BlueVault
PARTNERS, LLC

Nontraded REIT Industry Review

ANNUAL SUPPLEMENT

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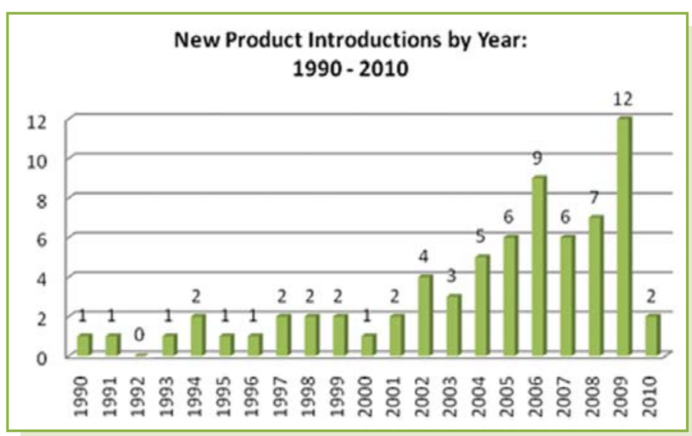
The Creation of Publicly Registered, Nontraded REITs

REITs were created by Congress in 1960 with the goal of giving individual investors access to commercial, income-producing real estate assets which could also be traded on a securities exchange. Prior to this time, only institutions and higher net worth individuals had the financial means to make direct investments into real estate.

In order for a pool of real estate assets to qualify as a REIT, certain sections of the U.S. Internal Revenue Code must be met such as at least 75 percent of the company's total assets must be invested in real estate, at least 75 percent of its gross income must come from rents from real property or interest from mortgages, and they must distribute at least 90 percent of its taxable income to investors in the form of dividends. But as it relates to the ability to trade on a securities exchange, no requirements were stipulated thus paving the way for the nontraded REIT industry to emerge in 1990.

The publicly registered, nontraded REIT product line, a much smaller category within the publicly registered REIT market, is one that is not as widely known among the investing public compared to publicly traded REITs. Created more than thirty years after the REIT Act, these real estate investment programs are believed to have been born out of the limited partnership industry in 1990. Between 1990 and 1999, the primary companies marketing nontraded REIT products to investors via financial intermediaries were W.P. Carey, Apple Hospitality, Wells Real Estate Funds, Inland Securities, and CNL Financial Group. As noted in the chart above right, it took over seven years for these five companies to collectively raise $1.5 billion in capital.

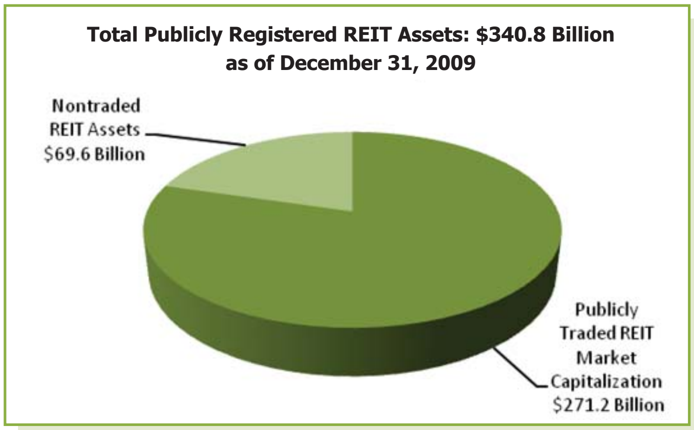
By the year 2000, the introduction of new products and sponsors began to increase exponentially. From 2000 to 2010, the number of sponsors offering nontraded REIT products grew from six to 29. In addition, the number of total products in the industry between 2000 and 2010 grew from 13 to 70[1] on a cumulative basis. As it relates to initial public offerings only, in 2009 there were 12 nontraded REIT product offerings that became effective with the SEC, the most ever in any one year period since the industry's inception in 1990. Moreover, through December 31, 2009, the industry had cumulatively raised more than $64 Billion.



