



The Five Critical Components for Successful REIT Investing: An Advanced-level Review

FOR BROKER DEALER USE ONLY. THIS IS NEITHER AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO BUY ANY REIT. AN OFFERING IS MADE ONLY BY THE PROSPECTUS.

Important Considerations

Investing in REITs involves a high degree of risk and investors should also carefully consider the information set forth in the prospectus prior to investing. Such information that may be provided in a prospectus includes the following but not limited to:

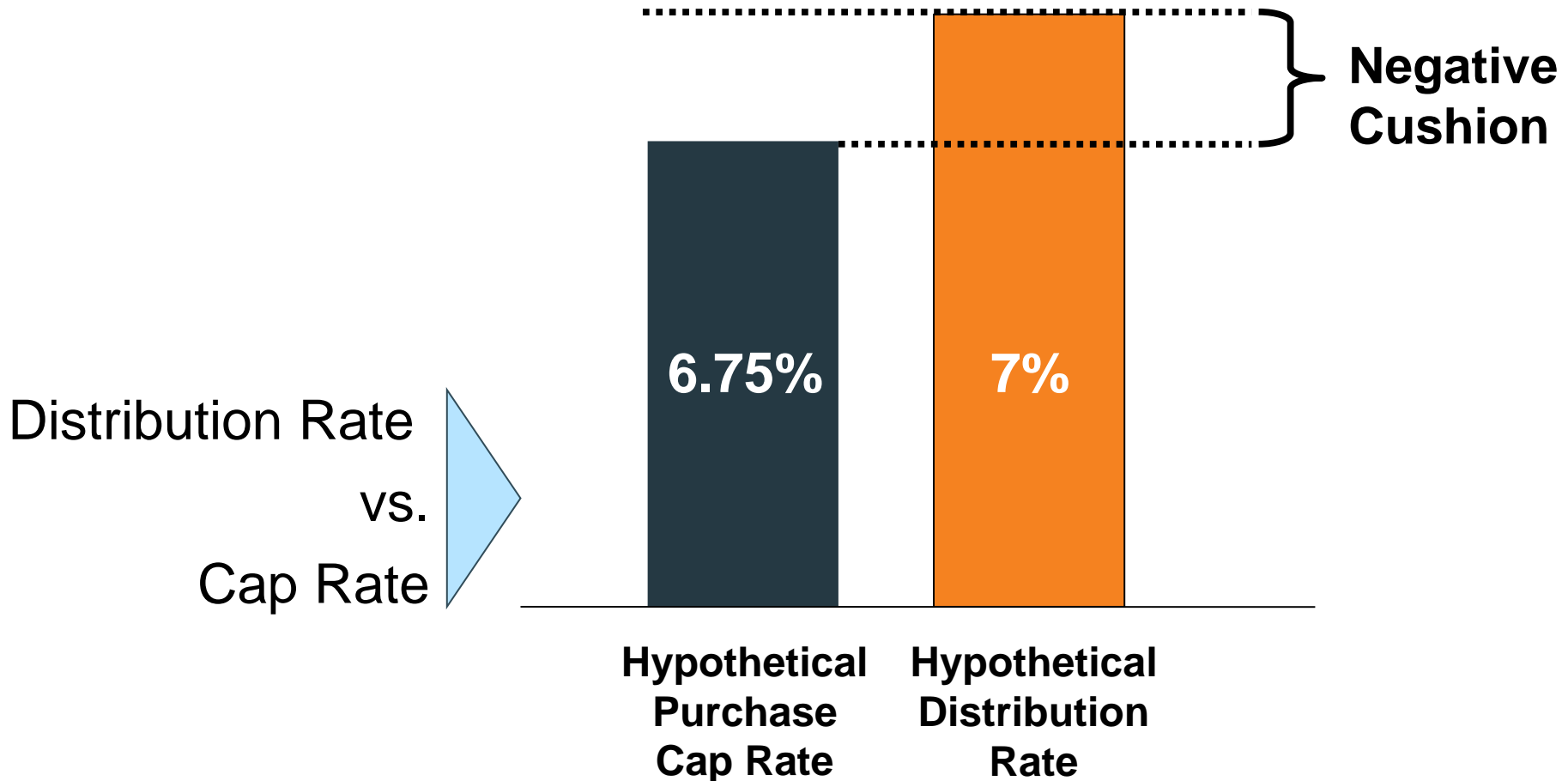
- There is no public market for the shares of common stock. Shares of common stock cannot be readily sold and there are significant restrictions on the ownership, transferability and repurchase of shares of common stock. If stockholders are able to sell their shares of common stock, they likely would have to sell them at a substantial discount.
- Substantial debt can be incurred, which could hinder the ability to pay distributions to stockholders or could decrease the value of stockholders' investment if the income from, or the value of, the property securing our debt falls.
- Non-traded REITs rely on advisor entities and their affiliates for day-to-day operations and the selection of investments. They pay substantial fees to advisor entities and their affiliates for these services, and the agreements governing these fees may not be negotiated at arm's-length. In addition, fees payable to a dealer manager and advisor entities in the organizational stage are based upon the gross offering proceeds and not on the properties' performance. Such agreements may require them to pay more than they would if they were using unaffiliated third parties.
- Many REIT officers also are principals, officers and/or employees of the advisor, sponsor and other affiliated entities. As a result, the officers will face conflicts of interest, including significant conflicts in allocating time and investment opportunities to the REIT and other similar programs they sponsor.
