# Nontraded REIT Industry Review

## 2010 YEAR IN REVIEW

March 1, 2011

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# Nontraded REIT Industry Review: 2010 Year In Review

## Industry Overview

REITs were created by Congress in 1960 with the goal of giving individual investors access to commercial, income-producing real estate assets that also could 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 commercial real estate.

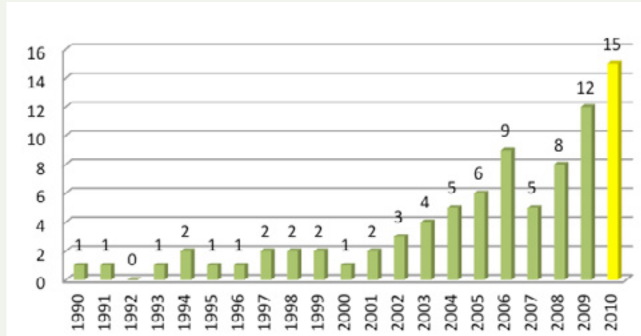
Historically, publicly registered, daily traded REITs have been the most popular way for individual investors to purchase real estate securities. However, over the past 20 years, the nontraded REIT industry has grown in both public awareness as well as public offerings. As seen in the first chart, since 1990 there have been a total of 83[1] nontraded REIT product offerings brought to market with 33% of those offerings having been introduced during the past two years alone.

2010 was a record year for the industry as 15 new products were introduced into the market. The new offerings totaled $26.6 billion in registered stock and increased the total amount of stock available within the industry to $76 billion by year-end. This figure is inclusive of shares registered under dividend reinvestment programs and represents a 36% increase from the previous year.

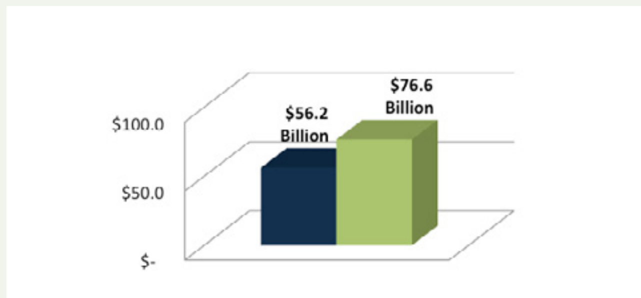
2010 was also an important year as it relates to full-cycle events within the industry as two nontraded REITs (Piedmont Office Realty Trust, Inc. and Whitestone REIT) listed their shares on a national stock exchange. This brings the total number of nontraded REITs that have experienced a full-cycle event between 1990 and 2010 up to 18.[*] A breakdown of the entire market shows that of the 83 products that have been registered with the SEC since 1990:

- 43 are currently fundraising
- 18 have closed to new investments and are awaiting the completion of a full-cycle event
- 12 have merged or were acquired by either an affiliated or an unaffiliated third party
- 4 have listed their shares on a national stock exchange
- 2 have liquidated their assets
- 4 have deregistered and dissolved the entity (not considered a full-cycle event)

**New Product Introductions by Year:**
**1990 - 2010**




**Total Nontraded REIT Stock Registration**
**2009 vs. 2010**




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

[*] *Does not include those offerings that deregistered shares and dissolved the entity as these are not considered full-cycle events.*

# Current Market Overview

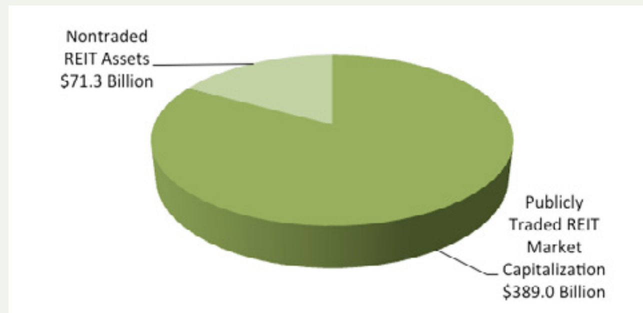
### Assets Under Management

As of December 31, 2010, the nontraded REIT industry consists of 61 individual product offerings. Of those 61, 43 are currently raising capital from individual investors while 18 are closed to new investments. Collectively, these nontraded REIT offerings total an estimated $71.3[2] billion in assets and represent 15% of the total market capitalization for all publicly registered REITs.[3] This compares to just 4% ten years ago and illustrates the popularity that these products have experienced since the year 2000.

