
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 000-55599

Hines Global REIT II, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

80-0947092

(I.R.S. Employer Identification No.)

2800 Post Oak Boulevard

Suite 5000

Houston, Texas

(Address of principal executive offices)

77056-6118

(Zip code)

(888) 220-6121

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 6, 2016, approximately 13.0 million shares of the registrant's Class A common stock and 2.6 million shares of the registrant's Class T common stock were outstanding.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	Condensed Consolidated Financial Statements (Unaudited):	
	Condensed Consolidated Balance Sheets	1
	Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)	2
	Condensed Consolidated Statements of Equity	3
	Condensed Consolidated Statements of Cash Flows	4
	Notes to the Condensed Consolidated Financial Statements	5
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	28

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 3.	Defaults Upon Senior Securities	30
Item 4.	Mine Safety Disclosures	30
Item 5.	Other Information	30
Item 6.	Exhibits	31

SIGNATURES

EX-31.1	Certification
EX-31.2	Certification
EX-32.1	Certification of CEO & CFO pursuant to Section 906
EX-101	Instance Document
EX-101	Schema Document
EX-101	Calculation Linkbase Document
EX-101	Labels Linkbase Document
EX-101	Presentation Linkbase Document
EX-101	Definition Linkbase Document

PART I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

HINES GLOBAL REIT II, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2016	December 31, 2015
ASSETS		
Investment property, net	\$ 130,278,415	\$ 72,426,072
Cash and cash equivalents	19,523,147	17,224,448
Restricted cash	1,752,171	1,565,083
Derivative instruments	3,577	6,344
Tenant and other receivables	1,477,636	3,890,367
Intangible lease assets, net	54,559,205	52,152,477
Deferred leasing costs, net	61,650	60,787
Deferred financing costs, net	12,833	17,342
Other assets	336,924	1,713,329
Total assets	\$ 208,005,558	\$ 149,056,249
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,150,853	\$ 920,657
Due to affiliates	1,705,693	3,186,210
Intangible lease liabilities, net	2,463,553	2,470,106
Other liabilities	908,666	1,866,926
Distributions payable	644,062	479,917
Note payable, net	96,250,714	59,693,212
Total liabilities	\$ 103,123,541	\$ 68,617,028
Commitments and contingencies (Note 10)	—	—
Equity:		
Stockholders' equity:		
Preferred shares, \$0.001 par value per share; 500,000,000 preferred shares authorized, none issued or outstanding as of March 31, 2016 and December 31, 2015	—	—
Class A common stock, \$0.001 par value per share; 600,000,000 authorized; 12,180,346 and 10,274,377 issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	12,180	10,275
Class T common stock, \$0.001 par value per share; 900,000,000 authorized; 1,840,959 and 787,405 issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	1,841	787
Additional paid-in capital	117,562,095	91,576,720
Accumulated distributions in excess of earnings	(12,929,449)	(9,756,797)
Accumulated other comprehensive income (loss)	235,350	(1,391,764)
Total stockholders' equity	104,882,017	80,439,221
Noncontrolling interests	—	—
Total equity	104,882,017	80,439,221
Total liabilities and equity	\$ 208,005,558	\$ 149,056,249

See notes to the condensed consolidated financial statements.

HINES GLOBAL REIT II, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Three Months Ended March 31, 2016 and 2015
(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Rental revenue	\$ 3,327,089	\$ 1,233,805
Other revenue	91,626	11,519
Total revenues	3,418,715	1,245,324
Expenses:		
Property operating expenses	562,291	265,450
Real property taxes	125,702	74,480
Property management fees	54,089	19,441
Depreciation and amortization	1,950,568	626,778
Acquisition related expenses	82,857	2,562,010
Advisory and other related party expenses	1,336,257	2,327,715
General and administrative expenses	507,752	409,454
Total expenses	4,619,516	6,285,328
Income (loss) before other income (expenses)	(1,200,801)	(5,040,004)
Other income (expenses):		
Gain (loss) on derivative instruments	(2,941)	(26,682)
Foreign currency gains (losses)	138,476	(234)
Interest expense	(357,179)	(301,537)
Interest income	10,578	1,890
Net income (loss)	(1,411,867)	(5,366,567)
Net (income) loss attributable to noncontrolling interests	(3,026)	(2,993)
Net income (loss) attributable to common stockholders	\$ (1,414,893)	\$ (5,369,560)
Class A Common Stock:		
Net income (loss) attributable to common stockholders	\$ (1,249,287)	\$ (5,369,560)
Basic and diluted income (loss) per share	\$ (0.11)	\$ (4.82)
Cash distributions declared per share	\$ 0.14	\$ 0.14
Weighted average number of common shares outstanding	11,283,050	1,113,535
Class T Common Stock:		
Net income (loss) attributable to common stockholders	\$ (165,606)	\$ —
Basic and diluted income (loss) per share	\$ (0.13)	\$ —
Cash distributions declared per share	\$ 0.12	\$ —
Weighted average number of common shares outstanding	1,256,700	—
Comprehensive income (loss):		
Net income (loss)	\$ (1,411,867)	\$ (5,366,567)
Other comprehensive income (loss):		
Foreign currency translation adjustment	1,627,114	(1,597,634)
Comprehensive income (loss)	\$ 215,247	\$ (6,964,201)
Comprehensive (income) loss attributable to noncontrolling interests	(3,026)	—
Comprehensive income (loss) attributable to common stockholders	\$ 212,221	\$ (6,964,201)

