

JULY 29, 2015

TIER REIT STOCK LISTED ON THE NYSE, JULY 23, 2015

Share Price \$17.70 - Market Cap. \$887m (50.1m shares outstanding) July 28, 2015

OVERVIEW

- TIER REIT, formerly Behringer Harvard REIT I, a non-traded REIT offered from February 2003 through December 2008 at a price of \$10/share, listed its common stock on the New York Stock Exchange on July 23, 2015
- The stock listed at \$19.50, closed at \$18.24 on the first day of trading, and closed at \$17.70 on July 28, 2015. The dividend yield at the current price is 4.1% (based on a \$0.72/share annual dividend). This is broadly in line with comparable traded REITs (see Figure 2 below), although TIER's dividend is not currently being covered by Funds Available for Distribution (FAD) – a feature that is not well supported in the traded markets.
- Adjusted for the 1:6 reverse stock split, the latest share price represents \$2.95/share, a 71% discount to the \$10/share public offering price used through the BH REIT I offering period and a 34% discount to TIER's last Net Asset Value (NAV) of \$26.88/share (10/30/14).
- Stock tender offer for up to \$50m (~5%) of common stock at \$21-19/share associated with listing.
- There have been several recent listings of non-traded REITs (NTRs) on stock exchanges. After listing, there can frequently be a period of weak stock performance as these companies take some time to become established as traded entities. **Patient investors who are less focused on current yield and more willing to contemplate being more invested in capital growth/yield, albeit with greater volatility, may wish to consider retaining or adding to their holdings over these transitional periods.**

Liquidity events among NTRs have continued at a high pace in 2015. These events include the sale of a company (including M&A), the piecemeal sale of assets, and listing on a securities exchange. Over 2015, stock markets have remained relatively flat, while there has been continued interest in REITs. This has encouraged several NTRs to go for a listing. YTD these listings have included Apple Hospitality REIT (APLE), Global Net Lease (GNL) and TIER REIT. Additionally, there was the spin-out of Xenia Hotels & Resorts (XHR) from Inland American Real Estate Trust, and the merger of Signature Office REIT with Griffin Essential Asset, with Griffin remaining on track to seek a listing in 2016. There are further listings slated for 2H'15, including American Realty Capital Healthcare II and American Finance Trust.

As we noted in our research note *Non-Traded REITs – Listing on an Exchange* (November 18, 2014), there can be several challenges for NTRs to face before becoming established on the traded market, including shareholder turn-over, traded investor preference for internal management, sufficient size to gain wider attention and adapting to a greater growth versus current income orientation.

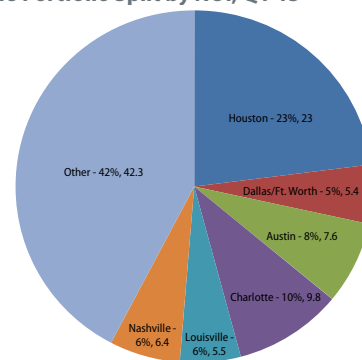
Despite the near-term challenges, a REIT owning an attractive portfolio should find support in the traded markets. If a stock trades poorly after a listing, a discount to NAV might open up. A wide discount can attract the attention of an acquirer.

TIER REIT - BACKGROUND

Over a period of several years, TIER REIT has been preparing for a liquidity event.

TIER owns a portfolio of 10.4m sq. ft. of Class A office properties. The portfolio is 88.4% occupied. TIER has sold 13.8m sq. ft. of properties and reduced the number of markets from 32 to 15 since 2010. The largest market is Houston - 23% of NOI based on Q1'15 - with Texas representing 36% of NOI.

Figure 1. TIER's Portfolio Split by NOI, Q1'15



Source: Company Reports

TIER aims to expand its presence in seven target markets – Atlanta, Austin, Charlotte, Dallas, Denver, Houston and Nashville, and reduce its ownership elsewhere. TIER completed the sale of assets in Philadelphia and Cleveland in Q2'15 and formed a joint venture in Washington D.C. (90% interest in two buildings) subsequent to Q2'15. Additionally, there is a pending asset sale in Columbus, OH.

TIER is internally managed. The senior executives have public company experience and include: Scott Fordham, CEO/President; Dallas Lucas, CFO/Treasurer; and William Reister, CIO.

TIER adopted an NAV/share of \$26.88 (adjusted for reverse stock split) as of October 30, 2014 that included a \$2.9 billion valuation of its properties, reflecting a 7.0% cap rate. TIER was advised by Altus Group, an independent advisory company.

TIER has leverage of 40%, based on the \$26.88/share NAV, and in the mid-50%, based on market capitalization. This is higher than the market-based leverage of the traded company comparables included in Figure 2. Variable debt comprises 24% of total leverage, after swaps. The cost of debt is 4.3% with staggered maturities. Net debt to EBITDA is 7.0x. There was \$225m of liquidity at mid-year.

Future growth is expected to accrue from increased occupancy, lease renewals, and from investment in acquisitions and development together with savings related to revised management arrangements.

TIER will pay a dividend of \$0.72/share (\$0.18/quarter). TIER's Q1'15 FAD was \$1.1m, with FAD averaging a loss of \$1.8m/quarter over the last year. Leasing costs for an office company typically represent substantial ongoing costs that are included in FAD. The proposed dividend will cost \$9m/quarter. TIER is targeting full coverage of the dividend in 2016, which is largely predicated on contracted increases in Net Operating Income.

TIER REIT COMPARABLES

The largest traded office REITs, such as Boston Properties (BXP), SL Green (SLG), Kilroy (KRC) and Douglas Emmet (DEI), own properties in Manhattan and on the West Coast. In addition, there are several mid-sized companies (with equity market capitalizations of up to \$4 billion) that own properties in the Sunbelt and other cities inside the coasts, similar to TIER. These REITs typically offer higher dividend yields than the coastal leaders. TIER's price has dropped back since its listing to a level where the dividend yield is broadly consistent with, though a little below the average yield of, these mid-sized non-coastal office companies. Although TIER's dividend is not covered, the other REITs are covering or close to covering their dividend payments (EQC is not presently paying a dividend).

Figure 2. Selected Traded Office REIT Comparables, 7/28/15

Company	Ticker	Sh. Price (\$)	Mkt. Capn (\$m's)	Dividend(\$)	Div. Yield (%)	Dividend Cover (x)	Leverage (%)
Brandywine Realty Trust	BDN	13.54	2436	0.60	4.4%	1.3	51
Columbia Property Trust	CXP	24.05	3009	1.20	5.0%	1.2	39
Equity Commonwealth	EQC	26.25	3389	0.00	0.0%	N/A	39
Franklin Street Properties Corp.	FSP	11.68	1170	0.76	6.5%	1.1	43
Highwoods Properties	HIW	41.69	3923	1.70	4.1%	0	35
Parkway Properties	PKY	17.56	1958	0.75	4.3%	0	49
Piedmont Office Realty Trust	PDM	18.14	2801	0.84	4.6%	1.4	44
Average					4.8*	1.2	43
TIER REIT	TIER	17.70	887	0.72	4.1%	0.1	54

*Excludes Equity Commonwealth

Sources: CNBC and SK Research

Sources:

- TIER REIT – Various company presentations and SEC filings
- Quarterly Reports/Supplemental Packages – comparable traded REITs
- Research Note - Non-Traded REITs – Listing on an Exchange, SK Research, November 18, 2014
- Research Note - Non-Traded REIT Liquidity, SK Research, October 2, 2014

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