

BLUEVAULT™

2015 ANNUAL BRIEF

Nontraded REIT Year in Review

March 8, 2016

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Nontraded REIT Year in Review

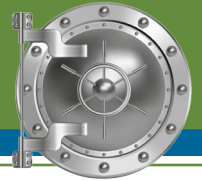


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Introduction

Welcome to the Blue Vault Brief: 2015 Year in Review!

The year 2015 was full of challenges for the nontraded REIT industry:

- The fallout from the revelations of accounting irregularities at the largest sponsor of nontraded REIT programs, AR Capital, continued to hurt both that firm's programs and the industry as a whole.
- FINRA Regulatory Notice 15-02 introduces new reporting requirements for nontraded REITs on customer account statements sent after April 11, 2016.
- The U.S. Department of Labor has proposed a fiduciary rule that could render direct investments ineligible for many retirement accounts.

These events have definitely impacted sales and the industry has responded with both new and modified offerings with lower commission structures and multiple share classes.

The results:

- The industry raised an estimated \$10.0 billion, down about 36% from the \$15.6 billion in 2014.
- There were eight new offerings, down from the record number of 15 in 2014.
- Eight nontraded REITs had full-cycle events in 2015, down from nine in 2014.
- Total assets under management within the nontraded REIT industry fell from \$87.1 billion at December 31, 2014 to \$78.7 billion by September 30, 2015.

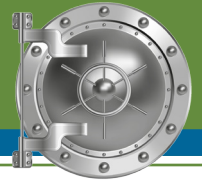
Summary of Topics

This report will summarize and illustrate the most important trends in the nontraded REIT industry observed in 2015.

- **Macro View:** What macroeconomic trends occurred in 2015, and how might that affect real estate investments and nontraded REITs?
- **Capital Markets Recap:** Which sponsors raised the most capital in 2015 and what are the trends in new offerings entering the market?
- **Full Cycle Events:** What were the key drivers behind the eight full-cycle events during 2015 and will this trend continue into 2016?
- **New Offering Structures:** How is the industry adapting to regulatory changes in new product structures and lower fees?
- **Changes in Distributions:** How many REITs experienced changes in their distribution rates over the past seven years and what were the key drivers behind those increases or decreases?
- **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?
- **New FINRA Rulings and Impact:** How will the new reporting standards approved by the SEC in October, 2015 and released by FINRA in January, 2015 impact the customer account statements and nontraded REIT reporting in the future?

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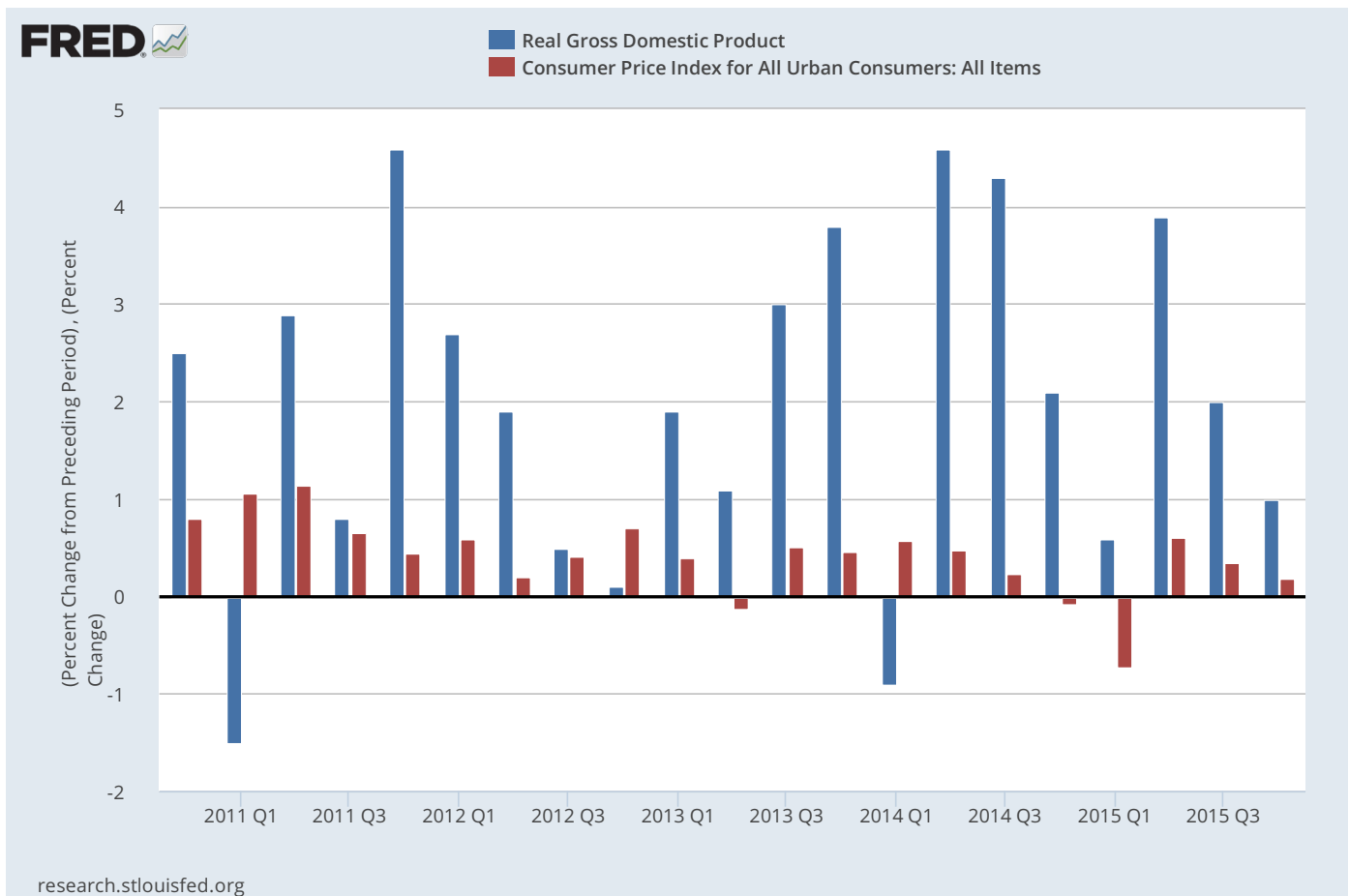
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Key Macroeconomic Trends in 2015

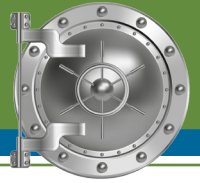
We entered into 2015 just as we had in 2014, with all eyes on the Fed in anticipation of rising interest rates. Finally, on December 16, the Federal Reserve raised its target interest rate for Federal Funds by 0.25 percent, stating that the economy had improved sufficiently in household income, domestic spending and employment to begin the return to “normal” rates. The central bank plans to raise the overnight lending rate to 1 percent in 2016. Weaknesses remaining in energy and manufacturing were of concern, but inflation was below its long-term average. Total retail sales climbed 2.2 percent in 2015 despite the double-digit drop in gasoline sales due to the effects of the oil glut. The U.S. labor market improved with unemployment at 4.9 percent in January and a rise in average hourly earnings of 2.5 percent over the last 12 months.

Real GDP in the U.S. increased 2.4 percent in 2015, the same rate as in 2014. The price index for gross domestic purchases increased only 0.4 percent in 2015 compared to 1.5 percent in 2014. The deceleration in the fourth quarter GDP growth from the 2.0 percent third quarter rate to just 1.0 percent was attributed to a decrease in non-residential fixed investment, government spending and exports.