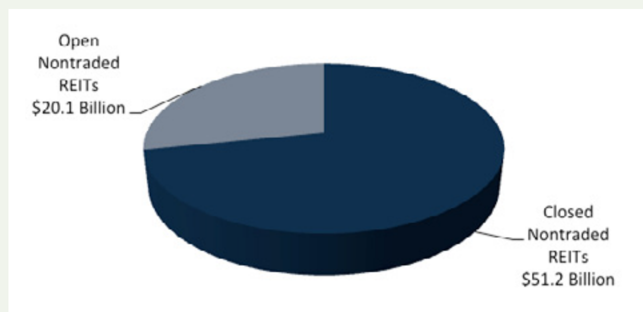
As illustrated in the second chart, estimated assets under management for the 43 open and effective nontraded REITs total $20.1 billion compared with $51.2 billion in assets under management for the 18 nontraded REITs that were closed to new investments as of December 31, 2010. The reason for such a large discrepancy can mainly be attributed to the fact that of the 43 open and effective nontraded REITs, 49% of these companies have been raising capital only for the past 15 months or less.

In addition, of the 61 nontraded REITs that make up the $71.3 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 that period effectively control 75% of all nontraded REIT assets.

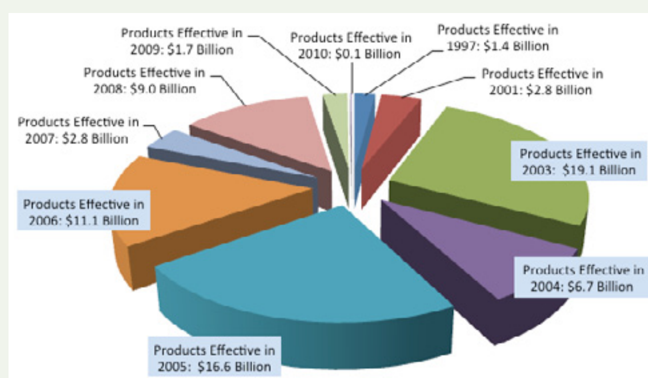
**Total Public REIT Market Assets: $460 Billion[2, 3] as of December 31, 2010**




**Total Nontraded REIT Assets: $71.3 Billion[2] as of December 31, 2010**




**Total Nontraded REIT Industry Assets Ranked by Year Effective**




[2] *Estimates for nontraded REIT assets are based on book values as reported in the September 30, 2010 10-Q filings and anticipated sales based on the latest 8-K or 424B3 SEC filings.*

[3] *Estimated book value of nontraded assets versus the market capitalization of publicly traded REITs as reported by www.NAREIT.com for the period ending December 30, 2010*

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Ranking the nontraded REIT market by individual product assets is also quite telling. As noted in the first chart, the top-five open, nontraded REITs represent 57% of all assets in this category.

The top-five nontraded REITs that are closed to fund-raising represent 61% of all assets in this category.

## Sponsor Breakdown

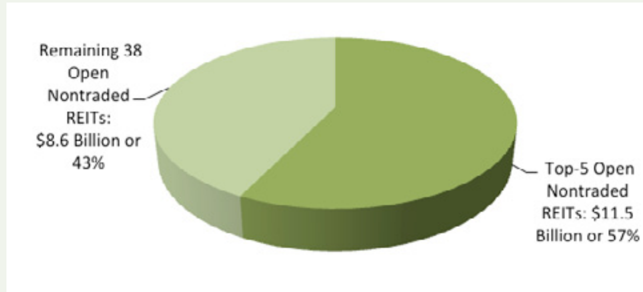
Since 1990, 41 companies have sponsored a non-traded REIT product offering. As of December 31, 2010, 36 remain. This decline in sponsors is based on the fact that several sponsors have either taken products full-cycle or have deregistered their products.

