properties being sold due to the increase in the number of nontraded REITs transitioning into the Maturing and Liquidating LifeStages, During 4Q 2013, nine nontraded REITs sold a total of $974 million worth of commercial properties with the top five representing 91% of the total volume in terms of dollars. As it relates to the entire year, the industry saw a 107% increase in the amount of commercial properties that were sold with total volumes in 2013 approaching $5.8 billion compared to $2.8 billion during all of 2012.

The five most active nontraded REITs in terms of dispositions during 4Q 2013 were:

1.	TIER REIT, Inc.	$ 361.0 Million
2.	Jones Lang LaSalle Income Property Trust, Inc.	$ 172.4 Million
3.	Inland American Real Estate Trust, Inc.	$ 164.7 Million
4.	KBS Real Estate Investment Trust, Inc.	$ 92.7 Million
5.	Lightstone Value Plus Real Estate Investment Trust, Inc.	$ 81.4 Million

Commercial Real Estate Market Trends by Sector

Industrial

Evolving supply chains are changing the industrial real estate sector. Technological advances in fulfillment are affecting the demand for warehouse space, influencing building size requirements and the location of facilities. For example, Amazon is building new state-of-the-art distribution facilities to reach its goal of same-day deliveries in most major markets. Competitors like Walmart are following suit. Where the existing average warehouse in the market is over 300,000 square feet, the average new warehouse is nearing 900,000 square feet. Industrial completions since 1950 have averaged 156 million square feet. Completions in 2014 are projected to be 132 million square feet. The 2013 national construction deliveries totaled 90.8 million square feet, an increase of 83% over 2012, but well below the historical average.

Multifamily

The demand for multifamily rentals in 2013 was unprecedented and housing providers had a hard time keeping up. The first and second quarters of 2013 saw growth in new construction. As these projects got underway they added new jobs in the construction segment at a rate of around 1,110 jobs for every 1,000 apartment units built. By the third quarter of 2013, 90% of U.S. cities have reported a boost in real estate prices across the board, outpacing previous national averages. Most U.S. apartment markets are now in the expansionary phase of the cycle, in which new construction begins to impact occupancy levels and rent growth.

Hospitality Industry

Operating metrics in the lodging industry have rebounded nicely from the 2009 cycle bottom and have already or are close to exceeding pre-recession peaks. Revenue per available room, or RevPAR, ran at a record high $68.69 in 2013 according to Smith Travel. Also at a record high was the average daily rate at $110.35, up 13.2 percent from the 2009 cyclical bottom. Demand growth for 2013 was 2.2 percent while guest room occupancy was 62.3 percent. The pre-recession occupancy peak was 63.3 percent set in 2006. Occupancy should inch ahead of that by 2015.

Office

U.S. office market fundamentals continued to tighten during Q4 2013. The national office vacancy rate ended 2013 at 14.9%, down 20 basis points (bps) quarter-over-quarter and 50 bps year-over-year. Overall office market conditions are expected to continue tightening during 2014, with the U.S. vacancy rate forecasted to decrease to 14.5% by year-end 2014. Office rent growth accelerated during Q4 2013, with CBRE EA's Rent Index rising 1.4% during the quarter. For the year, the Index was up 2.5%. A faster average annual office rent growth rate of 3.3% is expected over the next five years, according to CBRE EA, as vacancy rates continue to decline.

Retail

The retail property sector, which experienced rent losses into 2012, saw a turnaround last year, with retail rents growing a modest 1.9% in 2013. Retail investment sales and leasing saw increased activity in 2013, as a slowly improving economy is finally benefitting one of the sectors hit the hardest by the recession. Retail investment sales in 2013 totaled approximately $60 billion, up seven percent year over year, according to Dan Fasulo, managing director of Real Capital Analytics. "Retail is not the best performing asset class, but certain segments of the market like strip centers outperformed in 2013," he says. "The retail market is seeing action from institutional investors, but also public and private REITs. Private buyers are back in a big way, partly fueled by CMBS resurgence."