- If a REIT does not maintain its qualification as a REIT, it would be subject to federal income tax at regular corporate rates, which would adversely affect its operations and ability to pay distributions to our stockholders.
- The amount of distributions paid, if any, is uncertain. Due to the risks involved in the ownership of real estate, there is no guarantee of any return on stockholders' investment and they may lose money.
- In a rising interest rate environment, treasury securities tend to be more attractive, drawing funds away from REIT's and lowering share prices.
- REITs pay property taxes, reducing cash flows to shareholders.
- Some dividends are considered ordinary income and therefore usually taxed at a higher rate than the 15% on normal dividends (subject to higher tax rates). Someone in 30% tax bracket who does not need income, would not appear to benefit.
- Fixed income investors traditionally turn to CDs, money market funds and bonds. However, in a low-yield environment, investors may find REITs attractive to the sector's consistent asset base and steady dividends, which are typically paid monthly.
- Generally, non-traded REITs have suitability requirements of a net worth of at least \$250,000 or a gross annual income of at least \$70,000 and a net worth of at least \$70,000. However, certain states may have higher suitability requirements.
- REIT investing is intended for any investor who: meets the minimum income and net worth standards; can reasonably benefit from the REIT based on the overall investment objectives and portfolio structure; is able to bear the economic risk of the investment based their overall financial situation; and has apparent understanding of: i. the fundamental risks of the investment; ii. the risk that the SHAREHOLDER may lose the entire investment; iii. the lack of liquidity of REIT SHARES; iv. the restrictions on transferability of REIT.

