

“What Does It Take To Go Public?”



October 2, 2014



Kyle Kaylor
Director | Real Estate Investment Banking



- I. IPO Benefits and Considerations
- II. Key Factors for a Successful REIT IPO
- III. The IPO Process
- IV. REIT IPO Environment / Equity Capital Markets

IPO Benefits and Considerations

SECTION I

Benefits	Considerations
<ul style="list-style-type: none">• Expanded access to capital -- for growth and/or deleveraging• Provides long-term liquidity to existing shareholders -- tax-planning benefits of UPREIT structure / OP units• Employee stock compensation incentives – aid in attracting/retaining talent• Create currency for future acquisitions and enhance ability to do more and larger transactions• Enhanced awareness/visibility of company in the market• Access to new and deep investor base	<p><i>The IPO Process</i></p> <ul style="list-style-type: none">• Execution risk• Expensive process (legal, filing, accounting and other fees)• Lengthy, time-intensive process that can be disruptive to operations• IPO valuation discount• Ownership dilution <p><i>Operating as a Public Company</i></p> <ul style="list-style-type: none">• Significant increase in reporting and disclosure requirements as well as material ongoing administrative costs (Sarbanes-Oxley compliance, IR)• Enhanced scrutiny from shareholders and analyst community – near-term focus• Expansion of corporate structure (Board of Directors)• Stock market volatility

Key Factors for a Successful REIT IPO

SECTION II

Key Factors For a Successful REIT IPO

Proven and Experienced Management Team

- Track record of delivering superior returns to investors
- Extensive industry relationships
- Public REIT experience at the C-suite level

Significant Market Opportunity

- Robust acquisition pipeline
- Compelling use of proceeds
- Established acquisition sourcing channels

Compelling Investment Strategy / Sector Focus

- Competitive advantage/differentiator
- Favorable sector outlook
- High quality portfolio

Structure

- Internally vs. externally managed
- UPREIT structure
- Conservative leverage profile
- Financial flexibility of corporate credit facility

Strong Corporate Governance

- Experienced and highly-regarded Board members
- Presence of independent Board members
- Shareholder friendly governance provisions
- Conservative compensation structure with aligned interests

The IPO Process

SECTION III

- ***Planning / Preparation Phase***

- Corporate “Housekeeping”
- Selection of advisors (financial, accounting and legal)

- ***Execution Phase***

- Organizational ‘Kick-off’ meeting
- Underwriters conduct business and financial due diligence
- Determining structuring and valuation
- S-11 drafting / filing
 - SEC review / comment response
- Drafting of various document – comfort letter / underwriting agreement
- Developing roadshow marketing presentation and marketing strategy
- Launch roadshow
- Pricing and aftermarket support

Typical ‘Housekeeping’ tasks include:

- Review corporate relationships
- Ensure Sarbanes-Oxley compliance (JOBS Act impacts)
- Review stock and option records
- Resolve any accounting issues
- Review management and employment arrangements
- Resolve any outstanding vendor or customer disputes
- Review corporate bylaws and charters with legal counsel
- Adopt a stock option plan

The IPO Process: Assembling the IPO Team

There are a number of roles critical to the success of an initial public offering.

Investment Banks

- Guide Company through the process
- Conduct due diligence and establish valuation parameters
- Provide marketing input and expertise on the Registration Statement
- Prepare management for marketing the offering
- Set up / manage the roadshow and marketing process and provide investor feedback
- Negotiate pricing with investors and the company management team
- Allocate the stock and provide post-IPO trading support and research

Company Counsel

- Lead the preparation of the Registration Statement
- Communication with the SEC
- Advise the company on related corporate matters (by-laws, charter, option plans, etc.)
- Render legal opinion to the underwriters
- Coordinate closing on behalf of the management team
- Advise on Sarbanes-Oxley compliance

Accounting Firm

- Audit financial statements in the registration statement to ensure accuracy and compliance with SEC requirements
- Respond to underwriter's due diligence inquiries
- Participate in drafting the Registration Statement
- Respond to SEC accounting comments
- Advise on Sarbanes-Oxley compliance
- Assist company in post-IPO financial reporting requirements

The IPO Process: Selecting a Lead Investment Bank

There are several key capabilities for the company to consider in its selection of a lead underwriter for an Initial Public Offering

Equity Syndicate

- Experience and expertise is critical in effectively managing the many nuances of the IPO bookbuilding process
- Savvy enough to create the necessary pricing tensions across key institutional 'anchor' accounts
- Experienced syndicate lead understands the market dynamics and the client's pricing expectations / transaction motivation
- Brings all the moving pieces together to maximize the offering outcome for the Company

