DIRECT INVESTMENTS SPECTRUM

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"2007 A MONSTER YEAR FOR NON-LISTED REITs"

It would be a grand understatement to say that 2007 was a big year for fundraising in public offerings by non-listed real estate investment trusts (REITs). It was gigantic!

As the curtain closed on 2007, non-listed REITs had raised almost $12 billion of investor capital during the year. This is almost 80% more capital than was raised in 2006. And it dwarfs the $7.2 billion raised in 2003 which was previously the peak year for fundraising in this sector.

To be sure, it's no real surprise that fundraising for publicly-registered, non-listed REITs set a new standard in 2007. In fact, this happened in the first seven months when approximately $8.3 billion of investor capital was raised. At that time, it looked like as much as $15 billion might be raised during 2007, but the pace set during the first seven months slowed considerably in the last five months. For some sponsors, fundraising dropped dramatically in the last quarter of the year, but more on this later.

All told, non-listed REITs have raised approximately $42 billion of investor capital since this sector burst onto the scene in 2002 when $3.8 billion was raised. Here's a look at fundraising figures for this sector for the past six years as compiled by this newsletter:

2007: $12.0 billion
2006: $6.7 billion
2005: $6.0 billion
2004: $6.3 billion
2003: $7.2 billion
2002: $3.8 billion

THE PLAYERS

The nearly $12 billion of investor capital hauled in by non-listed REITs in 2007 was raised by 15 sponsors. This compares to 17 sponsors which collectively raised $6.7 billion in 2006.

The King Kong of fundraising in this sector continues to be Inland Real Estate Investment Corporation which raised $3.95 billion during 2007. This shattered the $2.6 billion mark set by Wells Real Estate Funds in 2003. Inland was on such a roll that it surpassed the Wells mark in June.

All of Inland's fundraising for 2007 related to its current non-listed REIT offering, Inland American Real Estate Trust, which launched its IPO in August 2005. This REIT began a second public offering in early August 2007 for up to $5 billion of additional common stock. As this newsletter went to press, the REIT had raised a staggering $5.6 billion in its two public offerings. This is far and away the most investor capital ever raised by a non-listed REIT.

The Inland American offering was boosted by the buyout of another Inland-sponsored non-listed REIT, Inland Retail Real Estate Trust, by Developers Diversified (NYSE:DDR) which closed in late February 2007. This resulted in shareholders of Inland Retail "recycling" the cash received from Developers Diversified into buying shares of Inland American. It's impossible to pinpoint how much of the capital raised by Inland American was "recycled" from the Inland Retail buyout, but suffice it to say that Inland American raised a whopping $2.4 billion in the four months after the Inland Retail buyout closed. This averages out at a phenomenal $600 million per month during this time-frame.

Apple Hospitality takes the runner-up spot in terms of investor capital raised for non-listed REITs in 2007. The Richmond, VA-based company, which raises all of its capital through David Lerner Associates, raised $1.36 billion for the year which is up 169% relative to 2006. Of this amount, $595 million is from the IPO by Apple REIT Seven which became fully subscribed at $1 billion in July, while the remaining $765 million is from the current IPO for Apple REIT Eight which began as soon as the Apple REIT Seven offering was shut down.

As with Inland, Apple Hospitality's fundraising during 2007 benefitted from "recycled" capital. In May 2007, Apple Hospitality Two, a non-listed REIT managed by Apple Hospitality, was acquired by an affiliate of ING Clarion Partners for $890 million, or $11.20 per share in cash. This transaction was followed by the buyout of Apple Hospitality Five for $709 million, or $14.05 per share in cash, which closed in early October. The purchaser of Apple Five was none other than Inland American.

Although Apple Hospitality is somewhat obscure since it raises all of the investor capital for its non-listed REITs through a single firm, the company, which is owned by Glade M. Knight, has become a major player in this sector. Not only has the company been successful at raising capital, it has developed a stellar track record in terms of paying attractive dividends and bringing REITs to profitable conclusions, as has Inland.

Behringer Harvard Funds, which raised $1.16 billion for its non-listed REITs in 2007, has also become a major player in this sector. This figure is up 71% compared to the $679 million raised by the Dallas-based company in 2006.