Five Critical Components to Successful REIT Investing

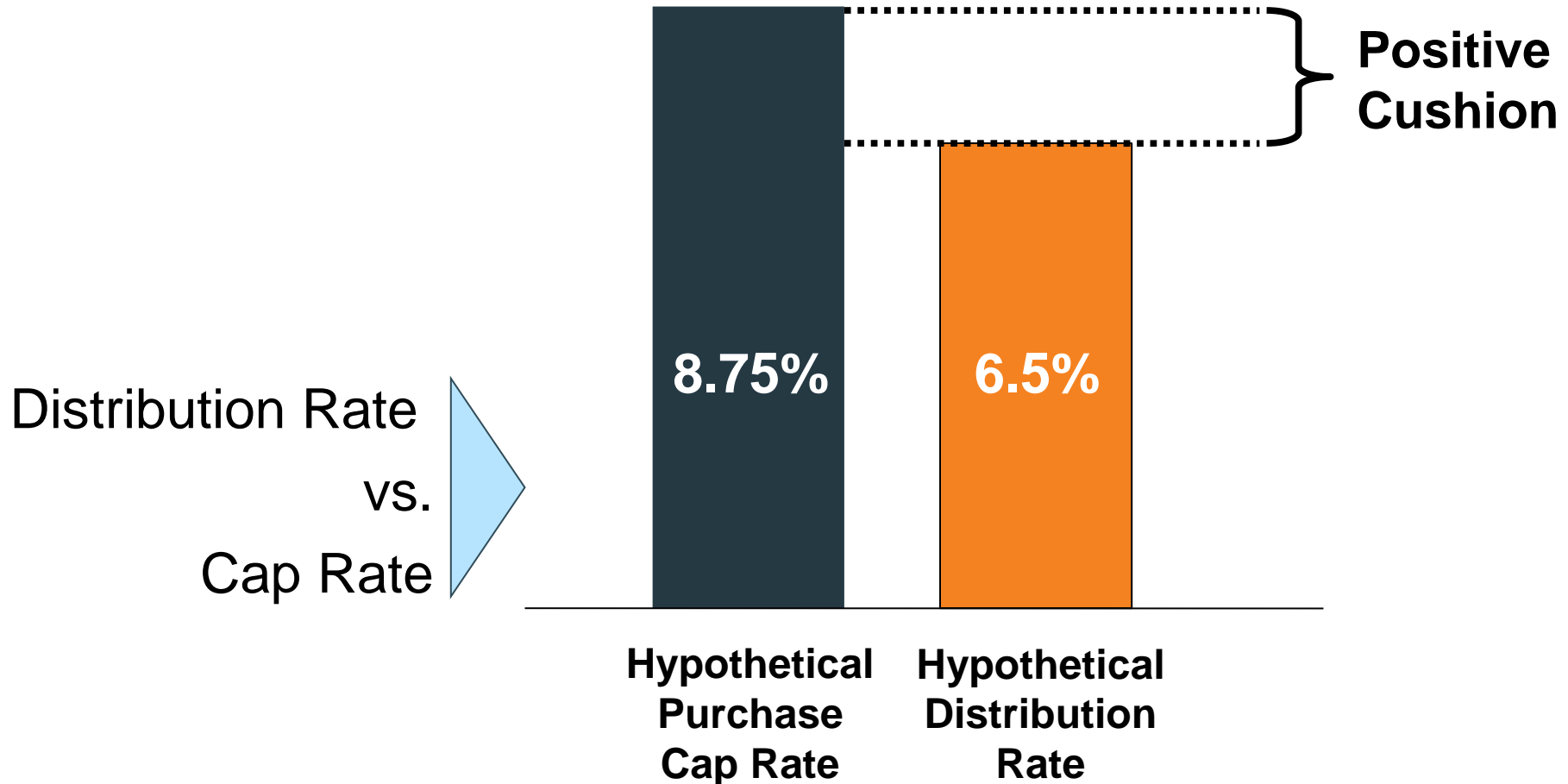
- 1. Distribution rate alignment with purchase cap rates**
- 2. Cap rate spread to debt**
- 3. Lease roll/expiration timing with market cycle**
- 4. Portfolio compilation & structural terms**
- 5. Strength Position**
 - 1. Lease renewal**
 - 2. Revaluation**
 - 3. Intended exit**

