BLUE VAULT BRIEF

2014 YEAR IN REVIEW

MARCH 3, 2015

Introduction

Welcome to the Blue Vault Brief: 2014 Year in Review!

Coming after a record year for fundraising in the nontraded REIT industry, 2014 was not expected to match the over $19 billion in new equity sales. Our expectation was for the industry to raise at least $12 billion in 2014, if the 7 to 9 full-cycle events anticipated in February, 2014 occurred, if distribution yields continued to be attractive relative to alternative investments, and if financial advisors continued to view the nontraded REIT sector as a key component of a well-diversified portfolio. Not only did 2014 surpass our expectations, it did so despite the headwinds of an accounting issue at the largest sponsor of nontraded REITs which resulted in a suspension in sales in the fourth quarter of a significant portion of the industry's offerings. The result?

- The industry raised over $15.6 billion, second highest fundraising total in its history.
- There were 15 new offerings which equaled the most in any one year.
- Ten nontraded REITs had full-cycle events, exceeding the record 8 such events in 2013.

Summary of Topics

This report will summarize and illustrate the most important trends in the nontraded REIT industry observed in 2014.

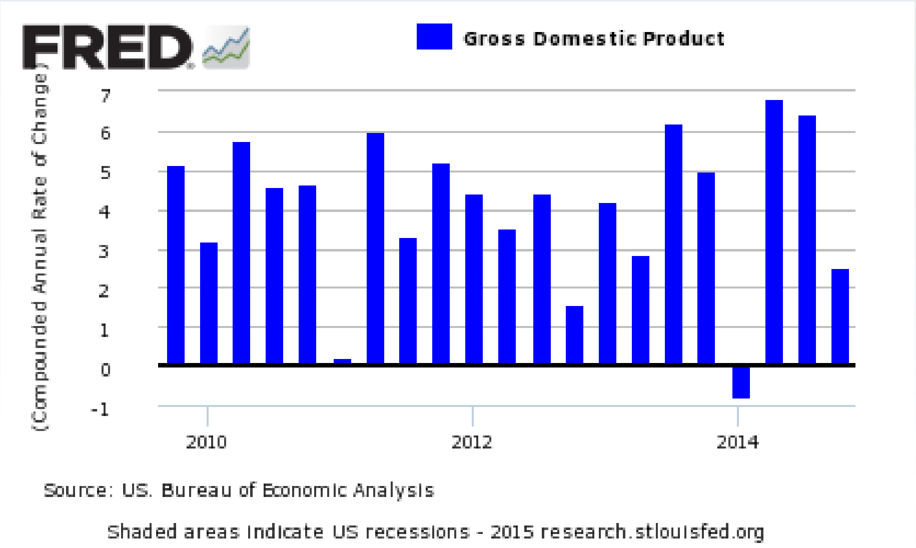
A. **Macro View**: What macroeconomic trends occurred in 2014, and how might that affect real estate investments and nontraded REITs?
B. **Capital Markets Recap**: Which sponsors raised the most capital in 2014 and what are the trends in new offerings entering the market?
C. **Full Cycle Events**: What were the key drivers behind the increase in full-cycle events during 2014 and will this trend continue into 2015?
D. **New Offering Structures**: Are the daily NAV and multiple-share offerings capturing investor attention as hoped?
E. **Changes in Distributions**: How many REITs experienced changes in their distribution rates over the past six years and what were the key drivers behind those increases or decreases?
F. **Status of the Industry**: Overall, is the industry experiencing a period of growth and innovation or going through a period of consolidation as it relates to new product introductions, new nontraded REIT sponsors, and new product innovation?
G. **New FINRA Rulings and Impact**: How will the new reporting standards approved by the SEC in October, 2014 and released by FINRA in January, 2015 impact the customer account statements and nontraded REIT reporting in the future?

Key Macroeconomic Trends in 2014

We entered into 2014 with all eyes on the Fed and anticipation of rising interest rates. Most economic forecasts called for continuing economic growth in the U.S., lower unemployment, rising rates of inflation, rising short-term and longer-term interest rates, continuing growth of demand for commercial real estate properties in the U.S. pushing up NOI and FFO as new supply at this stage of the recovery still lagged behind. Globally, there appeared to be increasing interest among foreign investors in placing capital in the “safe harbor” of U.S. assets.

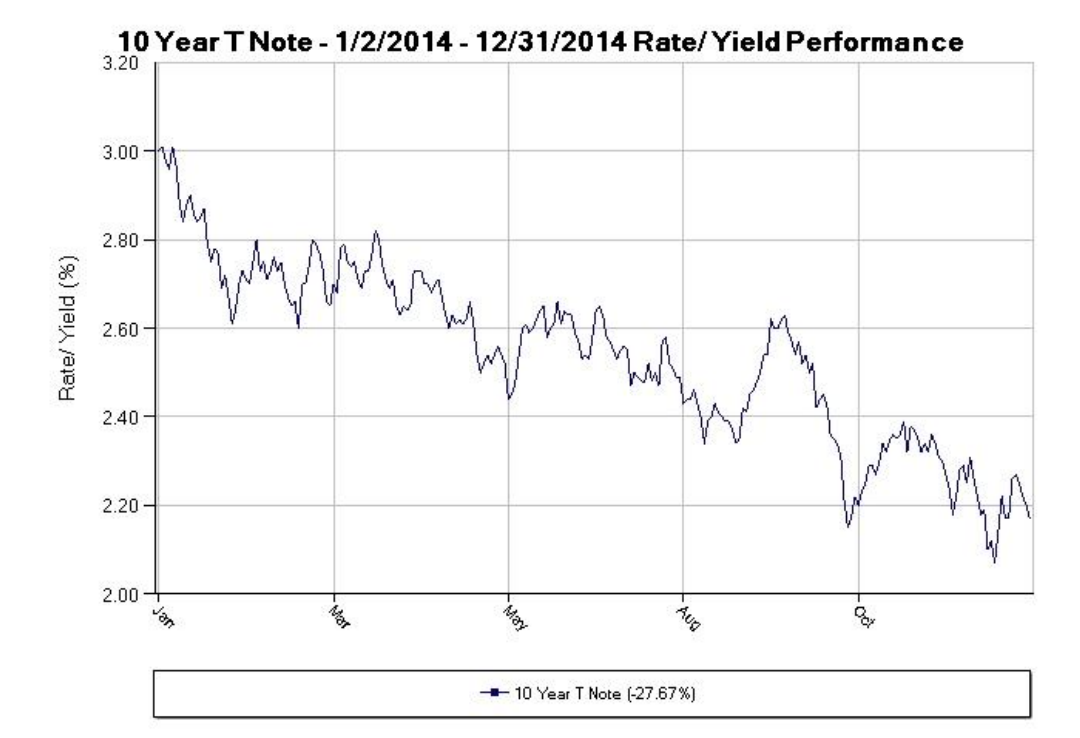
While some of these predictions have been proven accurate by the trends that developed during the year, major unexpected events have surprised the experts and led to quite different results.

First, GDP growth in the first quarter of 2014 was hampered by severe winter weather, causing the economy to miss even the most pessimistic forecasts. It bounced back strongly in the second and third quarters and finished the year with an average annual growth rate of 2.4%. That’s the best growth rate since 2010.



