Investment Program Association
Practice Guideline 2013-01

VALUATIONS OF PUBLICLY REGISTERED NON-LISTED REITS

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INVESTMENT PROGRAM ASSOCIATION
PRACTICE GUIDELINE 2013-01

VALUATION OF PUBLICLY REGISTERED, NON-LISTED REITs

Issued by the Investment Program Association
April 29, 2013

Effective Date

The provisions of this Practice Guideline become effective on May 1, 2013.

Affected REITs

This Practice Guideline supersedes the existing IPA Practice Standard for the Valuation of DPPs and is applicable to all publicly registered, non-listed real estate investment trusts, including those which commence an initial public offering of equity securities on or after January 1, 2013 (“New NL REITs”), and those which have initiated or completed a public offering of equity securities prior to January 1, 2013 (“Existing NL REITs”). This Guideline is not intended to be applicable to exchange traded real estate investment trusts.

Introduction & Purpose

The REIT Committee of the Investment Program Association (“IPA”) believes that uniformity, consistency and transparency in financial reporting among member companies is an essential component in the evolution and growth of the publicly registered, non-listed real estate investment trust (“NL REIT”) industry and in providing the highest quality information to securities analysts, broker/dealer due diligence officers, investment advisors, and investors (collectively, “Stakeholders”). An important component of such information relates to the valuation of NL REIT securities for regulatory and investor reporting and on-going evaluation of investment performance.

This Practice Guideline is the result of deliberations by the Financial Standards Subcommittee of the IPA REIT Committee (the “FSS”) in consultation with the Due Diligence Committee, Legal and Regulatory Committee and the Broker-Dealer Advocacy Committee of the IPA, and after consideration of comments received from the IPA membership. Members of the IPA REIT Committee sponsor NL REITs and account for in excess of 95% of all investment funds raised by NL REITs since the year 2000.
Members of the Due Diligence Committee represent or provide independent due diligence services to over two hundred broker-dealer organizations involved in the sale and monitoring of NL REIT investments. Members of the Legal and Regulatory Committee include many of the most active, nationally recognized legal practitioners in the real estate securities industry. Members of the Broker-Dealer Advocacy Committee represent broker-dealer organizations engaged in the sale and monitoring of NL REIT investment securities and account for over 90% of all funds raised for NL REIT investments. This Practice Guideline was approved by each of the aforementioned IPA Committees and received final approval of the Board of Directors of the Investment Program Association on April 25, 2013.

This release is intended to provide guidance to NL REIT management teams, advisors, and boards of directors and is not intended to be a mandatory and inflexible set of rules. Application of this Practice Guideline for a specific company may be dependent on the structure of the company; the composition, nature, stage and number of the assets and investments held; the company’s investment objectives and investment phase; and other attributes unique to each entity. Therefore, the implementation of this guideline is left to the business judgment of the management, advisor and board of directors of each NL REIT. Nothing in this Practice Guideline is intended or shall be construed to impose (i) any legal or regulatory obligation to follow this guideline; or (ii) any liability under any securities laws or regulations or otherwise for failure to do so. NL REIT management teams, advisors and boards of directors should consult their individual legal and accounting professionals concerning specific implementation of this Practice Guideline and conformity of such implementation with securities laws and regulations and accounting standards.

This IPA Practice Guideline is not intended to, and does not, constitute legal or tax advice to any person or organization, nor does the IPA represent that this Practice Guideline has been approved by the Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Association (“FINRA”), the Internal Revenue Service (“IRS”), the Financial Accounting Standards Board (“FASB”), the International Accounting Standards Board (“IASB”), the Department of Labor (“DOL”), the North American Securities Administrators Association (“NASAA”), or any other governmental, regulatory or self-regulatory organization for the purpose of fulfilling regulatory reporting requirements or guidelines. The management teams of NL REITs and their Stakeholders should consult their own legal, accounting and tax advisors in connection with the use of this IPA Practice Guideline.
Background

NL REIT ownership interests are not listed for trading on any formal exchange or included in formal quotation systems which represent active markets. Therefore, Stakeholders seeking valuation information cannot do so through reference to quotations and trading prices in active markets but rather must determine such values by mechanisms other than trading market forces. In addition, NL REITs present certain unique valuation challenges during the time that they are start-up enterprises, with initial public offerings usually in the form of blind pools which may require an extended period of time to fully assemble their investment portfolios and achieve stabilized operations.