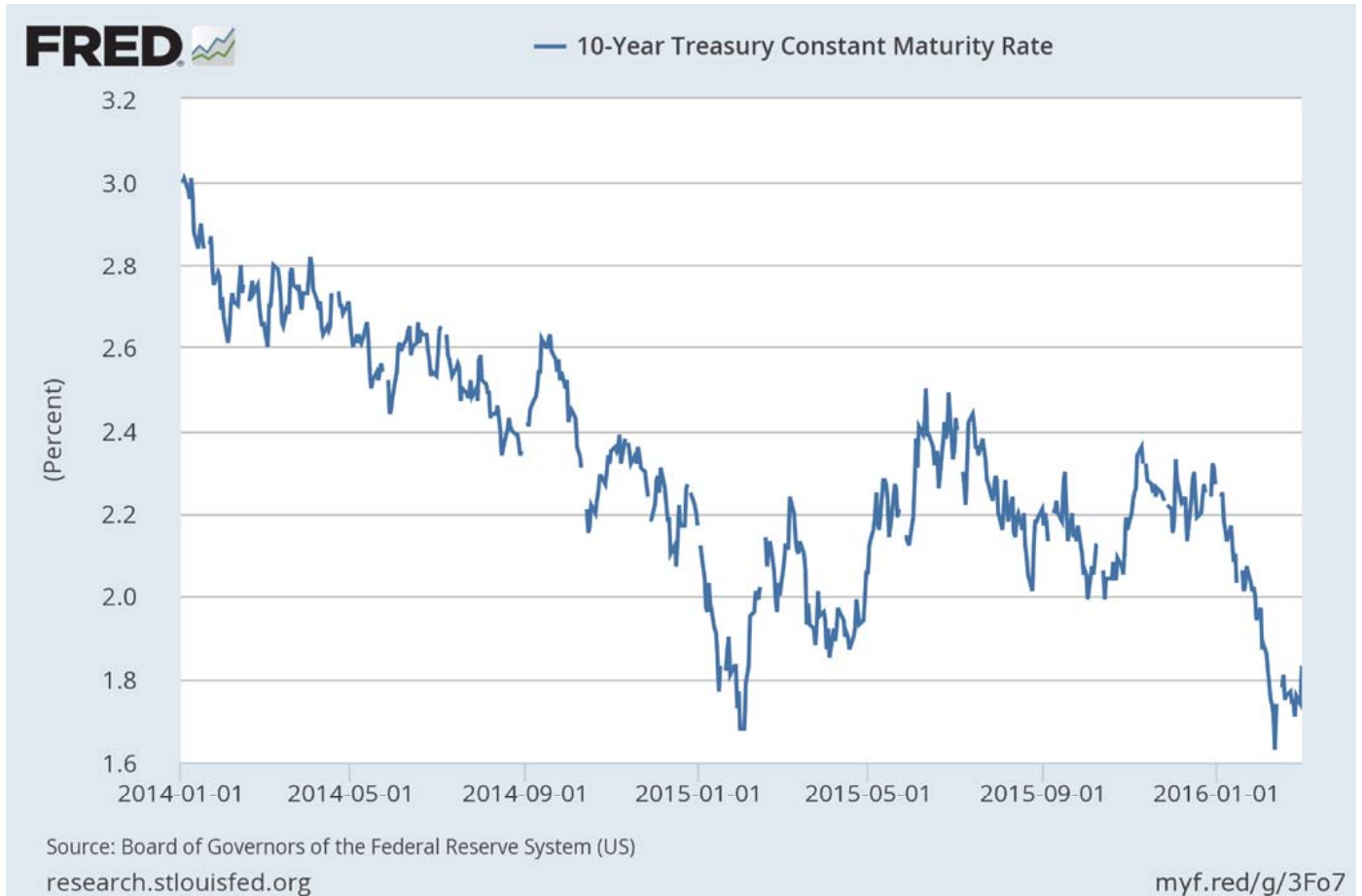
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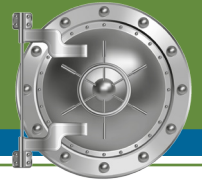
The Trend in 10-Year Bond Yields

While many were forecasting higher interest rates in 2015, the benchmark 10 Year Treasury Note yields actually fell to record lows by January, 2016.



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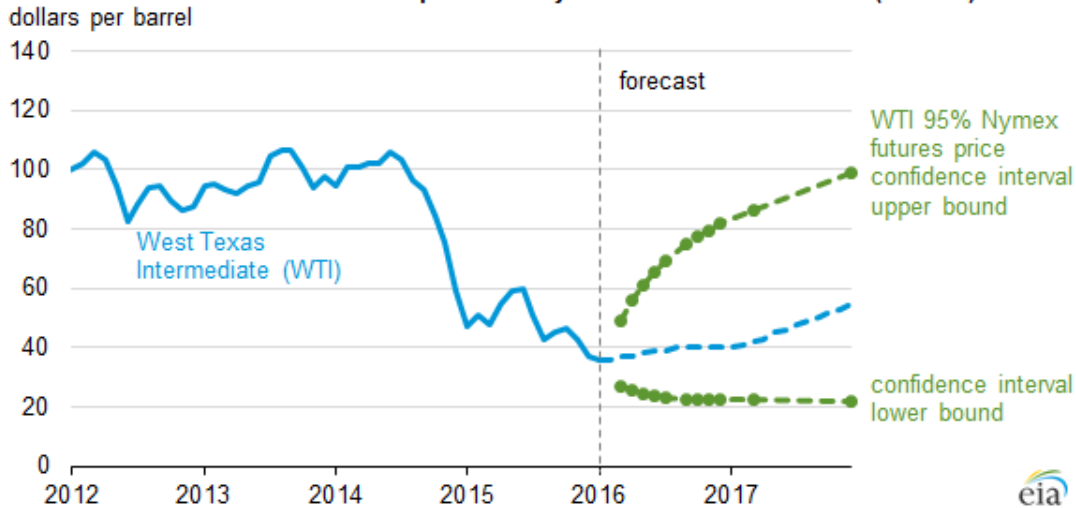
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Lower Energy Prices Continue

In last year's report we cited the surprising fall in energy prices and the impacts of increased U.S. production and sluggish world demand. From a high of \$115 per barrel in June 2014 to under \$40 per barrel in January 2016, lower crude oil prices are not forecast to rebound soon, with many forecasts anticipating subdued pricing through 2017. U.S. consumers have experienced a rise in disposable income due to lower transportation and other energy-related expenses, but not all of the savings have translated to higher retail sales.

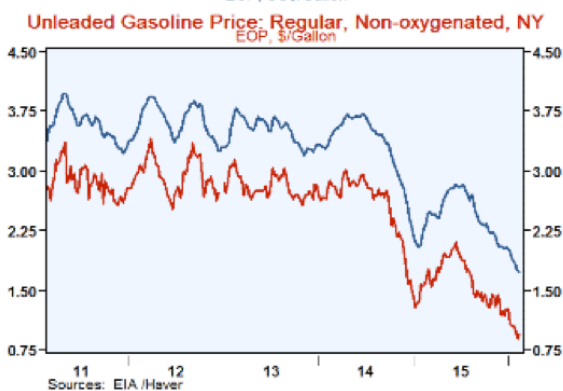
West Texas Intermediate crude oil price and Nymex confidence intervals (2012-17)



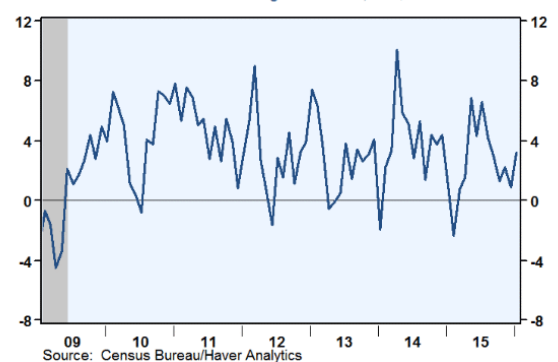
Gasoline Prices and Retail Sales

Despite the huge drop in gasoline prices in 2015, savings by consumers at the pump did not translate directly into higher retail sales. Due to the rise in U.S. domestic oil production reported in last year's review, the benefits of lower gasoline prices have been offset by the negative impacts on U.S. energy producers that have cut budgets and seen layoffs in oil-producing regions. U.S. consumers pocketed an estimated \$115 billion from lower gas prices in 2015, but personal savings rose by more than \$100 billion, so most savings at the pump did not recirculate through the economy, but instead improved household balance sheets.

U.S. Retail Gasoline Price: Regular Grade



Retail Sales Excl. Auto, Gas Stations & Bldg Materials



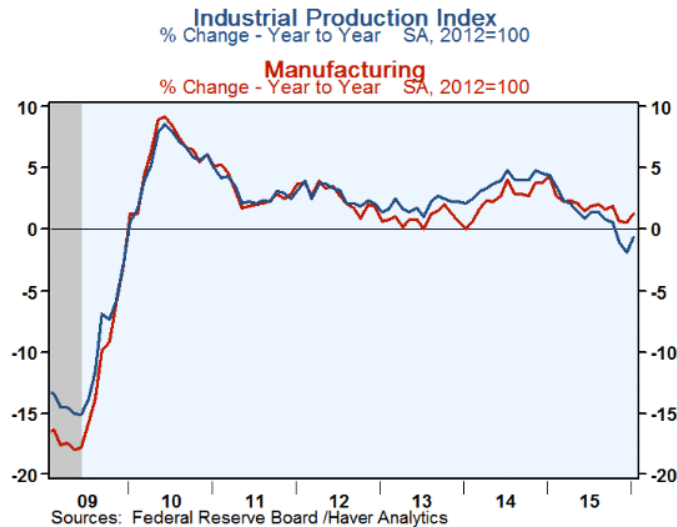
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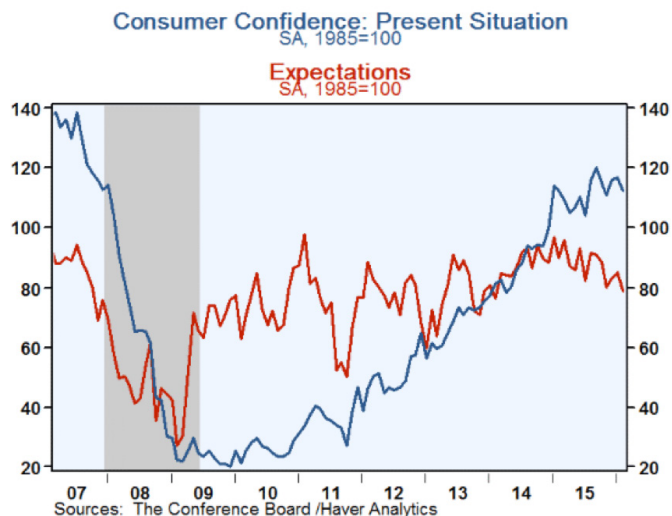
Concerns About Industrial Production