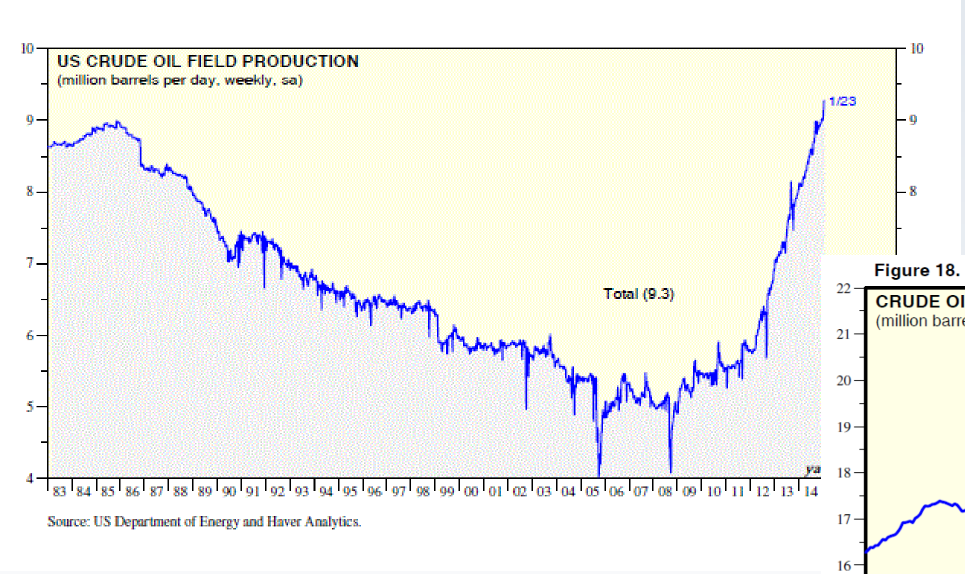
The Trend in 10-Year Bond Yields

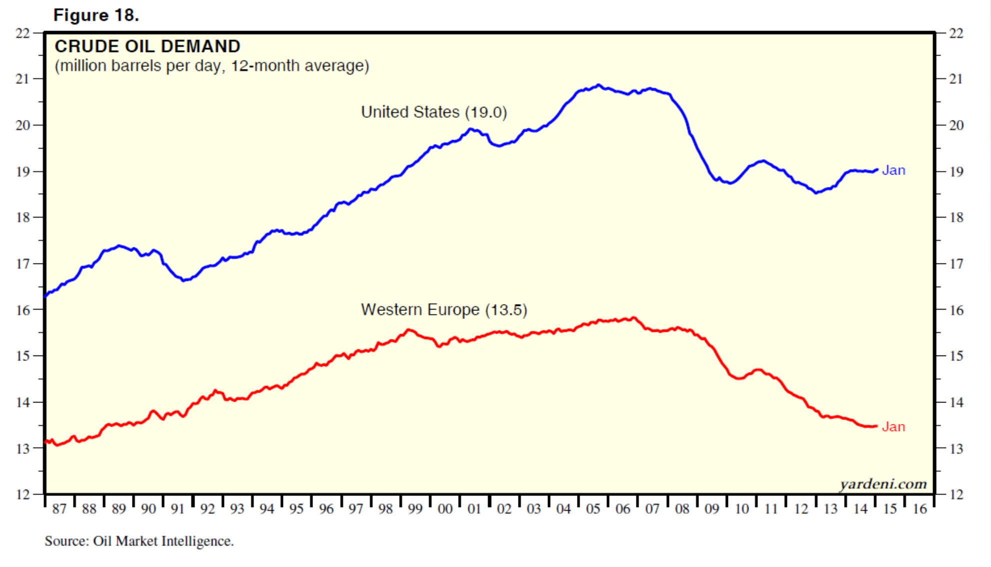
While many were forecasting higher interest rates in 2014, the benchmark 10 Year Treasury Note yields actually fell to record lows.



Lower Energy Prices

Certainly one of the most unexpected and welcomed (by consumers) surprises in 2014 was the fall in oil prices from a high of $115 per barrel in June 2014 to under $45 per barrel in January 2015. The most obvious explanation has been the dramatic expansion of U.S. production due in large part to technological advances in horizontal drilling and “fracking”, while worldwide demand has slumped due to sluggish growth in both European and Asian economies.





Nontraded REITs and the Public REIT Market

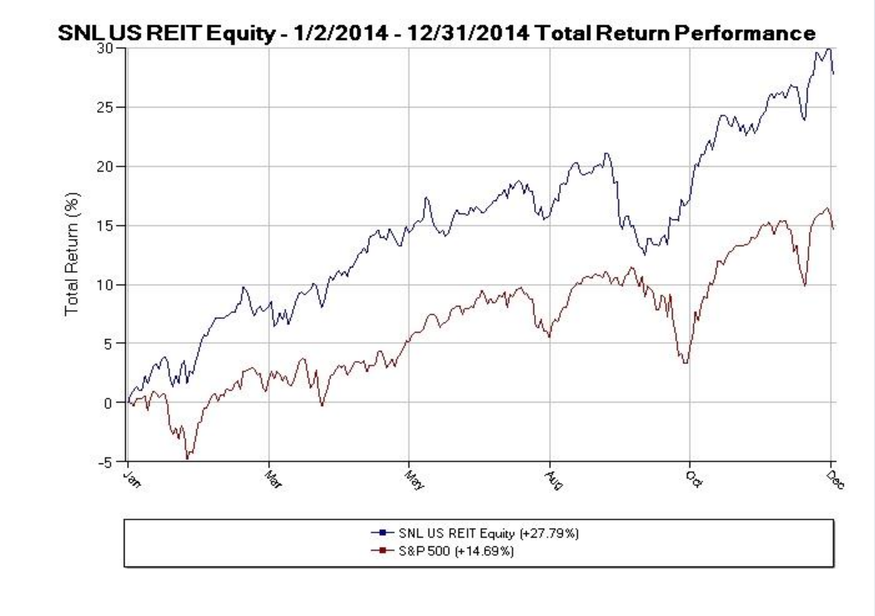
Total investor returns in publicly traded Equity REITs for 2014 were 27.19% compared to 14.69% for the S&P 500 Index, making REITs one of the highest performing sectors in the market, according to SNL.

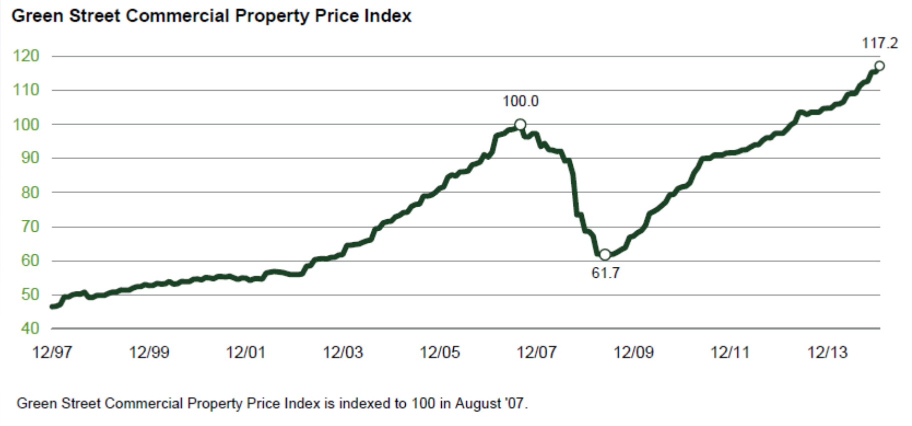
The Green Street Commercial Property Price Index rose 12% during the past 12 months, bringing it to 117.2 in January, 17% above the peak in August, 2007.

Capital offerings within the publicly traded REIT market totaled $63.6 billion in 2014, of which $4.0 billion was in IPOs vs. $76.9 billion in 2013, of which $5.7 billion was in IPOs.

By contrast, nontraded REITs raised an estimated $15.6 billion of new capital in 2014 vs. $19.0 billion in 2013.

