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Black Swan Advisors Releases New Comprehensive Report on The Non Traded REIT (NTRs) Industry
Report Identifies Opportunities for NTRs Acquisitions by New Investors And Exit Strategies for Existing NTRs Retail Shareholders

Newport Beach, Ca., December 15, 2016. Black Swan Advisors (BSA), long known for its in-depth review of the financial condition of the home building industry, has recently completed a similar study of the Non Traded REIT Industry (NTRs). This Study 1 was completed to provide guidance to investors looking for entry opportunities to the NTRs industry, and for existing shareholders to consider various exit strategies given the poor recent performance of these NTRs

The NTR Study (Study 1) was undertaken to review existing and future financial conditions in NTRs companies. The Study was completed using the SEC reported financial statements and other materials for each of 45 selected NTRs, mostly the small and medium sized companies ($500M to $1.5 B in assets). The subject data was aggregated for all companies, then was broken down into 3 segments by size of assets. Operating Statements, Balance Sheets, and Cash Flow statements were used to evaluate each company against the aggregated figures.

BSA also initiated a proprietary algorithm to evaluate each of the companies and industry segments. The algorithm uses 18 financial metrics, weighted for their importance to future value, to determine a company by company rating. These rankings are not done in accordance with any financial industry standards but are based on the financial importance ascribed to each by BSA based on its 40 year experience in the real estate industry. Some of the 18 financial metrics used include;

1. Dividends paid coverage ratio
2. Various leverage ratios
3. Property level operating income, including return on cost

4. Property level capitalization rates
5. Share ownership by insiders
6. Various per share valuations, including book value (net worth based), Recent prices of shares traded, and share valuations based on recent company generated appraisals, if available.

From this data for the 45 companies, BSA has determined that there are a number of trends in place and evolving which current and future NTR investors should be watching, such as;

1. There are a number of significant new regulations being imposed on the industry, which will place more importance on the timing, accuracy, and thoroughness of reporting.
2. There is an increased emphasis on property valuations, including new standards for annual portfolio appraisals or valuations using new industry standard methods.
3. The NTR industry sold approximately $100 B in equity over the last 10 years, coupled that equity with $100 B in new debt, and purchased some $200 B in real estate assets, mostly completed income properties, apartments, office/industrial, self-storage, and miscellaneous other products, mostly located in non-coastal markets.
4. The non-coastal markets are experiencing (see other BSA Study 1, released concurrently, on population and workforce growth rates) significantly higher population and workforce growth over the least 5 years, based on the movement of people and jobs from coastal markets to non-coastal markets (Fly-Over Country), characterized by lower tax rates (combined income, death, sales taxes, and property taxes), right to work laws, lower cost of living, and majority GOP controlled state governments.
5. Sales of new shares have dropped dramatically over the last 4 years, from $20 Billion + in 2013 to less than $5 Billion in 2016. This reduced source of marginal liquidity is forcing changes in business plans across the industry. Reduced marginal liquidity will impose reduced distributions for those NTRs not covering prior distributions with real earnings. Due to poor industry performance, new share sales in 2017 are likely to drop further. Without new share sales additional property acquisitions will be reduced or non-existent.
6. NTRs for 2015 operated at highly negative cash flows.
7. NTR 2015 distributions could not be made at reported levels without New share sales.
8. NTRs appear to be at maximum leverage, so additional borrowing may not be a source of meeting marginal liquidity requirements.

9. Property level capitalization rates are at the 5.5% to 6.5% level, with some higher. Cash available for distribution to shareholders is reduced by high organization costs and fees.
10. There is virtually no coverage of this industry by traditional financial industry analysts, thereby reducing the information readily available. The BSA Study is likely the only industry wide study completed in the last 2 years.
11. There are no major institutional shareholders who have taken major shareholder positions in any of the NTRS in the study.
12. Retail shareholders have almost no choices for liquidity as the shares are not listed on recognized exchanges. Sales of shares on secondary market maker sites are usually completed at substantial (-25%) discounts from prior sales, and usually are at a substantial discount to book value and appraisal adjusted book value.
13. The BSA Study also compared the 45 NTRs to 13 Publicly Traded REITs, and found the following observations;
    A) REIT properties tend to be larger, in coastal major market cities, and have stronger management
    B) REIT properties have higher operating margins at the property level although they still produce lower cap rates due to the high prices paid for properties.
    C) REITs have much lower fee structures than NTRs.
    D) REITs generally cover their dividends with current operations (FFO)
14. NTRs generally underperform REITs on most financial measurements.

Based on this Study, BSA has identified a number of strong new opportunities to invest in NTRs. Interested parties should contact BSA for further discussions regarding these opportunities.

On a very limited basis, BSA may be able to assist current retail investors with liquidation or other investment strategies.

The BSA Study is not publicly available, and may only be accessed as a client of BSA. For additional information, contact;

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