To address the need for reliable valuation information, in 1989 the IPA developed a Valuation Practice Standard for direct participation programs, or “DPPs”. At that time, the preponderance of DPPs were publicly registered, non-listed real estate limited partnerships which would typically not conduct follow-on offerings. The IPA modified and reissued the standard in 1993 and 1994. The focus of these earlier IPA standards was on the timing of issuance of the initial valuation relative to the closing of the offering of securities by the investment program. The standard did not address other issues related to valuation practices by DPPs, such as the nature of the valuation, the process and methodology employed to generate it, and issues relating to disclosure and the due diligence obligations of broker-dealers. Since then, the IPA Practice Standard has not been modified or re-issued, despite significant changes in the marketplace, including the emergence and dominance of NL REIT securities, the use of follow-on offerings, and the evolving demands for more transparent and comparable performance information.

NL REITs, which constituted a small portion of the non-listed, publicly registered investment product universe at the time of issuance of the original IPA Valuation Practice Standard and its modifications, have grown rapidly in market share in recent years. The number of registered offerings in the market has increased from approximately eleven in the year 2000 to 62 as of January 1, 2013. The amount of securities registered in these offerings totaled over $93 billion as of January 1, 2013. The number of sponsors offering publicly registered NL REIT securities has increased nearly [nine-fold] since the year 2000. At the same time, these offerings have changed significantly in terms of size, length of the offering periods, use of follow-on offerings, frequency of valuations, liquidity provisions, and other attributes relative to the real estate DPPs of the 1990s. These changes and the proliferation of sponsors and investment programs present an increasing challenge for the industry in terms of maintaining uniformity and consistency of financial reporting and valuation standards and providing comparative performance data and information.

Since the time of issuance of the IPA Valuation Practice Standards considerable regulatory changes have occurred. In 2001, FINRA amended its customer account statement requirements in National Association of Securities Dealers (“NASD”) Notice
and issued Conduct Rule 2340(c) regarding the Valuation of DPP Securities. In addition, FINRA Rule 2310 (formerly NASD Rule 2810) imposed the requirement on broker-dealers that no member of FINRA can participate in a public offering of NL REIT securities unless the REIT discloses an estimated per share value in each annual report, the method by which is was developed, and the date of the data used to estimate the value. In April 2009, FINRA issued Notice To Members 09-09 which, among other things, addressed the responsibilities of member firms with respect to on-going due diligence of NL REITs. The Notice included referenced requirements for valuation reporting on account statements, citing the requirement that NL REITs and other DPPs provide estimated valuations to investors no later than eighteen months after the close of the final offering of non-listed securities.

FINRA continued its focus on valuation issues when, in September 2011, it issued Regulatory Notice 11-44 seeking comments on proposed amendments to NASD Rule 2340 (Customer Account Statements) to address how FINRA member firms report per share estimated values of non-listed DPPs and real estate investment trusts. Following expiration of the comment period and consideration of the comments received by FINRA, in March 2012, FINRA issued Regulatory Notice 12-14 seeking additional comments on revisions to the proposed amendments relating to the reporting of valuations on customer account statements. As a result of this process, in April 2013 the FINRA Board of Governors authorized FINRA to file with the SEC proposed amendments to NASD Rule 2340 and Rule 2310 (Direct Participation Programs) which modify the requirements relating to the inclusion of estimated per share values on customer account statements, including that the estimated value be developed in a manner reasonably designed to ensure that such value is reliable.

In addition, the evolution of brokerage and registered investment advisor services and their particular perspectives with respect to securities valuations, pricing of subsequent offerings and account statement reporting holds implications for the growth of distribution channels available for non-listed REITs.

Finally, the accounting standard setters’ movement – both in the United States (primarily the Financial Accounting Standards Board) and internationally (primarily the International Accounting Standards Board) continue to promulgate new standards mandating fair value reporting for an increasing proportion of the assets and liabilities reflected on companies’ balance sheets. The trend to fair value reporting began years ago with U.S. standards like the FASB’s Statement of Financial Accounting Standards (“SFAS”) 115 (now ASC 320) mandating fair value reporting for investment securities, continued with SFAS 133 (now ASC 815) mandating fair value reporting for derivatives, SFAS 157 (now ASC 820) which defined fair value and common methodologies for deriving fair value, SFAS 159 (now ASC 825) which permits fair value reporting for certain financial assets and liabilities, and a variety of other standards mandating or providing elective fair value reporting in specialized areas or in specific sectors, such as
pension funds. The trend to fair value has been mirrored internationally in many of the same areas and also in additional areas. For example, the IASB’s International Accounting Standards (“IAS”) 40 provides for fair value reporting for all investment properties. FASB previously issued for comments a proposed standard that would require fair value reporting for all investment properties in the United States. The FASB has other standards under development or consideration for financial institutions and other sectors that would also have the effect of accelerating the move to fair value for increasing proportions of assets and liabilities currently carried on the balance sheet at historical cost.