S&P 500	Equity REITs
14.69%	27.19%





Green Street Commercial Property Price Index is indexed to 100 in August '07.

2014 Trends & Highlights

Capital Raise

At some time during 2014 there were a total of 50 nontraded REITs raising capital. Due to offering closings, by the end of the year there were 37 offerings still raising capital.

Based on current SEC filings and sales trends, it is estimated that the nontraded REIT industry raised approximately $15.6 billion in 2014 versus $19.0 billion in 2013.

One contributing factor to the decline in nontraded REIT capital raise in 2014 is certainly the interruption in sales of American Realty Capital sponsored REITs that occurred in 4Q 2014 due to accounting questions at ARCP. Since ARC's market share has continued to grow, the halt in sales beginning in November, 2014, certainly had a major impact.

The large number of full-cycle events in 2014 was a positive contributor, as some portion of the over $15 billion in liquidity created for nontraded REIT investors was reinvested in new offerings.

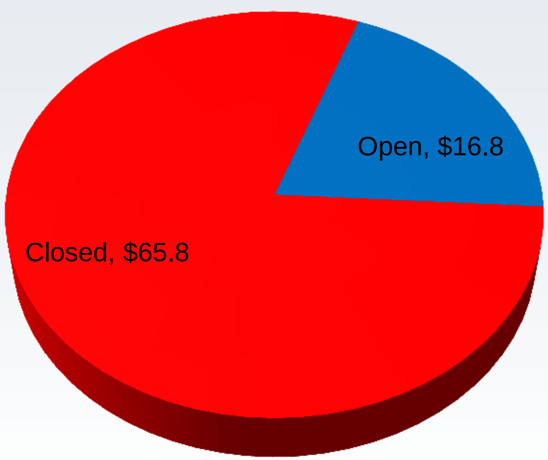
Historical Nontraded REIT Sales (in $ Billions)

2014 Trends & Highlights

Assets Under Management

The net effect of capital raise and full-cycle events among nontraded REITs has been an increase in assets under management for the sector from $77 billion in 2013 to an estimated $82.6 at year-end 2014.

Total Nontraded REIT Assets: $82.6 Billion (Est.)



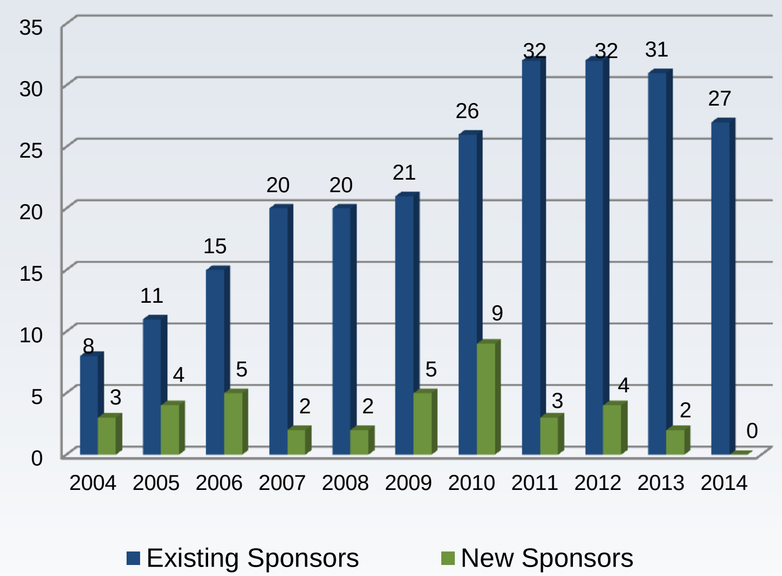
2014 Trends & Highlights

Sponsor Trends

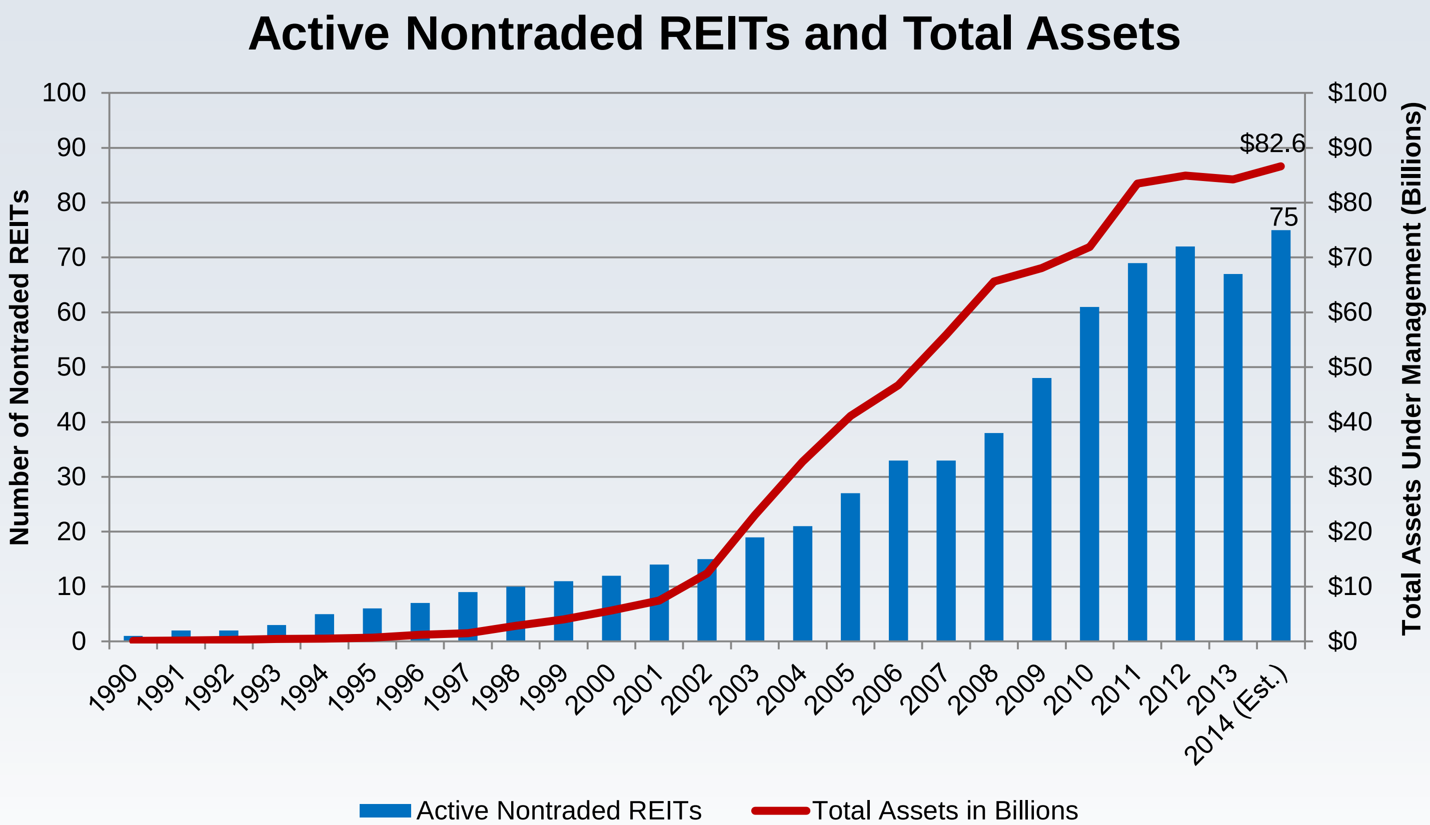
As of December 31, 2014, 29 companies managed the 75 nontraded REITs that make up the nontraded REIT industry. This is down from the number in 2013 due to the lack of new sponsors entering the industry and internalization of management at two REITs. The decline in new sponsors entering the industry has been evident since 2011.