See notes to the condensed consolidated financial statements.

HINES GLOBAL REIT II, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
For the Three Months Ended March 31, 2016 and 2015
(UNAUDITED)

Hines Global REIT II, Inc. Stockholders

	Common Shares				Additional Paid-in Capital	Accumulated Distributions in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)	Noncontrolling Interests
	Class A		Class T						
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2015	420,541	\$ 421	—	\$ —	\$ 42,218	\$ (1,182,941)	\$ —	\$ (1,140,302)	\$ —
Issuance of common shares	2,081,261	2,081	—	—	20,715,158	—	—	20,717,239	—
Distributions declared	—	—	—	—	—	(149,826)	—	(149,826)	(2,993)
Selling commissions and dealer manager fees	—	—	—	—	(1,989,743)	—	—	(1,989,743)	—
Issuer costs	—	—	—	—	(1,330,204)	—	—	(1,330,204)	—
Net income (loss)	—	—	—	—	—	(5,369,560)	—	(5,369,560)	2,993
Foreign currency translation adjustment	—	—	—	—	—	—	(1,597,634)	(1,597,634)	—
Balance as of March 31, 2015	2,501,802	\$ 2,502	—	\$ —	\$ 17,437,429	\$ (6,702,327)	\$ (1,597,634)	\$ 9,139,970	\$ —

Hines Global REIT II, Inc. Stockholders

	Common Shares				Additional Paid-in Capital	Accumulated Distributions in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)	Noncontrolling Interests
	Class A		Class T						
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2016	10,274,377	\$ 10,275	787,405	\$ 787	\$ 91,576,720	\$ (9,756,797)	\$ (1,391,764)	\$ 80,439,221	\$ —
Issuance of common shares	1,905,969	1,905	1,053,554	1,054	28,828,043	—	—	28,831,002	—
Distributions declared	—	—	—	—	—	(1,757,759)	—	(1,757,759)	(3,026)
Redemption of common shares	—	—	—	—	(92,868)	—	—	(92,868)	—
Selling commissions and dealer manager fees	—	—	—	—	(2,148,718)	—	—	(2,148,718)	—
Issuer costs	—	—	—	—	(601,082)	—	—	(601,082)	—
Net income (loss)	—	—	—	—	—	(1,414,893)	—	(1,414,893)	3,026
Foreign currency translation adjustment	—	—	—	—	—	—	1,627,114	1,627,114	—
Balance as of March 31, 2016	12,180,346	\$ 12,180	1,840,959	\$ 1,841	\$117,562,095	\$ (12,929,449)	\$ 235,350	\$ 104,882,017	\$ —

See notes to the condensed consolidated financial statements.