As of December 2009, it is estimated that total assets under management for both open and closed nontraded

1 Includes REITs that are currently fundraising, closed to new investments, or experienced a full-cycle event between January 1, 2000 and February 8, 2010.

REITs represent 20% of the total market capitalization for all publicly registered REITs[2]. This compares to just 3% ten years ago and illustrates the popularity these products have experienced since 2000.



As it relates to full-cycle events, of the 70 programs registered and effective with the SEC since 1990, only 28% of all nontraded REITs have returned capital to investors in some form. A breakdown of the entire market as it relates to fundraising status and full-cycle events through the period ending March 15, 2010 is as follows:

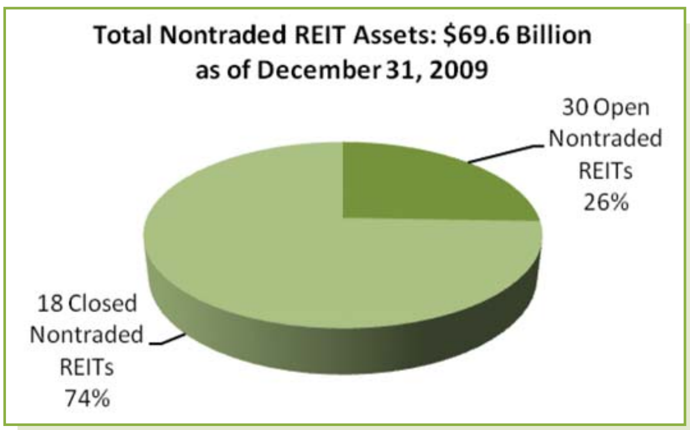
- 32 are currently fundraising
- 18 have closed to new investments and are awaiting the completion of a full cycle event
- 3 have listed their shares on a national stock exchange
- 7 were acquired by an unaffiliated third-party
- 4 have merged with either an affiliated or an unaffiliated third-party
- 2 have liquidated their assets
- 4 have deregistered and dissolved the entity

2 *Estimated book value of nontraded assets versus the market capitalization of publicly traded REITs as reported by for the period ending December 31, 2009*

Current Market Overview

Assets under Management

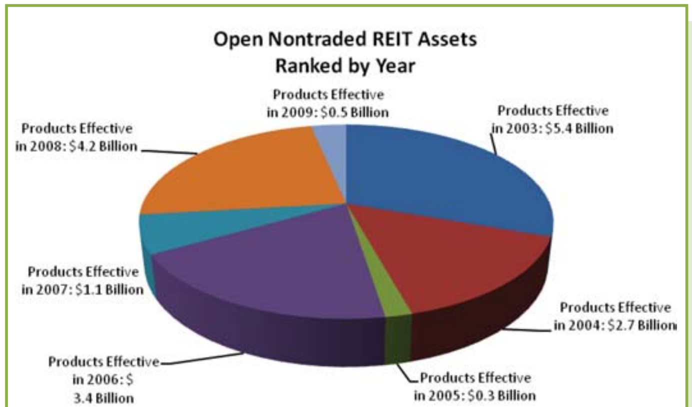
Through December 31, 2009, the nontraded REIT industry consisted of 48 REITs (30 open and effective vs. 18 closed to new investments) with estimated total assets under management of $69.6 billion[3]. Further defining the market, estimated assets under management for the 30 open and effective nontraded REITs only were $17.8 billion compared to $51.8 billion in assets under management for the 18 nontraded REITs that were closed to new investments for the period ending December 31, 2009. The reason for such a large discrepancy can mainly be attributed to the fact that 12 out of the 30 open and effective nontraded REITs have only been raising capital for the past 12 months or less.