Distribution rate misaligned with purchase cap rates

$$\text{Cap Rate} = \text{Net Operating Income} \div \text{Purchase Price}$$

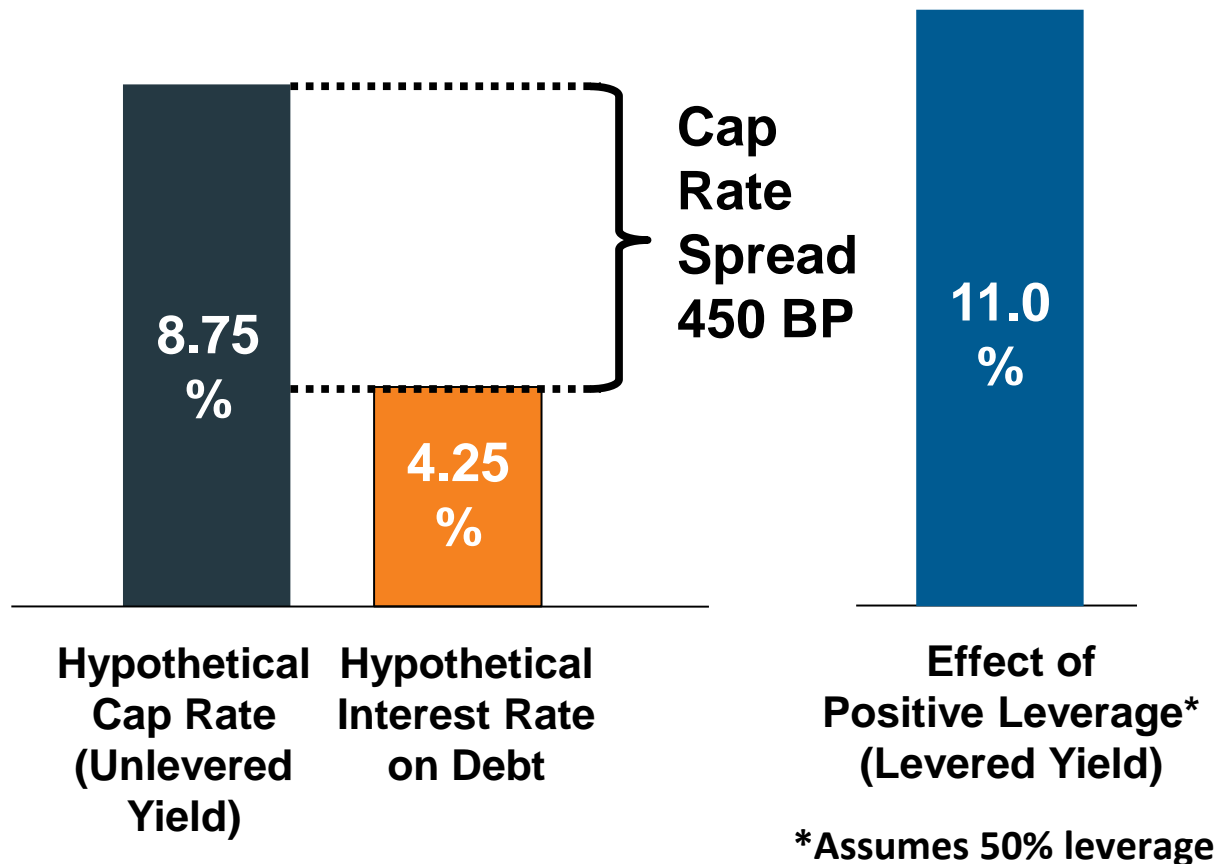


Distribution rate aligned with purchase cap rates



Cap Rate Spread to Debt

Interest rate on debt does not add sufficient accretion/positive leverage



These hypotheticals are for illustrative purposes only and do not necessarily reflect our investment portfolio.
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“An understanding of the cap rate spread is an indispensable real estate operating metric for understanding dividend sustainability and expected total return, as the cap rate spread is the leading indicator for long-term operating performance for non-listed REITs.”

Source: SeekingAlpha.com

Lease roll/expiration timing with market cycle

Having lease roll/expiration at an unfavorable time in a market cycle

- **National and/or regional occupancy level decreases**
- **Generally results in reductions of market rents**
- **Generally results in landlord-offered rental concessions**
- **Generally necessitates payment of un-modeled tenant improvements and lease conditions**

Aggressive Portfolio Compilation, Structural Terms and Investment Philosophy

Over Leveraged

- Effect in down markets – Loss greater than gain
- Lender covenants and restrictions

Use of Higher Risk Assets/Instruments

- Mezzanine debt
- Opportunistic assets
- Reliance on market upturns and recovery

Lease Terms

- Erosion of rental income in gross leases

Lack of strength position component at:

1. Lease renewal

2. Interim valuation/revaluation

3. Exit

- **Vulnerability to adverse effects of weaker renewal terms**
 - **Lower rent**
 - **Lower net operating income (NOI)**
- **Failing to combat the negative effects of discounted cash flow analysis**

Five Critical Components to Successful REIT Investing

- **A model which structurally disadvantages maximization of value at exit**
 - **Adjusted funds from operations (AFFO) / earnings before interest, taxes, depreciation and amortization (EBITDA)**
 - **Multiple/Price/Earnings ratio**
- **Lack of homogeneous portfolio limiting exit and potentially limiting valuation:**
 - **Separation of silos**
 - **Potential for cherry picking**
 - **Potentially discounted multiple**
 - **Burden of multiple transactional execution**

Conclusion

We believe that financial advisors and investors, today more than ever, are looking for:

- **Preservation and protection of capital**
- **A reliable and sustainable income stream**
- **Value sustenance and capital appreciation at exit**

Success in REIT investing depends on choosing a product that includes the five critical components.



Thank you