Entering 2016, economists raised some concern about the trajectory of industrial production and manufacturing in the U.S. For all of 2015, the trend has been downward, due in large part to the slowdown in the world economy, both in Europe and Asia. Investors in commercial real estate are paying attention to both the domestic demand trends and the impacts of global uncertainties on the U.S. economy.



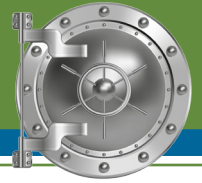
Consumer Confidence Falls

While measures of consumer confidence continued an upward trend in 2015, consumer expectations for the future did not, with a decidedly less rosy outlook as the year progressed. Coupled with the declines in fourth quarter GDP growth and industrial production, these are trends to watch in 2016.



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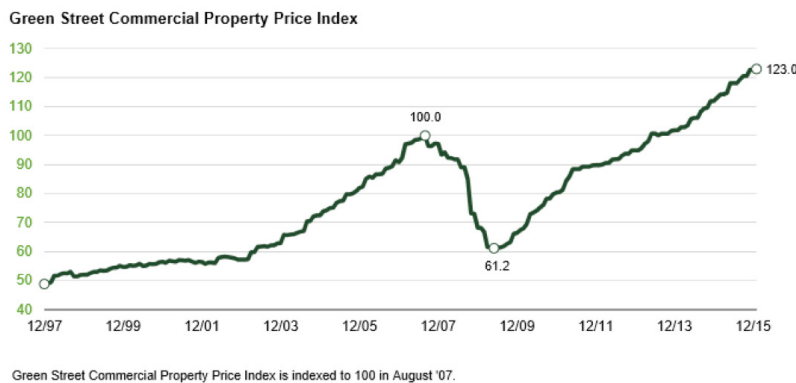
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The Traded REIT Market and CRE Values

Total investor returns for the NAREIT All REITs Index for 2015 were 2.3 percent compared to 1.4 percent for the S&P 500 Index, according to NAREIT. SNL's U.S. REIT Equity Index showed a 2.76 percent total return, small compared to the 29.1 percent return in 2014.

The Green Street Commercial Property Price Index rose 10 percent during the past 12 months, bringing it to 123.0 in January, up 30 percent over the last three years. The prospect of rising interest rates and already lofty valuations based upon low cap rates and limited supply has some analysts forecasting a cooling off of CRE prices in 2016. Other more optimistic analysts point to the prospect of a low interest rate environment persisting, along with lower unemployment and the lack of speculative development that contributed to the 2008 financial crisis.



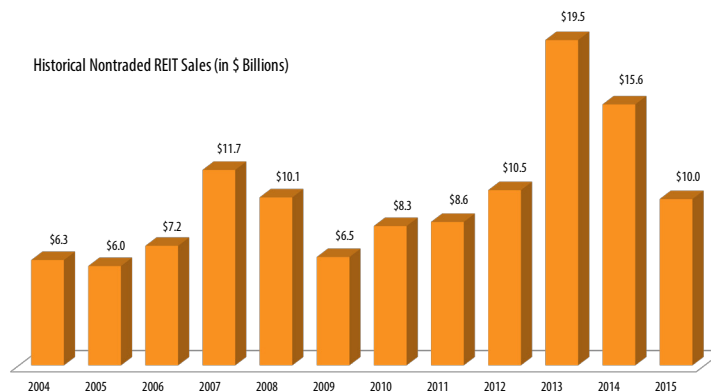
2015 Trends & Highlights: Capital Raise

At some time during 2015 there were a total of 32 nontraded REITs raising capital. Due to offering closings, by the end of the year there were 25 offerings still raising capital.

Based on current SEC filings, sponsor reports directly to Blue Vault, and sales trends, it is estimated that the nontraded REIT industry raised approximately \$10.0 billion in 2015 versus \$15.6 billion in 2014.

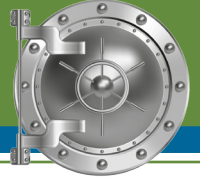
The decline in sales can be attributed to the events at AR Capital, the uncertainty surrounding the impact of new FINRA reporting requirements, and the looming Department of Labor fiduciary standards.

The number of full-cycle events in 2015 was a positive contributor, as some portion of the over \$10 billion in liquidity created for nontraded REIT investors was reinvested in new offerings.



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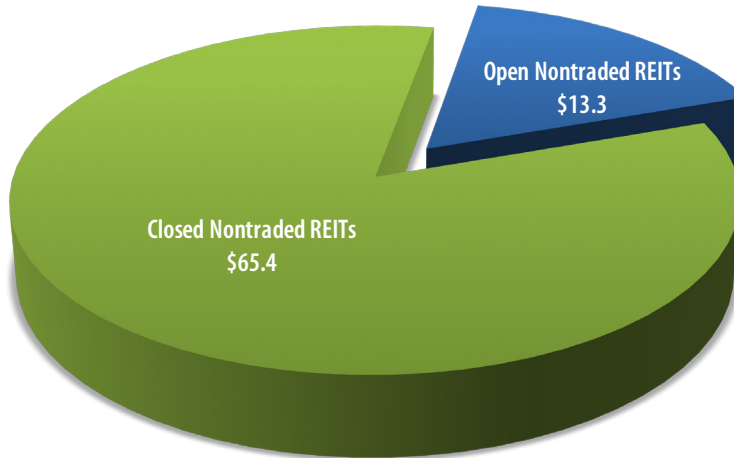
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2015 Trends & Highlights: Assets Under Management

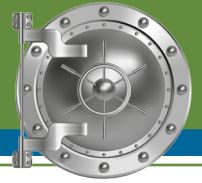
The net effect of capital raise and full-cycle events among nontraded REITs has been a decrease in assets under management for the sector from \$87.1 billion in 2014 to \$78.7 billion at September 30, 2015. With no new full-cycle events in 4Q 2015 and approximately \$2.2 billion in sales, at year-end 2015 the total assets for all nontraded REITs will be closer to \$82 billion.

Total Nontraded REIT Assets: \$78.7 Billion as of 3Q 2015



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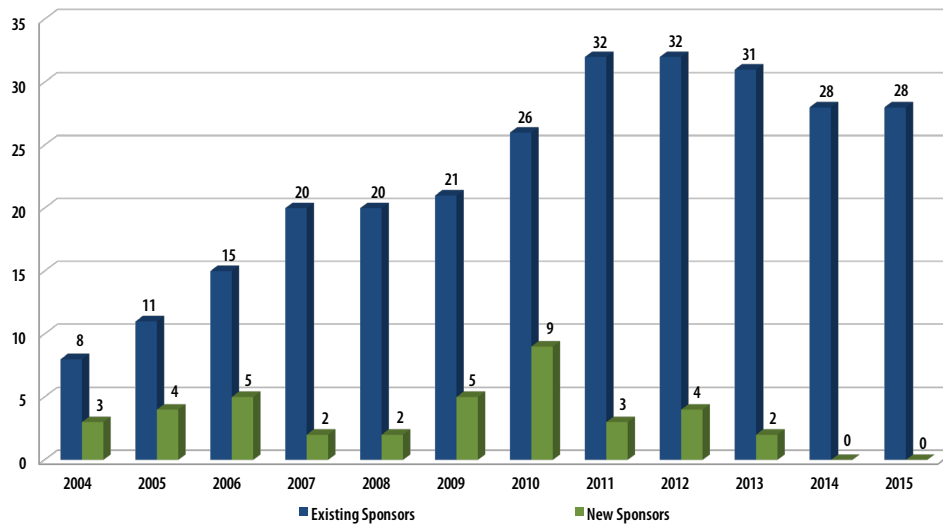
2015 Trends & Highlights: Sponsor Trends

As of December 31, 2015, 28 companies advised or sponsored the 72 nontraded REITs that make up the nontraded REIT industry. This number excludes two REITs that have internalized their management.