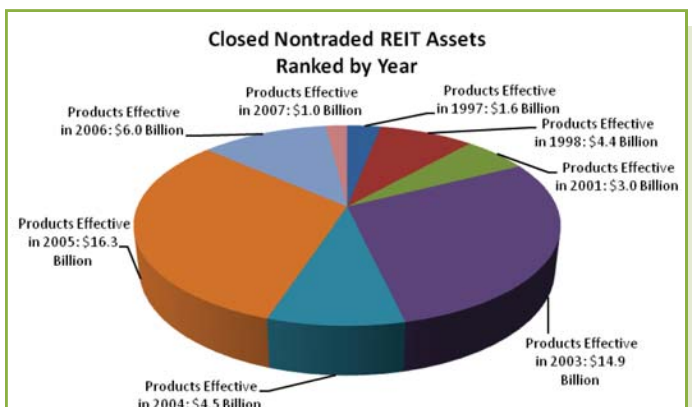
Further analyzing the market, we find that of the 48 nontraded REITs that make up the $69.6 billion market, assets are heavily skewed to those programs that became effective between 2003 and 2006. As a result, those REIT product sponsors that launched programs during this period effectively control 77% of all nontraded REIT assets.

3 *Estimates based on book values as reported in the September 30, 2009 10Q filings and anticipated sales based on the latest 8K or 424B3 SEC filings.*

Comparing those REITs that are still raising capital to those that have closed to new investments, we also see that for all currently open and effective REITs, 67% of those assets are controlled by REIT offerings that were declared effective between 2003 and 2006. For all closed nontraded REITs, this figure is also significant as those REIT programs that were declared effective between 2003 and 2006 represent 81% of all closed REIT assets.

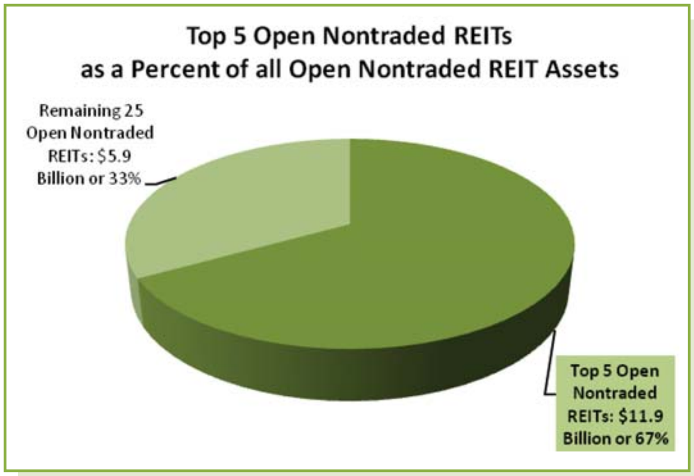


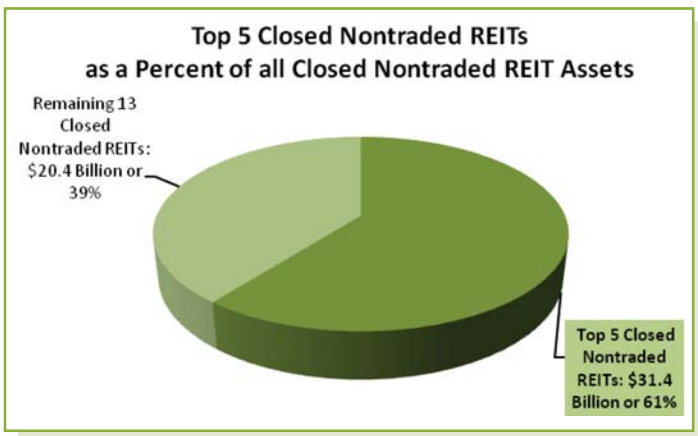
Open Nontraded REIT Assets for those programs effective between 2003-2006 total $11.9 Billion or 67% of the assets in this category.



Closed Nontraded REIT Assets for those programs effective between 2003-2006 total $41.7 Billion or 81% of the assets in this category.