Self-Storage

Among the major real estate investment trusts, there was over $2 billion in transactions involving self-storage properties in 2013, an increase of half a billion over the 2011 and 2012 statistics. The sector also continued to show strong revenue growth and occupancy levels in the fourth quarter. The top four self-storage companies all saw revenue increases between 5.3% and 7.7% for the entire year. Furthermore, the net operating income (NOI) of each company grew as well, ranging from 8.2% to 10.0%. One of the big surprises of the new market report was that even with the strong occupancy and revenue levels, developers have launched relatively few new self-storage facilities.

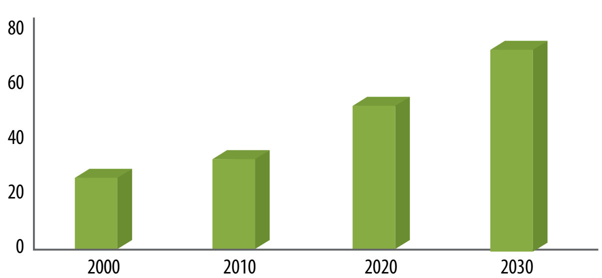
Vacancy Trends	Q4 2013	2014 YE Forecast
1. Office	16.9%	16.5%
2. Warehouse	11.5%	10.9%
3. Flex/R&D	13.4%	12.8%
4. Retail	10.4%	10.1%
5. Multi-Family	4.1%	4.2%

Source: REIS Reports

Healthcare Sector – Commercial Market Fundamentals

While the political debate over the Affordable Care Act continues, the underlying demographics of the demand for healthcare indicate a rapidly rising trend which will extend into the foreseeable future. As the U.S. population ages and medical and pharmaceutical advancements contribute to longer life expectancies, the older and growing population will require more medical attention throughout their advancing years. The implications are that more medical spending will require more hospitals, doctor's offices and assisted living facilities. In the United States, public health expenditures are projected to more than double, from 6.7% of GDP in 2010 to 14.9% in 2050.

U.S. Census Bureau Population Projections
Population Age 65 (In Millions)



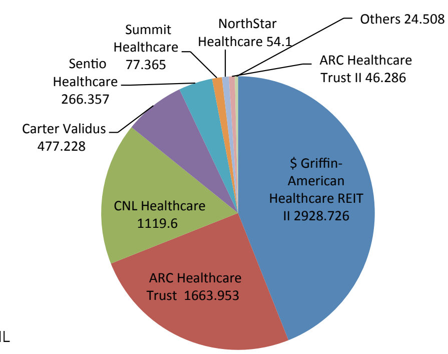
Source: U.S. Census Bureau

REITs have taken an increasing interest in senior residence communities as the Baby Boomer population, those born in the U.S. from 1946 to 1964, ages and the pickup in the U.S. economy gives the elderly and their families more income to pay for housing. The Department of Health and Human Services estimates that 9 million Americans over age 65 will need long term care this year. That number is expected to increase to 12 million by 2020. The Department also estimates that 70% of all persons age 65 or older will need some type of long term care services during their lifetime. Forty-two percent of residents in assisted living communities had Alzheimer's disease and other dementias in 2010, indicating the growing demand for memory care units

The eight healthcare REITs among the nontraded REITs in this report are obviously tapping into the potential for growth in demand for assisted living facilities, medical offices, rehabilitation facilities and other healthcare-related properties. Among the properties classified as "Health Care" are dialysis centers, senior care centers, surgery centers, and other specialized services. One of the largest nontraded healthcare REITs, American Realty Capital Healthcare Trust as of December 31, 2013, owned 1,568 assisted living units and 439 memory care units.

Healthcare REITs have the ability to raise lease rates over three to five years in many cases, as projected demand materializes.

Healthcare Nontraded REITs Gross Real Estate Assets
(In Millions)



Source: SNL

Healthcare Sector – Nontraded REIT Overview

For the period ending December 31, 2013, there were eight nontraded REITs with significant investments in healthcare properties, and several others with some assets within the sector. Combined, these companies owned 408 properties and represented 9.9% of the nontraded REIT market in terms of total assets under management. Additionally, these eight companies acquired 59 properties worth $1.579 billion during 4Q 2013.