Institutional Distribution

- Institutional holders provide much needed liquidity and help to stabilize the stock
- Institutional buyers are "price makers" in that they set the price of the deal based on their orders
- Critical to include banks with established relationships among second and third tier institutions as a defensive measure against blue chip dedicated REIT accounts

Retail Distribution

- Retail enhances perception of scarcity, imparts tension to the book
- Retail buyers are considered "price takers" rather than "price makers"
- Retail system provides "stickiness" to the book; often longer term holders of syndicate product
- In a choppy IPO market, retail appetite/interest is required to effect a transaction

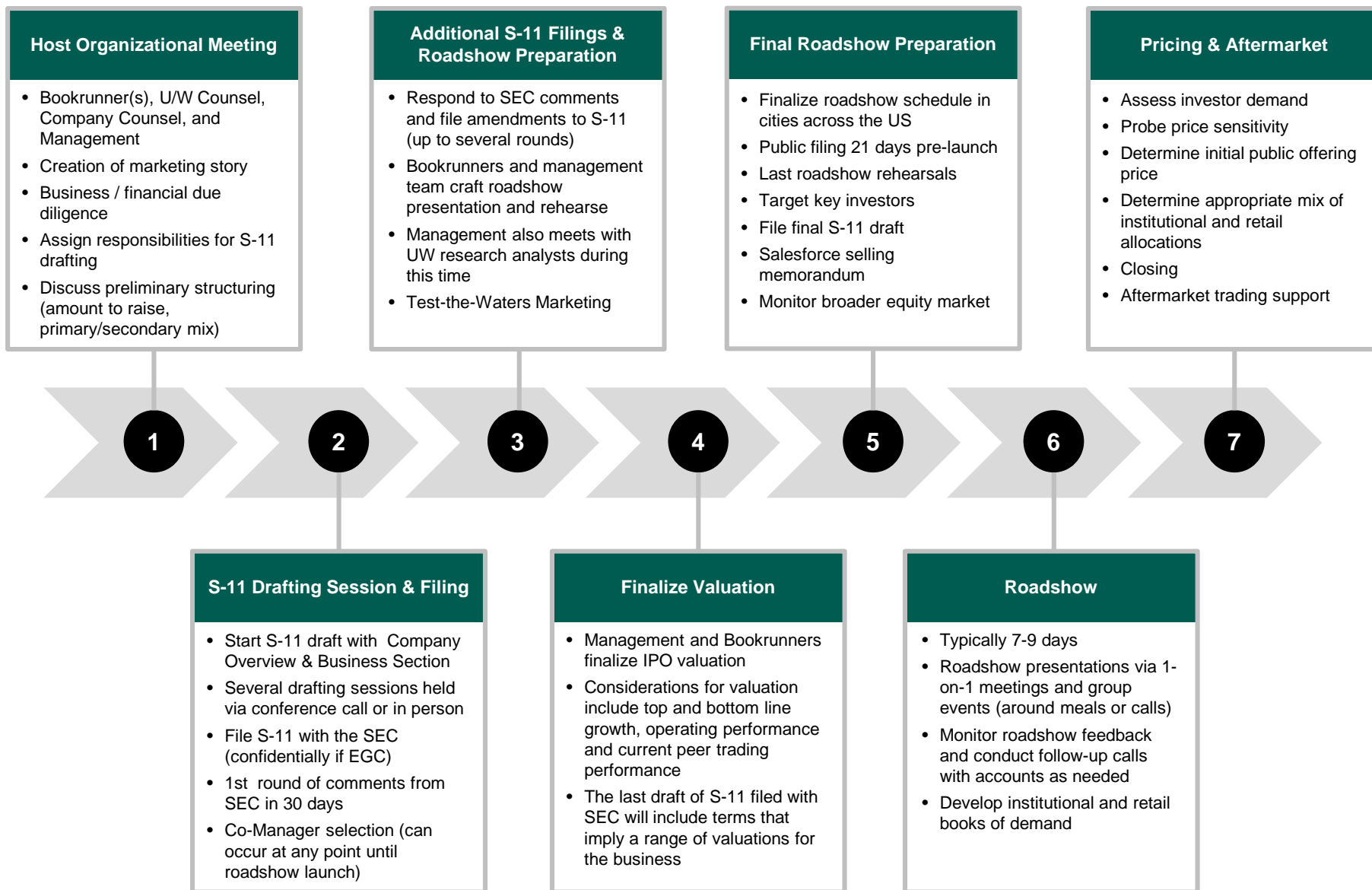
Equity Research

- Banks involved on the IPO will typically initiate research coverage
- Analyst coverage is a critical tool to solicit institutional investor demand
- Institutional accounts will communicate selectively with analysts represented by banks on the prospectus cover
- Allows the Company to tell its story to the Street through an analyst
- Post IPO, research analyst coverage will help bring attention and focus onto the issuer's story