HINES GLOBAL REIT II, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2016 and 2015
(UNAUDITED)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,411,867)	\$ (5,366,567)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	1,895,965	601,928
Foreign currency (gains) losses	(138,476)	234
(Gain) loss on derivative instruments	2,941	26,682
Changes in assets and liabilities:		
Change in other assets	(74,602)	(113,067)
Change in tenant and other receivables	69,978	(348,788)
Change in accounts payable and accrued expenses	119,326	1,059,283
Change in other liabilities	(1,155,918)	34,796
Change in due to affiliates	167,410	(516,787)
Net cash from operating activities	(525,243)	(4,622,286)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in acquired properties and lease intangibles	(56,518,873)	(102,689,457)
Change in restricted cash	(119,132)	(10,983)
Net cash from investing activities	(56,638,005)	(102,700,440)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	30,397,631	20,046,896
Payment of issuer costs	(1,926,962)	(889,930)
Payment of selling commissions and dealer manager fees	(2,473,417)	(1,937,239)
Distributions paid to stockholders and noncontrolling interests	(788,539)	(62,626)
Proceeds from notes payable	34,300,000	61,768,800
Proceeds from related party note payable	3,000,000	50,300,000
Payments on related party note payable	(3,000,000)	(20,152,032)
Change in security deposit liability	1,900	10,983
Deferred financing costs paid	(231,541)	(607,937)
Payments related to interest rate contracts	—	(47,876)
Net cash from financing activities	59,279,072	108,429,039
Effect of exchange rate changes on cash	182,875	(125,942)
Net change in cash and cash equivalents	2,298,699	980,371
Cash and cash equivalents, beginning of period	17,224,448	2,726,742
Cash and cash equivalents, end of period	\$ 19,523,147	\$ 3,707,113
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 264,005	\$ 233,749
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Distributions declared and unpaid	\$ 644,062	\$ 89,602
Distributions reinvested	\$ 808,101	\$ 18,963
Shares tendered for redemption	\$ 92,868	\$ —
Offering proceeds due from transfer agent	\$ 574,844	\$ 705,032
Non-cash net liabilities acquired	\$ 100,238	\$ 470,144
Offering costs payable to the Advisor	\$ 1,375,369	\$ 965,503

See notes to the condensed consolidated financial statements.

HINES GLOBAL REIT II, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2016 and 2015

1. ORGANIZATION

The accompanying interim unaudited condensed consolidated financial information has been prepared according to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments and eliminations, consisting only of normal recurring adjustments, necessary to present fairly and in conformity with accounting principles generally accepted in the United States of America ("GAAP") the financial position of Hines Global REIT II, Inc. as of March 31, 2016 and December 31, 2015, the results of operations for the three months ended March 31, 2016 and 2015 and cash flows for the three months ended March 31, 2016 and 2015 have been included. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Hines Global REIT II, Inc. (the "Company"), was formed as a Maryland corporation on July 31, 2013 for the purpose of engaging in the business of investing in and owning commercial real estate properties and other real estate investments. The Company intends to conduct substantially all of its operations through Hines Global REIT II Properties, LP (the "Operating Partnership"). Beginning with its taxable year ended December 31, 2015, the Company intends to continue to operate in a manner to qualify as a real estate investment trust ("REIT") for federal income tax purposes. The business of the Company is managed by Hines Global REIT II Advisors LP (the "Advisor"), an affiliate of Hines Interests Limited Partnership ("Hines"), pursuant to the Advisory Agreement, dated as of August 15, 2014, between the Company, the Advisor and the Operating Partnership (defined below).

On August 20, 2014, the Company commenced an offering of up to \$2.5 billion of its common stock (the "Offering") in any combination of Class A shares ("Class A Shares") and Class T shares ("Class T Shares") of the Company's common stock. The Company engaged Hines Securities, Inc., an affiliate of the Advisor, to serve as the dealer manager for the Offering and market its shares. As of May 6, 2016, the Company had received gross offering proceeds of \$153.6 million from the sale of 15.6 million shares.

The Company intends to invest the net proceeds from the Offering in a diversified portfolio of quality commercial real estate properties and other real estate investments throughout the United States and internationally. As of March 31, 2016, the Company owned direct investments in three properties. These properties consist of 2819 Loker Avenue East, an industrial building located in Carlsbad, California, Bishop's Square, a Class A office building located in Dublin, Ireland, and the Domain Apartments, a multi-family community, located near Las Vegas in Henderson, Nevada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements of the Company included in this Quarterly Report on Form 10-Q include the accounts of Hines Global REIT II, Inc. and the Operating Partnership (over which the Company exercises financial and operating control). All intercompany balances and transactions have been eliminated in consolidation. As a result of the adoption of ASU 2015-02, the Company has determined that the Operating Partnership is considered a variable interest entity ("VIE"). However, the Company meets the disclosure exemption criteria, as the Company is the primary beneficiary of the VIE and the Company's partnership interest is considered a majority voting interest. Additionally, the Company has retroactively changed, for the three months ended March 31, 2015, its classification of distributions in its consolidated balance sheet and statement of equity by reflecting such distributions as charges against "accumulated distributions in excess of earnings to be consistent with the 2016 presentation." This presentation change had no impact on the balances in total equity in any of the periods presented.

Tenant and Other Receivables

As of March 31, 2016 and December 31, 2015, in addition to the straight-line rent receivable discussed below, tenant and other receivables also consisted of a receivable from the Company's transfer agent related to offering proceeds not yet received of \$574,844 and \$2.9 million, respectively.