Looking ahead into 2015, this figure is expected to decline even further as several sponsors completing full-cycle events do not intend to introduce new offerings. Notably, Wells Real Estate Funds announced in January, 2013, that it would not register any new products in the nontraded REIT market and is expected to complete its final full-cycle event in 2015. Moreover, the consolidation of sponsors via transactions such as the purchase of Paladin Realty Income Properties by Resource Real Estate and the merger of publicly traded net-lease REITs American Realty Capital Properties (ARCP) and Cole Real Estate (COLE) also creates further concentration of management within the sector going forward.

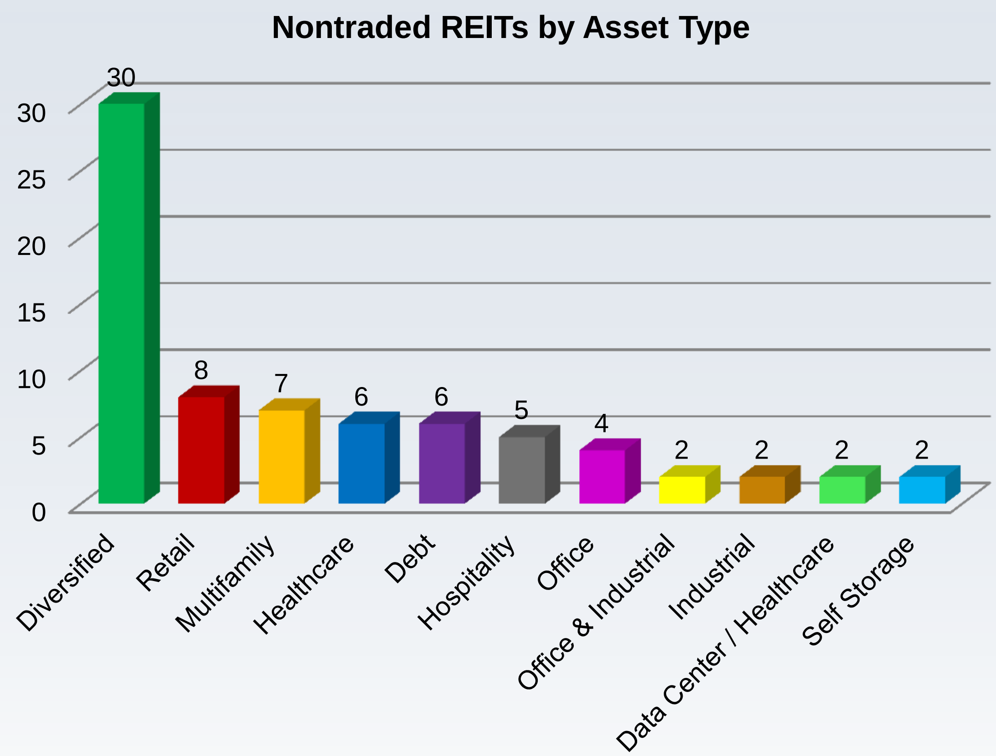
Number of Existing vs. New Sponsors by Year



Active Nontraded REITs and Total Assets



Nontraded REITs by Asset Type



As of 12/31/14

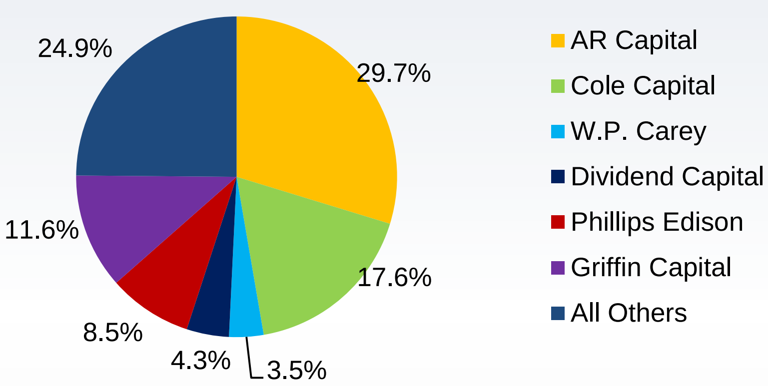
2014 Trends & Highlights

Capital Raise by Nontraded REIT Sponsors

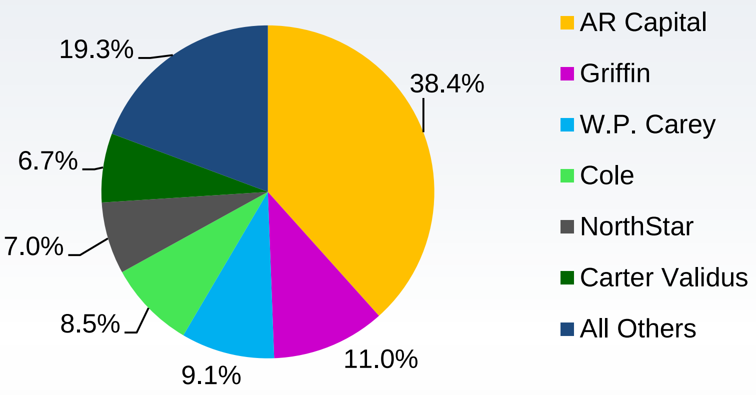
In 2014 the top five sponsors raised an estimated $11.7 billion of the total capital raised by all nontraded REITs, or 74.7%. This marked an increase in market share by the top five sponsors from $13.6 billion of the $19.0 billion raised in 2013, or 71.7%.

Early estimates also show that the top sponsor in sales in 2014 was AR Capital, with roughly $6.1 billion in sales, followed by Griffin Capital with $1.6 billion, W.P. Carey with $1.46 billion and Cole Capital with $1.3 billion. NorthStar raised an estimated $1.1 billion and Carter Validus $1.0 billion to enter the top six among sponsors raising equity in 2014.

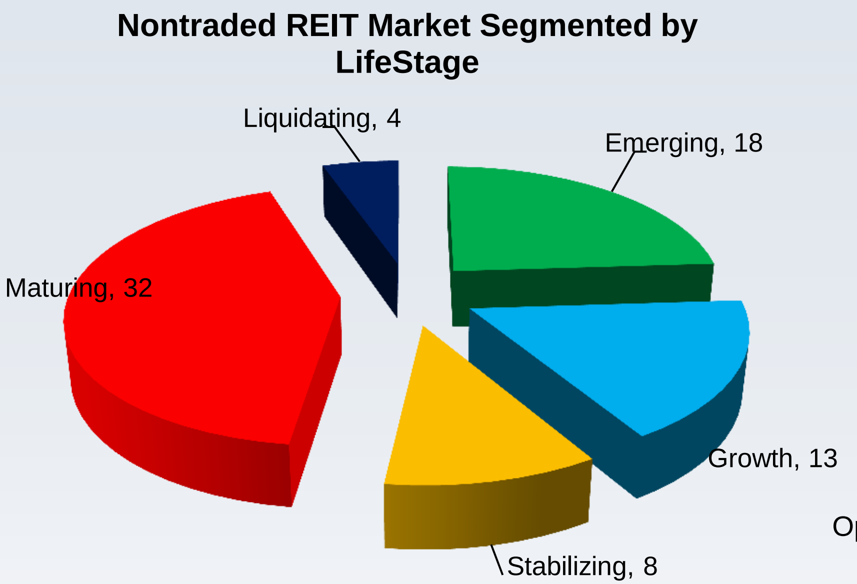
2013 Nontraded REIT Market Share by Sponsor