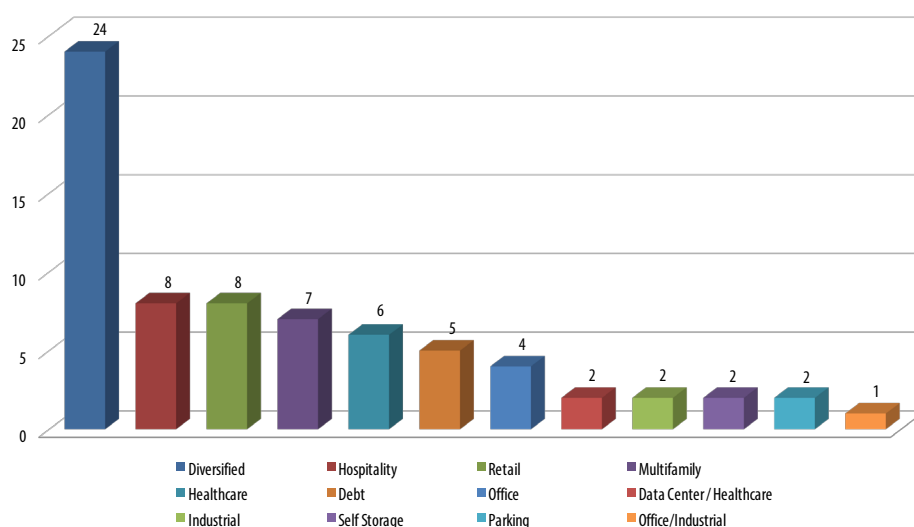
Looking ahead into 2016, this figure is expected to remain stable as no current sponsors have announced full-cycle events that would remove them from the current roster. United Development Funding Income Fund V lists American Realty Capital Residential Advisors as its “external advisor” as of December 3, 2015, which we have classified as separate from AR Global, the newest name for AR Capital. AR Capital announced in November, 2015, that it would no longer sponsor new nontraded REIT programs and would close existing ones to new investors.

One REIT sponsor was removed and one added when United Realty Trust was acquired by First Capital Real Estate Investments in September, 2015.

Number of Existing vs. New Sponsors by Year

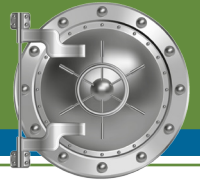


Nontraded REIT Market Segmented by Asset Type



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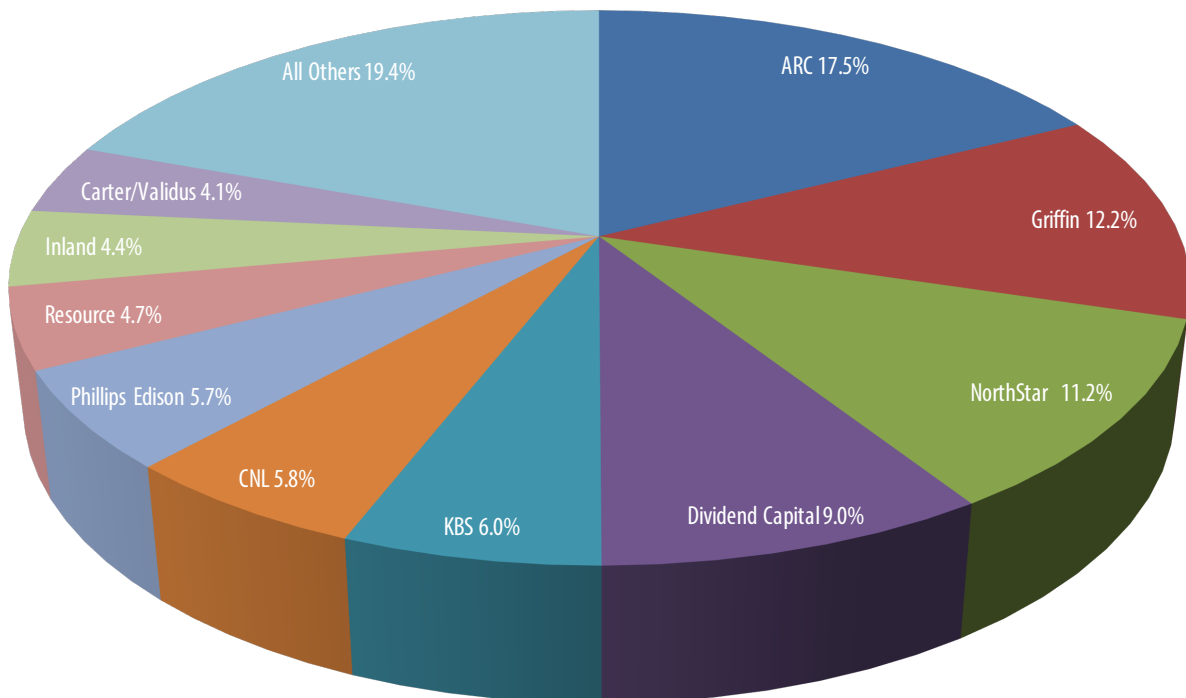


2015 Trends & Highlights: Capital Raise by Nontraded REIT Sponsors

In 2015 the top five sponsors raised an estimated \$5.6 billion of the total capital raised by all nontraded REITs, or 56% of the estimated \$10.0 billion total. This marked a decrease in market share by the top five sponsors in 2014, when those five raised over 70% of all equity, including DRIP proceeds, through public offerings.

Early Blue Vault estimates also show that the top sponsor in sales in 2015 was AR Capital, with roughly \$1.76 billion in sales, followed by Griffin Capital with \$1.22 billion, NorthStar with \$1.12 billion, and Dividend Capital with \$0.9 billion. KBS raised an estimated \$0.60 billion, followed closely by CNL at \$0.58 billion. All estimates include DRIP proceeds.

2015 Nontraded REIT Estimated Market Share by Sponsor

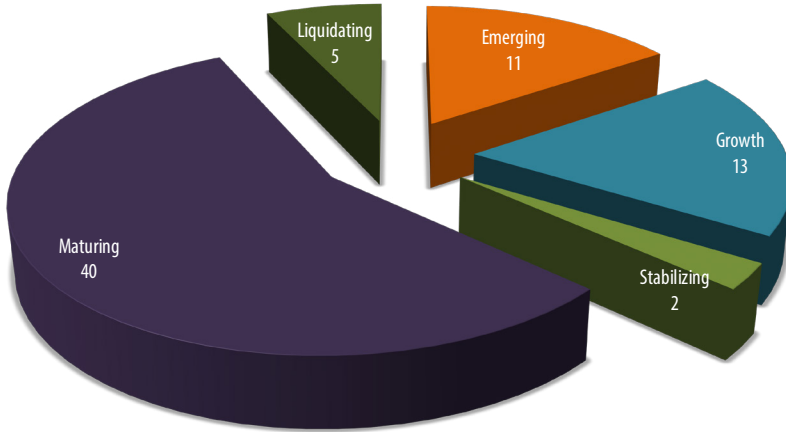


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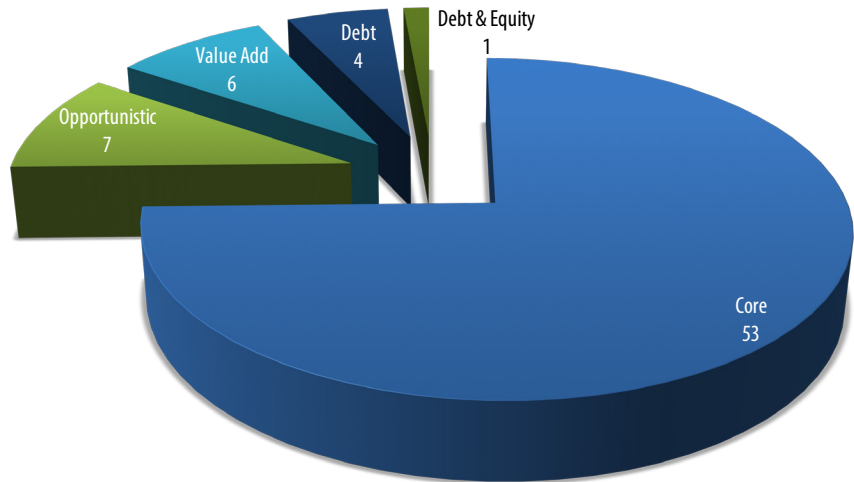
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Nontraded REIT Market Segmented by LifeStage at December 31, 2015