Ranking the nontraded REIT market by individual product assets is also quite telling. As noted in the chart below, the top five open, nontraded REITs represent 67% of all assets in this category. The top five nontraded REITs that are closed to fundraising represent 61% of all assets in this category.



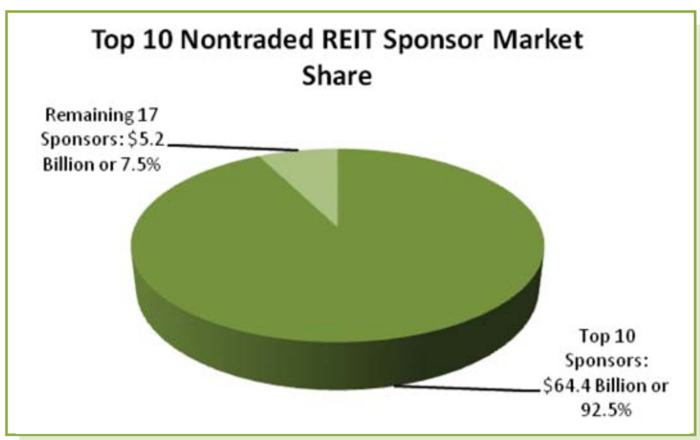


Sponsor breakdown

Since 1990, there have been a total of 29 real estate sponsors in the nontraded REIT market but as of December 31, 2009, only 12 sponsors have accumulated more than $1 billion in assets under management. One explanation for this is the fact that of these 12 sponsors, 9 of them have more than one product offering or are currently managing assets in closed offerings that date back as far as 1997.

1. Inland Securities........................$18.7 Billion
2. Wells Real Estate Funds...........$10.2 Billion
3. W.P. Carey..................................$8.6 Billion
4. Behringer Harvard.......................$6.4 Billion
5. Cole Capital................................$4.4 Billion
6. Apple Companies........................$3.8 Billion
7. KBS ....$3.7 Billion
8. Hines ....$3.5 Billion
9. CNL ....$2.7 Billion
10. Dividend Capital ....$2.4 Billion
11. HTA ....$1.6 Billion
12. CB Richard Ellis ....$1.1 Billion

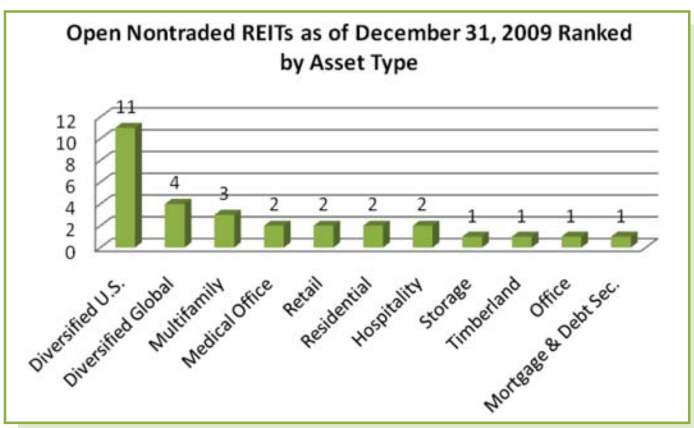
As we further analyze sponsors by their accumulated assets, the chart above ranks the largest sponsors by total assets for both open and closed nontraded REITs. As noted below, the top ten sponsors for the industry as a whole collectively control 92.5% of all assets in the market and manage 28 of the total 48 products in the industry.