Behringer Harvard sponsored two non-listed REIT offerings in 2007. Behringer Harvard REIT I, which is currently in its third public offering of common stock, raised $805 million during 2007, while Behringer Harvard Opportunity REIT I, which completed its IPO at the end of 2007, raised $353 million for the year. (This REIT will not make a secondary offering in order to make way for a $1 billion IPO by Behringer Harvard Opportunity REIT II which launched in January 2008.) It should be noted that during 2007 Behringer Harvard also raised some $128 million in a private offering for a non-listed REIT known as Behringer Harvard Multifamily REIT I which plans to offer shares to the public in 2008.

With almost $2 billion raised since it began its IPO in February 2003, Behringer Harvard REIT I is becoming a very large non-listed REIT. As this newsletter went to press, the REIT's acquisitions totalled approximately $4.8 billion consisting of 75 office properties having over 25 million square feet of rentable space in 23 states and Washington, D.C. The REIT capped off 2007 with its December acquisition of a Toronto-based REIT owning 34 properties in a transaction valued at approximately $1.4 billion.

Rounding out the Billion Dollar Club for 2007 in terms of fundraising for non-listed REITs is Wells Real Estate Funds. In 2007 the Atlanta-based company, which is among the pioneers in this sector, raised slightly more than $1 billion. Of this amount, approximately $965 million was raised in the second public offering by Wells Real Estate Investment Trust II, while $43 million was raised in the IPO for Wells Timberland REIT which began in 2007. Fundraising for Wells was up 17% for 2007 relative to 2006 when the company raised approximately $861 million.

Wells Real Estate Investment Trust II is closing in on the $4 billion mark in terms of total investor capital raised since launching its IPO in December 2003. The REIT has used these net proceeds and about $1 billion of debt financing to acquire approximately 60 properties, consisting of predominately office buildings located in 20 states and the District of Columbia.

Another pioneer among sponsors of non-listed REITs, CNL Group takes the fifth spot in terms of investor capital raised in 2007. The Orlando-based company raised approximately $972 million for the year which is up 9% relative to 2006. Most of these funds were raised by CNL Income Properties which is currently in its second public offering. With approximately $741 million raised during 2007, this REIT is closing in on the $2 billion mark in terms of total funds raised since launching its IPO in April 2004.

CNL also raised approximately $231 million during 2007 for the IPO by CB Richard Ellis Realty Trust. CNL serves as the dealer-manager for this offering and as a sub-advisor to the REIT. This IPO was launched in October 2006 and has raised approximately $242 million as this newsletter went to press.

SECOND TIER

During 2007 the five sponsors noted above collectively raised almost $8.5 billion, representing 70% of all investor capital raised in public offerings by non-listed REITs for the year. But these aren't the only sponsors that had a big year in 2007 when it comes to fundraising.

A second tier of sponsors would include Hines Interests, Dividend Capital, KBS Capital Advisors and Cole Capital. Each of these sponsors, which collectively raised over $3 billion, experienced substantial increases in fundraising for 2007 relative to 2006.

Houston-based Hines Interests raised approximately $835 million in 2007, representing a 44% jump over the prior year. All of these funds were raised in the second public offering for Hines Real Estate Investment Trust which invests in institutional quality office buildings directly and through joint ventures. This REIT had raised over $1.65 billion in its two offerings as this newsletter went to press.

Dividend Capital also experienced a surge in fundraising in 2007, raising $830 million in the $2 billion IPO for Dividend Capital Total Realty Trust. This offering got off to a slow start in early 2006 but shifted gears in 2007 which resulted in a 75% jump in fundraising by Dividend Capital for the year. Some of this increase was due to the successful listing of DCT Industrial Trust, the first non-listed REIT sponsored by Dividend Capital, which began trading on the NYSE in December 2006. Considering the spike in fundraising experienced by Dividend Capital Total Realty Trust in the first quarter of 2007 when it raised approximately $390 million, some investors in DCT Industrial Trust decided to sell their shares and use the proceeds to buy into Dividend Capital's next non-listed REIT offering. There's no question that non-listed REIT sponsors appreciate all the benefits of "recycling."

Still a relative newcomer on the scene, KBS Capital Advisors raised $730 million in 2007 for the IPO by KBS Real Estate Investment Trust. This is six times more than KBS raised in 2006 when it launched this IPO. The company has certainly come a long ways in a short amount of time.

Likewise, Cole Capital, another relative newcomer to this sector, experienced a big year in 2007, raising $640 million for Cole Credit Property Trust II which invests in free-standing, net-leased properties. This is up from $282 million raised by Cole Capital in 2006. Cole Credit Property Trust II is currently raising funds in its second public offering. Cole Capital should eclipse the $1 billion mark in total funds raised for this REIT some time in the first quarter of 2008.