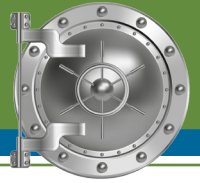


Nontraded REIT Market Segmented by Investment Strategy



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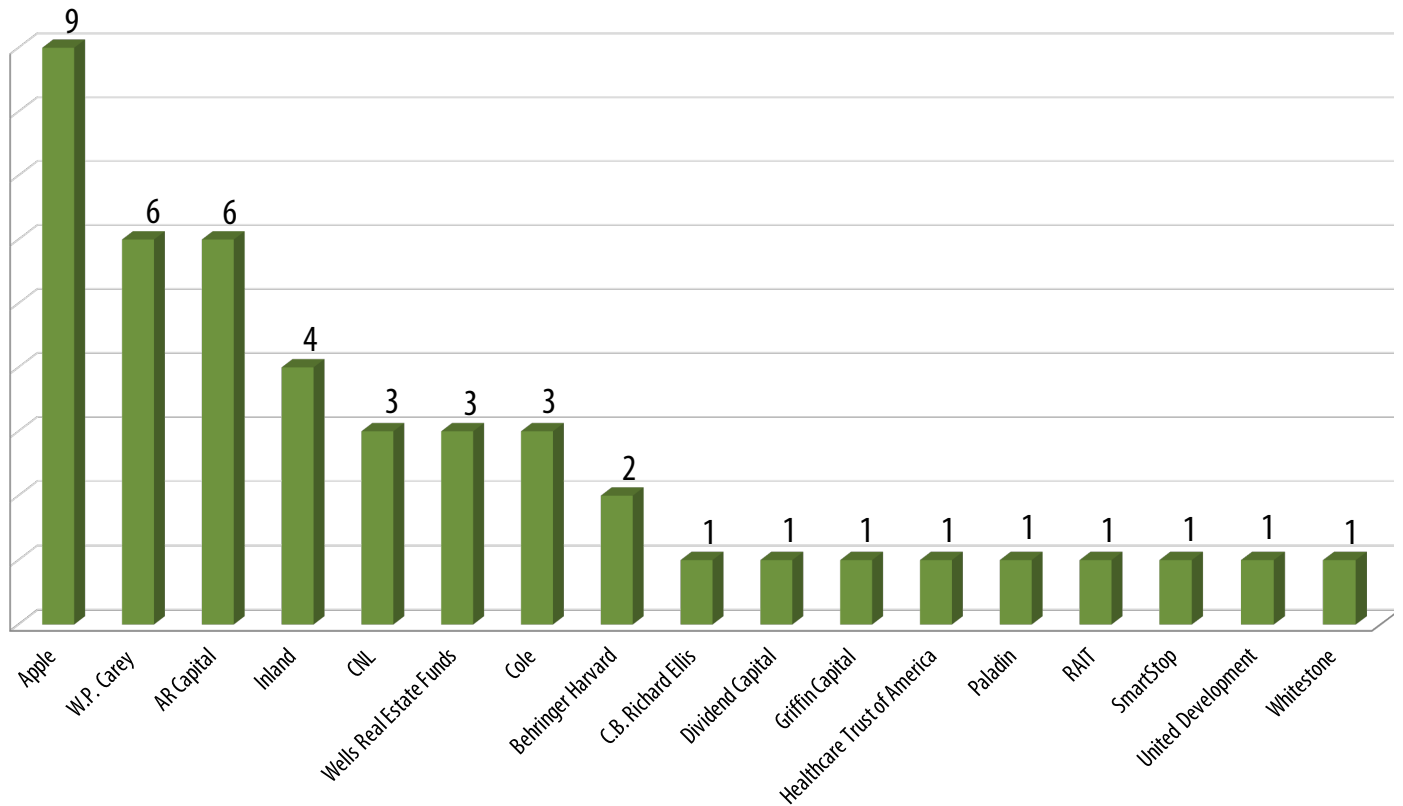
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2015 Trends & Highlights: Sponsor Trends and Full-Cycle Events

By the end of 2015, 17 industry sponsors had completed full-cycle events, and all of the eight 2015 full-cycle events were by sponsors with previous such events. In those cases where a nontraded REIT had merged with another nontraded REIT and its shareholders received nontraded shares, the full-cycle event occurs when the surviving entity lists or otherwise provides full liquidity for all common shares.

Number of Full-Cycle Events by Sponsor



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2015 Trends & Highlights: Full-Cycle Events in 2015

The table below shows eight full-cycle events as defined by Blue Vault among nontraded REITs that occurred in 2015. (Note: Industrial Income Trust had not provided total liquidity as of 12/31/15 due to a portfolio of assets excluded from the merger that had not yet been liquidated.)

Nontraded REIT	Date Full Liquidity Achieved ¹	Per Share Value/ Exit Price ²	Estimated Shares ³	Estimated Total Value (Millions)	Type
American Realty Capital Global Trust, Inc.	6/2/2015	\$9.32	179,634,854	\$1,674.2	Listed NYSE
Apple Hospitality REIT, Inc. (Apple REIT Nine)	5/18/2015	\$9.00	372,200,000	\$3,349.8	Listed NYSE
Apple REIT Eight, Inc. (merged into Apple Hospitality)	5/18/2015	\$7.65	Included Above	NA	Listing on NYSE of APLE
Apple REIT Seven, Inc. (merged into Apple Hospitality)	5/18/2015	\$9.00	Included Above	NA	Listing on NYSE of APLE
CatchMark Timber REIT, Inc. (Wells Timberland REIT)	2/27/2015	\$4.85	39,357,444	\$190.9	B-3 shares converted to A shares
Cole Corporate Income Trust	1/29/2015	\$10.50	197,817,978	\$2,077.1	Merger with SIR
SmartStop Self Storage, Inc. (Strategic Storage Trust, Inc.)	9/29/2015	\$13.75	58,611,848	\$805.9	Merger with EXR
TIER REIT, Inc. (Behringer Harvard REIT I)	7/23/2015	\$3.04	49,871,776	\$151.6	Listed NYSE
Industrial Income Trust Inc. ⁴	11/4/2015 ⁴	\$11.12	212,718,000	\$2,365.4	Merger with GLP

Footnotes:

¹ Blue Vault defines the date as the first day that common shareholders can liquidate all of their shares (all classes become exchange trade-able or fully cashed out)

² Liquidating value paid to common shareholders or closing price on first day of listing, adjusted for reverse stock splits.

³ Number of common shares outstanding in the last reporting period prior to the full-cycle event.

⁴ Industrial Income Trust Inc. had a portfolio of excluded assets estimated to be worth \$0.56 per share to be liquidated following the merger with GLP.

2015 Trends & Highlights: Estimated Liquidity Value of Full-Cycle Events Lower than 2014

The trend in full-cycle events among nontraded REITs remained strong in 2015. Although the estimated market value to shareholders of the 2015 full-cycle events of \$8.25 billion was well below the 2014 total of \$15.2 billion, the eight REITs that had liquidity events in 2015 approached the all-time high for the industry and provided significant cash flow and reinvestment potential to common shareholders. If we include the listing by Industrial Income Trust which hadn't fully liquidated by year end, the estimated value of nine events would be \$10.6 billion.

Including the eight liquidity events in 2015, the cumulative number of full-cycle events that have taken place since 1990 increased to 45 where full liquidity was provided to common shareholders. Of the completed liquidity events in 2015, four were listings on a national exchange, four were by a merger with a listed company, and two were by merger with a nontraded REIT.