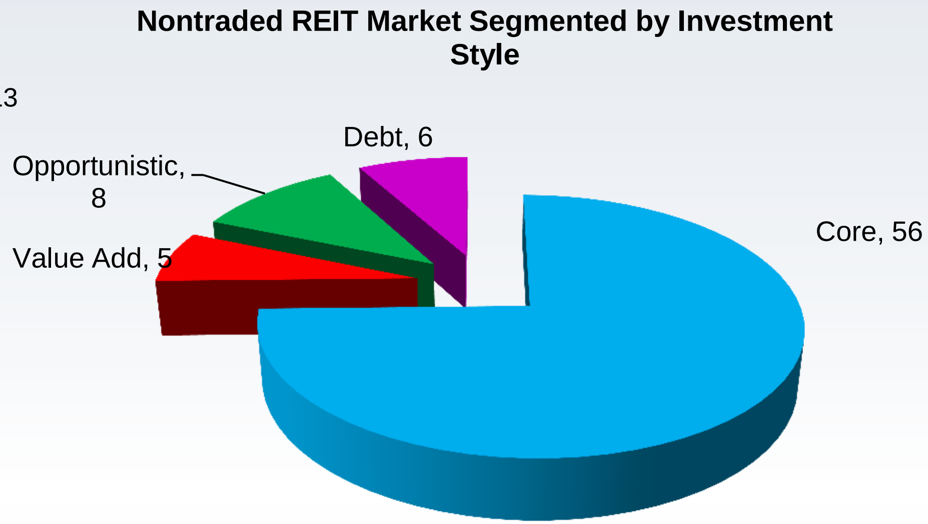
2014 Nontraded REIT Estimated Market Share by Sponsor



Nontraded REITs by LifeStage and Style



As of 12/31/14



As of 12/31/14

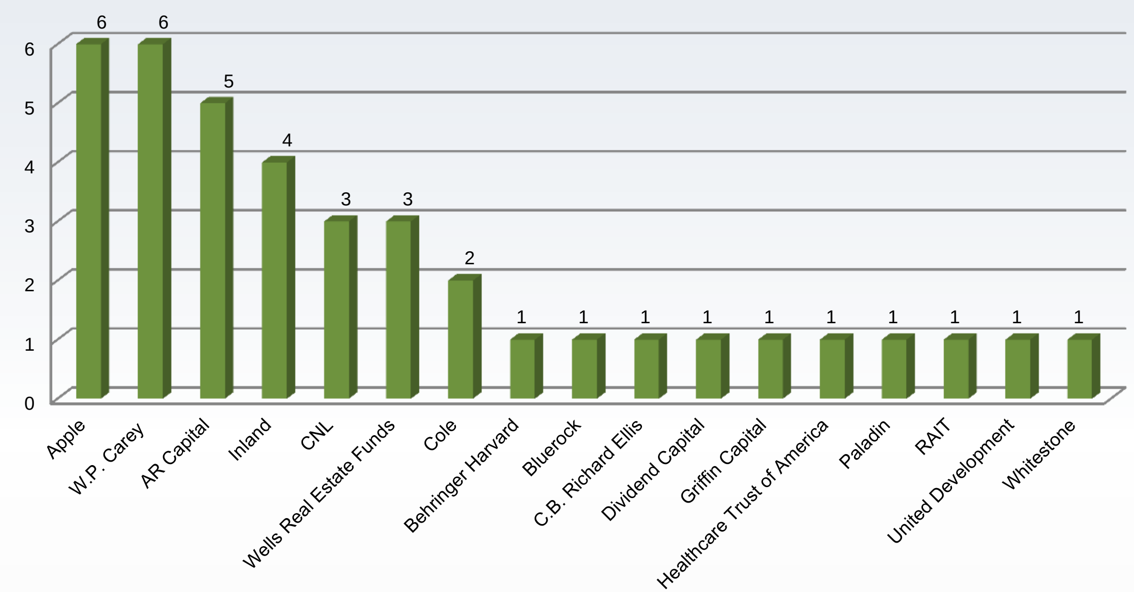
2014 Trends & Highlights

Sponsor Trends and Full-Cycle Events

By the end of 2014, 18 industry sponsors had completed full-cycle events, up from 13 in 2013. The five sponsors that completed first-time full-cycle events during 2014 were Behringer Harvard, Bluerock, Griffin Capital, Paladin and United Development.

In terms of market share, we note that the top five sponsors raised approximately 75% of all new capital in 2014, up from 72% in 2013. Among these top five sponsors, all have managed nontraded REITs for three years or more. By comparison, those sponsors with first time REITs that have been effective for two years or less raised less than 1% of all new capital during the same period.

Number of Full-Cycle Events by Sponsor



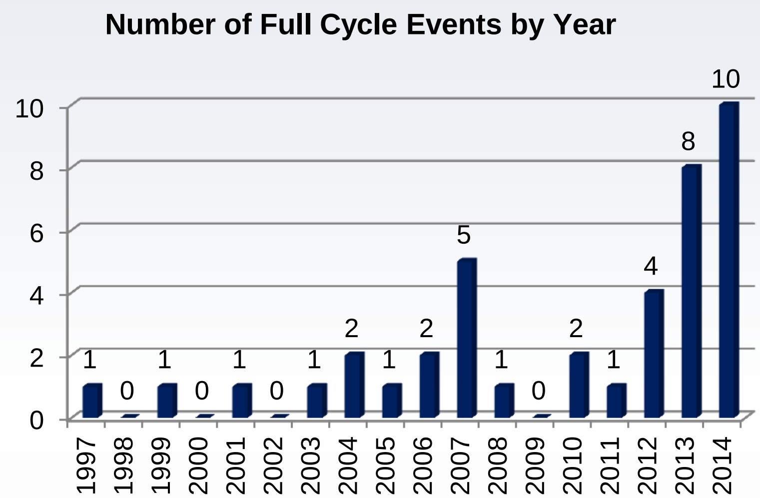
2014 Trends & Highlights

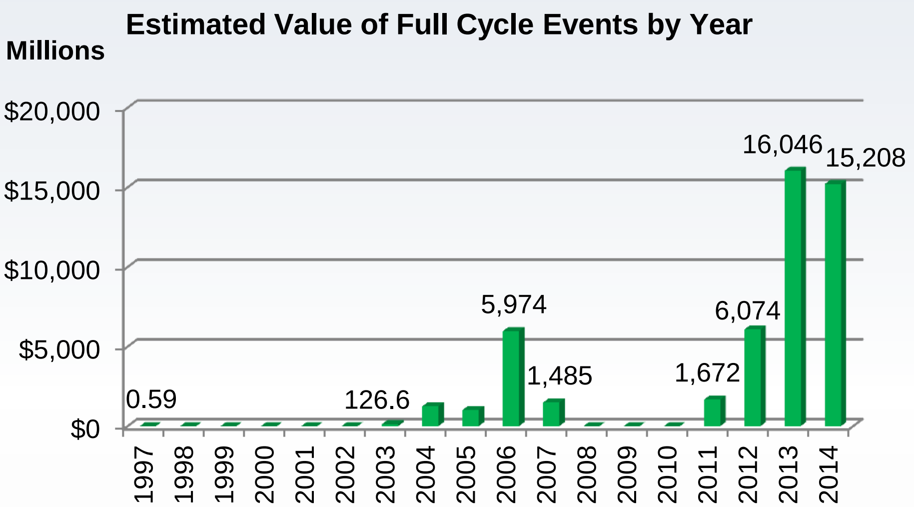
Value of Full-Cycle Events Historically High, But Slightly Lower than 2013

The trend in full-cycle events among nontraded REITs accelerated in 2014. Although the estimated market value to shareholders of the 2014 full-cycle events of $15.2 billion was slightly below the 2013 total of $16 billion, the 10 REITs that had liquidity events in 2014 exceeded the eight in 2013 and set a new high for the industry.

