Nontraded REIT Industry Full-Cycle Performance Study

November 11, 2013

Sample Report

THE UNIVERSITY OF TEXAS AT AUSTIN
McCOMBS
REAL ESTATE
FINANCE AND
INVESTMENT CENTER

BlueVault
PARTNERS, LLC

Introduction

In June, 2012, Blue Vault Partners published the first comprehensive study of full-cycle events in the nontraded REIT industry, covering 17 nontraded REITs that had completed a full-cycle event between April 1997 and March 31, 2012. For the 2013 study, we have added ten additional nontraded REITs that completed full-cycle events from April 1, 2012 through October 10, 2013. This updated study was again prepared in collaboration with the Real Estate Finance and Investment Center at The University of Texas at Austin McCombs School of Business which is led by Dr. Jay C. Hartzell, Chair of the Department of Finance and Executive Director of the Real Estate Finance and Investment Center.

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

The second annual Nontraded REIT Full-Cycle Performance Study not only updates results from the 2012 study but also attempts to provide answers to new questions such as:

- In addition to the custom benchmarks based on traded (FTSE NAREIT) and institutional (NCREIF) portfolios, how did the nontraded REITs perform relative to the actual indices over the life of the REIT?
- How did the performance of nontraded REITs compare to traditional benchmarks such as those for stocks and bonds?
- What differences were observed in the returns to investors for full-cycle events that were public listings vs. mergers with other firms?
- Is there information in observable index values (e.g. FTSE NAREIT Price Index) that would be useful in forecasting full-cycle share values?