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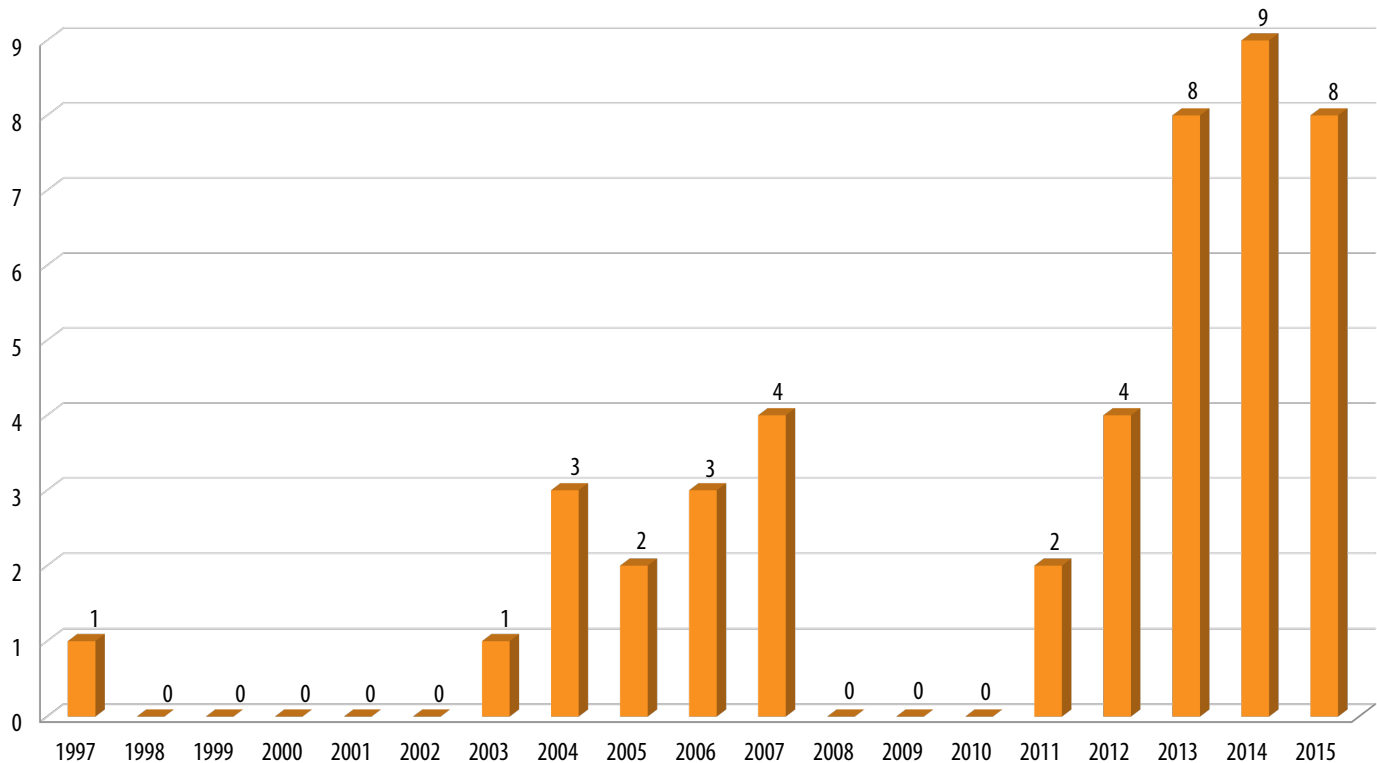
2015 Trends & Highlights: Number of Full-Cycle Events by Year

Including the eight liquidity events in 2015, the cumulative number of full-cycle events that have taken place since 1990 increased to 45 as defined by Blue Vault*. Of the completed liquidity events in 2015, six were via listings on a national exchange and two were accomplished by mergers with listed firms.

*Blue Vault defines a full-cycle liquidity event as occurring at the date that all common shares can be liquidated for cash.

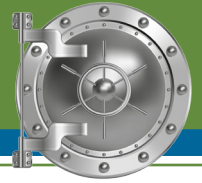
- Industrial Property Trust merged with GLP on November 4, 2015, but has yet to provide full liquidity to common shareholders.
- ARC Daily NAV has announced plans to liquidate its portfolio but has not yet completed a liquidation.
- The listing by Apple Hospitality (formerly Apple REIT Nine) in May, 2015, provided liquidity to the shareholders of Apple REITs Seven and Eight that had merged with Apple REIT Nine in March, 2014, to become Apple Hospitality REIT.
- Blue Rock Residential Growth REIT listed a portion of its common shares in 2014 but the last tranche will become exchange traded in March, 2016.

Nontraded REIT Full-Cycle Events by Year



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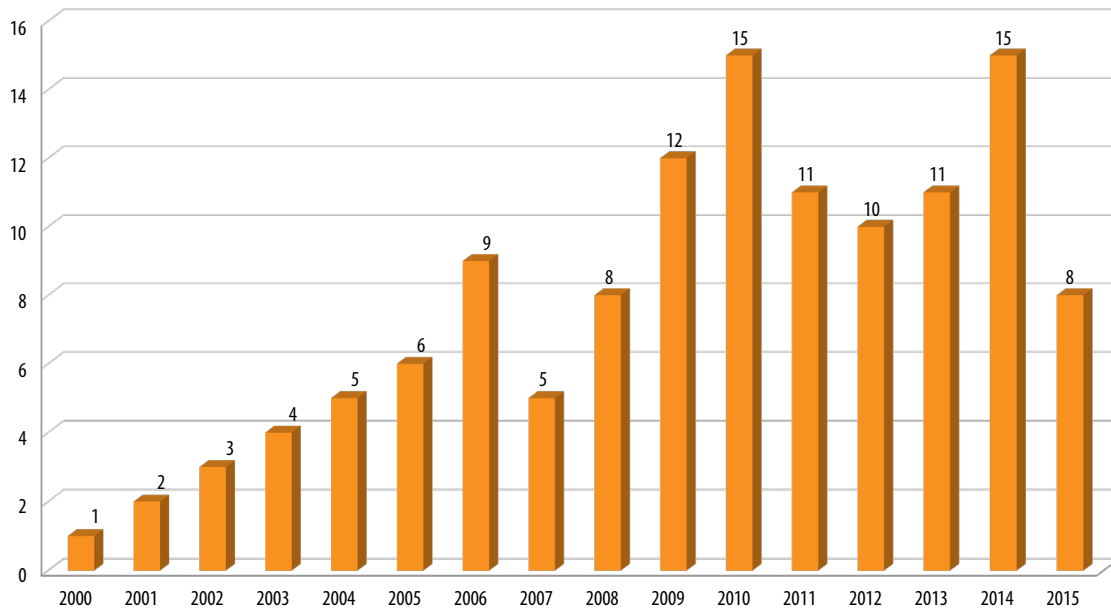
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2015 Trends & Highlights: New Offerings in 2015

Eight new nontraded REITs launched initial public offering in 2015, seven fewer than in 2014. All of the new offerings were by experienced sponsors, and no sponsor introduced more than one. The sponsor with the most assets in nontraded REITs and the largest market share in capital raise over the past four years, AR Capital (now AR Global) announced that they would no longer offer new nontraded REIT programs. (On December 15, 2015, they withdrew the offering for ARC New York City REIT II.)

New Nontraded REIT Offerings by Year



The eight new nontraded REITs that became effective in 2015 are shown below. All were introduced by experienced sponsors and five had multiple share classes with reduced up-front commissions for their Class T shares.

REIT	Sponsor	Type	Share Classes	Style
Moody National REIT II, Inc.	Moody National REIT Sponsor, LLC	Hospitality	Common	Core
Strategic Storage Growth Trust, Inc.	SmartStop Self Storage/Extra Space	Self Storage	A & T	Core
Carey Watermark Investors 2 Inc.	W.P. Carey	Hospitality	A & T	Value Add
Inland Residential Properties Trust, Inc.	Inland Real Estate Investment Corporation	Multifamily	A & T	Core
Logistics Property Trust, Inc.	Dividend Capital Property Management LLC	Industrial	A & T	Core
American Realty Capital New York City REIT II, Inc.	AR Capital, LLC	Office	Common	Core
Resource Innovation Office REIT, Inc.	Resource Real Estate, Inc.	Office	A & T	Core
MVP REIT II, Inc.	MVP Capital Partners II, LLC	Parking	Common	Core

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Offering Innovations

Five of the eight new nontraded REIT programs in 2015 offered both Class A shares with traditional commission structures and Class T shares with lower up-front commissions and trailing fees. This trend also appeared as modifications to some earlier offerings to add Class T shares.

Multiple Share Classes

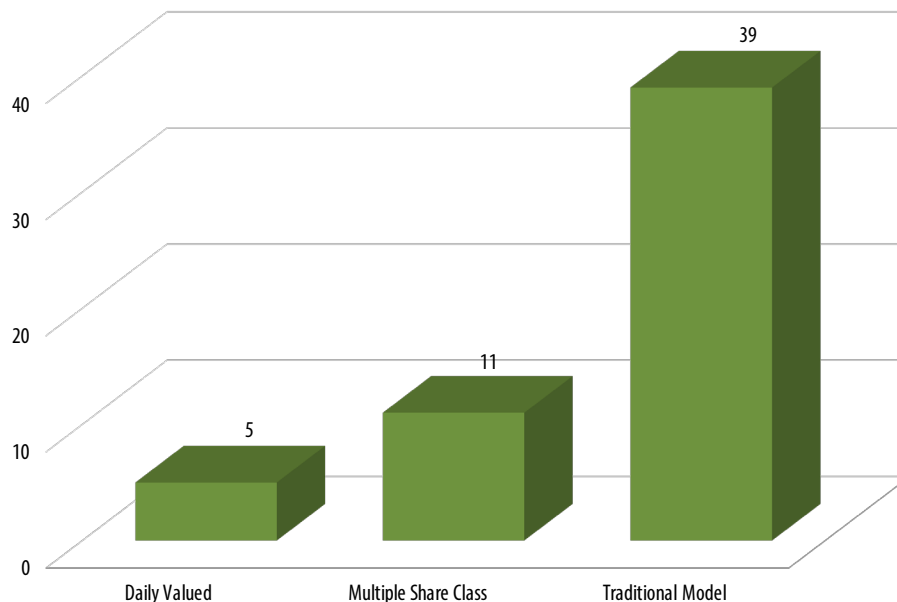
In 2013 there were five nontraded REITs with multiple share classes. At the end of 2015 there were 15 REITs with more than one share class with differing commission structures and distribution rates, including four of the five daily NAV products.

