BlueVault PARTNERS, LLC

Blue Vault Brief

2011 YEAR IN REVIEW

March 1, 2012

Amid the uncertainty in the world capital markets and the nascent signs of economic recovery, the nontraded REIT industry continued to grow in 2011. Several trends noted in previous years have continued, including the dominance of the capital raise market by a handful of sponsors, coupled with the slightly counter-intuitive trend of the addition of new sponsors and products.

Key Highlights for 2011

- Assets under management increased to approximately $84 billion at year-end.
- 11 new products were added in 2011.
- 69 nontraded REITs were active including 46 open and 23 closed REITs.
- The top-5 Open Nontraded REITs comprise 70% of the open REIT assets under management.
- The top-10 Sponsors control 87% of the market.
- Capital raised for 2011 is estimated to be $8.2 billion compared with $8.3 billion in 2010 with a significant slowing occurring in 4Q2011.
- One full-cycle event took place in 2011, following two in 2010. Three full-cycle events have already been announced for 2012.

The following discussion will examine these and other issues in greater detail.

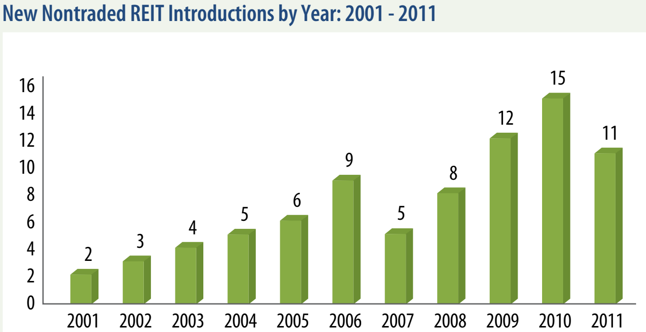
Historical Overview

By definition, nontraded REITs are public investment vehicles whose shares are not traded daily on a stock exchange. The ability to invest in commercial, income-producing real estate assets via a securities offering was created by Congress in 1960. Prior to this time, only institutions and higher-net-worth individuals had the financial means to make direct investments in commercial real estate.

The public REIT market consists of both traded and nontraded securities. As of December 2011, the public REIT market as a whole was made up of 229 REITs, with 69 that are not traded daily on a stock exchange (nontraded REITs) and 160 REITs that are traded daily in the secondary markets.

REITs that are traded on a stock exchange make up 70% of all public REITs and have historically been the most popular way for individual investors to purchase real estate securities. However, over the past 10 years, the nontraded REIT industry has grown significantly in terms of size and public awareness. As seen in the chart below, since 2001 there have been a total of 80[1] nontraded REIT product offerings declared effective by the SEC. Of this total, roughly 47% were introduced during the past three years.

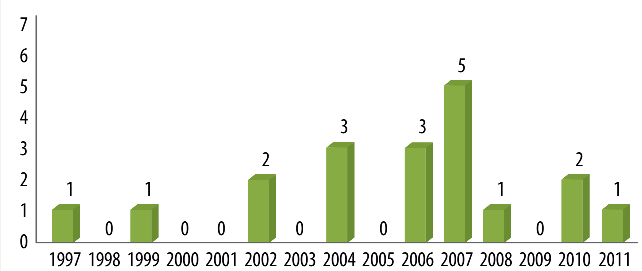
New Nontraded REIT Introductions by Year: 2001 - 2011



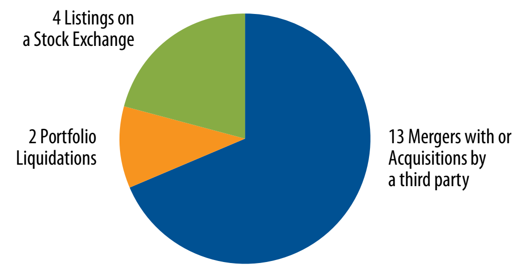
[1] Includes Nontraded REITs that are currently fundraising, closed to new investments, or that experienced a full-cycle event between January 1, 2001 and December 30, 2011.