The current regulatory requirement for valuations to be provided arises in connection with a broker-dealer including the security on a customer account statement. The determination of fair value of such a non-listed interest held by a broker-dealer is typically exceedingly difficult given the dependence of such valuation on the specific assets held by the NL REIT and the large size and breadth of property and asset holdings of typical NL REITs today. While the valuation reporting obligation falls upon the broker-dealer providing the account statement, generally only the NL REIT’s management or advisor will have the detailed information necessary to determine with reasonable accuracy a fair value of the NL REIT’s securities.

The above factors all suggest that uniformity and transparency of procedures used, and the methodologies utilized as a NL REIT progresses from its initial public offering stage through its operational stage are of paramount importance to the quality of information provided to Stakeholders and the growth of confidence in the industry.

**OBJECTIVES OF THIS PRACTICE GUIDELINE**

This Practice Guideline is designed to accomplish the following goals:

- Promote improved uniformity and consistency of valuation techniques by publicly registered non-listed REITs;
- Establish standards with respect to the timing of implementation and reporting of estimated valuations;
- Enhance the disclosure of valuations and of the methodology used to develop such valuations;
- Enhance public confidence in the NL REIT industry by improving the transparency of valuations of NL REITs;
- Provide information useful to assist fiduciaries of tax qualified pension, stock-bonus or profit-sharing plans, employee benefit plans and similar plans subject to the annual reporting requirements of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and IRA trustees and custodians in
connection with their determination of the current value of NL REIT shares for the purpose of preparation of reports relating to investments in NL REIT shares;

- Assist broker/dealers and registered investment advisors who require valuation information for client account statement reporting, due diligence reviews, and for ongoing monitoring of investment performance; and

- Provide more uniform valuation information useful for the development of company-specific and industry-wide performance assessments both before and after NL REITs complete their full investment and operational cycles and consummate a liquidity event.

**PRACTICE GUIDELINE OVERVIEW**

This IPA Practice Guideline provides recommendations in the following areas relating to the Valuation of non-listed REIT securities and the disclosure of such Valuations. The term “Valuation” as used herein refers to an estimated value per share reported by the NL REIT distinct from the offering price of the NL REIT’s security.

1. Basis of Valuations
2. NAV Valuation Definition and Example of Methodology
3. Independence of Valuations & Management of Process
4. Timing of Commencement of Valuations
5. Guidance Upon Commencement of Subsequent Offerings
6. As Of Valuation Date(s) and Frequency of Valuations
7. Reporting of Valuations & Recommended Disclosure
8. Access to Non-Public Valuation Information for Broker-Dealer Confidential Use In Connection With Due Diligence

The following paragraphs provide the specific guidelines with respect to each of these areas.

**1. Basis of Valuations**

**Guideline:** The IPA recommends that the Valuation of NL REIT securities be based upon the NL REIT’s net asset value per share (“NAV Per Share”).

**Discussion:** The IPA believes that the most commonly used and widely recognized type of valuations applied to non-listed real estate entities is Net Asset Value (“NAV”). This value is based on the fair value of the entity’s assets less liabilities under market conditions existing as of the time of valuation and assuming the allocation of the
resulting net value among the shareholders after any adjustments for incentive, preferred or special interests in the entity. Securities valuations determined based on the NAV Per Share of the NL REIT are referred to herein as “Valuations” to distinguish them from “valuations” or prices at which securities are being offered to the public (“Offering Price”) or valuations based upon the redemption price of the security, where such prices differ from NAV Per Share.

The IPA believes that the basis of valuation reporting for equity interests held by institutional investors in direct, private, joint venture and other forms of real estate investment (including open-end and closed-end institutional funds and separate accounts) during the operating stage is customarily net asset value based upon fair value measurement of the assets and liabilities of the entity. Further, most securities analysts estimate the underlying NAV of exchange listed REIT shares as an important benchmark in their evaluation of the security. Utilization of an NAV-based valuation also holds the benefits of being consistent with the concept of fair value in accordance with generally accepted accounting principles (“GAAP”) and also with the growing impetus in the investment and accounting professions toward fair value reporting for real estate entities.