Daily NAV REITs

As of December 31, 2015, there were five nontraded REITs that provide daily valuations and enhanced liquidity features.

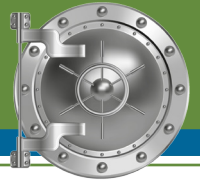
By the end of 2015 these five funds are estimated to have raised about \$973 million since inception, about 1.5% of funds raised by all active nontraded REITs as of that date. For all REITs raising equity funds in 2015, the five daily NAV REITs appear to have raised less than 2% of equity funds. One daily NAV REIT, ARC Daily NAV, announced on July 30, 2015, that it will liquidate its property portfolio and return capital to its shareholders.

New Products Introduced Between 2011 and 2015
Daily-Valued , Multiple Share Classes and Traditional Offerings



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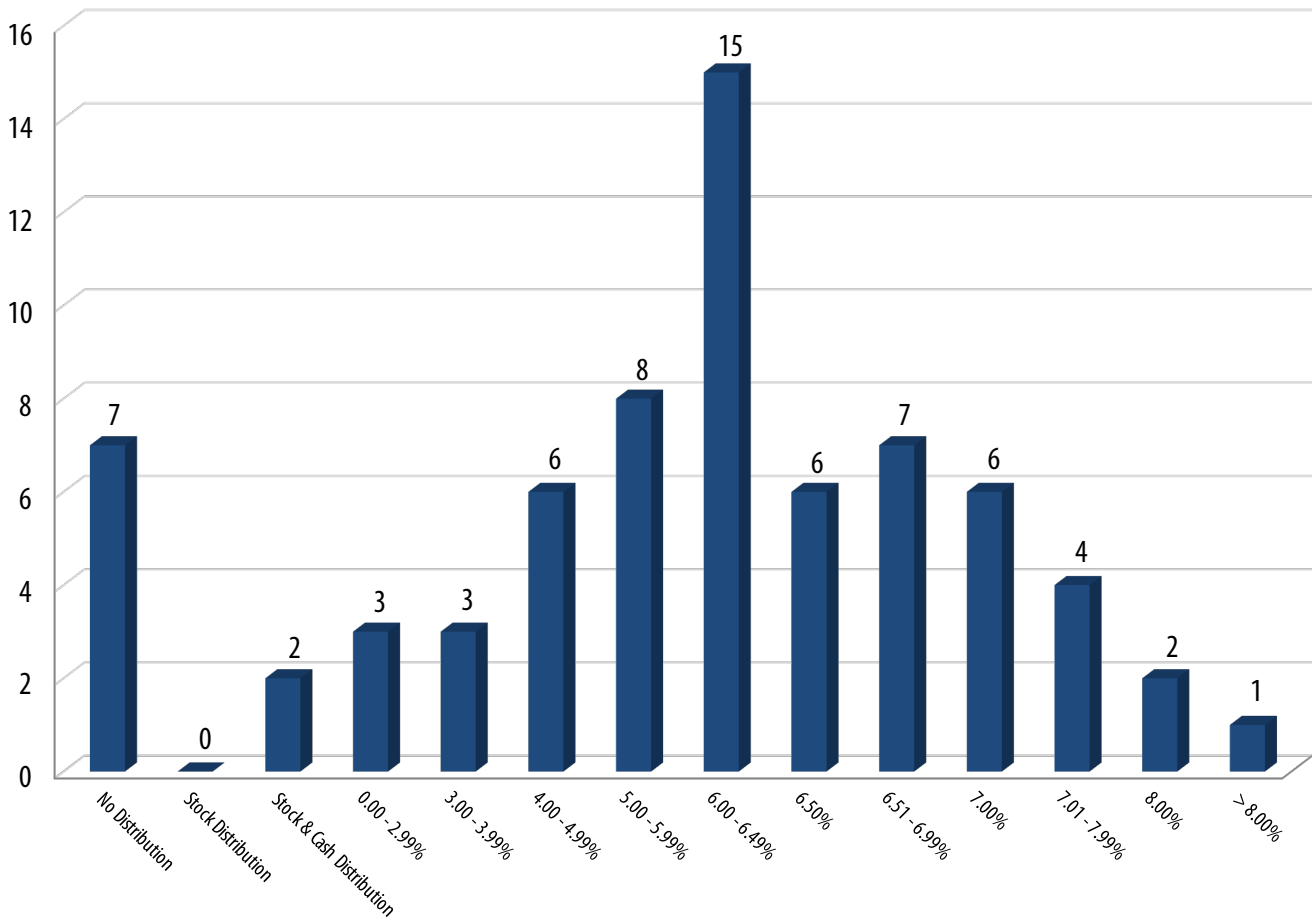


Distribution Yields

The Variety of Distribution Yields Among Active Nontraded REITs

As of December 31, 2015, the median distribution yield for all active nontraded REITs was 6.03% and the average was 5.30%. Seven REITs were not making cash distributions while 13 REITs had distribution yields of 7.00% or greater. This compares favorably to the average for the 223 traded REITs in the FTSE NAREIT All REITs index (4.30%) and the S&P 500 (2.18%) as of December, 2015.

Nontraded REIT Distribution Yield Ranges



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Historical Returns for Popular Equity Indices

Traded REITs Outperformed other Investment Indices over Time

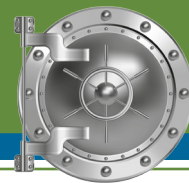
For the year 2015 and for other holding periods, traded REITs have outperformed other indices by providing total returns (dividends plus capital gains annualized) that consistently exceed or nearly match the best-performing benchmarks. In the full-cycle studies performed by Blue Vault for each of the last four years, nontraded REITs have averaged total returns to shareholders in excess of the S&P 500 returns over matched holding periods. While average returns to nontraded REITs with full-cycle results are below traded REIT custom benchmarks in Blue Vault studies, average distribution yields have been consistently higher.

Historical Compound Annual Total Returns of Exchange-Traded U.S. Equity REITs and non-REIT Equity Investments

	FTSE NAREIT All Equity REITs	S&P 500	Russell 2000	DJ US Total Stock Market	Russell 2000 Growth	Russell 2000 Value	S&P Utilities Sector	S&P Financial Sector
1-Year	2.83	1.38	-4.41	0.44	-1.38	-7.47	-4.85	-1.53
5-Year	11.91	12.57	9.19	12.14	10.67	7.67	11.03	10.45
10-Year	7.38	7.31	6.80	7.48	7.95	5.57	7.41	-0.66
15-Year	11.14	5.00	7.28	5.65	6.03	8.17	4.09	0.79
20-Year	10.88	8.19	8.03	8.31	6.31	9.26	7.10	6.13
25-Year	12.12	9.82	10.50	10.05	8.69	11.86	8.05	9.62
30-Year	10.67	10.37	9.12	10.23	7.55	10.26	N/A	N/A
35-Year	11.88	10.98	9.92	10.76	7.59	11.91	N/A	N/A
40-Year	13.72	11.35	N/A	11.62	N/A	N/A	N/A	N/A

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2015 Trends & Highlights: Fewer Changes in Distribution Rates in 2015

Blue Vault reports distribution yield as a percentage of the original offering prices, usually \$10.00 per share. Over the last seven years, there have been a total of 75 changes in the distribution rates of nontraded REITs, with 37 increases and 38 decreases. Of the 38 decreases, seven were eliminations or suspensions of the distributions altogether. The average distribution yield increase was 0.81% and the average distribution yield decrease was 2.03%.

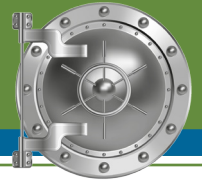
In 2015 there were three increases and two decreases that were both distribution suspensions associated with plans for liquidation.