Healthcare Sector Summary
as of December 31, 2013

Healthcare REITs	Properties	Gross Assets
ARC Healthcare Trust	114	$ 1,663,953
ARC Healthcare Trust II	7	$ 46,286
Carter Validus Mission Critical REIT	20	$ 477,228
CNL Healthcare Properties	70	$ 1,119,600
Griffin-American Healthcare REIT II	279	$ 2,928,726
NorthStar Healthcare Income Trust	7	$ 54,100
Sentio Healthcare Properties	22	$ 266,357
Summit Healthcare REIT	11	$ 77,365
Others	3	$ 24,508
Totals	408	$ 6,658,123

Additional points of interest for this sector of nontraded REITs include:

- The top two acquirers of healthcare properties during 2013 were Griffin-American Healthcare Trust II, Inc. with $1.5 billion in acquisitions and American Realty Capital Healthcare Trust, Inc. with a total of $970 million in acquisitions.
- Combined, during Q4 2013, Griffin-American Healthcare Trust II, Inc. and American Realty Capital Healthcare Trust were responsible for 50% of all property purchases made by nontraded REITs acquiring healthcare properties.
- The eight healthcare-focused nontraded REITs accounted for 19% of all 4Q 2013 property acquisitions by dollar value among nontraded REITs.

In addition to reviewing key metrics for this sector of nontraded REITs, we also note the following significant events per REIT through April 2014:

American Realty Capital Healthcare Trust, Inc.
- In April 2014, American Realty Capital Healthcare Trust, Inc. listed its shares on NASDAQ and became one of 17 publicly traded REITs that focus on buying properties in the healthcare sector. (See page 19 for details regarding ARC Healthcare's full cycle event).
- The REIT owned 114 properties as of December 31, 2013, including 65 medical office and outpatient, 28 seniors housing, and 21 hospital, post-acute and other facilities.

American Realty Capital Healthcare Trust II, Inc.
- The REIT began operations in 2Q 2013 with the acquisition of a Fresenius Dialysis Center in Alabama. In 2013 the portfolio grew to 7 properties with 134,275 square feet.
- The Company raised $187 million in its offering in 2013 and invested $46 million in real estate. It had $111 million on hand at December 31, 2013 with which to grow its investment portfolio.

Carter Validus Mission Critical REIT, Inc.
- Added $315.1 million in four properties in 4Q 2013. Besides the 19 healthcare assets with over 1 million square feet, the REIT has 13 data centers with over 2 million square feet of leasable space. All properties are 100% occupied..

CNL Healthcare Properties, Inc.
- Acquired a portfolio of 12 seniors housing communities in Idaho, Montana, Nevada and Oregon in December, for approximately $302 million.
- The portfolio consisted of 60 properties with Assisted Living, Medical Office, and Inpatient tenants.

Griffin-American Healthcare Trust II, Inc.
- Had 279 healthcare properties at December 31, 2013, with an occupancy rate of 95.8%. This REIT is the largest healthcare portfolio among nontraded REITs.
- Acquired three additional properties in January, 2014.
- Terminated its follow-on offering on October 30, 2013, after raising $1.60 billion, combined with $1.23 billion raised in their initial offering.
- On March 28, 2014, the board of directors suspended its distribution reinvestment plan and share repurchase plan. It is considering strategic alternatives which could include a possible listing.

NorthStar Healthcare Income Trust, Inc.
- The REIT commenced operations in February, 2013. As of March, 2014 its 9 properties consist of five assisted living, two memory care and two independent living facilities, all in different states. The REIT also invests in first mortgage loans.
- From January 1, 2014 through March 4, 2014, the REIT has made an additional $99.4 million in equity and mortgage loan investment.

Sentio Healthcare Properties, Inc.
- Purchased a 108-bed assisted living facility in December, 2013, bringing its portfolio to 22 healthcare properties as of December 31, 2013, with 1.36 million square feet.
- Operates three business segments: senior living operations, triple-net leased properties and medical office building. 75% of the REIT's operating income is from senior living operations.

Summit Healthcare REIT, Inc.
- The REIT was originally Cornerstone Core Properties REIT, formed in 2004. At December 31, 2013, the investment portfolio contained eleven properties, 100% leased, all assisted living facilities.
- The board of directors began repositioning assets out of industrial properties in 2011, restructuring debt, and investing in senior housing facilities. The REIT leases its assisted living and skilled nursing facilities to single-tenant operators under triple-net leases.