Nontraded REIT investments offer above-average distribution yields to investors compared with the more traditional stock and bond investments. But in addition to income, investors are also looking for a return of capital within a seven- to 10-year time frame. As seen in the chart below, between 1997 and 2011, there have been 19 full-cycle events whereby investors received a return of capital. And since 1990, for every five new REITs that have entered the market, only one has experienced a full-cycle event. The most common type of full-cycle event to date has been the result of an acquisition or merger of a nontraded REIT with another entity.

Number of Full-Cycle Events by Year



Breakdown of Full-Cycle Events by Type of Transaction: 1997 - 2011



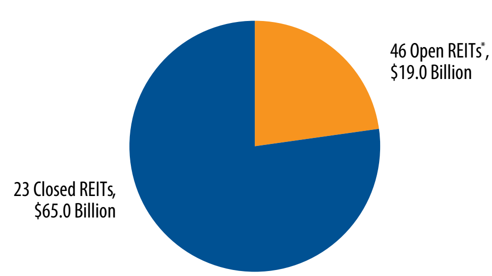
2011 Current Market Overview

Assets Under Management

As of December 31, 2011, the nontraded REIT industry consisted of 69 individual product offerings. Of those 69, there were 45 that were raising capital from individual investors, one that had suspended fundraising, and 23 that were closed to new investments. Collectively, these nontraded REIT offerings total an estimated $84[2] billion in assets compared with $451[3] billion in market capitalization for REITs trading on a stock exchange.

As illustrated in the chart below, estimated assets under management for the 46* open and effective nontraded REITs total $19 billion compared with $65 billion in assets under management for the 23 nontraded REITs that were closed to new investments as of December 31, 2011. The reason for such a large discrepancy can be attributed mainly to the fact that of the 46 open and effective nontraded REITs, 20 of these companies have been raising capital for 18 months or less.

Total Assets as of December 31, 2011: $84 Billion



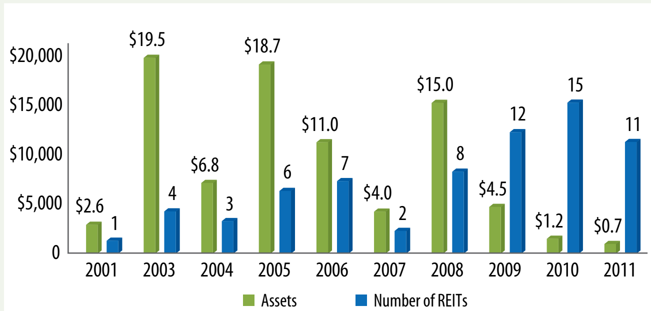
*Includes one REIT that suspended fundraising in 2Q 2011.

[2] Estimates for nontraded REIT assets are based on book values as reported in the September 30, 2011 10Q filings and anticipated sales based on the latest 8K or 424B3 SEC filings.

[3] Source: REITWatch, January 2012

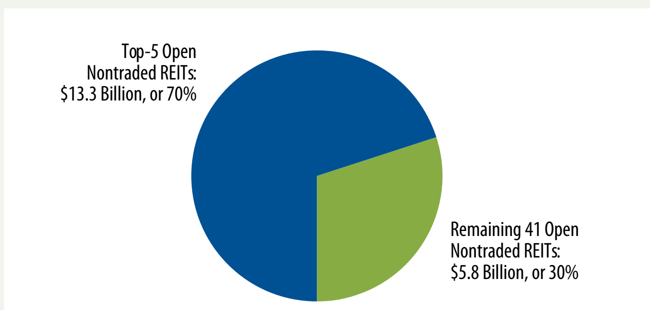
In addition, of the 69 nontraded REITs that make up the $84 billion market, assets are heavily skewed to those programs that became effective between 2003 and 2006. As a result, those REIT product sponsors that launched programs during that period effectively manage 67% of all nontraded REIT assets.