Of the 36 product sponsors in the market today, only 12 sponsors have accumulated more than $1 billion in assets under management. One explanation for this is that of these 12 sponsors, nine of them have more than one product offering or are currently managing assets in closed offerings that date back as far as 1997.*

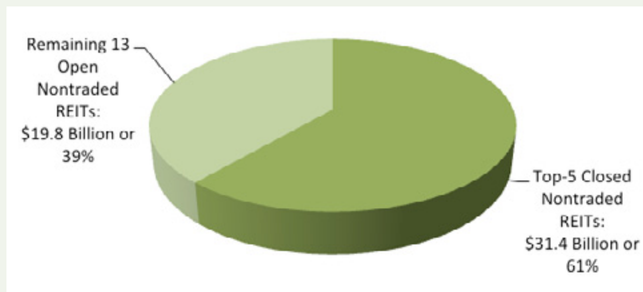
| | | |
|---|---|---|
| 1. | Inland Securities† | $18.6 Billion |
| 2. | W.P. Carey† | $ 8.8 Billion |
| 3. | Behringer Harvard | $ 6.2 Billion |
| 4. | Cole Capital | $ 6.2 Billion |
| 5. | Wells Real Estate Funds† | $ 5.8 Billion |
| 6. | KBS | $ 4.6 Billion |
| 7. | Apple Companies† | $ 4.3 Billion |
| 8. | Hines | $ 3.8 Billion |
| 9. | Dividend Capital† | $ 3.3 Billion |
| 10. | CNL† | $ 2.7 Billion |
| 11. | Healthcare Trust of America | $ 2.1 Billion |
| 12. | CB Richard Ellis | $ 1.7 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 in the third chart, the top ten sponsors for the industry as a whole collectively control 90% of all assets in the market and manage 32 of the total 61 products in the industry.

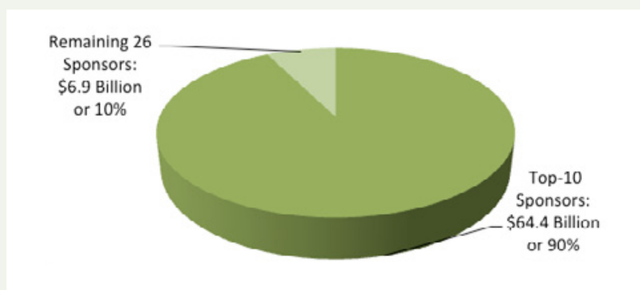
**Top-5 Open Nontraded REITs as a Percent of all Open Nontraded REIT Assets**




**Top-5 Closed Nontraded REITs as a Percent of all Open Nontraded REIT Assets**




**Top-10 Nontraded REIT Sponsor Market Share as of December 31, 2010**




*Estimates for the total sponsor assets noted above are based on book values as reported in the September 30, 2010 10-Q filings and anticipated sales based on the latest 8-K or 424B3 SEC filings.*

†*Excludes assets managed on behalf of REIT offerings that have experienced a full-cycle event.*

## 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, distribution yields, and the amount of shares available for redemption. The charts to the right and along with the commentary below illustrate this point by analyzing all open nontraded REITs for the year ended December 31, 2010 by various categories.

### Asset Type

For the 43 nontraded REIT programs that were open and raising funds as of year-end 2010, 14 of those programs are labeled as "Diversified," while five others are labeled as "Diversified — Global" bringing the total number of programs that plan to purchase a large variety of commercial properties to 19 or 44% of all open nontraded REITs. The next most popular type of asset class being purchased by these programs is the "Multifamily" sector with seven of the 43 total programs focused on this sector. As noted in the first chart, for the remaining programs, only four are truly unique in terms of the assets they intend to purchase on behalf of investors.