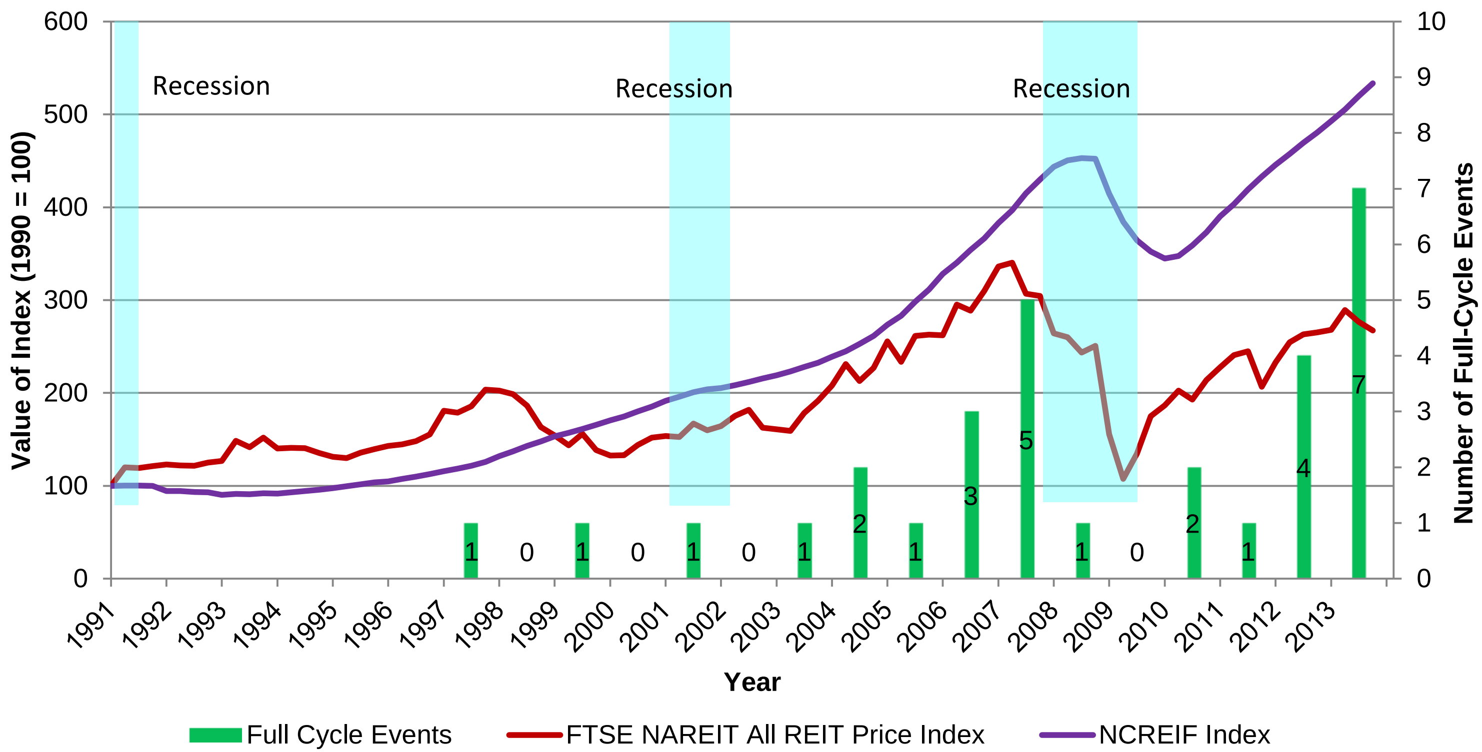
Executive Summary

- Between April 1997 and October 2013, 27 nontraded REITs have completed measurable full-cycle events.
- Assuming an investment during the early stage of an offering and the reinvestment of distributions, individual returns for the 27 full-cycle nontraded REITs ranged from -4.13% to 18.34%.
- The average annual distribution yield for the 27 REITs analyzed in this study was 7.26%, using quarters in which distributions were paid and based upon the initial offering prices.
- When comparing the full-cycle IRRs of the 27 nontraded REITs to their respective custom benchmarks, we find that 14 of 27 REITs (52%) outperformed one or both of their respective custom benchmarks. Nine outperformed the private (NCREIF) benchmark and nine outperformed the publicly-traded (FTSE NAREIT) benchmark, while four outperformed both.
- Comparisons of returns for the full-cycle nontraded REITs to the NCREIF and FTSE NAREIT benchmark returns over time show generally higher correlations with the publicly-traded index returns.
- When comparing nontraded REIT full-cycle returns to traditional investment market indices, the average annualized returns for nontraded REITs in the study was higher than the average return for the S&P 500 Stock Index over matched holding periods as well as the Intermediate-Term Treasury Bond Index. Additionally, as it relates to individual performance, two thirds of the full-cycle REITs outperformed the S&P 500 Index and 20 of 27 outperformed the Intermediate-Term U.S. Treasury Bond Index.
- The higher average rates of return and the low cross-sectional correlations in quarterly returns between nontraded REITs and the S&P 500 Index and the Intermediate-Term U.S. Treasury Bond Index suggest potential for diversification benefits within a context of well-diversified portfolios.
- Removing the effects of a hypothetical 12% front-end load for all nontraded REITs in the sample, the average nontraded REIT achieved comparable returns to the FTSE NAREIT publicly traded benchmark returns.
- In terms of investment timing, our results showed no significant differences between the average returns to early, middle or late investors during the offering periods.
- Eleven sponsors out of a current total of 32 had at least one nontraded REIT that completed a full-cycle event over the study period.

Historical Overview

Market Trends in Commercial Real Estate and Full-Cycle Events

The chart below relates the occurrence of full-cycle events in this study to the valuation trends in the commercial real estate market as represented by the FTSE NAREIT All REIT Price Index and the NCREIF Index. Both of these indices measure the valuations of component portfolios, not the total returns on those portfolios. The valuations in the commercial real estate markets were impacted by the three recessions since the inception of the first non-traded REITs in our sample in 1990. Clearly, there appears to be a relationship between the occurrence of full-cycle events and market conditions. The timing of a REIT's inception, property portfolio investments and full-cycle event relative to these market trends will play a dominant role in determining investor returns.



Sample Description

The goal of the 2013 full-cycle performance study is to provide an assessment of performance for those nontraded REITs that have experienced a full-cycle event since the inception of the industry. While a total of 30 nontraded REITs have experienced liquidity events during this time frame, performance for only 27 nontraded REITs are included in the 2013 study and are listed on the next page. We note that three nontraded REITs were excluded from the sample because their shareholders have not yet achieved full liquidity.

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

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

The table on the following page describes the nontraded REITs in the 2013 sample in more detail. As you review the table, please note the following:

- Dates of inception range from June 1990 to June 2011, while the full-cycle liquidity events range from April 1997 through October 2013.
- For each nontraded REIT, we collected several pieces of information from their quarterly and annual filings. First among these are the data needed to compute returns – prices with and without a discount for any distribution Reinvestment Program (DRIP) and quarterly distributions to shareholders.
- Next, we collected for each quarter the fraction of each REIT's portfolio (i.e., the weight) that is invested across eight different regions of the US and internationally, and across six property types (apartment, office, industrial, retail, hotel, and other). These regional and property-type weights both sum to 100%, where book value is used to determine the relative size of each investment.
- Finally, we collected the total assets and leverage for each nontraded REIT during all quarters along with the amount of capital that was raised and reinvested each quarter throughout the REIT's lifecycle.