Asset Breakdown by Year – All Nontraded REITs (in $Billions)
as of December 31, 2011



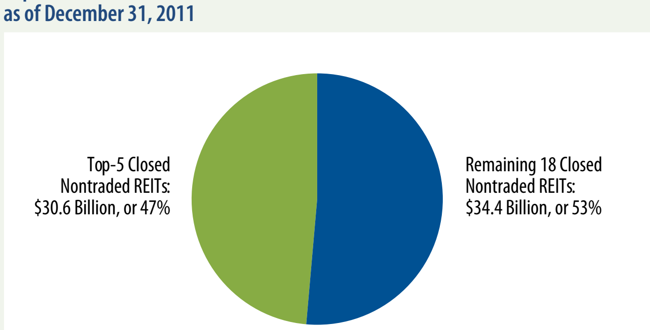
As noted earlier, those nontraded REITs that were raising capital as of December 31, 2011, represent 23% of total assets under management for the industry. But what is even more telling about this segment of the market is that only five REITs control $13.3 billion, or 70%, of all open nontraded REIT assets. By comparison, in 2010, the top-five open REITs represented 57% of all assets in this category.

Top-5 Open Nontraded REITs as a Percent of all Open Nontraded REIT Assets
as of December 31, 2011



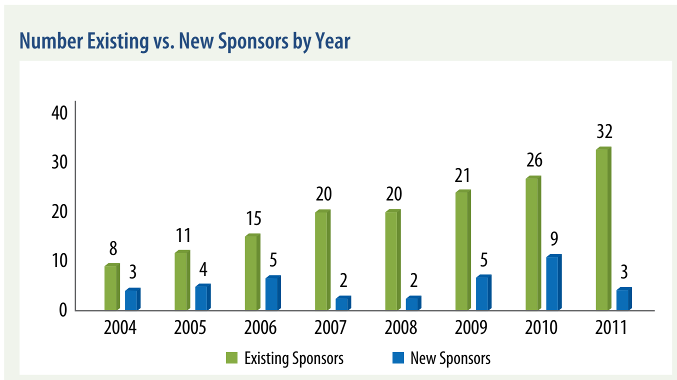
Regarding the nontraded REITs that were closed to new investments as of December 31, 2011, the top-five closed nontraded REITs represented 47% of assets in this category compared with 61% in 2010.

Top-5 Closed Nontraded REITs as a Percent of all Closed Nontraded REIT Assets
as of December 31, 2011



Sponsor Breakdown

As of December 2011, 35 companies managed the 69 nontraded REITs that make up the nontraded REIT industry. And while there has been continuous growth in the number of new products entering the market over the past several years, the number of new sponsors entering the space declined in 2011. As a result, it is primarily existing sponsors that continue to launch new product offerings rather than new entrants.



As it relates to the 35 product sponsors in the market today, only 13 sponsors have accumulated more than $1 billion in assets under management. And of these top-13 sponsors, over half of them have been accumulating assets for eight years or longer.

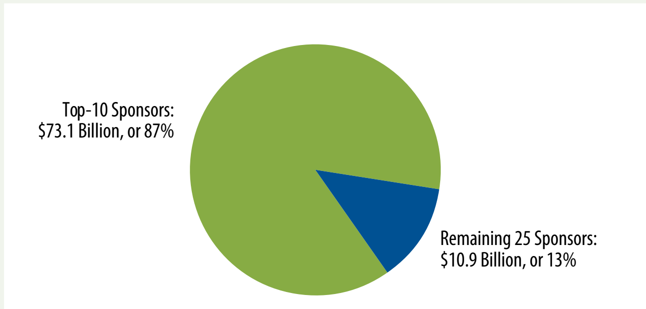
Sponsor Company	Estimated Nontraded REIT Assets Under Management (in $ Billions)
1. Inland Securities†	$18.2
2. W.P. Carey†	$ 9.4
3. Cole Capital	$ 8.9
4. KBS	$ 7.1
5. Wells Real Estate Funds†	$ 6.5
6. Behringer Harvard	$ 6.2
7. Apple Companies†	$ 4.8
8. Hines	$ 4.2
9. Dividend Capital†	$ 3.8
10. CNL†	$ 3.1
11. CB Richard Ellis	$ 2.5
12. AR Capital	$ 2.4
13. Healthcare Trust of America	$ 2.3

* Estimates for the total sponsor assets noted above are based on book values as reported in the September 30, 2011 10-Q filings and anticipated sales based on the latest 8-K or 424B3 SEC filings for the period ending December 31, 2011.