After-Market Support

- Marketing trips ("non-deal roadshows" or "NDRs") are key for interacting with institutional investors and providing an opportunity for dialogue between investors and management
- Non-deal marketing activity provides opportunity to introduce the company to new investors or provide constructive feedback from current investors
- Dedicated trading efforts and use of the overallotment helps stabilize a new issuance post offering

The IPO Process: Execution Phase (~16 to 20 Weeks)



The IPO Process: The Costs

While typically correlated to the size of the offering, the costs involved with an IPO are substantial

Description	Estimated Cost
Legal Fees & Expenses	\$1,000,000 - \$1,500,000
Auditor Fees & Expenses	\$500,000 - \$1,000,000
Printing	\$200,000 - \$400,000
Exchange Listing Fees	\$75,000 - \$150,000
Roadshow	\$75,000 - \$100,000
Miscellaneous	\$50,000 - \$100,000
SEC Filing Fees	\$20,000 - \$40,000
Blue-Sky Fees	\$20,000 - \$30,000
Transfer Agent / Registrar Fees	\$5,000 - \$10,000
Estimated Total ⁽¹⁾	~\$1,900,000 - \$3,300,000

(1) Total excludes underwriters' gross spread, which is typically 6% to 7% of gross proceeds (if IPO is successful).

The IPO Process: The JOBS Act of 2012

The Jumpstart Our Business Startups ('JOBS') Act of 2012 significantly changed the IPO playbook

- Began with a Department of Treasury IPO Task Force in 2011; passed / signed into law in April 2012
- Created a new category of issuer called an Emerging Growth Company ('EGC')
- Key requirements to qualify for EGC status include:
 - Annual gross revenue of less than \$1.0 billion for most recently completed fiscal year
 - First public offering of common equity securities occurred on or after December 9, 2011
- Company remains an EGC until the earliest of:
 - The last day of the first fiscal year after the issuer's annual revenues exceed \$1 billion
 - The last day of the fiscal year following the fifth anniversary of the issuer's IPO
 - The date on which the issuer has, during the previous three-year period, issued more than \$1 billion in non-convertible debt
 - The date on which the issuer qualifies as a large accelerated filer (generally, a public float of at least \$700 million)

The IPO Process: The JOBS Act of 2012 (Cont'd)

The Jumpstart Our Business Startups ('JOBS') Act of 2012 significantly changed the IPO playbook

- In the second year since becoming law, 85% of IPO issuers have identified the Company as an EGC

Key JOBS Act Provisions	Description	Use by Recent IPO Issuers
Confidential SEC review	EGCs may initiate the SEC registration process confidentially; may not commence IPO roadshow process until at least 21 days after publicly filing initial or any amendments to confidential submission	90%
'Test the Waters' Marketing	Before or after filing a registration statement, EGCs may meet with qualified institutional buyers (QIBs) and other institutional accredited investors to gauge interest in a contemplated offering	Occurring frequently
Reduced Financial Disclosure	EGC may provide two, rather than three, years of audited financial statements and as few as two, rather than five, years of selected financial data	65%
Internal Controls Audit	EGCs are exempt from the internal controls audit required by Section 404(b) of the Sarbanes-Oxley Act of 2002	98%
Executive Compensation Disclosure	EGCs may use streamlined executive compensation disclosure and are exempt from the shareholder advisory votes on executive compensation required by the Dodd-Frank Act of 2010	85%
Extended Phase-In for New GAAP	EGCs may use private-company phase-in periods for new accounting standards	23%

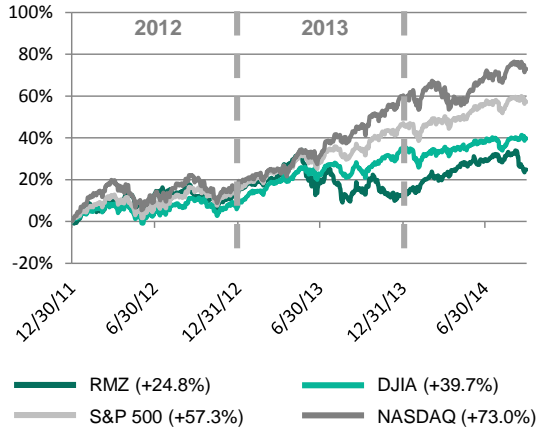
REIT IPO Environment / Equity Capital Markets