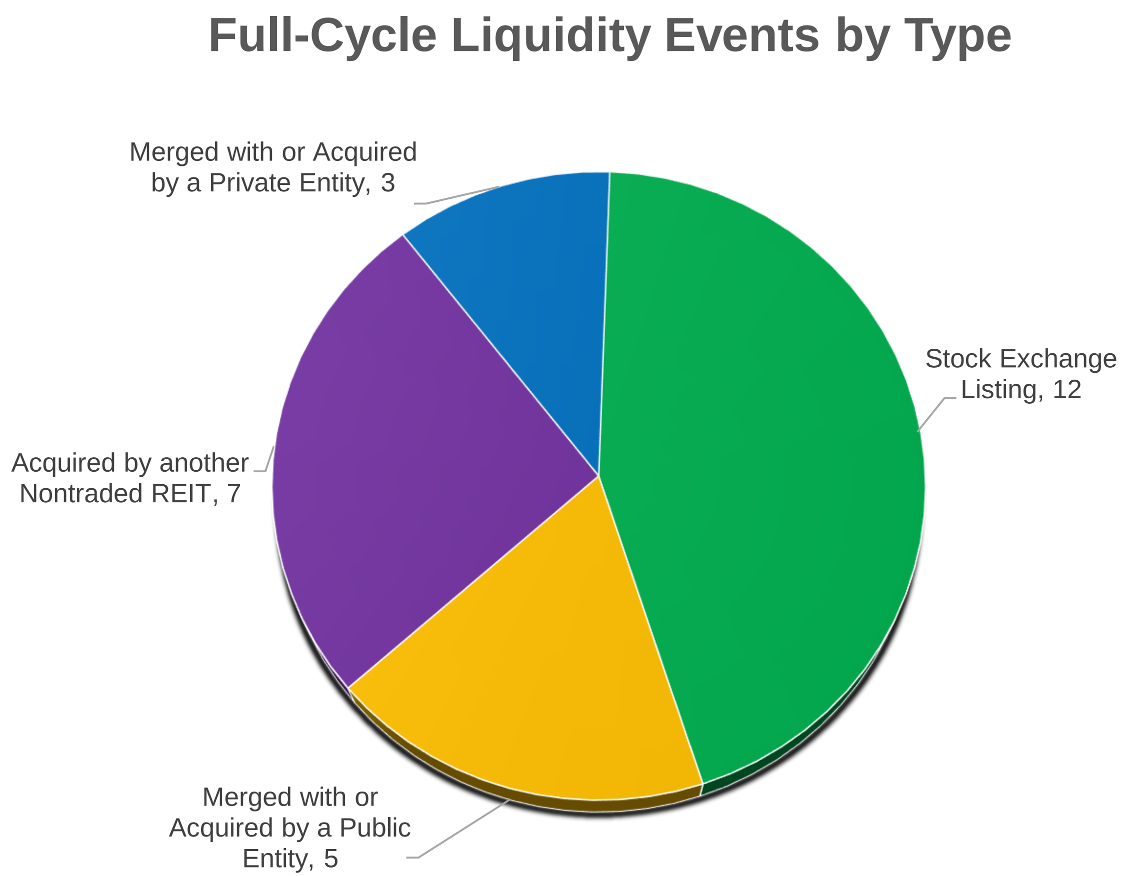
Sample Description

Nontraded REIT	Date of Inception	Date of Full Liquidity Event	Liquidity Event Type
American Realty Capital Trust III, Inc.	3/31/2011	2/28/2013	Merged with American Realty Capital Properties
American Realty Capital Trust, Inc.	1/25/2008	3/1/2012	Listed on NASDAQ
Apple Hospitality Five, Inc.	12/3/2002	10/11/2007	Acquired by Inland American Real Estate Trust
Apple Hospitality Two, Inc.	5/1/2001	5/23/2007	Acquired by Lion ES Hotels, LP (ING Clarion Partners)
Apple REIT Six, Inc.	1/23/2004	5/14/2013	Acquired by BRE Select Hotels
Apple Residential Income Trust, Inc.	11/19/1996	4/14/2005	Merged with Cornerstone Realty Income Trust, Inc.
Apple Suites, Inc.	7/26/1999	1/31/2003	Merged with Apple Hospitality Two
Carey Institutional Properties, Inc.	8/1/1991	8/25/2004	Merged with Corporate Property Associates 15
Chambers Street Properties (CB Richard Ellis Realty Trust)	10/24/2006	5/21/2013	Listed on NYSE
CNL Hotels & Resorts, Inc. (CNL Hospitality)	7/9/1997	4/12/2007	Acquired by MS Resort Purchaser MSREF, Ashford Hospitality Trust
CNL Restaurant Properties, Inc. (CNL American)	4/29/1995	2/25/2005	Merged with U.S. Restaurant Properties
CNL Retirement Properties, Inc.	9/18/1998	10/5/2006	Acquired by Health Care Property Investors
Cole Credit Property Trust II, Inc.	6/27/2005	7/18/2013	Listed on NYSE
Cole Credit Property Trust III, Inc.	10/1/2008	6/20/2013	Listed on NYSE
Columbia Property Trust, Inc. (Wells REIT II)	12/1/2003	10/10/2013	Listed on NYSE
Cornerstone Realty Income Trust, Inc.	12/31/1992	4/18/1997	Listed on NYSE
Corporate Property Associates 10, Inc.	6/20/1990	8/25/2004	Merged with Carey Institutional Properties Inc.
Corporate Property Associates 12, Inc.	2/18/1994	12/1/2006	Merged with Corporate Property Associates 14
Corporate Property Associates 14, Inc.	12/11/1997	5/2/2011	Merged with Corporate Property Associates 16 - Global
Corporate Property Associates 15, Inc.	11/30/2001	9/28/2012	Merged with W.P. Carey, Inc.
DCT Industrial Trust, Inc. (Dividend Capital Trust)	7/17/2002	12/13/2006	Listed on NYSE
Independence Realty Trust, Inc.	6/10/2011	8/13/2013	Listed on NYSE
Inland Real Estate Corporation	10/14/1994	6/9/2004	Listed on NYSE
Inland Retail Real Estate Trust, Inc.	2/11/1999	3/14/2007	Acquired by Developers Diversified Realty Corp.
Piedmont Office Realty Trust, Inc. (Wells REIT)	1/30/1998	1/30/2011[1]	Listed on NYSE
Retail Properties of America, Inc. (Inland Western Retail)	9/15/2003	10/7/2013[2]	Listed on NYSE
Whitestone REIT	9/15/2004	6/27/2012[3]	Listed on NYSE AMEX

1. Nontraded shares became listed Class A shares in four tranches beginning on February 10, 2010 with the last tranche converting to Class A on January 30, 2011.