Distribution Yield Increases, Decreases and Eliminations by Year

Year	Increases	Decreases	Eliminations	Average Increase in Yield	Average Decrease in Yield
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%
2015	3	2	2	1.65%	-6.4%

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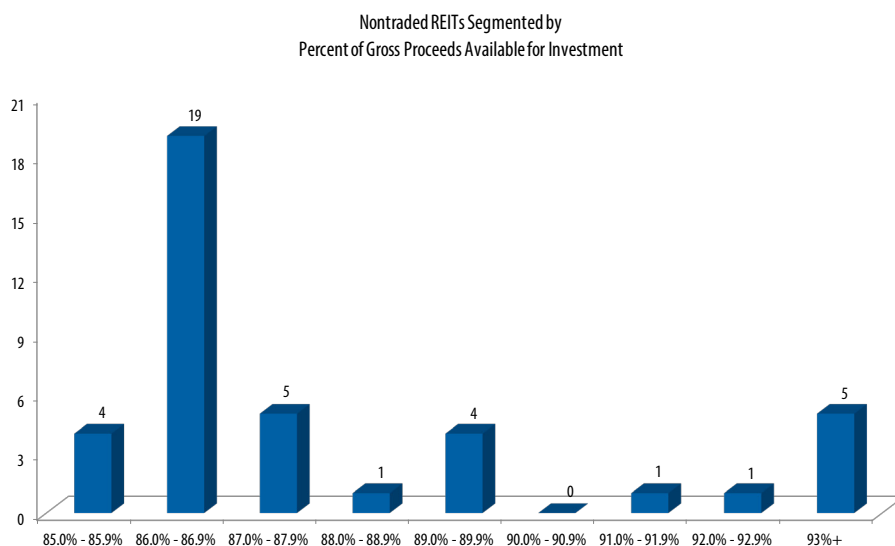
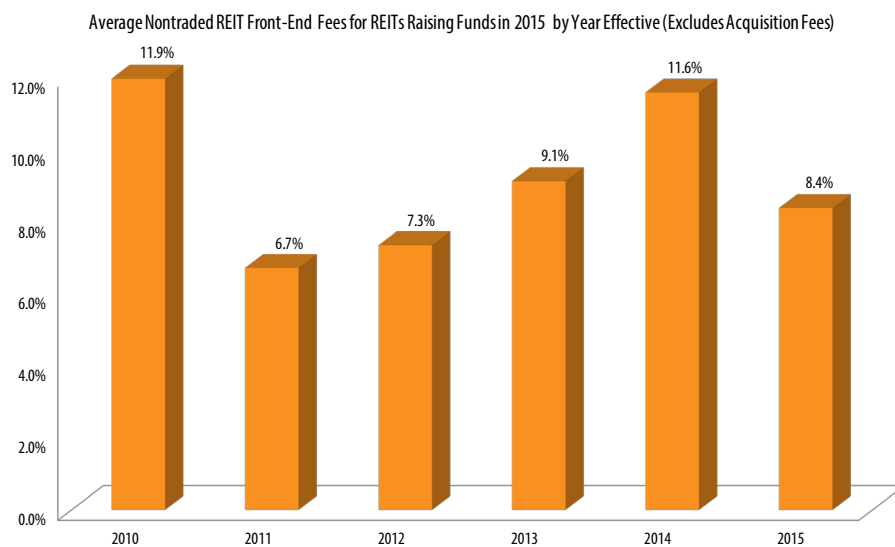
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2015 Trends & Highlights: Offering Fees and Amount of Proceeds Available for Investment

The average percentage of new offering proceeds that are paid in sales commissions, dealer manager fees and organization and offering expenses for open REITs fell in 2015. With so many REITs (14) now offering multiple share classes, and with the T-class shares offered with lower up-front commissions, the actual percentage of offering proceeds available for investment for these will depend upon the mix of Class A and Class T shares sold.

As the chart below illustrates, of the 40 nontraded REITs that were raising funds in 2015, approximately 18% are investing 91% or more of investor proceeds into real property (using the fee structures for Class A shares only). The median for all REITs and all share classes for the year was 86.9%, after acquisition fees.



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Full-Cycle Events to Watch in 2016

Industrial Income Trust's merger with Western Logistics took place on November 4, 2015 but 11 properties were withheld from the merger and will be liquidated at a later date, with proceeds distributed to shareholders.

In addition, we have five nontraded REITs on our "watch list" for potential full-cycle events. They are:

- American Realty Capital Daily NAV (announced plans to liquidate its portfolio in July, 2015)
- Summit Healthcare (became self-managed April 1, 2014)
- InvenTrust (became self-managed December 31, 2014, and spun off Xenia Hotels & Resorts on February 3, 2015 through a pro-rata distribution of the Company's 95% of the outstanding stock of Xenia to the Company's shareholders)
- CNL Lifestyle Properties (has been selling portions of its portfolio since engaging an investment banking firm in 2014 to advise the Company regarding providing liquidity)
- Plymouth Industrial REIT (its Board is reviewing strategic alternatives, including sale or merger)

Despite the number of full-cycle events among closed REITs in 2015, the assets held by open REITs now make up only an estimated 17% of total nontraded REIT assets as of year-end 2015 compared to roughly 40% in 2013. New offerings are down from 2014 and no new nontraded REIT sponsors have entered the space.

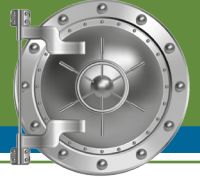
2015 Trends & Highlights : Performance by Daily NAV REITs

Using the daily NAV's reported for retail shares during 2015, as well as the distributions paid, we are able to calculate estimated total returns to shareholders for four of 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 2015, the four daily NAV products with daily values for every day during 2015 had estimated annualized returns for the 12-month period ending December 31, 2015 as follows:

Daily NAV REIT	NAV			Distribution Yield	Estimated Total Return
	12/31/2014	NAV 12/31/15	NAV Change		
ARC Daily NAV (Retail)	\$10.19	Unavailable	NA	3.59%	NA
Cole Real estate Income Strategy (Class W)	\$17.51	\$18.24	4.17%	5.58%	9.75%
Dividend Capital Diversified Property Fund (Class W)	\$7.16	\$7.47	4.33%	4.42%	8.75%
Jones Lang LaSalle Income Property Trust (Class A)	\$10.55	\$11.17	5.88%	4.55%	10.43%
RREEF Property Trust (Class A)	\$12.78	\$13.09	2.43%	4.74%	7.17%

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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, 2015, 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

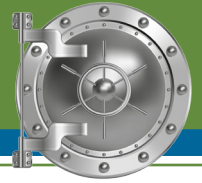
This method can be used at any time, but no later than 150 days after the second anniversary of breaking escrow. It requires that independent third parties provide material assistance in estimating the NAV of a portfolio.

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

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Future Trends and Expectations for 2016

Here are the key market trends that we foresee for the nontraded REIT industry in the remainder of 2016:

If the U.S. economy returns to a growth rate above 2.5% and unemployment continues to decline, with inflation subdued and the supply of new commercial space remaining in reasonable relation to growth in demand, a drop in valuations can be avoided in 2016. The downside risks relate to a potential stall in GDP growth, sluggish global demand, or "black swan" events that could trigger a recession.

The median distribution yields among nontraded REIT offerings of six percent vs. the 3.8 percent average for traded equity REITs will continue to make them attractive to qualified investors seeking yield.

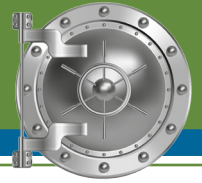
U.S. demographics, including an aging Boomer generation and millennials who prefer renting to buying, bode well for apartment demand. Other sectors, including office, industrial and retail are more closely tied to overall economic growth.

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. The reforms in FIRPTA (Foreign Investment in Real Property Tax Act) enacted in December, which permit foreign pension funds to double their ownership percentage of publicly traded REITs, should increase demand for CRE assets and support valuations.

With the Federal Reserve finally making the long-anticipated move to raise interest rates, REITs will continue to focus on the spread between historically low cap rates and medium-term financing rates. Until that spread narrows, either through interest rates trending higher (more likely) or cap rates dropping further (less likely), commercial real estate will continue to be attractive.

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Future Trends and Expectations for 2016

Looking further into 2016, we predict that the industry will struggle to maintain a pace of capital raising that matches the 2015 total of \$10 billion given that:

- There has been a net decline in the number of effective nontraded REIT offerings from 32 in 1Q 2015 to 25 at year-end 2015.
- The largest sponsor of nontraded REIT programs, AR Global (formerly AR Capital), has announced plans to withdraw from the industry
- No new nontraded REIT sponsors have introduced products in the last three years
- The impacts of FINRA's new reporting requirements for client statements may cause financial advisors to shy away from traditional offering fee structures
- The potential threat of the U.S. Department of Labor's fiduciary rules revisions hangs over the industry

The good news for the industry includes:

- Those sponsors that remain committed to the nontraded REIT concept have been successful in raising capital and introducing new programs
- The introduction of multiple share classes with lower up-front fees available to investors is a positive trend that shows that the industry can adapt to new regulations and create attractive products
- Full-cycle events continue to provide shareholder liquidity and potential for reinvestment

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. 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.

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