SECTION IV

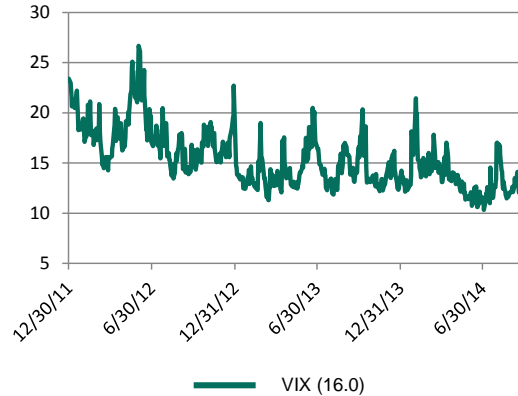
Equity Capital Markets Overview

Domestic equities are breaking all-time highs and augmenting an active issuance environment; key components include improving valuations and fundamentals, monetary stimulus, reduced volatility, and persistently low yields

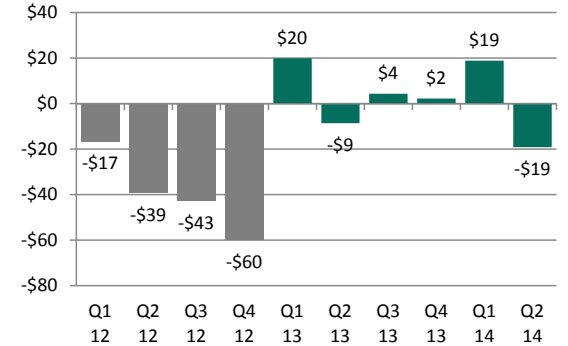
Major Index Performance Since 2012



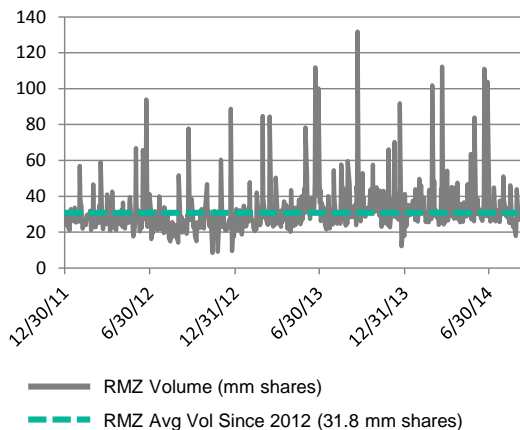
CBOE Volatility Index Since 2012



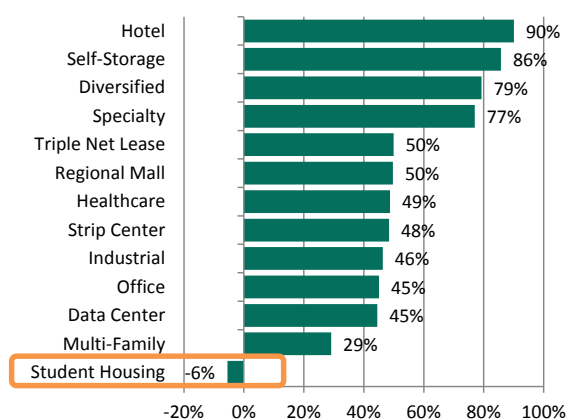
Equity Mutual Fund Flows Since 2012⁽¹⁾ (\$bb)



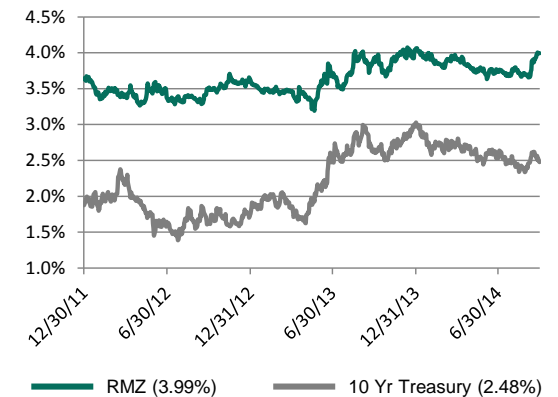
RMZ Trading Vol. Since 2012 (mm shares)