Among the remaining sponsors of non-listed REITs, NNN Realty Advisors, formerly known as Triple Net Properties which was merged with Grubb & Ellis Co. (NYSE:GBE) in December and now bears that name, is the only company raising much investor capital. In 2007 the company raised $278 million in IPOs for Grubb & Ellis Apartment REIT ($68 million) and Grubb & Ellis Healthcare REIT ($210 million).

Missing from the non-listed REIT fundraising scene in 2007 was W.P. Carey & Co. which began offering these investments as far back as 1990. The New York-based company has not raised funds for a non-listed REIT since closing the second public offering for Corporate Property Associates 16-Global in late 2006. However, W.P. Carey will certainly be back in the game in 2008 with its newest offering, a $2 billion IPO by Corporate Property Associates 17-Global.

BACK TO EARTH

With all the concerns about the economy that began to surface in the second half of 2007, it comes as no surprise that fundraising for non-listed REITs has begun to slow. Indeed, almost 70% of all investor capital raised in this sector during 2007 came in the door in the first seven months.

Some sponsors have experienced a significant slowdown in fundraising beginning in the fourth quarter of 2007. For instance, Hines raised $720 million in the first nine months but only $115 million in the fourth quarter. Likewise, Behringer Harvard raised only about 10% of the total investor capital raised for its REITs for 2007 during the fourth quarter.

To be sure, this slowdown is not unique to Behringer Harvard and Hines. Dividend Capital, for instance, raised about $730 million in the first nine months of 2007, but only $100 million in the last quarter. At the same time, Wells Real Estate Investment Trust II raised an average of $86 million per month in the first nine months of 2007, but this pace slowed to about $63 million per month in the fourth quarter.

There's no question that investors are concerned about real estate these days, as evidenced by the beating share prices of real estate-related stocks have taken in recent months. The current uncertainty about the U.S. economy stemming from the melt-down in the single-family housing sector has caused investors to become skittish about the commercial property sector which has been on a roll for years.

If the U.S. economy goes into recession - assuming it hasn't already - this will adversely affect fundraising by non-listed REITs in 2008. Perhaps by a lot. This could occur simply if investors *think* a recession *might* be on the horizon.

Given the current state of affairs, it's hard to figure that fundraising for non-listed REITs during 2008 will come anywhere close to the nearly $12 billion posted for 2007 when the stars truly aligned. The question is not *whether* this sector will raise less investor capital in 2008 relative to 2007, but how much less. This will all depend on how much wind the overall economy takes out of the sails of these investments.

PLENTY OF CHOICES

However fundraising goes in 2008, investors will have more options than ever in terms of the number of non-listed REITs being offered. As this newsletter went to press, there were 24 of such offerings on the street. The total amount of shares being offered by these REITs is approximately $35.6 billion.

Of the current field of non-listed REITs offering shares to the public, 17 are IPOs - a few of which are going absolutely nowhere - and seven are follow-on offerings. These 24 offerings are sponsored by 18 sponsors, with Behringer Harvard, CNL, Cornerstone Realty, Grubb & Ellis and Wells each sponsoring more than one offering.

Prospective non-listed REIT IPOs in the S.E.C. review process that should be on the street in 2008 include American Realty Capital Trust, Apple REIT Nine, Behringer Harvard Multifamily REIT I, Behringer Harvard REIT II, Fidelity Property Income Trust, Green Realty Trust, KBS Real Estate Investment Trust II, Lanier Capital REIT, Strategic Storage Trust and Wells Total Return REIT. Five of these IPOs will be sponsored by newcomers to this sector who hope to carve out a piece of the fundraising pie. But have they come along too late?

The year 2008 will not only present a more challenging fundraising environment for non-listed REITs as the economy sputters, it may be difficult for this sector to build on the success stories of recent years that have created a positive track record for these investments. These success stories include the buy-outs of Apple Hospitality Two (2007), Apple Hospitality Five (2007), CNL Retirement Properties (2006), Corporate Property Associates 12 (2006) and Inland Retail Real Estate Trust (2007), all of which delivered a nice profit to their shareholders. In addition, DCT Industrial Trust successfully listed its shares on the NYSE in late 2006, as previously noted. And let us not overlook the buy-out of Boston Capital Real Estate Investment Trust that was announced in the fourth quarter of 2007 which closed just as this newsletter went to press.

The year 2007 was a big year in every way for non-listed REITs. Barring a dramatic turnaround in the economy, don't expect the same for 2008. ■