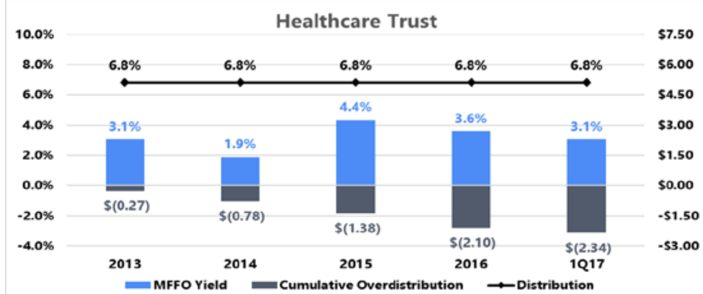
AR Global's REITs Have Distribution Issues

In managing a non-listed REIT, overdistribution, which is maintaining a distribution in excess of real estate income measured by modified funds from operation, is a critical factor for investors to understand. Non-listed REITs typically establish a distribution before acquiring assets, and the competitive nature of the non-listed REIT sales environment results in high distributions to raise equity capital in the marketplace. The sustainability of the distribution may not be known for one to two years as the non-listed REIT raises equity and acquires assets. After the close of the capital raise, the sustainability of the distribution becomes readily transparent. Overdistribution dilutes long-term returns and creates a false sense of security with investors. AR Global, which has suspended distributions on Hospitality Investors Trust, has distribution issues with several non-listed REITs that they manage.

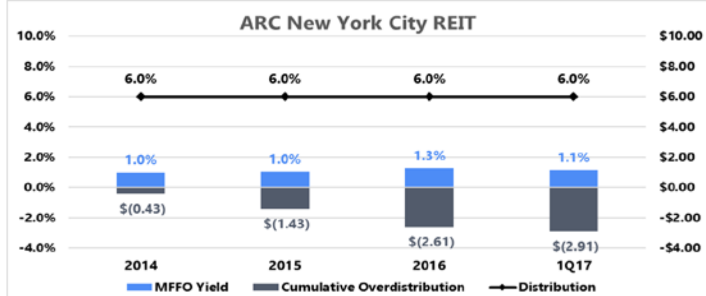
Healthcare Trust

Healthcare Trust raised $2.2 billion equity capital from February 2013 through November 2014. Through 1Q17, Healthcare Trust has paid a 6.8% annualized distribution; however, Healthcare Trust has never covered its high 6.8% distribution. Healthcare Trust has an average MFFO yield of only 3.2%, which has resulted in a significant $2.34 per share cumulative overdistribution. In 2Q17, Healthcare Trust reduced its distribution to 5.8%; however, their MFFO does not support that reduced distribution rate. In addition, Healthcare Trust has high financing risk with 76% of its debt maturing within three years.



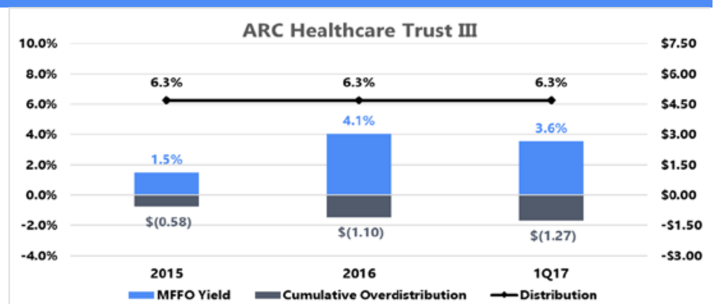
ARC New York City REIT

ARC New York City REIT raised $764 million equity capital from April 2014 through May 2015. Through 1Q17, ARC New York City REIT has paid a 6.0% annualized distribution; however, ARC New York City REIT has never covered its distribution. ARC New York City REIT has an average MFFO yield of only 1.1%, which has resulted in a high $2.91 per share cumulative overdistribution. Their MFFO does not support their 6.0% distribution rate; however, ARC New York City REIT has yet to announce a distribution reduction. ARC New York City REIT has a moderate leverage ratio of 31% and a 0% short-term debt ratio.



ARC Healthcare Trust III

ARC Healthcare Trust III raised only $171 million equity capital from October 2014 through November 2015. Through 1Q17, ARC Healthcare Trust III has paid a 6.25% annualized distribution; however, ARC Healthcare Trust III has never covered its distribution. ARC Healthcare Trust III has an average MFFO yield of only 3.0%, which has resulted in a high $1.27 per share cumulative overdistribution. Their MFFO does not support their 6.25% distribution rate; however, ARC Healthcare Trust III has yet to announce a distribution reduction. ARC Healthcare Trust III has low leverage ratio of only 4%.



Key Takeaways - AR Global's REITs Have Distribution Issues

ARC Global has multiple non-listed REITs with significant overdistribution issues. Hospitality Investors Trust, which is another AR Global managed non-listed REIT, has suspended its distribution since April 1, 2016. Healthcare Trust, ARC New York City REIT, and ARC Healthcare Trust III all have unsustainable distributions as of 1Q17. While Healthcare Trust has announced a moderate distribution cut from 6.8% to 5.8%, their reduced distribution rate will still be unsustainable. An independent board of directors focused on long-term investor returns should align their current distribution with generated income and focus on building long-term growth. The boards of these non-listed REITs must all address the overdistribution issues. The jury is still out on whether they'll act in the best interests of investors or AR Global.

Subscribe today to access Summit's research on non-listed investment offerings.