REIT Subsectors Total Return Since 2012



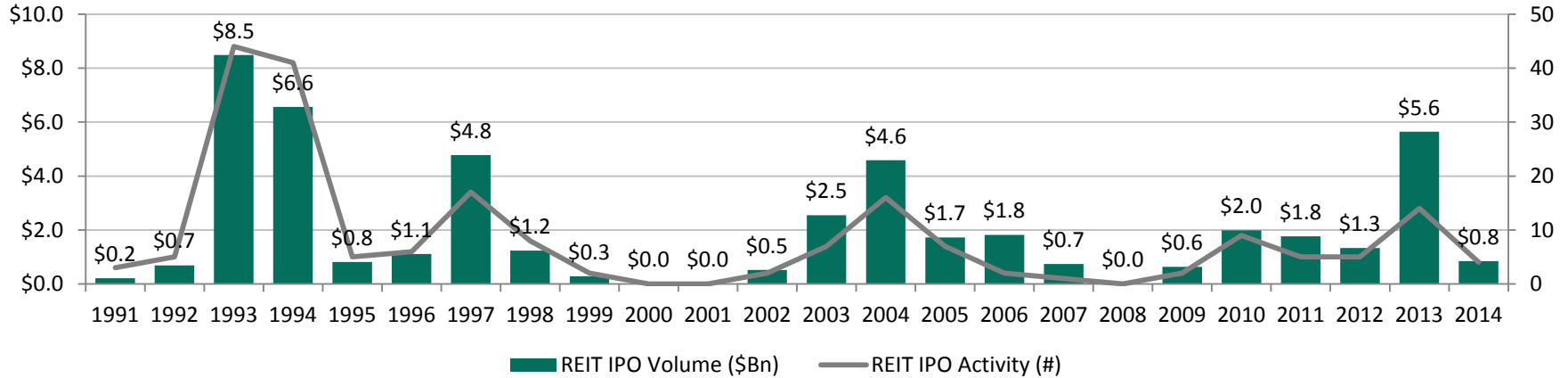
RMZ vs. 10 Year Yield Since 2012



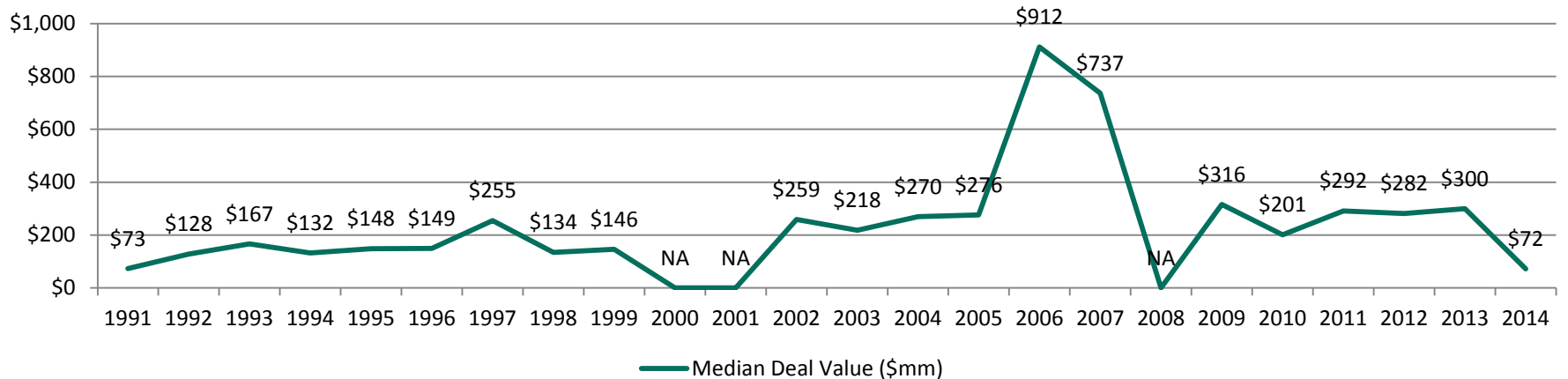
REIT IPO Market Overview

REIT IPO activity has rebounded following the credit crisis; 2013 saw the most REIT IPO volume (\$ issued) since 1994, and the most REIT IPO activity (# of transactions) since 2004, but 2014 has been slow to date (4 transactions raising \$845 million)

Historical REIT IPO Activity (1991 – Present)