Including the 10 liquidity events in 2014, the cumulative number of full-cycle events that have taken place since 1990 increased to 40. Of the completed liquidity events in 2014, five were listings on a national exchange, four were by a merger with a listed company, and one was by merger with a nontraded REIT.

Two nontraded REITs have announced full-cycle events which will occur in 2015.





2014 Trends & Highlights

Full-Cycle Events in 2014

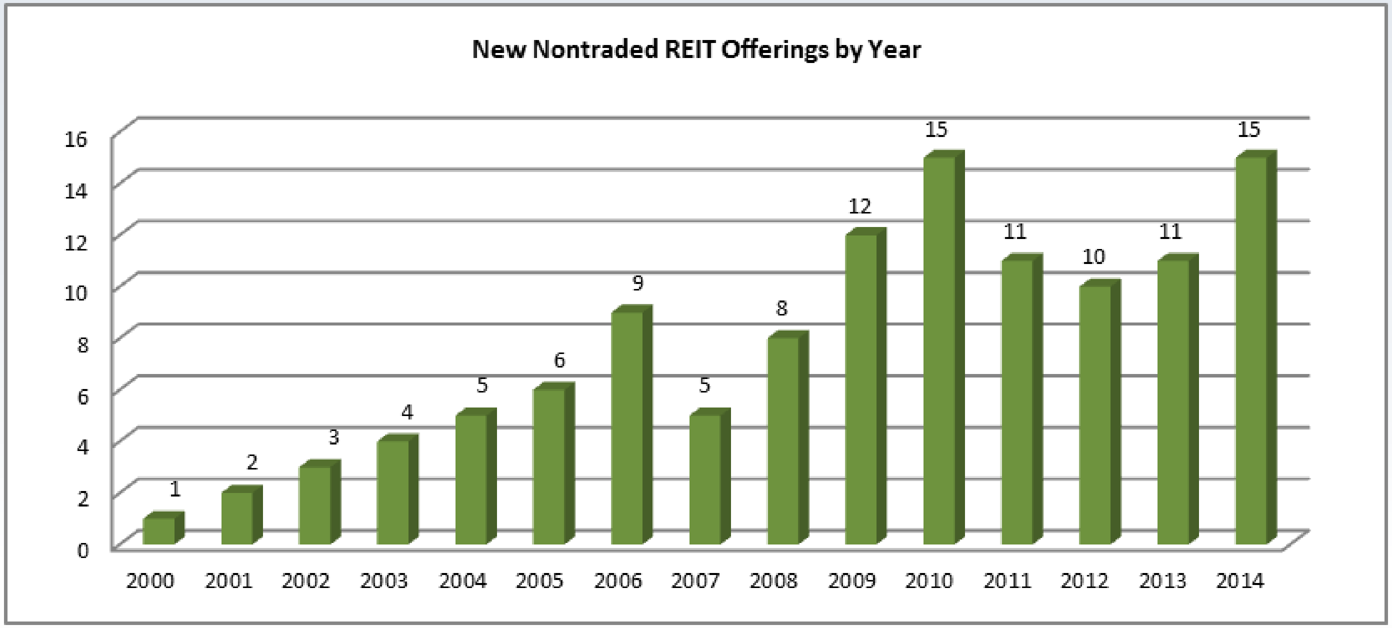
The table below shows the ten full-cycle events among nontraded REITs that occurred in 2014.

Nontraded REIT	Date Full Liquidity Achieved	Per Share Value	Estimated Shares	Total Value ($ Millions)	Type
American Realty Capital Trust IV	1/3/2014	$ 30.52	71,105,517	$ 2,170	Merger with ARCP
Corporate Property Associates 16 - Global, Inc.	1/31/2014	$ 11.25	206,300,331	$ 2,321	Merger with WPC
Paladin Realty Income Properties	2/14/2014	$ 7.25	7,720,859	$ 56	Merger with Resource
Bluerock Residential Growth REIT, Inc.	3/28/2014	$ 14.50	1,060,000	$ 15	Listing NYSE MKT
American Realty Capital Healthcare	4/7/2014	$ 10.55	182,136,090	$ 1,922	Listing NASDAQ
American Realty Capital New York Recovery REIT	4/15/2014	$ 10.75	174,120,408	$ 1,872	Listing NYSE
United Development Funding IV, Inc.	6/4/2014	$ 19.60	32,138,757	$ 630	Listing NASDAQ
Inland Diversified Real Estate Trust, Inc.	7/1/2014	$ 10.92	117,809,586	$ 1,286	Merger with KRG
Monogram Residential Trust, Inc. (BH Multifamily)	11/21/2014	$ 9.25	168,878,472	$ 1,562	Listing NYSE
Griffin-American Healthcare REIT II, Inc.	12/3/2014	$ 11.50	293,399,469	$ 3,374	Merger with NorthStar
			Total Value	**$ 15,208**	

2014 Trends & Highlights

New Offerings in 2014

Fifteen new nontraded REITs became effective in 2014, four more than in 2013, and the rate of new product introductions matches the high for the industry in 2010. All of the new offerings were by experienced sponsors, including five programs from AR Capital alone. In fact, all of the 15 programs which became effective were named after prior programs, using the Roman numerals II, III and V. This trend illustrates the market advantages that existing sponsors have over new entrants and the significant barriers to entry which may inhibit new entrants in the industry.



2014 Trends & Highlights

New Offerings in 2014

The fifteen new nontraded REITs that became effective in 2014 are shown below. All were introduced by experienced sponsors and all had program names related to prior successful offerings. Five of the programs share a name with nontraded REITs that have had full-cycle liquidity events. It appears obvious that prior performance and sponsor experience plays an important role in new product introductions.

Name	Type	Sponsor	Style	Initial Offering
American Realty Capital Hospitality Trust, Inc.	Hospitality	ARC	Core	1/7/2014
Strategic Storage Trust II, Inc.	Self Storage	Strategic Storage	Core	1/10/2014
Griffin-American Healthcare REIT III, Inc.	Healthcare	Griffin Capital	Core	1/26/2014
Resource Real Estate Opportunity REIT II, Inc.	Multifamily	Resource RE	Opportunistic	2/6/2014
Cole Credit Property Trust V, Inc.	Retail	Cole	Core	3/17/2014
American Realty Capital New York City REIT, Inc.	Office	ARC	Core	4/24/2014
Carter Validus Mission Critical REIT II, Inc.	Data Center/Healthcare	Carter Validus	Core	5/29/2014
Lightstone Value Plus Real Estate Investment Trust III, Inc.	Diversified	Lightstone	Core	7/16/2014
United Development Funding V, Inc.	Debt	UDF	Debt	7/25/2014
KBS Strategic Opportunity REIT II, Inc.	Diversified	KBS	Opportunistic	8/12/2014
American Realty Capital Healthcare REIT III, Inc.	Healthcare	ARC	Core	8/20/2014
Hines Global REIT II, Inc.	Diversified	Hines	Core	8/20/2014
American Realty Capital Global Trust II, Inc.	Diversified	ARC	Core	8/26/2014
American Realty Capital - Retail Centers of America II, Inc.	Retail	ARC	Core	9/25/2014
Griffin Capital Essential Asset REIT II, Inc.	Diversified	Griffin Capital	Core	9/25/2014

2014 Trends & Highlights

Offering Innovations
While the majority of new products and 12 of 15 introductions in 2014 continue to follow the traditional model of offering only one class of shares and a fixed share price during the life of the offering, several sponsors have introduced products with multiple share classes and daily valuations.