Deferred Financing Costs

Deferred financing costs consist of direct costs incurred in obtaining debt financing. These costs are presented as a direct reduction from the related debt liability for permanent mortgages and presented as an asset for revolving credit arrangements. In total, deferred financing costs had a carrying value of \$741,719 and \$525,250 as of March 31, 2016 and December 31, 2015, respectively. These costs are amortized into interest expense on a straight-line basis, which approximates the effective interest method, over the terms of the obligations. For the three months ended March 31, 2016 and 2015, the Company had \$35,369 and \$10,118, respectively, of deferred financing costs amortized into interest expense in the accompanying condensed consolidated statement of operations.

Other Assets

Other assets included the following:

	March 31, 2016	December 31, 2015
Deposits on investment property	\$ —	\$ 1,500,000 ⁽¹⁾
Prepaid insurance	156,905	202,859
Prepaid property taxes	148,548	—
Other	31,471	10,470
Other assets	<u>\$ 336,924</u>	<u>\$ 1,713,329</u>

- (1) As of December 31, 2015, this amount consisted of a deposit that had been paid related to the acquisition of the Domain Apartments, which was completed in January 2016.

Revenue Recognition

The Company recognizes rental revenue on a straight-line basis over the life of the lease including rent holidays, if any. Straight-line rent receivables were \$823,188 and \$627,875 as of March 31, 2016 and December 31, 2015, respectively. Straight-line rent receivables consist of the difference between the tenants' rents calculated on a straight-line basis from the date of acquisition or lease commencement over the remaining terms of the related leases and the tenants' actual rents due under the lease agreements and is included in tenant and other receivables in the accompanying condensed consolidated balance sheets. Revenues associated with operating expense recoveries are recognized in the period in which the expenses are incurred based upon the tenant lease provisions. Revenues relating to lease termination fees are recognized on a straight-line basis amortized from the time that a tenant's right to occupy the leased space is modified through the end of the revised lease term.

Issuer Costs

Subject to the limitations described below, the Company reimburses the Advisor and its affiliates for any issuer costs related to the Offering that it pays on the Company's behalf. Such costs consist of, among other costs, expenses of the Company's organization, actual legal, accounting, bona fide out-of-pocket itemized and detailed due diligence costs, printing, filing fees, transfer agent costs, postage, escrow fees, data processing fees, advertising and sales literature and other offering-related costs. Organizational issuer costs, such as expenses associated with the formation of the Company and its board of directors, are expensed as incurred, and offering-related issuer costs are recorded as an offset to additional paid-in capital. From inception to March 31, 2016, issuer costs incurred by the Advisor on the Company's behalf totaled \$8.6 million, of which \$45,914 related to organizational issuer costs.

The Advisory Agreement was amended, effective February 29, 2016, to reflect that the Company will not reimburse the Advisor for the cumulative issuer costs incurred in connection with the Company's organization and public offerings, in excess of 2.5% of gross offering proceeds from the Company's public offerings. On April 14, 2016, the Advisor reimbursed the Company for \$4.0 million in issuer costs that the Company had previously reimbursed to the Advisor in excess of this new 2.5% cap. Despite the new 2.5% cap, the Company expects cumulative issuer costs to be less than 2.5% of gross offering proceeds at the conclusion of its public offerings. As the Company raises additional offering proceeds, the Company expects to reimburse the Advisor for the \$4.0 million that the Advisor repaid to the Company in April 2016. As a result, the Company has recorded a liability equal to all unreimbursed issuer costs that have been incurred to date to reflect its expectation that all of these amounts will be reimbursed to the Advisor.

Redemption of Common Stock

The Company complies with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 480 “Distinguishing Liabilities from Equity” which requires, among other things, that financial instruments that represent a mandatory obligation of the Company to repurchase shares be classified as liabilities and reported at settlement value. When approved, the Company will reclassify such obligations from equity to an accrued liability based upon their respective settlement values. The Company has recorded a liability of \$92,868 in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet as of March 31, 2016 related to shares tendered for redemption and approved by the board of directors, but which were not redeemed until the subsequent month. Such amounts have been included in redemption of common shares in the accompanying condensed consolidated statement of equity.

Recent Accounting Pronouncements

In September 2015, FASB issued new guidance that eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and early adoption is permitted. The adoption of this guidance did not have a material impact on the Company’s financial statements.