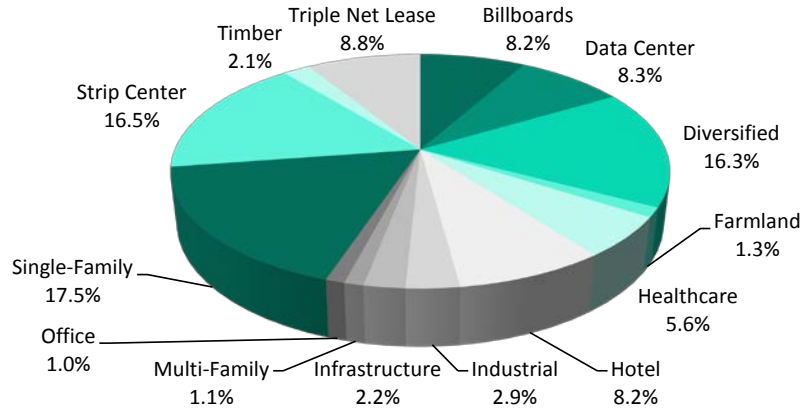


Median REIT IPO Deal Value (1991 – Present)

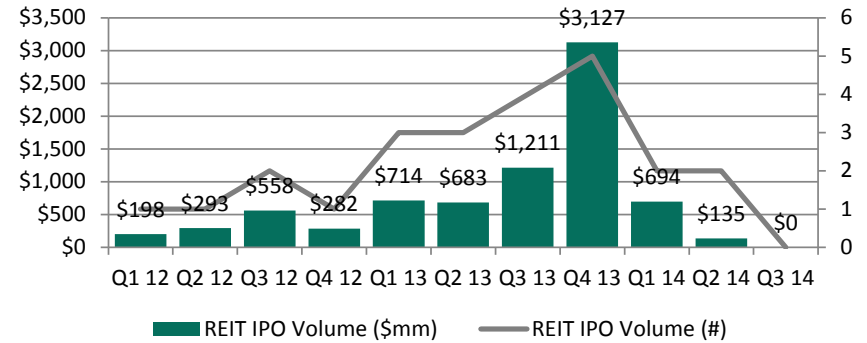


REIT IPOs Since 2012

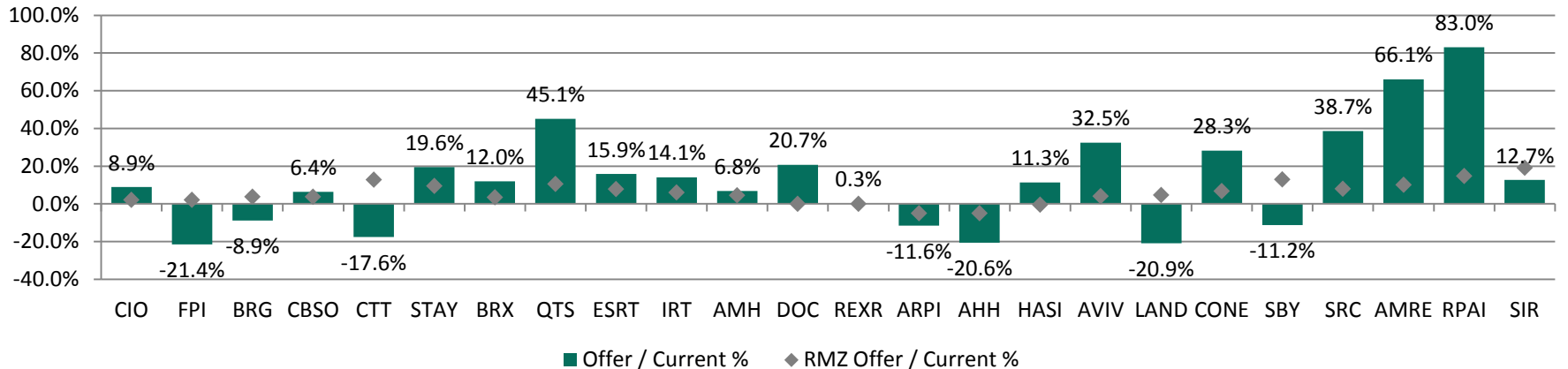
REIT IPO Composition Since 2012 (Total: \$7.9 Billion)



Quarterly REIT IPO Issuance Since 2012



REIT IPO Performance Since 2012 (Offer to Current Return %)