In developing an estimate of the fair value of the entity’s real-estate assets, the IPA recommends that such estimate be based upon the sum of the individual real estate asset/investment values to arrive at the overall value of the entity’s real estate portfolio. (See also the Discussion in Section 3: Independence of Valuations & Management Process.)

2. NAV Valuation Definition and Example of Methodology

   Guideline: The IPA recommends that Net Asset Value be determined in a manner consistent with the definition of fair value under generally accepted accounting principles, primarily as set forth in ASC 820. The IPA notes that adherence to GAAP definitions is consistent with other widely used real estate industry standards, including those set forth in the Real Estate Information Standards (“REIS”) sponsored by the National Council of Real Estate Investment Fiduciaries (“NCREIF”) and the Pension Real Estate Association (“PREA”) as revised August 4, 2011.

   Specifically, for the purpose of determination of NAV and NAV Per Share in accordance with this IPA Valuation Guideline the following definitions apply:

   Net Asset Value: The fair value of real estate, real estate-related investments and all other assets less the fair value of total liabilities.
Fair value: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This definition of fair value is consistent with the definition in ASC 820, Fair Value Measurements and Disclosures. Fair value accounting is predicated on the assumption that asset and liability carrying amounts, including unrealized gains and losses, would be realized by market participants in an assumed transaction at the balance sheet date (or in the case of this Practice Guideline, the valuation date).

Discussion:

Valuation definitions and methodologies for real estate investments, as referenced above, generally use GAAP (ASC 820) as a standard. For example, REIS, which was introduced to the real estate market in 1993 and has become the standard for valuation and performance reporting for institutional real estate investments, relies upon GAAP as its foundational basis. The goals of such valuation standards are to promote the disclosure of reliable information relevant to investor decision making, including descriptions of the valuation policies and practices adequate to facilitate analysis and comparisons of the data.

While acknowledging that interests in NL REITs are typically held by individual investors, the IPA believes that a valuation metric using GAAP as its foundational standard is a broadly recognized and accepted standard of valuation and performance measurement in the real estate industry.

NAV Valuation Methodology:

The following text provides an example of the IPA’s recommended methodology to determine Net Asset Value and Net Asset Value Per Share. Note: This example is not meant to be dispositive of all the steps and factors potentially involved in the determination of NAV or NAV Per Share; nor is it intended to constitute a required formula for the determination of NAV or NAV Per Share where the investments of the NL REIT are not susceptible to customary and recognized real estate valuation practices.

Step 1: Determination of Gross Asset Value:

Establish the fair value of wholly owned individual real properties and real estate-related assets (using third-party valuation experts as described herein) consistent with ASC 820.
Allocate to the NL REIT the fair value of assets and liabilities related to its investment interests in joint ventures and non-wholly owned subsidiaries based on the net fair value of such entities’ assets less liabilities and the provisions of the joint venture/subsidiary agreements relating to the allocation of economic interests between the parties.

Establish the fair value of any other tangible assets. For this purpose, cash, receivables, and certain prepaid expenses and other current assets which have a defined and quantifiable future value should be included. Assets with a future value may include, but are not necessarily limited to, prepaid expenses and taxes, acquisition deposits and pre-paid rental income where not otherwise accounted for in the determination of the fair values of real estate and real estate-related assets. Intangible assets to be excluded include, but are not limited to, deferred financing costs, and all assets/liabilities required by ASC 805.

Private non-listed securities and business interests are valued at estimated fair value.

Step 2: Determination of Liabilities:

Current Liabilities – GAAP book value when it approximates fair value

Long-Term Debt – fair value (“marked to market”) of debt maturing in one year or more. (See Note at end of this Section.)

Minority Interests – based on allocation of fair value of assets less liabilities of the joint venture based on the provisions of the joint venture agreement relating to the allocation of economic interests between the parties.

Step 3: Preferred Securities, Special Interests & Incentive Fee Adjustments:

Calculate and deduct: (i) any net asset value allocable to preferred securities; and (ii) any estimated incentive fees, participations, or special interests held by or allocable to the sponsor, advisor, management or general partner based on aggregate NAV of the company and payable in a hypothetical liquidation of the company.
as of the valuation date in accordance with the provisions of the partnership or advisory agreements and the terms of the preferred securities.

Step 4: Determination of Per Share Amount

Divide the resulting net asset value of the NL REIT allocable to common shareholders by the number of common shares outstanding (fully diluted).