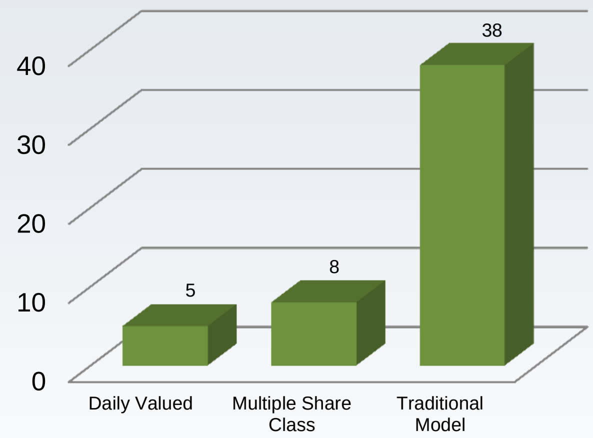
Multiple Share Classes
In 2013 there were five nontraded REITs with multiple share classes. Sponsors have launched three new products in 2014 with this pricing model which is usually accompanied by reduced selling commissions and lower overall fees and expenses.

Daily NAV REITs
As of December 31, 2014, there were five nontraded REITs that provide daily valuations and enhanced liquidity features.

In 2012 we reported that the daily NAV funds apparently had taken about the same length of time to break escrow as more traditional REITs, indicating no greater demand for REIT shares with the daily NAV feature than other designs.

By the end of 2014 these five funds are estimated to have raised about $600 million since inception, about 0.5% of funds raised by all nontraded REITs as of that date. For all REITs raising equity funds in 2014, the five daily NAV REITs appear to have raised less than 2% of equity funds.

Daily-Valued and Multi Share Class vs. Traditional Nontraded REIT Pricing Models



2014 Trends & Highlights

Distribution Yield Increases Surpass Decreases for the First Time in Over Five Years

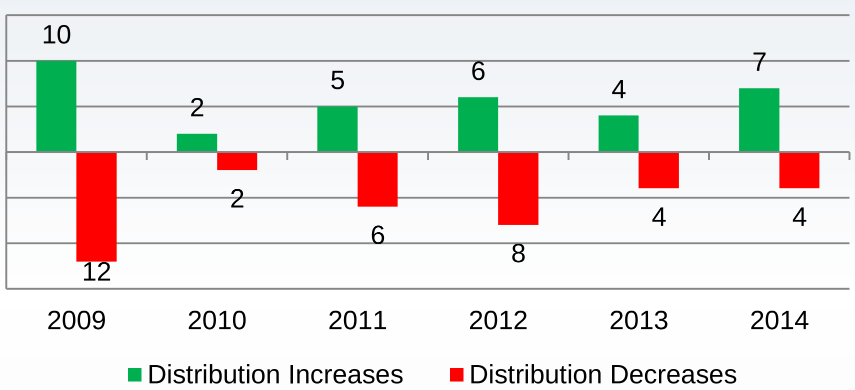
Blue Vault Partners reports distribution yield as a percentage of the original offering prices, usually $10.00 per share. Over the last six years, there have been a total of 70 changes in the distribution rates of nontraded REITs, with 34 increases and 36 decreases. Of the 36 decreases, five were eliminations of the distributions altogether. The average distribution yield increase was 0.73% and the average distribution yield decrease was 1.79%.

The year 2009 saw the most decreases in distributions when 12 REITs reduced their yields, but interestingly, there were also 10 REITs which increased their distributions in 2009 as well. There were seven increases and four decreases, with no distribution eliminations in 2014. 2014 marked the first year in over five years that there were more increases than decreases, a sign of strengthening fundamentals.

Distribution Yield Increases, Decreases and Eliminations by Year

Year	Increases	Decreases	Eliminations	Average Increase	Average Decrease
2009	10	12	0	1.04%	-1.3%
2010	2	2	0	0.15%	-2.9%
2011	5	6	1	0.26%	-2.1%
2012	6	8	3	0.91%	-2.2%
2013	4	4	1	0.25%	-2.4%
2014	7	4	0	0.92%	-0.8%
Totals	34	36	5	0.73%	-1.79%

Distribution Increases and Decreases



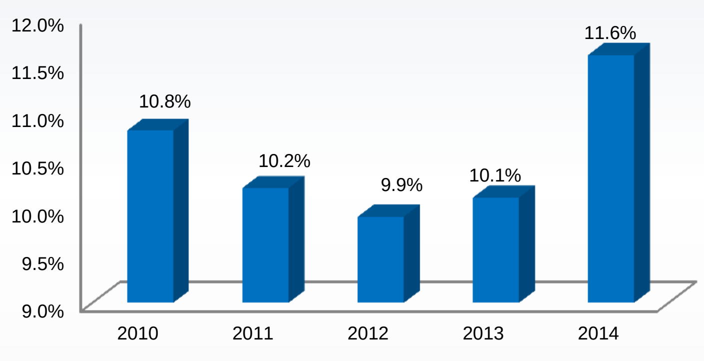
2014 Trends & Highlights

Offering Fees and Amount of Proceeds Available for Investment

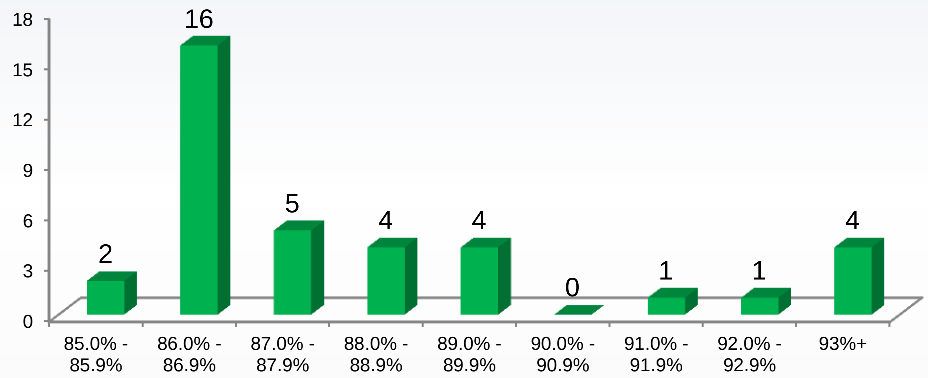
The average percentage of new offering proceeds that are paid in sales commissions, dealer manager fees and organization and offering expenses for open REITs rose in 2014. This is largely due to the lack of any new offerings of daily NAV products with their low fee structures that lowered the averages for 2011 thru 2013. While the average percentage of offering proceeds which can be invested in real estate after front-end fees had risen consistently for open offerings since 2009, from 86.1% in 2009 to 89.5% in 2013, the biggest influence on the trend was the introduction of daily NAV products with their lower fee structures. In 2014, the 15 newest REITs with open offerings had average proceeds available for investment of 86.8%.

As the chart below illustrates, of the 37 nontraded REITs that were effective at the end of 2014, approximately 16% are investing 91% or more of investor proceeds into real property. This is similar to 2011 results that showed 16% of all effective REITs investing 91% or more of investor proceeds into real property.