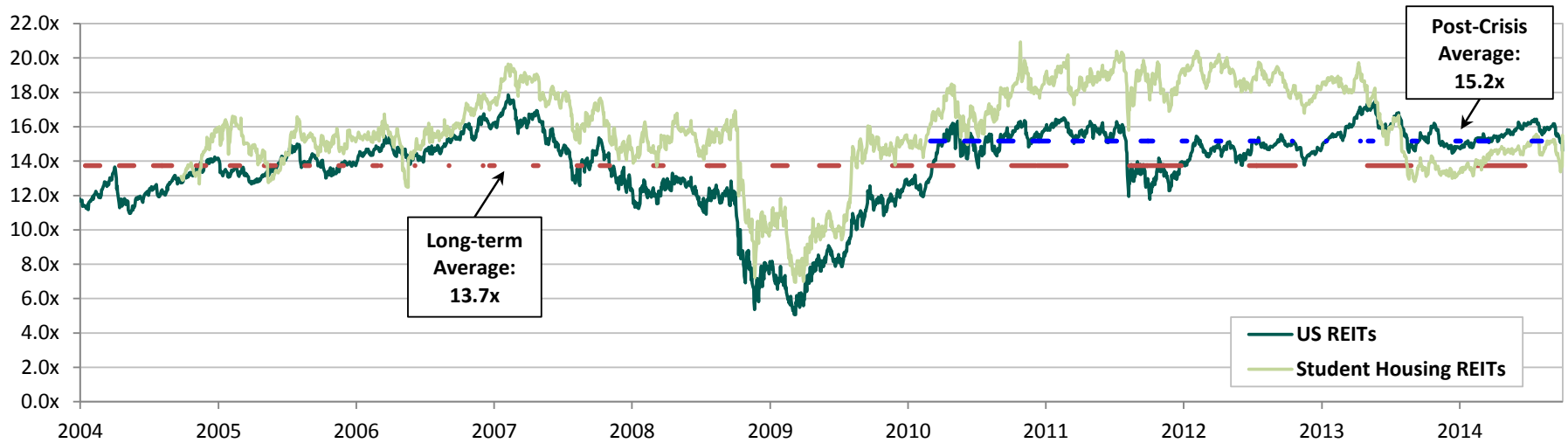
REIT IPOs Since 2012

Pricing Date	Issuer Name	Ticker	REIT Subsector	Pricing vs. Filing Range	Deal Value (\$mm)	Mkt Cap Post-Deal (\$mm)	IPO % of Mkt Cap	Price Performance		Gross Spread
								Offer / 1 Day	Offer / Current	
4/14/2014	City Office REIT Inc	CIO	Office	Below	\$ 82.3	\$ 156.9	52.4%	-0.8%	8.9%	7.0%
4/10/2014	Farmland Partners Inc	FPI	Farmland	In Range	\$ 53.2	\$ 83.2	63.9%	-7.3%	-21.4%	7.0%
3/27/2014	Bluerock Residential Growth REIT	BRG	Multi-Family	Below	\$ 50.0	\$ 71.5	70.0%	0.3%	-8.9%	7.0%
3/27/2014	CBS Outdoor Americas Inc	CBSO	Billboards	In Range	\$ 644.0	\$ 3,444.0	18.7%	5.4%	6.4%	4.5%
12/11/2013	CatchMark Timber Trust Inc	CTT	Timber	In Range	\$ 163.4	\$ 337.7	48.4%	0.0%	-17.6%	7.0%
11/12/2013	Extended Stay America Inc	STAY	Hotel	In Range	\$ 649.8	\$ 4,093.8	15.9%	19.4%	19.6%	6.0%
10/29/2013	Brixmor Property Group Inc	BRX	Strip Center	In Range	\$ 948.8	\$ 6,084.4	15.6%	2.0%	12.0%	5.0%
10/8/2013	QTS Realty Trust Inc	QTS	Data Center	Below	\$ 295.8	\$ 771.6	38.3%	0.0%	45.1%	6.3%
10/1/2013	Empire State Realty Trust Inc	ESRT	Diversified	In Range	\$ 1,068.9	\$ 1,319.9	81.0%	0.8%	15.9%	7.0%
8/12/2013	Independence Realty Trust Inc	IRT	Multi-Family	Below	\$ 34.0	\$ 82.0	41.5%	-0.6%	14.1%	7.0%
7/31/2013	American Homes 4 Rent	AMH	Single-Family	In Range	\$ 811.8	\$ 3,797.9	21.4%	-2.5%	6.8%	4.8%
7/18/2013	Physicians Realty Trust	DOC	Healthcare	In Range	\$ 135.2	\$ 169.4	79.8%	0.0%	20.7%	7.0%
7/18/2013	Rexford Industrial Realty Inc	REXR	Industrial	In Range	\$ 230.3	\$ 411.7	55.9%	0.3%	0.3%	7.0%
5/8/2013	American Residential Properties Inc	ARPI	Single-Family	In Range	\$ 287.7	\$ 675.0	42.6%	0.0%	-11.6%	6.5%
5/7/2013	Armada Hoffer Properties Inc	AHH	Diversified	In Range	\$ 218.5	\$ 370.4	59.0%	0.7%	-20.6%	7.0%
4/17/2013	Hannon Armstrong Sustainable	HASI	Infrastructure	Below	\$ 176.9	\$ 366.0	48.3%	-8.8%	11.3%	6.5%
3/20/2013	Aviv REIT Inc	AVIV	Healthcare	In Range	\$ 303.6	\$ 984.7	30.8%	12.8%	32.5%	7.0%
1/28/2013	Gladstone Land Corp	LAND	Farmland	In Range	\$ 50.0	\$ 91.3	54.8%	0.0%	-20.9%	7.0%
1/17/2013	CyrusOne Inc	CONE	Data Center	Above	\$ 360.5	\$ 1,225.0	29.4%	11.6%	28.3%	6.5%
12/14/2012	Silver Bay Realty Trust Corp	SBY	Single-Family	In Range	\$ 281.9	\$ 728.1	38.7%	-1.4%	-11.2%	5.3%
9/19/2012	Spirit Realty Capital Inc	SRC	Triple Net Lease	Below	\$ 500.3	\$ 1,229.3	40.7%	0.0%	38.7%	7.0%
7/26/2012	AmREIT Inc	AMRE	Strip Center	In Range	\$ 58.1	\$ 225.8	25.7%	0.1%	66.1%	7.0%
4/4/2012	Retail Properties of America Inc	RPAI	Strip Center	Below	\$ 292.6	\$ 1,846.4	15.8%	9.4%	83.0%	7.0%
3/6/2012	Select Income REIT	SIR	Triple Net Lease	In Range	\$ 197.8	\$ 670.8	29.5%	1.2%	12.7%	6.3%
Average					\$ 329.0	\$ 1,218.2	42.4%	1.8%	12.9%	6.5%
Median					\$ 256.1	\$ 672.9	41.1%	0.1%	11.6%	7.0%