In the above example, disposition costs and fees and debt prepayment penalties or the impact of restrictions on assumption of debt are not deducted in estimating Net Asset Value. This treatment is consistent with REIS and the aforementioned SFAS and IAS valuation standards and such treatment should be cited in disclosures relating to the determination of net asset values.

Note: Where the NL REIT performs valuations more frequently than annually, for example Daily NAV REITs, where the administrative burden and cost of determining the fair value of long-term debt for each such frequent valuation is deemed prohibitive by the board of directors, and where the NL REIT has an established methodology consistently applied which values debt at GAAP book value for the purpose of establishing the offering price of securities, such NL REIT may choose to utilize GAAP book value of debt in the determination of NAV pursuant to this Guideline. In this case, the IPA recommends that the NL REIT disclose in its quarterly and annual periodic reports, along with the derivation of NAV Per Share, the per share impact if such debt were valued at fair value for the determination of NAV.

3. Independence of Valuations & Management of Process

Guideline: The IPA recommends that NL REITs utilize the following process in developing their valuations.

• Role of Independent Directors -- The IPA recommends that the board of each NL REIT establish a committee comprised of independent directors of the REIT (the “Valuation Committee”) which is responsible for oversight of the valuation process, subject to final approval of the resulting Valuation by the NL REIT’s board of directors. Alternatively, an existing committee of the board of directors (e.g. a Conflicts Committee or the Audit Committee) may assume the role of the Valuation Committee, as set forth herein, provided such committee is comprised solely of independent directors. The IPA recommends that this committee perform the following functions:
i. approve the engagement of one or more third-party valuation experts as determined by the board of directors to assist in the valuation of the company’s assets, liabilities and unconsolidated investment interests (see “Role of Independent Valuation Experts” below);

ii. review and approve the proposed valuation process and methodology to be used to determine the Valuation, the consistency of the valuation methodology with real estate industry standards and practices, and the reasonableness of the assumptions utilized in the Valuations;

iii. review the reasonableness of the Valuation or range of values resulting from the process; and

iv. recommend the final proposed Valuation for approval by the board of directors.

• Role of Third-Party Valuation Experts – The IPA recommends that the NL REIT, subject to the approval of the Valuation Committee and board of directors, engage one or more third-party valuation experts to assist in the process of determining the Valuation. Such valuation experts should be qualified firms with substantial and demonstrable experience in the valuation of assets/investments similar to those owned by the NL REIT. The nature of the engagement of such third-party valuation experts may be based in part on the cost of such valuation services relative to the resources and operations of the NL REIT, including its financial condition, scale of operations and type, number and complexity of assets owned.

Subject to such considerations, the IPA recommends that the NL REIT engage one or more qualified firms with demonstrated expertise in the valuation of real estate assets to perform the valuations as follows:

(i) perform the first valuation of the real properties and real estate-related investments (collectively, the “Real Estate Investments”) of the NL REIT after the closing of the initial public offering of the NL REIT’s securities in accordance with the timing specified in Section 4 hereof, and thereafter no less frequently than every two years;

(ii) prepare such valuation in accordance with the Code of Ethics and Standards of Profession Practice of the Appraisal Institute, and the Uniform Standards of Professional Appraisal Practice;

(iii) certify such valuation by a member of the Appraisal Institute with the MAI designation or such other professional valuation designation appropriate for the type and geographic locations of the assets being valued; and
(iv) where the third-party expert determines the aggregate value of the Real Estate Investments, base such determination upon a discrete valuation of the individual assets/investments.

Where considerations relating to the NL REIT’s financial condition, scale of operations and type, number and complexity of assets owned make annual independent valuations of the Real Estate Investments impractical or not in the best interests of the NL REIT’s investors, as determined by the NL REIT’s board of directors, valuations in the intervening year between independent valuations may be performed by the company or its advisor, provided the NL REIT engages a qualified third-party valuation expert to provide assistance in and confirmation of the valuation process and resulting valuation. The IPA recommends that the role of such a third-party valuation expert include a review and confirmation of each of the following items relating to the valuation:

- the reasonableness of the real estate investment valuation process and methodology and their conformity with real estate industry standards and practices relating to valuations;

- the reasonableness of the assumptions and data used in connection with the valuation of each real estate investment, including but not limited to rental rates, tenant improvements and concessions, lease renewal and option exercise probabilities, revenue and expense growth rates, going-in and residual capitalization rates, discount rates, and other assumptions and data deemed material to the valuation; and

- the final Real Estate Investment valuation assigned by the Advisor or board of directors.