3. INVESTMENT PROPERTY

Investment property consisted of the following amounts as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Buildings and improvements ⁽¹⁾	\$ 119,627,819	\$ 66,683,711
Less: accumulated depreciation	(2,239,404)	(1,457,639)
Buildings and improvements, net	117,388,415	65,226,072
Land	12,890,000	7,200,000
Investment property, net	<u>\$ 130,278,415</u>	<u>\$ 72,426,072</u>

- (1) Included in buildings and improvements is approximately \$182,982 and \$175,747 of construction-in-progress related to a planned expansion at Bishop’s Square as of March 31, 2016 and December 31, 2015, respectively.

In January 2016, the Company acquired, through a wholly owned subsidiary, the Domain Apartments, a multi-family community located near Las Vegas in Henderson, Nevada. The net purchase price was \$58.1 million, exclusive of transaction costs and working capital reserves. The Domain Apartments community was constructed in January 2014, and consists of 308 units that were 92% leased as of March 31, 2016. See [Note 4](#) — Recent Acquisitions of Real Estate for additional information on the Domain Apartments.

As of March 31, 2016, the cost basis and accumulated amortization related to lease intangibles are as follows:

	Lease Intangibles		
	In-Place Leases	Out-of-Market Lease Assets	Out-of-Market Lease Liabilities
Cost	\$ 58,165,534	\$ 431,490	\$ (2,930,905)
Less: accumulated amortization	(3,976,053)	(61,766)	467,352
Net	<u>\$ 54,189,481</u>	<u>\$ 369,724</u>	<u>\$ (2,463,553)</u>

As of December 31, 2015, the cost basis and accumulated amortization related to lease intangibles were as follows:

	Lease Intangibles		
	In-Place Leases	Out-of-Market Lease Assets	Out-of-Market Lease Liabilities
Cost	\$ 54,447,775	\$ 414,428	\$ (2,815,011)
Less: accumulated amortization	(2,664,151)	(45,575)	344,905
Net	<u>\$ 51,783,624</u>	<u>\$ 368,853</u>	<u>\$ (2,470,106)</u>

Amortization expense of in-place leases was \$1.2 million and \$435,447 for the three months ended March 31, 2016 and 2015, respectively. Net amortization of out-of-market leases resulted in an increase to rental revenue of \$91,236 and \$33,318 for the three months ended March 31, 2016 and 2015, respectively.

Anticipated amortization of the Company's in-place leases and out-of-market leases, net for the period from April 1, 2016 through December 31, 2016 and for each of the years ending December 31, 2017 through December 31, 2020 are as follows:

	In-Place Lease	Out-of-Market Leases, Net
April 1, 2016 through December 31, 2016	\$ 2,278,540	\$ (248,750)
2017	2,802,466	(273,257)
2018	2,398,496	(172,754)
2019	2,039,533	(172,754)
2020	1,537,645	(172,754)

Leases

The Company has entered into non-cancelable lease agreements with tenants for space. As of March 31, 2016, the approximate fixed future minimum rentals for the period from April 1, 2016 through December 31, 2016, for each of the years ending December 31, 2017 through 2020 and thereafter are as follows:

	Fixed Future Minimum Rentals
April 1, 2016 through December 31, 2016	\$ 6,043,601
2017	8,318,710
2018	8,027,857
2019	7,293,332
2020	6,146,838
Thereafter	37,516,380
Total	<u>\$ 73,346,718</u>

Of the Company's total rental revenue for the three months ended March 31, 2016, approximately 36% was earned from the Commissioner of Public Works in Ireland, a state agency of Ireland, whose lease expires in 2028, 18% was earned from Acushnet, a tenant in the manufacturing industry, whose lease expires in 2019, and approximately 12% was earned from International Financial Data Services, an investor record-keeping and transfer agency provider, whose lease expires in 2024.

4. RECENT ACQUISITIONS OF REAL ESTATE

The amounts recognized for major assets acquired as of the acquisition date were determined by allocating the purchase price of each property acquired in 2016 and 2015 as follows:

Property Name	Acquisition Date	Building and Improvements ⁽¹⁾	Land ⁽¹⁾	In-place Lease Intangibles ⁽¹⁾	Out-of-Market Lease Intangibles, Net ⁽¹⁾	Total ⁽¹⁾
2016						
Domain Apartments	1/29/2016	\$ 50,789,500	\$ 5,690,000	\$ 1,640,000	\$ —	\$ 58,119,500
2015						
Bishop's Square	3/3/2015	\$ 53,643,075	\$ — ⁽²⁾	\$ 51,994,603	\$ (2,478,077)	\$ 103,159,601

- (1) For acquisition denominated in a foreign currency, amounts have been translated at an exchange rate based on the rate in effect on the acquisition date.
- (2) The land at Bishop's Square is subject to a 999-year ground lease with the local municipality in Ireland. Since the Company does not have title to the land, approximately \$33.4 million has been recorded to in-place lease intangibles and will be amortized over the remaining term of the ground lease.