2. Nontraded shares became listed Class A shares in four tranches beginning on April 5, 2012 with the last tranche converting to Class A on October 7, 2013.
3. Nontraded Class A shares converted to Class B shares in three tranches beginning on August 2010 with the last tranche converting to Class B on June 27, 2012.

Performance by Full-Cycle Type

Within the 27 nontraded REITs that experienced full-cycle events, there were differences in average investor rates of return depending upon the nature of the full-cycle event.



Performance Relative to Benchmarks

Correlation of Nontraded REIT Full-Cycle Returns with Index Returns

Correlations measure the tendency of the returns of one asset class to be related to returns of other asset classes. Given the difficulties in calculating a full time-series of returns for all nontraded REITs, we examine the cross-sectional correlations to shed light on the relationship of returns between nontraded REITs and other asset classes. That is, we measure the degree to which the average for the 27 nontraded REIT returns are related to returns on other assets over their holding periods. Correlation coefficients much greater than zero show a positive relationship, meaning the two sets of returns tend to vary together, while correlations near zero show no significant relationship.

The returns on full-cycle nontraded REITs show positive cross-sectional correlations with both the private portfolios in the NCREIF Property index (0.367) and the publicly traded REIT portfolios in the FTSE NAREIT index (0.577). Interestingly, the cross-sectional correlation of full-cycle nontraded REIT returns with the S&P 500 index is very low (0.095), indicating these REITs could provide diversification benefits within a portfolio context with well-diversified common stocks. Further, the cross-sectional correlation of nontraded REIT returns with the Intermediate-Term Bond index is also very low, indicating no significant relationship with returns on Treasury bonds, which also demonstrates a potential diversification benefit when a group of nontraded REITs are combined with bonds in a portfolio.

Cross-Sectional Correlation Matrix	Nontraded REIT Returns	NCREIF Property Index Returns	FTSE NAREIT Index Returns	Intermediate-Term Bond Index Returns	S&P 500 Index Returns
Nontraded REIT Return		0.367	0.577	0.073	0.095
NCREIF Return	0.367		0.671	-0.210	0.242
FTSE NAREIT Return	0.577	0.671		-0.390	0.428
Intermediate Treasury Bond Returns	0.073	-0.210	-0.390		-0.338
S & P 500 Index Returns	0.095	0.242	0.428	-0.338	

Supplemental Information

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