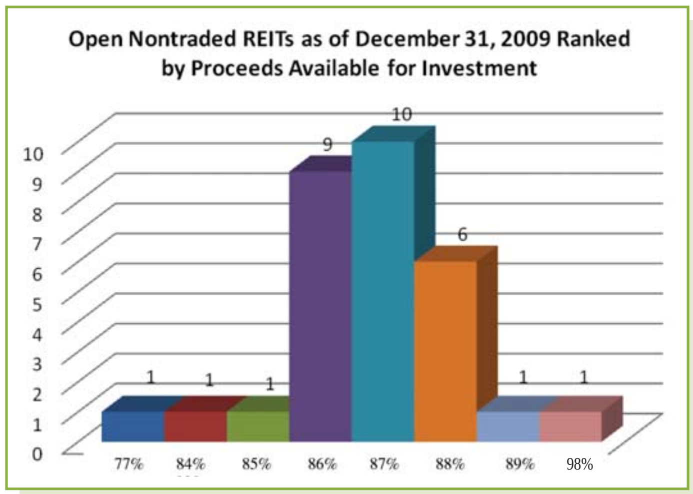
Product Feature Analysis

Product designs within the nontraded REIT market are limited in their uniqueness as it relates to some of the key features of the programs such as the assets they are purchasing, the amount of investor proceeds available for investment, yields, the amount of shares available for redemption and dividend reinvestment pricing. The following charts and commentary illustrate this point by analyzing all open nontraded REITs for the year ending Dec. 31, 2009 by various categories.

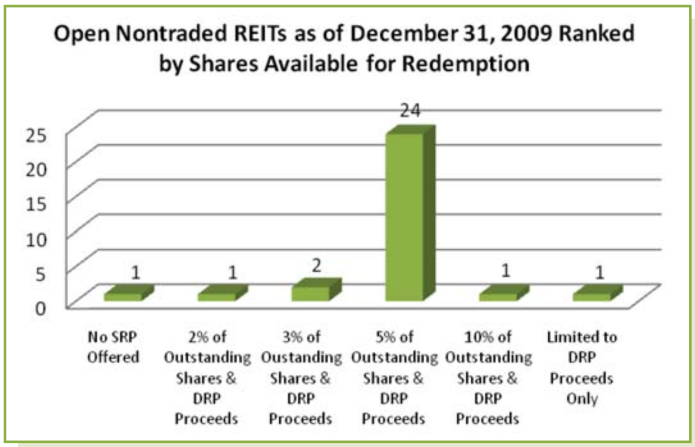
ASSET TYPE — For the 30 nontraded REIT programs that were open and fundraising as of year-end 2009, 11 of those programs are labeled as "Diversified" while four more are labeled as "Diversified – Global" bringing the total number of programs that plan to purchase a large variety of commercial properties to 15 or 50% of all open nontraded REITs. The next most popular type of asset class being purchased by these programs is the "Multifamily" sector but the number of REITs that intend to purchase this type of real estate pales in comparison as there are only three of the 30 total programs focused on this sector. As noted in the chart below, for the remaining programs, only four are truly unique in terms of the assets they intend to purchase on behalf of investors.



INVESTOR PROCEEDS AVAILABLE FOR INVESTMENT — As we review the open programs from the perspective of the net proceeds available for investment after all fees are applied for selling commissions, dealer allowances, organizational & offering, acquisition expenses and working capital reserves, we again find significant similarities across all programs. As illustrated in the chart below, approximately 63% of all programs that were open and effective at the end of 2009 allocated only 86 – 87% of shareholder proceeds for investment into real property. In addition, in terms of product differentiation, only two programs invested 89% or more of proceeds after all up-front fees and expenses were deducted.



SHARES AVAILABLE FOR REDEMPTION PROGRAMS — Understanding that much of the way share redemption programs are designed among nontraded REITs is highly dependent upon SEC guidance and rules around tender offers, we still find that there is little differentiation in the industry as it relates to how these REITs allocate resources to accommodate redemption requests. As noted in the following chart, out of the 30 open programs, 24 of them allocate 5% of their shares outstanding during the prior year whether it is on a calendar basis or a rolling 12-month basis. Only one program allocates more than 5% of their shares outstanding while five programs allocate less than 5%, do not offer a share redemption program at all, or limit redemptions solely to the amount of money received in their dividend reinvestment plan.