In addition, this Guideline calls for the third-party valuation expert to provide a written opinion of such confirmation which includes a description of the reviews undertaken and basis for the confirming opinion. Such confirmation may take the form of either: (i) confirmation of the aggregate Real Estate Investment valuation conclusion assigned by the advisor or board of directors and used in the determination of NAV Per Share; or (ii) confirmation of the reasonableness of such valuation conclusion provided such reasonableness confirmation is supplemented with disclosure in the expert’s written opinion of the range of aggregate Real Estate Investment valuation estimated by the third-party expert providing the confirming opinion.
Where the NL REIT performs valuations more frequently than annually, for example Daily NAV REITs, and the administrative burden and cost of obtaining third-party valuations or confirming opinions for each such valuation is deemed prohibitive by the board of directors, the IPA recommends that the NL REIT engage a third-party valuation expert to value the assets/investments of the NL REIT or provide confirmation of the advisor’s estimated value of such assets/investments in intervening years between third-party valuations, at least once per year in accordance with the procedures set forth in this Guideline.

In addition to the foregoing services, the services of such third-party valuation expert may include, at the discretion of the NL REIT’s board of directors: (i) supervising the valuation process and engaging other valuation professionals to conduct valuations of various components of the NL REIT’s investment portfolio; and/or (2) performing an independent valuation of various groups of the assets/investments of the NL REIT (for example, multiple properties under a common master lease or where the cost of valuing individually a large number of similar properties each of moderate value relative to the overall portfolio of the NL REIT is prohibitive).

Where the NL REIT holds material non-real estate related assets, liabilities or investment interests, the IPA recommends that the valuation of such assets, liabilities, or investment interests for the purpose of determining NAV Per Share be developed or reviewed by the firm’s qualified independent valuation expert or third-party accountants. Where available and appropriate, the use of third-party valuation or pricing services for such assets, liabilities, or investment interests is encouraged.

Discussion: The IPA believes that the credibility of valuation information is enhanced to the extent parties independent of the NL REIT’s external advisor or internal management are involved in the process of establishing and/or confirming the valuations. Such involvement may also act to reduce the perception of potential conflicts of interest between an external advisor and the NL REIT.

Although the generation of third-party valuations of each individual Real Estate Investment of the NL REIT in accordance with the timing requirements set forth above is deemed advisable, the IPA recognizes that the cost of undertaking such valuations can potentially be burdensome to certain NL REITs based upon their financial condition, scale of operations, and type and number of assets and investment interests owned. In such instances, the use of industry standard asset, asset grouping, or real estate portfolio valuation procedures without the generation of individual asset valuations may be appropriate provided that such procedures include the involvement and confirmation of a third-party valuation expert, in accordance with the standards described herein.
4. Timing of Commencement of Valuations

Guideline: The IPA recommends that the timing of commencement of Valuations occur in accordance with the following guideline:

a. NL REITs Conducting Public Offerings of Securities As of the Effective Date of This Practice Guideline – Initial Valuations disclosed at the earlier of: (i) the commencement of a follow-on offering; or (ii) within 150 days of the end of the calendar month in which the current offering closes. The “as of” date for such valuations should be as close as practicable to, but not more than forty-five days before, the date of disclosure.

b. Existing NL REITs Not Conducting a Public Offering – Valuations in conformity with this Practice Guideline implemented with the NL REIT’s next scheduled issuance of a Valuation but in no event later than December 31, 2013.

c. New NL REITs – Initial Valuations disclosed at the earlier of: (i) the commencement of a follow-on offering; or (ii) within 150 days of the end of the calendar month in which the initial offering closes, but in no event later than two years plus 150 days after the date of breaking of escrow of the initial offering. The “as of” date for such valuations should be as close as practicable to, but not more than forty-five days before, the date of disclosure.

For purposes of implementation of this section of the Practice Guideline, the offering of securities pursuant to a dividend reinvestment plan is not deemed an extension of the offering period of securities.

5. Guidance Upon Commencement of Subsequent Offerings

Guideline: Upon the initiation of a follow-on or subsequent public offering the IPA recommends that the NL REIT management and board of directors consider, among other things, in connection with its determination of an offering price for the securities in such follow-on or subsequent public offerings, the most recent estimated underlying value of the NL REIT’s Real Estate Investments and any material other-than temporary change in such value since the date of such valuation of which the NL REIT or its advisor has knowledge and which would cause a material change in the per share value of the NL REIT securities being offered.