The purchase price allocation for the acquisition of the Domain Apartments is preliminary and subject to change until the Company finalizes the allocation, which will be no later than twelve months from the acquisition date.

The weighted average amortization period for the intangible assets and liabilities acquired in connection with the 2016 and 2015 acquisitions, as of the date of the respective acquisition, was as follows (in years):

	In-Place Leases	Above-Market Lease Assets	Below-Market Lease Liabilities
2016 Acquisition:			
Domain Apartments	0.6	—	—
2015 Acquisition:			
Bishop's Square ⁽¹⁾	10.7	7.5	8.3

- (1) Excludes the effect of the ground lease, which significantly increases the weighted average useful life for these intangibles.

The table below includes the amounts of revenue and net income (loss) of the acquisition completed during 2016 which are included in the Company's condensed consolidated statements of operations and comprehensive income (loss) for the three months ended March 31, 2016:

2016 Acquisitions	For the Three Months Ended March 31, 2016	
Domain Apartments	Revenue	\$ 774,406
	Net income (loss)	\$ (674,290)

The following unaudited consolidated information is presented to give effect to the Company's 2016 acquisition as if the acquisition had occurred on January 1, 2015. The pro forma net income (loss) was adjusted to exclude acquisition-related fees and expenses of \$1.4 million for the three months ended March 31, 2016. For the three months ended March 31, 2015, the pro forma net loss was adjusted to include acquisition fees and expenses of \$1.6 million, relating to the 2016 acquisition, as if these fees and expenses had been incurred as of January 1, 2015.

The information below is not necessarily indicative of what the actual results of operations would have been had the Company completed this acquisition on January 1, 2015, nor does it purport to represent the Company's future operations:

		For the Three Months Ended March 31,	
		Pro Forma 2016	Pro Forma 2015
Revenues		\$ 3,762,895	\$ 2,363,910
<i>Class A Common Stock:</i>			
Net income (loss) attributable to stockholders		\$ (169,977)	\$ (7,519,263)
<i>Class T Common Stock:</i>			
Net income (loss) attributable to stockholders		\$ (22,532)	\$ —

The table below includes the amounts of revenue and net income (loss) of the acquisition completed during 2015 which are included in the Company's condensed consolidated statements of operations and comprehensive income (loss) for the three months ended March 31, 2015:

2015 Acquisitions		For the Three Months Ended March 31, 2015	
Bishop's Square	Revenue	\$	649,593
	Net income (loss)	\$	(2,826,037)

The following unaudited consolidated information is presented to give effect to the Company's 2015 acquisition as if the acquisition had occurred on January 1, 2014. The pro forma net income (loss) was adjusted to exclude acquisition-related fees and expenses of \$4.9 million for the three months ended March 31, 2015. For the three months ended March 31, 2014, the pro forma net income (loss) was adjusted to include acquisition fees and expenses of \$4.8 million, relating to the 2015 acquisition, as if these fees and expenses had been incurred as of January 1, 2014.

The information below is not necessarily indicative of what the actual results of operations would have been had the Company completed this acquisition on January 1, 2014, nor does it purport to represent the Company's future operations:

		For the Three Months Ended March 31,	
		Pro Forma 2015	Pro Forma 2014
Revenues		\$ 2,611,709	\$ 2,015,978
Net income (loss) attributable to Class A stockholders		\$ (501,457)	\$ (4,781,503)

5. DEBT FINANCING

As of March 31, 2016 and December 31, 2015, the Company had approximately \$97.0 million and \$60.2 million of debt outstanding with a weighted average interest rate of 1.56% and 1.30%, respectively. The following table describes the Company's debt outstanding at March 31, 2016 and December 31, 2015:

Description	Origination or Assumption Date	Maturity Date	Maximum Capacity in Functional Currency	Interest Rate Description	Interest Rate as of March 31, 2016	Principal Outstanding at March 31, 2016	Principal Outstanding at December 31, 2015
Secured Mortgage Debt							
Bishop's Square	3/3/2015	3/2/2022	€ 55,200,000	Euribor + 1.30% ⁽¹⁾	1.30%	\$ 62,679,600	\$ 60,201,120
Domain Apartments	1/29/2016	1/29/2020	\$ 34,300,000	Libor + 1.60%	2.04%	34,300,000	—
Notes Payable						\$ 96,979,600	\$ 60,201,120
Affiliate Note Payable							
Credit Facility with Hines	12/15/2014	12/15/2016 ⁽²⁾	\$ 75,000,000	Variable	N/A	—	—
Total Note Payable to Affiliate						\$ —	\$ —
Total Principal Outstanding						\$ 96,979,600	\$ 60,201,120
Unamortized financing fees						(728,886)	(507,908)
Total						\$ 96,250,714	\$ 59,693,212

- (1) The Company entered into an interest rate cap agreement as an economic hedge against the variability of future interest rates on this borrowing.
- (2) Each advance under the credit facility with Hines (the "Hines Credit Facility") must be repaid within six months, subject to one six-month extension at the option of the Company and subject to the satisfaction of certain conditions. Notwithstanding that each advance under the Hines Credit Facility matures six months after it is made, the Company is required to repay each advance under the Hines Credit Facility with proceeds from its public offering as such proceeds are raised, unless the Company, through the Operating Partnership, enters into a revolving credit facility (the "OP Facility"), at which point the Company may use such proceeds from its public offering to repay the OP Facility, if any, prior to repaying any advances under its credit facility with Hines. The Hines Credit Facility also permits voluntary prepayment of principal and accrued interest.

Domain Apartments Facility

In connection with the acquisition of the Domain Apartments, the Company entered into a loan agreement with Wells Fargo Bank, National Association for a principal sum of \$34.3 million. Interest accrued on the loan is due and payable on the first business day of each month commencing in February 2016. The loan has a floating interest rate of Libor + 1.60%. Repayment of principal is due upon the maturity of the loan on January 29, 2020. The Company has the option to extend the term for an additional one-year period, subject to the satisfaction of certain conditions. The loan may be prepaid at any time on or after July 29, 2017, subject to certain conditions, including but not limited to, providing 30 days' advance notice to Wells Fargo.

Hines Credit Facility

For the period from January 2016 through March 2016, the Company made draws of \$3.0 million and payments of \$3.0 million under the Hines Credit Facility. Additionally, from April 1, 2016 through May 10, 2016, the Company made no additional borrowings under the Hines Credit Facility, which resulted in the Company continuing to have no outstanding balance under the Hines Credit Facility as of May 10, 2016.

Financial Covenants

The Company's loan documents for the debt described in the table above contain customary events of default, with corresponding grace periods, including payment defaults, bankruptcy-related defaults, and customary covenants, including limitations on liens and indebtedness and maintenance of certain financial ratios. The Company is not aware of any instances of noncompliance with financial covenants as of March 31, 2016.

Principal Payments on Debt

The Company is required to make the following principal payments on its outstanding notes payable for the period from April 1, 2016 through December 31, 2016, for each of the years ending December 31, 2017 through December 31, 2020 and for the period thereafter.

	Payments Due by Year					
	April 1, 2016 through December 31, 2016	2017	2018	2019	2020	Thereafter
Principal payments	\$ —	\$ —	\$ —	\$ —	\$ 34,300,000	\$ 62,679,600

6. DISTRIBUTIONS

With the authorization of its board of directors, the Company declared distributions to its stockholders and Hines Global REIT II Associates Limited Partnership (“HALP II”) for the period from October 1, 2014 through April 30, 2016. These distributions were calculated based on stockholders of record each day in an amount equal to \$0.001575342 per Class A Share, per day. Also, with the authorization of the board of directors, the Company declared distributions with respect to Class T Shares for the period from August 24, 2015 through April 30, 2016. Distributions for the Company's Class T Shares were calculated based on stockholders of record each day in an amount equal to \$0.001575342 per share, per day less the distribution and stockholder servicing fees that are payable with respect to such Class T Shares (as calculated on a daily basis).

Furthermore, with the authorization of its board of directors, the Company declared distributions to its stockholders and HALP II for the month of May 2016. With respect to Class A Shares, these distributions were or will be calculated based on stockholders of record each day in an amount equal to \$0.001594766 per Class A Share, per day. With respect to Class T Shares these distribution were or will be calculated based on stockholders of record each day in an amount equal to \$0.001594766 per Class T Share, per day less the distribution and stockholder servicing fees that are payable with respect to such Class T Shares (as calculated on a daily basis). These amounts per share, per day are an increase from the amounts per share, per day described above that were declared for the period from October 1, 2014 through April 30, 2016.