DISTRIBUTION YIELDS — As distribution yields are one of the biggest selling features of nontraded REIT programs, differentiation among programs in this area is significant. As noted in the chart below, distributions range from 5% – 8% with the majority falling between the 6% – 7% range. On average, nontraded REIT yields were 6.53% as of the fourth quarter of 2009 which compares to an average yield for publicly traded REITs of 4.53%[4].

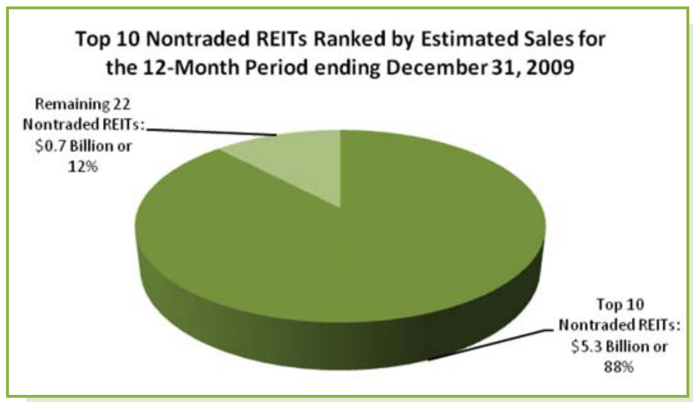
[4] *Source: FTSE NAREIT US Real Estate Index Series and www.NAREIT.org*

2009 Sales Update and Analysis

During 2009 there were a total of 32 nontraded REITs raising capital. Even though two of those programs closed to new investments before December 31, 2009, the capital raised in those programs have been included in our full-year fundraising analysis.

In addition, all sales figures and rankings noted in this section are estimates due to the fact that annual SEC 10K filings for all open products are not anticipated to be complete until March 31, 2010. Nevertheless, based on supplemental filings submitted during the fourth quarter, we have reasonably estimated that $6 billion of new capital was raised in 2009. This represents a 40% decline in sales from the previous year. And of the 32 effective products that were fundraising during this 12-month period, only 27 actually accepted proceeds from investors as five programs had not broken escrow as of December 31, 2009.

When combined, sales from the top 10 nontraded REITs are estimated to be $5.3 billion in 2009 or roughly 88% of all money raised for the year. By contrast, of the 32 products raising capital in 2009, 15 of them raised less than $100 million and 5 did not break escrow. What is also especially important to note here is that in 2008, there were two nontraded REITs that raised more than $1 billion during a 12-month period. In 2009, there were no nontraded REIT products that raised more than $1 billion.



Individual Product Sales Rankings

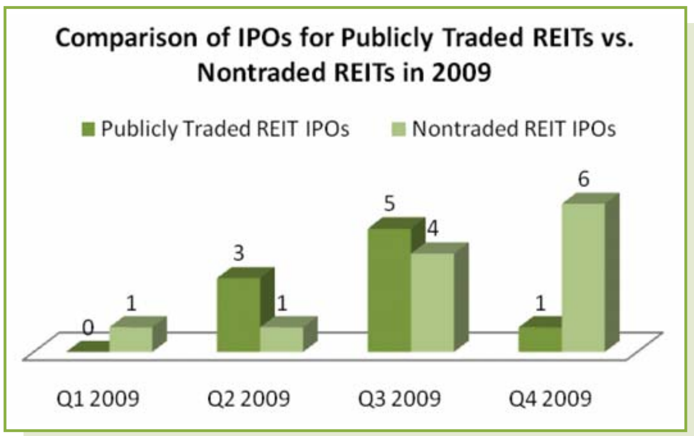
Based on our sales forecasts, the top ten open nontraded REIT products ranked by gross sales for the 12-months ending Dec. 31, 2009 (including sales from dividend reinvestment plans) are anticipated to be:

1. Cole Credit Property Trust III, Inc.
2. Apple REIT Nine, Inc.
3. KBS Real Estate Investment Trust II, Inc.
4. Healthcare Trust of America, Inc.
5. Wells Real Estate Investment Trust II, Inc.
6. Corporate Property Associates 17–Global, Inc.
7. Behringer Harvard Multifamily REIT I, Inc.
8. CB Richard Ellis Realty Trust
9. Hines Real Estate Investment Trust, Inc.
10. CNL Lifestyle Properties, Inc.