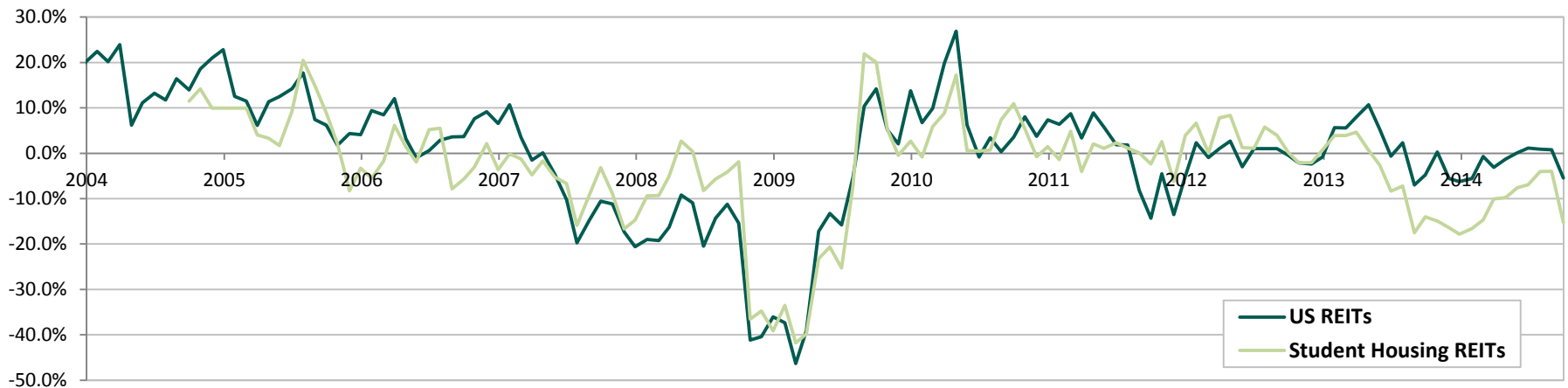
Public REIT Valuation

Public REIT valuations rebounded after reaching a 'bottom' in early 2009.

REIT Forward FFO Multiples (2004 – Present)



REIT Price-to-NAV Premium / Discount (2004 – Present)



Questions?