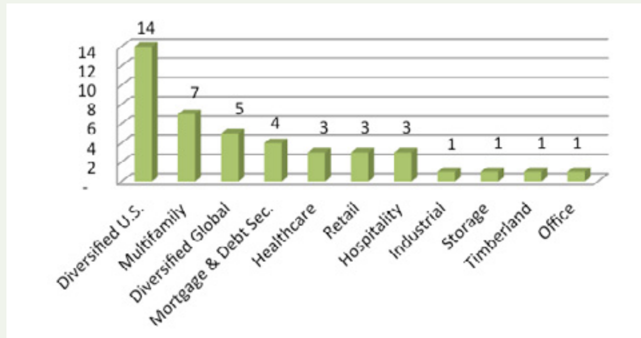
### Investor Proceeds Available for Investment

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 and offering expenses, acquisition expenses, and working capital reserves, we again find significant similarities across all programs. As illustrated in the second chart, approximately 72% of all programs that were open and effective at the end of 2010 allocated between 86% and 87% of shareholder proceeds for investment into real property. In terms of product differentiation, only two programs invested 98% or more of proceeds after all up-front fees and expenses were deducted.

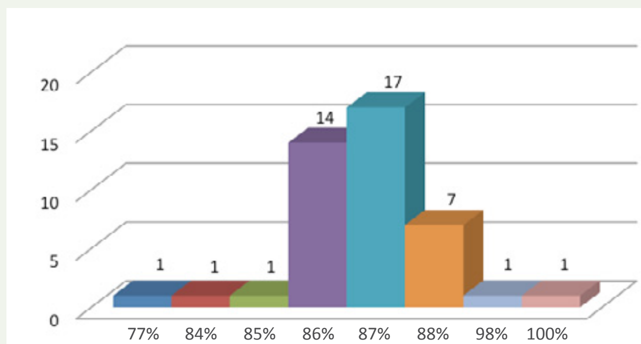
### Shares Available for Redemption

The design of share redemption programs among nontraded REITs is highly dependent upon SEC guidance and rules around tender offers. That said, we still find little differentiation in terms of how these REITs allocate resources to accommodate redemption requests. As noted in the third chart, out of the 43 open programs, 38 of them allocate 5% of their

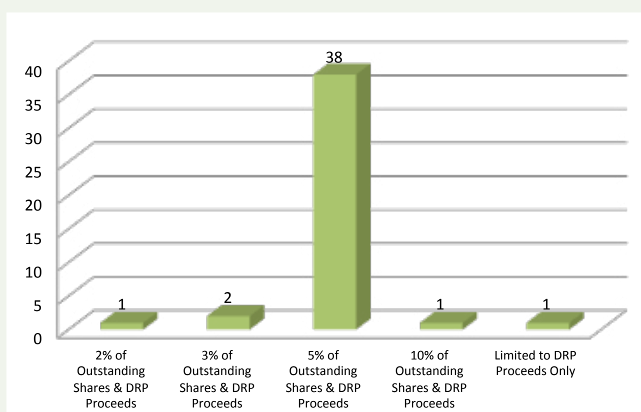
**Open Nontraded REITs as of December 31, 2010**
**Ranked by Asset Type**




**Investor Proceeds Available for Investment Ranked by Percentage as of December 31, 2010**




**Open Nontraded REITs as of December 31, 2010**
**Ranked by Shares Available for Redemption**



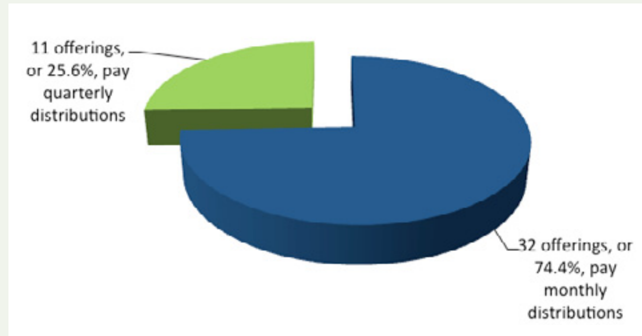
shares outstanding during the prior year whether it is on a calendar basis or a rolling 12-month basis. Only one program allocates more than 5% of their shares outstanding while five programs allocate less than 5% or limit redemptions solely to the amount of money received in their dividend reinvestment plan.