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

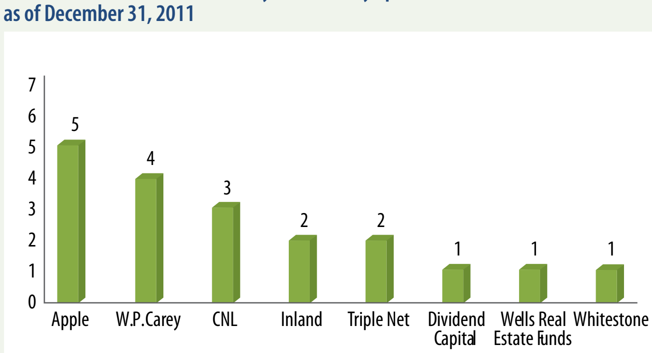
As we further analyze sponsors by their accumulated assets, as noted in the chart below, the top-10 sponsors for the industry as a whole collectively control 87% of all assets in the market and manage 36 of the total 69 products in the industry.

Top-10 Nontraded REIT Sponsor Market Share
as of December 31, 2011



Furthermore, as it relates to sponsors and the 19 full-cycle events that occurred between 1997 and 2011, only eight sponsors have provided shareholders full liquidity in the form of a liquidation, listing, or merger with a third party. Moreover, six of these eight sponsors continue to manage nontraded REIT offerings, and all are among the top-10 in terms of assets under management.

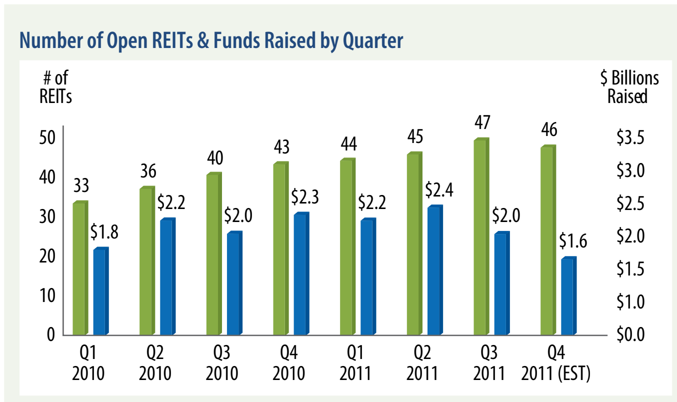
Number of Nontraded REIT Full-Cycle Events by Sponsor
as of December 31, 2011



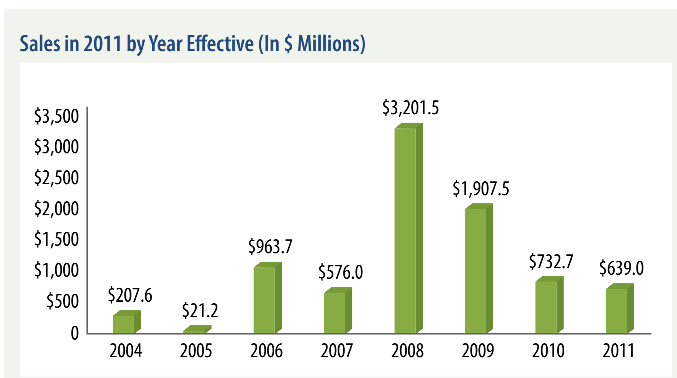
2011 Sales Update and Analysis

During 2011 there were a total of 50 nontraded REITs raising capital. Due to product closings, by the end of the year there were 45 offerings still raising capital and one that had suspended its offering. In addition, of the total 35 sponsors in the industry, all but three continued to seek new capital as of December 2011.