Sales of IPOs in the Non-Traded REIT Market vs. the Publicly Traded REIT Market

As mentioned earlier, 2009 was a record year for initial public offerings (IPOs) of nontraded REITs. Of the total 32 offerings that were effective during the year, 12 were considered IPOs and collectively raised an estimated $86 million or roughly 1.5% of all new capital in the nontraded REIT market. This compares to publicly traded REITs that raised $3 billion in capital from IPOs or 8.6% of the total $34.7 billion raised in that segment of the REIT market during 2009.

In a year when publicly traded REITs raised the most capital via IPOs since 2005, IPOs in the nontraded REIT sector were not as successful. One explanation for this may not be the market's receptivity to the sponsors or to the types of products being launched, but rather, may be based on the fact that 50% of all nontraded REIT initial public offerings launched in 2009 became effective in the fourth quarter of 2009. This compares to peak IPO launches in the publicly traded REIT sector which occurred during the second and third quarters of 2009.



Further analyzing the nontraded REIT IPOs that were launched in 2009, only six were able to break escrow by the end of the year. On average, those REITs that broke escrow did so in 2.8 months. The three largest contributing factors to a program's ability to break escrow were:

- Existing distribution team within the Independent Broker/Dealer channel
- Prior Nontraded REIT or Limited Partnership offerings
- Strong sponsor brand or known entity within the Independent Broker/Dealer channel

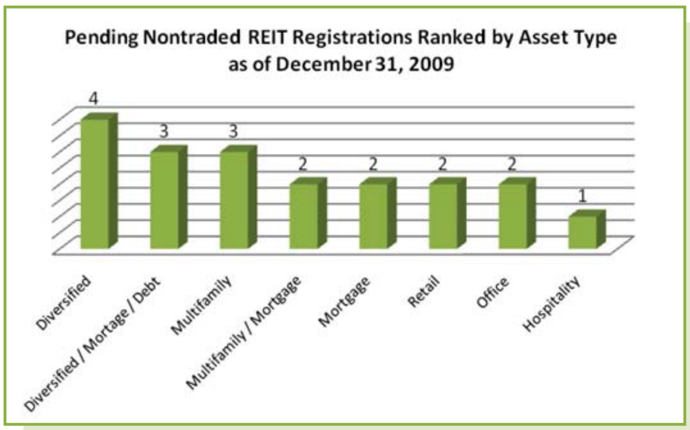
For the remaining six programs, one did not have a requirement to break escrow as it launched with assets accumulated from a private offering. For the five programs that were unable to break escrow, the three largest contributing factors were:

- No prior Nontraded REIT offerings
- Little or no sponsor brand awareness within the Independent Broker/Dealer channel
- Market entrance within 45 days or less before year-end

Future Trends and Expectations for 2010

New Product Registrations – Asset Type

In the first quarter of 2010, two new nontraded REIT programs became effective. These two programs, when combined with the 19 nontraded REIT programs awaiting SEC effectiveness, total $35.2 billion in new stock registrations. This figure is inclusive of shares registered under dividend reinvestment programs. And of the 19 programs in registration, three were filed during the first quarter of 2010, ten were filed in 2009, and six were filed in 2008 or earlier.



Trends for new offerings are following similar patterns that exist among current open offerings in terms of asset types that will be acquired. The most common being a focus to acquire a pool of diversified assets and the second most common to acquire a pool of assets within the multifamily property sector. For the seven programs defined as "Diversified", three also intend to purchase mortgages and or debt-securities. For the five programs focused on purchasing multifamily assets, two also intend to purchase mortgages and or debt-securities. In all, seven of the 19 programs in registration intend to incorporate mortgages or debt-securities into their offerings with two programs highlighting this sector as their primary focus. More traditional commercial property types such as retail, office, and hospitality account for only five programs in registration as noted in the chart at left.