Discussion: Depending upon the length of time, if any, between the determination of a valuation and the initiation of a follow-on or subsequent securities offering, the potential exists for a material adverse event, or conversely a material positive event, to cause a material, other-than-temporary change in the value of the security prior to the
initiation of such an offering. The intent of this section of the Practice Guideline is to encourage NL REITs to consider such material changes in the value of the securities being offered between a prior valuation date and the initiation of a securities offering and to evaluate the appropriate response to those changes. Where an NL REIT conducts a Valuation during an offering period which results in the NL REIT’s board of directors concluding that the NL REIT’s offering should be re-priced during the offering period, the IPA recommends that the re-pricing of the securities offering be done as promptly as possible following the announcement of a new Valuation.

6. As Of Valuation Date(s) and Frequency of Valuations

Guideline: Once Valuations commence, the IPA recommends that Valuations be produced at least annually thereafter as of December 31 and disclosed as soon as possible after year end.

Discussion:

Given the time required to compile market data and conduct valuations of real property investments, this IPA Practice Guideline accommodates a NL REIT’s valuations of such underlying assets/investments which are not listed or actively traded as of any valuation date for any such asset/investment between September 30th and December 31st. This timeframe is permitted to allow NL REITs sufficient time to obtain the necessary asset valuations and/or confirmations, conduct Valuation Committee reviews of the valuations, obtain the approval of the final Valuation by the board of directors, and issue the Valuation. However, the NL REIT, its board of directors and the Valuation Committee should take reasonable steps to determine that there has been no material change in the value of the underlying assets/investments or the NL REIT between the valuation date(s) selected and December 31.

For any NL REIT which commenced a public offering of securities prior to the Effective Date of this Practice Guideline and is still conducting such public offering, the timing of the expiration of the offering was established prior to the NL REIT’s knowledge of the recommended “as of” timing standard set forth in the preceding paragraph. As a result, it is possible that such NL REIT could be required to incur the cost of valuations twice within a several month period. This Practice Guideline accommodates the initial valuation, and only the initial valuation, of such NL REIT’s underlying assets/investments between June 30 and December 31st, subject to its board of directors and Valuation Committee taking reasonable steps to determine that there has been no material change in the value of the underlying assets/investments between the valuation date(s) selected and December 31.
In addition, although the IPA recommends that annual Valuations be provided as of December 31st of each year, this Practice Guideline accommodates monthly or quarterly valuations of a portion of the NL REIT’s Real Estate Investment portfolio, provided each Real Estate Investment in the portfolio is valued at least once per calendar year, and further provided that if the NL REIT’s management, board of directors or the Valuation Committee has knowledge that a material impairment or appreciation, or a material other-than-temporary change has occurred in the value of any Real Estate Investment which would result in a material change in the per share value of the NL REIT, then the NL REIT’s management, board of directors and Valuation Committee should consider such change prior to the issuance of the Valuation. For the purpose of this determination, this Guideline does not explicitly quantify what constitutes a “material impairment or appreciation, or material other-than-temporary change in value” but rather leaves such determination to the business judgment of each NL REIT based on the facts and circumstances of the NL REIT.

7. Reporting of Valuations & Recommended Disclosures

Guideline: The IPA recommends that: (i) per share valuations be reported in the Form 10-K, Form 10-Q, and/or Form 8-K filed with the Securities and Exchange Commission and in Annual Reports sent to investors; and (ii) such reporting be accompanied by disclosure text sufficient to allow broker-dealers to provide information on customer account statements consistent with the requirements of NASD Notice 01-08 and FINRA Rule 2340 and for Stakeholders to understand the nature and quality of the valuation. The IPA also recommends that the NL REIT disclose its valuation policies and, to the extent practicable given the specificity of its investment portfolio, valuation procedures including the anticipated role of third-party valuation experts, in its prospectus or other offering materials filed with the SEC.

To that end, the IPA recommends the following disclosures. The IPA also recommends that NL REITs either maintain a written Valuation Policy which can be provided to broker-dealer due diligence personnel and other selected Stakeholders in accordance with policies established by the NL REIT, or provide sufficient disclosure in connection with the reporting of values to enable users of the valuation to understand the nature of the valuation, the process and methodology used, the date(s) of the data and information utilized to generate the valuation, the role of independent valuation service providers in the determination of the valuation, the key assumptions used in the valuation process, any relevant qualifications and limitations of the Valuation or the valuation process, and any material variations from the recommendations of this Practice Guideline.
Each NL REIT is encouraged to consider the applicability of including the following items in summary disclosures relating to the valuation:

- the process by which the valuations are conducted;
- the roles of the Valuation Committee, the NL REIT’s management and advisor, and third-parties involved in the process, including any role of the NL REIT’s management or advisor in the work performed by the third-party expert and any reliance by the third-party expert on such work;
- the identification of the third-party valuation expert(s) and a summary description of the qualifications of such third-party service providers and information relative to potential conflicts of interest (see below);
- any change in the third-party valuation expert(s) since the most recent valuation, and identification, if appropriate, of any material reason for the change relating to the reliability of the prior valuation;
- the process by which independent external valuation services are conducted and their relationship to internal valuations, if any;
- the frequency of valuations, the date of the valuation being reported, and the age of the data utilized for the Valuation;
- general description of the methodology used to value the NL REIT’s real estate and real estate-related investments;
- a tabular presentation showing the discrete current values estimate; and the prior year’s estimated values for the various components of NAV, including the estimated value of the Real Estate Investments (which may, at the discretion of the NL REIT, include a separate line item breakout of distinct values for a “same property/investment portfolio” and any interim acquisitions or dispositions); the estimated value of securities holdings; the estimated value of non-real estate tangible assets; the estimated value of other balance sheet assets; the estimated value of debt; the estimated value of other balance sheet liabilities; and any allocations of net value to minority interests, preferred or special interests, incentive interests or among various classes of securities holders or unitholders. Such presentation may be provided on a per share basis or an aggregate basis with a reconciliation to per share amounts;
- description of the key valuation assumptions and any specific valuation parameters utilized, including but not limited to: (i) the weighted average and range, as applicable to the valuation method(s) used, of going-in and
terminal capitalization rates, discount rates, and per unit values; and (ii) the holding period utilized;

- a statement of valuation sensitivity reflecting the impact on the estimated per share valuation of a 5% change in average discount rates in the case of discounted cash flow analysis or a 5% change in going-in capitalization rates in the case of direct capitalization analysis (e.g. a 5% change in an 8% discount rate or capitalization rate would be 40 basis points);

- general overview of procedures used to value debt and other balance sheet assets and liabilities;

- general overview of procedures used to determine allocations of the NL REIT’s gross equity value among various classes of securities holders or unitholders, the NL REIT’s management/advisor (e.g. determination of incentive fees, etc.), and other minority interest holders;

- disclosure of the limitations inherent in any estimated valuation and any specific limitations and qualifications relating to the Valuation disclosed by the NL REIT.

- disclosure that the Valuation has been performed in accordance with the provisions of the Investment Program Association Practice Guideline 2013-01, Valuations of Publicly Registered Non-Listed REITs.

This Practice Guideline also calls for the following information to be disclosed concerning potential conflicts of interest with respect to the engagement of third-party valuation expert(s):

- any prior engagement of the third-party valuation experts or their affiliates by the NL REIT, its advisor, or their affiliates during the past two years, and any pending or anticipated engagement of the third-party valuation expert(s) or their affiliates;

- presence or absence of any contingent payment relating to the provision of services or specific findings; and

- any interest in the entity owned by the valuation expert.

If a NL REIT encounters a situation that is not addressed specifically by these Practice Guidelines or the treatment of which is open to interpretation, the IPA recommends that additional disclosures be provided in order to present all information relevant for the reader to understand the valuation process, the Valuation and its
comparability with values provided by other NL REITs pursuant to this Practice Guideline.

8. Accessibility of Non-Public Valuation Information for Broker-Dealer Confidential Use In Connection with Due Diligence

Guideline: The IPA recommends that NL REIT’s allow reasonable access by broker-dealer personnel or designated due diligence representatives or consultants (“Due Diligence Representatives”) to review supporting materials related to the valuation and deemed relevant to evaluating the nature and quality of the valuation, subject to the following provisions:

- the broker-dealer and its Due Diligence Representatives enter into mutually satisfactory non-disclosure agreements with the NL REIT and the valuation expert;
- the broker-dealer and/or its Due Diligence Representatives acknowledge their observance of the proscriptions on use and communication of non-public information as set forth in SEC Regulation FD; and
- the broker-dealer and/or its due diligence representatives agree that NL REIT representatives be given the opportunity to participate in any discussions between the broker-dealer or its Due Diligence Representatives and the independent valuation expert(s) concerning the valuation process and results.

Timing Of Implementation

The provisions of this Practice Guideline are effective as of the effective date set forth at the beginning of this Practice Guideline, subject to the recommendations regarding the timing of commencement of Valuations set forth in Section 4 of this Practice Guideline.