**Distribution Yields — Frequency of Distribution**

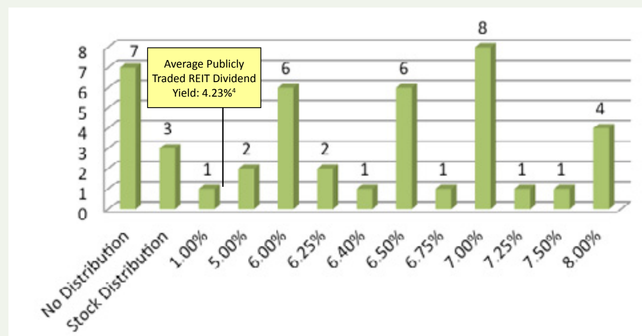
As it relates to the frequency of paying distributions, the industry appears to be experiencing significant change. During 2009, of the 12 new nontraded REIT offerings that were declared effective, 67% stated that they anticipated paying distributions on a monthly basis. In 2010, this figure increased to 87% as 13 of the 15 new nontraded REIT offerings launched during the year stated that they anticipated paying distributions on a monthly basis. For the industry as a whole, as of the period ended December 31, 2010, roughly 74% of all open and effective nontraded REITs are paying distributions on a monthly versus quarterly basis.

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 second chart on the right, distributions range from 1% – 8% with the majority falling between the 6% – 7% range. On average, for those nontraded REITs that declared a cash distribution in the fourth quarter of 2010, the average distribution yield was 6.50% compared with an average yield for publicly traded REITs of 4.23%.[4]

**Open Nontraded REITs Paying Distributions Monthly vs. Quarterly as of December 31, 2010**




**Distribution Yield Rankings for all Open Nontraded REITs as of December 31, 2010**




[4]Source: FTSE NAREIT All REITs Index and www.NAREIT.com as of December 31, 2010.

## 2010 Sales Update and Analysis

During 2010 there were a total of 45 nontraded REITs raising capital. Even though two of those programs closed to new investments prior to December 31, 2010, the capital raised in those programs have been included in our full-year fundraising analysis.

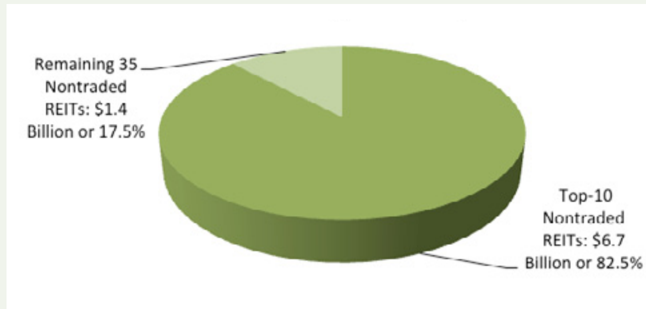
All sales figures and rankings noted in this section are estimates since annual SEC 10-K filings for all open products are not anticipated to be complete until March 31, 2011. Based on supplemental filings submitted during the fourth quarter, our current estimate indicates that $8.1 billion of new capital was raised in 2010. This represents an estimated 25% increase in sales from the previous year. Moreover, of the 45 effective products that were raising capital during this 12-month period, only 39 actually accepted proceeds from investors, as six programs had not broken escrow as of year-end.