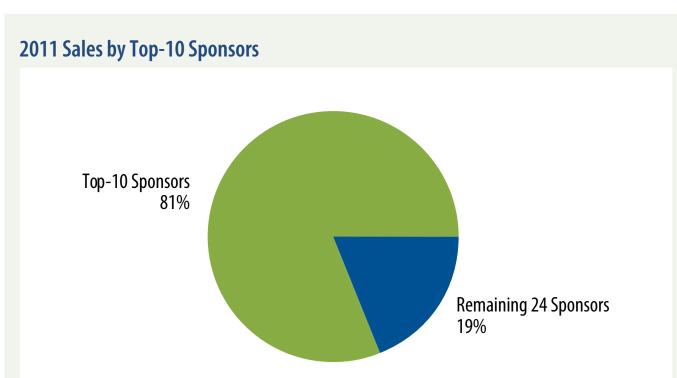
Based on current estimates, we believe the industry raised approximately $8.2 billion of new capital in 2011 (including the reinvestment of distributions), which represents a slight decline from the $8.3 billion raised in 2010. As illustrated below, changes in quarterly sales compared with new offerings showed a significant trend downward.



As noted previously in our discussions regarding assets under management, the older sponsors and product offerings also dominate the market in terms of capital raised. Of the gross dollars raised in 2011, 39% was raised by nontraded REITs that became effective in 2008.

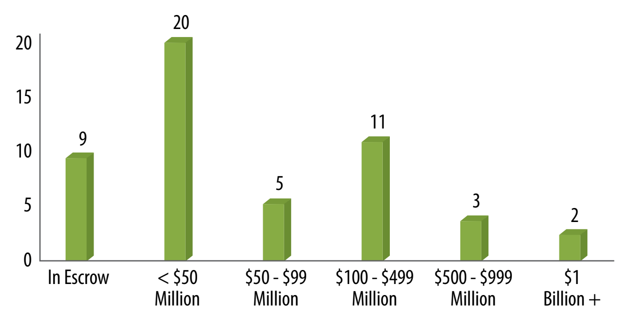


When combined, capital raised by the top-10 individual REITs was $6.4 billion, or approximately 78% of all dollars raised in 2011. In addition, the top-10 sponsors were responsible for 81% of all money raised during the year.



While 10 sponsors dominated the market in terms of gross dollars raised, just as significant is the fact that 19 sponsors raised less than $100 million each during the same time period. Nevertheless, during 2011 there were more REITs that raised $50 million or more in annual sales compared with 2010. This could be the result of financial advisors and broker/dealers embracing newer product offerings and sponsors in an effort to diversify the number of available offerings in their portfolios.

Breakdown of Nontraded REITs by Gross Dollars Raised in 2011



On an encouraging note, as we study the relationship between launching a new offering and the amount of time needed to meet the minimum offering requirements, we find that there has been significant improvement in 2011. During 2010, it took an average of 5.5 months to reach the minimum offering requirement, while in 2011 that number decreased to 3.7 months. When separated from the rest, we note that first-time nontraded REIT sponsors, however, continue to require more time to break escrow and typically are not meeting the offering requirements in less than five months.

As we have pointed out in prior reports, 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 other successful direct investment offerings
- Strong sponsor brand or known entity within the Independent Broker/Dealer channel

Future Trends and Expectations for 2012

With the movement out of recession and signs of growth in employment, commercial real estate has begun to recover in all asset sectors. Initially led by multifamily and hospitality, other sectors have either bottomed out or are beginning to see improvement in occupancies in many markets across the country. With steady occupancy growth, rental rates will begin to turn upward after a short lag period. Inexpensive debt combined with abundant capital for investing have kept property values steady, with pricing beginning to anticipate growth in occupancy and rents. Development has begun in multifamily but will remain slow in other sectors until a significant rebound in market fundamentals occurs.