New Product Registrations – Sponsor History

Given the current state of the economy and the fact that access to debt is limited, the nontraded REIT industry continues to see a variety of new sponsors entering the market in anticipation that the Independent Broker/Dealer channel and retail markets will make up for this lack of capital. Of the 19 programs currently awaiting effectiveness, 100% of them are IPOs and 63% of them are being developed by real estate sponsors with no prior offerings or history in the nontraded REIT industry.

With the goal of raising enough capital to take advantage of one of the most significant commercial real estate downturns the nation has ever experienced, commercial real estate operators who had access to significant amounts of leverage in the past, used their own capital to acquire properties or were previously raising capital in the publicly traded REIT or institutional sectors, are now forced to seek out new sources of capital.

But while the cost of capital is much more expensive relative to previous sources, this has not been a deterrent for those sponsors who have significant resources at their disposal. In addition, many of these sponsors that have $2 - $3 million available for creating a new product line are also becoming more creative with product features and are adding elements not found in current offerings today. One key trend of note in this area is the addition of a higher level of liquidity whether it be through an ability to eventually exchange shares of the nontraded REIT into shares of a publicly traded REIT, or to offer investors daily pricing and daily liquidity options by enhancing the amount of marketable securities the portfolio will invest in. In either case, these new product designs will have a significant impact on future product designs and potentially change the way financial advisors and investors view these offerings.

2010 Fundraising Expectations

Based on current fundraising trends and anticipated full-cycle events, it is anticipated that sales of nontraded REITs could reach as high as $7 -$8 billion in 2010. This assumes that the listing of Piedmont Office Realty Trust, Inc., which is expected to convert roughly $4 billion of illiquid stock into tradable securities by the end of 2010, could potentially trigger a reinvestment opportunity and place as much as $1 - $2 billion back into the market. This assumption of reinvesting up to 50% of proceeds received from full-cycle events is based on historical analysis of full-cycle trends that occurred back in 2007 whereby investors who received $8 billion in cash from six nontraded REIT full-cycle events returned roughly $4 billion back into the market.

Moreover, there are more potential full-cycle events on the horizon that could also have an impact on fundraising in 2010. Inland Western Retail Real Estate Trust, Inc. became a self-advised nontraded REIT in 2007 and is the next closed nontraded REIT program poised to either list its shares on an exchange or merge with another entity. This assumes of course that the REIT valuations continue to increase and that the existing litigation facing this REIT is resolved.

Another opportunity for the industry to sustain or even increase sales in 2010 is through the launch of new products in the national wirehouse or full-service broker/dealer channel. Should Merrill Lynch complete the registration of its daily valued, daily traded nontraded REIT product, this innovative product design will pave the way for the industry to begin raising capital in a market that previously would not have accepted nontraded REIT products due to their high fee structure and limited pricing and liquidity features. Because of their captive agency, sales of this offering could potentially lead to an additional $500 million to $1 billion in sales during 2010.

Finally, as it relates to growth in the Independent Broker/Dealer channel, we estimate that there are approximately 100,000 financial advisors in this channel with less than 20% of these advisors recommending nontraded REIT programs to their investors. This is due to a limited understanding of the product line, limited awareness of how these products work compared with traditional investments such as stock, bonds, mutual funds and variable annuities, and a hesitation to recommend these products due to their illiquid, long-term investment time horizons. We continue to believe that as transparency is enhanced and more tools become available to these advisors in terms of independent data sources, educational tools and support from industry organizations such as the Investment Program Association (IPA) and the Real Estate Investment and Securities Association (REISA), the nontraded REIT industry has the opportunity to grow and become a more mainstream asset class over the next ten to twenty years.