### Individual Product Sales Rankings

Based on our sales forecasts, the top-ten open nontraded REIT products ranked by gross sales for the 12 months ended December 31, 2010 (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. CB Richard Ellis Realty Trust
5. Corporate Property Associates – 17 Global,Inc.
6. Healthcare Trust of America, Inc.
7. Behringer Harvard Multifamily REIT I Inc.
8. American Realty Capital Trust, Inc.
9. CNL Lifestyle Properties Inc.
10. Hines Global REIT, Inc.

**Top-10 Nontraded REITs Ranked by Estimated Sales for the 12-Month Period ending December 31, 2010**




When combined, sales from the top 10 nontraded REITs are estimated to be $6.7 billion in 2010 or roughly 82.5% of all money raised for the year. By contrast, of the 45 products raising capital in 2010, 24 of them, or 53%, raised less than $100 million and six were unable to reach the minimum offering requirement of $2 million by year-end.

As we compare year-over-year sales results, not only do we find that there is little movement among the top-10 REITs in terms of fundraising in 2010, but we also find the amount of money raised per REIT on an annual basis has been limited as well. For example, 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 and during 2010, only one company raised more than $1 billion in new capital. The first chart on the following page elaborates on this concept, as it shows the number of companies that raised $500 million or more for the year ended 2009 versus 2010.

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

* *Does not include those offerings that deregistered shares and dissolved the entity as these are not considered full-cycle events.*

## The Nontraded REIT Market vs. the Publicly Traded REIT Market

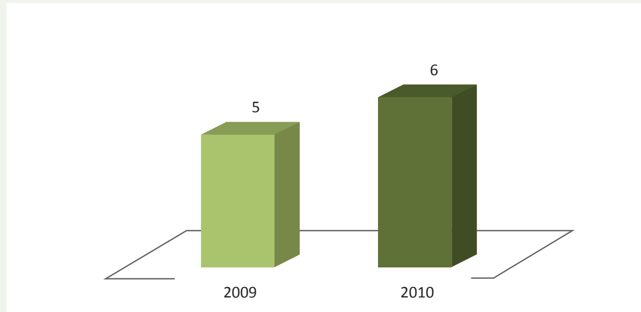
As mentioned earlier, 2010 was a record year in terms of the number of new nontraded REIT offerings that were launched. Of the total 45 offerings that were raising capital from investors during 2010, 15, or 33%, were new to the market. But while the industry set a record in terms of new products, the funds raised by these newly effective nontraded REITs were significantly lower in 2010 compared with 2009. For the 15 new products that were launched in 2010, an estimated $51.4 million of new capital was raised. This compares with $86 million that was raised by the 12 new product offerings launched in 2009.

In addition, when compared to the publicly traded REIT market, the number of new nontraded REIT offerings launched in 2010 exceeded the number of publicly traded REIT IPOs. In addition, the total stock registered by nontraded REITs launched in 2010 was $26.6 billion while publicly traded REIT IPOs raised approximately $2 billion of new capital. As we noted above, however, of the $26.6 billion in nontraded REIT registered stock, only $51.4 million was sold as of December 31, 2010.

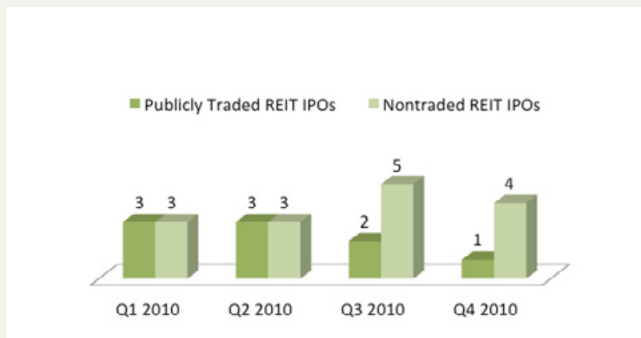
Further analyzing the nontraded REIT offerings that were launched in 2010, only nine were able to break escrow and meet the minimum offering requirement of at least $2 million by the end of the year. And of the nine that did break escrow, four REITs were initially introduced as private placements allowing them to accelerate their public fundraising efforts as they entered the market with existing assets and were essentially exempt from meeting the minimum offering requirements.