In addition to the positive economic indicators we see in the commercial real estate markets, the industry is also poised to complete several full-cycle events in 2012. As of the date of this report, one REIT will have completed a liquidity event by listing on a stock exchange, one intends to finalize a merger during the third quarter, and another intends to list its shares on a stock exchange before year-end. In addition, there are several nontraded REITs that have already completed the internalization process allowing them to list on an exchange upon board approval, while a few others have indicated that they are currently exploring various exit strategies.

More full-cycle events in 2012 will not only bode well for investors looking for a return of capital, but it will also provide a boost to sponsors who are looking for new capital because historically, full-cycle events also trigger reinvestment opportunities. As a result, the industry could see an additional $1 billion or more in capital coming back into the market.

Based on current economic conditions, fundraising trends, anticipated full-cycle events, and potential regulatory changes, we estimate that sales of nontraded REITs will remain relatively flat and fall in the range of $8 billion to $9 billion. One of the primary reasons we believe the industry will remain fairly flat is due in large part to increased regulatory scrutiny of these investments. In addition, legal issues surrounding sponsors such as the Apple Hospitality group could have a negative impact on the industry as a whole if there is not a favorable resolution or full-cycle event for the older REITs they manage.

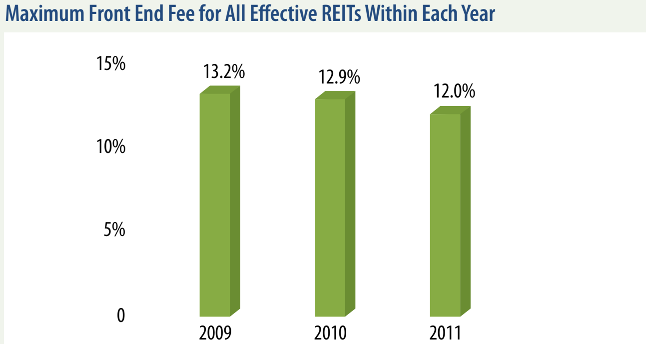
Historical Nontraded REIT Sales: 2002 - 2011 (In $ Billions)

As it relates to new offerings and first-time sponsors, we anticipate seeing three to five new sponsors enter the space in 2012 and approximately eight to 10 new REIT offerings. Comparing these figures to previous years, we believe the industry is beginning to lose some of the momentum it had in 2010 when we saw a record 15 new offerings from nine first-time sponsors.

2012 will be a pivotal year for the industry as we will begin to see how well the market receives the open-ended, "daily-NAV" nontraded REIT offerings that provide investors with more frequent portfolio valuations and higher levels 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 investments. In addition, these design changes also may lead to growth through new distribution channels and provide investors with a greater level of transparency and comfort in knowing they have the ability to liquidate their holdings on their own terms rather than waiting for full-cycle events to occur.

In addition to offering products with more liquidity options, we also are encouraged by the overall trend to reduce up-front fees and expenses charged to investors. As seen in the chart to the below, based on the average of all nontraded REITs raising capital at the end of each year, we note that fees have declined by 1.2% from 2009 to 2011. And for only those 11 nontraded REITs that launched in 2011, the up-front fees were even smaller, averaging just 10.2%.

Maximum Front End Fee for All Effective REITs Within Each Year



In summary, several significant trends were begun in 2011 that will impact the direction of the nontraded REIT industry for the balance of the decade. We believe the ability of the industry to continue to grow will be influenced by the following:

- Continued full-cycle events;
- The addition of new products that feature liquidity, low fees, and better value transparency;
- The success of those new products to open new capital raising channels, including the fee-based and 401(k) markets;
- The ability of those troubled nontraded REITs and Sponsors to resolve their past issues; and
- Success in dealing with growing regulatory involvement.

2012 is a year of transition for the industry, and success in the various areas noted above will allow for significant expansion of the market in terms of offerings over the next several years. However, we warn that the inability of the industry to effectively make this transition could potentially negatively affect, and perhaps limit, the future growth of the industry.