Open REITs Average Nontraded REIT Front-End Fees by Offering Year (Excludes Acquisition Fees)



Nontraded REITs Segmented by Percent of Gross Proceeds Available for Investment



2014 Trends & Highlights

Performance by Daily NAV REITs

Using the daily NAV's reported for retail shares during 2014, as well as the distributions paid, we are able to calculate estimated total returns to shareholders for five daily NAV nontraded REITs. Given that in some cases the shares may not be liquidated at their reported NAVs, the returns below represent only estimates of the potential capital gains plus actual distribution income realized by investors. Using the published NAVs and distributions paid during 2014, the five daily NAV products with daily values for every day during 2014 had estimated annualized returns for the 12-month period ending December 31, 2014 as follows:

Daily NAV REIT	NAV Change	Distribution Yield	Est. Total Return
American Realty Capital Daily NAV (Retail)	0.78%	6.23%	7.01%
Cole Real Estate Income Strategy (Class W)	3.98%	5.72%	9.70%
Dividend Capital Diversified Property Fund (Class W)	3.32%	4.90%	8.22%
Jones Lang LaSalle Income Property Trust (Class A)	3.74%	5.60%	9.34%
RREEF Property Trust (Class A)	5.01%	5.35%	10.36%

Future Trends and Expectations for 2015

So far in 2015 we can count on two full cycle events to take place in the first quarter. (Signature Office REIT's merger with Griffin Capital Essential Asset REIT and Cole Corporate Income Trust's pending merger with Select Income REIT.) In addition, we have six nontraded REITs on our "watch list" for potential full-cycle events. They are:

- Summit Healthcare
- Inland American Real Estate Trust
- CNL Lifestyle Properties
- SmartStop Self Storage
- Industrial Income Trust
- Plymouth Industrial REIT

Despite the number of full-cycle events in 2014, the assets held by <u>open</u> REITs now make only an estimated 20% of total nontraded REIT assets as of year-end 2014 compared to roughly 40% in 2013.

It will be hard to match the 2014 performance of the REIT market and the commercial real estate market in general in 2015. Further capitalization rate compression combined with rising NOI and FFO has driven commercial real estate pricing upward, to unprecedented levels in many markets. The rising share prices of traded REITs when compared to their underlying net asset values indicates a potentially favorable market for more mature nontraded REITs to plan full-cycle transactions.

Future Trends and Expectations for 2015

Here are the key market trends that we foresee for the nontraded REIT industry in the remainder of 2015:

- The combination of continuing low interest rates, lower dividend yields in the equity market, and the demographic shifts as Baby Boomers retire and increasingly seek income-producing investments, all bode well for both traded and nontraded REITs. The average distribution yields among nontraded REITs above 6% vs. 3.2% for traded equity REITs will continue to make them attractive to qualified investors seeking yield.
- Continuing recovery in most commercial real estate sectors will provide higher occupancies, higher NOI and FFO, and improved NAVs across the industry, providing evidence to investors that well-managed portfolios can produce both relatively attractive distributions plus improved potential for capital gains in the future.
- Foreign investors, seeking the safety and stability of U.S. real assets, will continue to increase their commitments to commercial real estate, first in the gateway markets, but as the recovery progresses, in the secondary and tertiary markets as well.
- With expectations of interest rate hikes being delayed until late 2015 in many forecasts, the current spreads between capitalization rates and bond yields will provide REIT portfolios with a cushion to soften the impacts on values when and if interest rates rise.

Future Trends and Expectations for 2015

Looking further into 2015, we estimate that the industry will be able to maintain a pace of capital raising of at least $15 billion or more assuming that:

- at least three and as many as six full-cycle events occur during the year,
- the accounting issues at ARCP and its related nontraded REIT programs are resolved positively,
- the market for daily-valued and multiple-share class nontraded REITs shows some improvement,
- investor perceptions of nontraded REITs and commercial real estate investments remain positive,
- distribution yields offered by effective REITs remain attractive compared to other asset classes, and
- financial advisors continue to view nontraded REITs as a key component of a well-diversified portfolio.

Changes to Customer Account Statements - 2016

SEC approved changes to NASD Rule 2340 and FINRA Rule 2310 regarding valuations and customer statements

The SEC approved changes on October 10, 2014, and the new rules become effective April 11, 2016. NASD Rule 2340 currently requires broker dealers to send quarterly account statements to customers that report the original purchase price for the value of the investment until an estimated value is reported by the issuer which is required no later than 18 months after an offering closes. Rule 2310 gives the methodology to be used for the valuations.

With the new SEC-approved rules, the customer account statement must include an estimated per share value, provided that the valuation is "presumed reliable", along with disclosures that inform investors that a distribution may have the effect of reducing the estimated per share value if a portion of the distribution represents a return of capital. The new rule defines two valuation methodologies that will be considered to have been developed in a reasonable way.

1. Net Investment Method

The "net investment" disclosed by the nontraded REIT may be used if it is based:

- on the "amount available for investment" percentage in the "Estimated Use of Proceeds" section of the Prospectus; or
- on another equivalent disclosure showing the estimated percentage of sales commissions, dealer manager fees, and estimated offering and organization expenses deducted from the aggregate purchase price.
- may be used any time from the offering's effective date until 150 days following the second anniversary of breaking escrow

2. Appraised Value Method

This method can be used at any time, but no later than 150 days after the second anniversary of breaking escrow. It requires that independent third parties provide material assistance in estimating the NAV of a portfolio.
The appraised value may be used if:

- It is based on valuation of the assets and liabilities of the program, performed at least annually, by or with the material assistance or confirmation of a third party valuation expert or service; and
- It uses a methodology that conforms to a standard industry practice.

Changes to Customer Account Statements - 2016

The following table presents an example of how share valuations have been reported and how the rule changes could affect those valuations in the future. This example assumes a typical selling commission of 7% and offering and organization expenses of 3% of the gross selling price, as well as a 7% distribution yield initially from offering proceeds.

Existing Nontraded REIT Share Value Reporting Practice	Offering Price	Selling Commissions	Offering & Organization Expense	Cumulative Distributions in Excess of GAAP NI + D&A	Reported Share Value
First Two Years of Offering	$ 10.00	$ 0.70	$ 0.30	$ 0.67	$ 10.00
Up to Six Years Into Offerings	$ 10.00	$ 0.70	$ 0.30	$ 1.67	$ 10.00
Up to 18 Months After Offering	$ 10.00	$ 0.70	$ 0.30	$ 2.15	$ 10.00
Beginning 18 Months After Close	**Estimated Market Value of Assets per Share**		**Estimated Market Value of Liabilities per Share**		**Reported NAV**
Independent Valuation Methodology	$13.00		$4.50		$ 8.50
Nontraded REIT Share Value Reporting Practice Under FINRA Rule Changes	**Offering Price**	**Selling Commissions**	**Offering & Organization Expense**	**Cumulative Distributions in Excess of GAAP NI + D&A**	**Reported Net Investment Value**
Net Investment Methodology					
For 2 Yrs. + 150 Days after Breaking Escrow	$ 10.00	$ 0.70	$ 0.30	$ 0.67	$ 8.33
No Later Than Two Years + 150 Days following Breaking Escrow					
Independent Valuation Methodology	Third Party Valuation				
At Least Every Two Years	**Estimated Market Value of Assets per Share**		**Estimated Market Value of Liabilities per Share**		**Reported NAV**
	$13.00		$4.50		$8.50

More Information Available

If you would like more information on any of the topics covered in this Blue Vault Brief or more information on the nontraded REIT or BDC industry, feel free to contact Blue Vault Partners. We provide customized reports upon request and studies on the performance of REITs that have gone full-cycle, in addition to our suite of subscription research products covering nontraded REITs and BDCs.

Blue Vault Partners
407 E. Maple Street
Suite 305
Cumming, GA 30040

Phone: 877-256-2304