As we study these new product launches in more depth, we note that the amount of time needed to meet the minimum offering requirements has continued to increase. In 2009, of the 12 new offerings that were launched during the year, it took an average of 4.6 months to reach the minimum offering requirement. In 2010, this number increased to an average of 5.8 months, excluding those companies that were exempt from the minimums as a result of prior private offerings.

**Number of Nontraded REITs Raising $500 Million or More**




**Comparison of IPOs for Publicly Traded REITs vs. Nontraded REITs in 2010**




As we pointed out in our report last year, we continue to believe that the three largest contributing factors to a program's ability to break escrow and meet the minimum offering requirements quickly are:

- 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

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# Future Trends and Expectations for 2011

### 2011 Fundraising Expectations

Based on current fundraising trends and anticipated full-cycle events, we estimate that sales of nontraded REITs could potentially reach as high as $10 billion in 2011. This assumes that current fundraising trends will remain steady and that the anticipated listing of Inland Western Retail Real Estate Trust, Inc. will possibly trigger a reinvestment opportunity placing as much as $1 billion to $2 billion back into the market. We also anticipate that as W.P. Carey takes two of its older REITs (Corporate Property Associates 14, Inc. and Corporate Property Associates 16, Inc.) full cycle, this may also trigger additional reinvestment opportunities for the industry.

### New Product Registrations — Innovative Product Design

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 capital in the past continue to turn their attention toward the nontraded REIT market for new sources of funding. In doing so, several are leveraging their experience as institutional money managers and designing nontraded REIT offerings with product features that are similar to those found in the institutional markets.

Of particular note here is the ability to generate more frequent portfolio valuations and offer investors a higher level of liquidity. Over the long term, we anticipate that these new product designs may potentially change how the industry is perceived and allow for nontraded REITs to be thought of as more mainstream. In addition, these design changes also may lead to growth through new distribution channels such as Registered Investment Advisory firms as they typically seek out alternative products that provide more frequent pricing. Given that these features also enhance transparency, investors may be willing to increase portfolio allocations and take more comfort in knowing they have the ability to liquidate their holdings on their own terms rather than waiting for full-cycle events to occur.

### New Product Registrations — Asset Type

As noted earlier, of the 15 new nontraded REIT product offerings that were launched in 2010, four were focused on acquiring assets within the multifamily sector. To date, there are a total of seven nontraded REITs that are focused on purchasing multifamily commercial assets.

In 2009 and 2010, this segment of the market was relatively unaffected by the credit crisis, based in large part on the availability of financing through Fannie Mae and Freddie Mac. In addition, based on anticipated employment growth, increased occupancy, and a projected rise in rental rates, many real estate investment experts believe this segment of the commercial real estate market may be one of the best performing in 2011.

As we look to enhance the awareness and transparency of the nontraded REIT industry, we will continue our discussion of the multifamily sector in the following section, which introduces new premium content services for 2011.

## Content Overview - New Premium Subscription Services from Blue Vault Partners

Blue Vault Partners is pleased to introduce and provide you with a preview of our new premium subscription service. By providing this new level of research and content, we intend to take the Nontraded REIT Industry Review to a higher level for our subscribers in 2011.

This new premium content will offer insight, perspective and commentary as it relates to global trends facing the nontraded REIT and real estate industries as a whole. In addition, we will concentrate each quarter on specific REITs with detailed analysis of their underlying real estate holdings and financial results. In an effort to highlight the major trends and events that have occurred during the most recent quarter, we will also monitor the following real estate fundamentals on an ongoing basis:

- Total Acquisitions - summarized for the industry and by nontraded REIT
- Total Dispositions - summarized for the industry and by nontraded REIT
- Debt Level Trends
- Occupancy Level Trends
- Capital Raised Trends
- Cash on Hand

For your convenience, a preview of this new premium service has been provided for your review in the following pages. For additional information on this subscription service, please contact Blue Vault Partners at 877-256-2304.



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