All distributions were or will be paid in cash or reinvested in shares of the Company's common stock for those participating in the Company's distribution reinvestment plan and have been or will be paid or issued, respectively, on the first business day following the completion of the month to which they relate. Distributions reinvested pursuant to the distribution reinvestment plan were or will be reinvested in shares of the same class as the shares on which the distributions are being made. Some or all of the cash distributions may be paid from sources other than cash flows from operations.

The following table outlines the Company's total distributions declared to stockholders and noncontrolling interests (HALP II) for the quarter ended March 31, 2016 and for each of the quarters ended during 2015, including the breakout between the distributions declared in cash and those reinvested pursuant to the Company's distribution reinvestment plan.

Distributions for the Three Months Ended	Stockholders			Noncontrolling Interests
	Cash Distributions	Distributions Reinvested	Total Declared	Total Declared
2016				
March 31, 2016	\$ 871,004	\$ 886,755	\$ 1,757,759	\$ 3,026
Total	\$ 871,004	\$ 886,755	\$ 1,757,759	\$ 3,026
2015				
December 31, 2015	\$ 603,936	\$ 655,664	\$ 1,259,600	\$ 3,059
September 30, 2015	457,698	489,796	947,494	3,060
June 30, 2015	279,432	287,799	567,231	3,027
March 31, 2015	91,135	58,691	149,826	2,993
Total	\$ 1,432,201	\$ 1,491,950	\$ 2,924,151	\$ 12,139

7. RELATED PARTY TRANSACTIONS

The table below outlines fees and expense reimbursements incurred that are payable by the Company to Hines and its affiliates for the periods indicated below:

Type and Recipient	Incurred		Unpaid as of	
	Three Months Ended March 31,		March 31,	December 31,
	2016	2015	2016	2015
Selling Commissions- Dealer Manager	\$ 1,334,253	\$ 1,380,645	\$ 57,216	\$ 276,686
Dealer Manager Fee- Dealer Manager	814,464	609,098	(6,778)	98,451
Distribution & Stockholder Servicing Fee- Dealer Manager	28,568	—	28,568	7,246
Issuer Costs- the Advisor ⁽¹⁾	601,083	965,503	1,375,369	2,701,249
Acquisition Fee- the Advisor and affiliates of Hines	1,307,689	2,327,715	—	—
Asset Management Fee- the Advisor and affiliates of Hines ⁽²⁾	—	—	—	(119,781)
Other- the Advisor ⁽³⁾	169,838	329,426	118,326	180,488
Interest Expense- Hines ⁽⁴⁾	2,020	225,015	—	—
Property Management Fee- Hines	11,930	11,600	—	—
Expense Reimbursement- Hines (with respect to management and operations of the Company's properties)	84,882	34,496	132,992	41,871
Total	\$ 4,354,727	\$ 5,883,498	\$ 1,705,693	\$ 3,186,210

- (1) See [Note 2](#) — Summary of Significant Accounting Policies – Issuer Costs for additional information on the amendment to the Company's Advisory Agreement regarding the reimbursement of issuer costs to the Advisor.
- (2) The Advisor waived \$363,873 and \$129,524 in asset management fees payable to it during the three months ended March 31, 2016 and 2015, respectively.
- (3) Includes amounts the Advisor paid on behalf of the Company such as general and administrative expenses and acquisition-related expenses. These amounts are generally reimbursed to the Advisor during the month following the period in which they are incurred.
- (4) Includes amounts paid related to the Hines Credit Facility.

8. FAIR VALUE MEASUREMENTS

Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In instances in which the inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

As of March 31, 2016, the Company estimated that the fair value of its notes payable, excluding deferred financing costs, which had a book value of \$96.3 million, was \$96.6 million. Management has utilized available market information such as interest rate and spread assumptions of notes payable with similar terms and remaining maturities, to estimate the amounts required to be disclosed. Although the Company has determined that the majority of the inputs used to value its notes payable fall within Level 2 of the fair value hierarchy, the credit quality adjustments associated with its fair value of notes payable utilize Level 3 inputs. However, the Company has assessed the significance of the impact of the credit quality adjustments on the overall valuations of the fair market value of its notes payable and has determined they are not significant. Other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, restricted cash, tenant and other receivables, accounts payable and accrued expenses, other liabilities, due to affiliates and distributions payable. The carrying value of these items reasonably approximates their fair value based on their highly-liquid nature and/or short-term maturities. Due to the short-term nature of these instruments, Level 1 inputs are utilized to estimate the fair value of the cash and cash equivalents and restricted cash and Level 2 inputs are utilized to estimate the fair value of the remaining financial instruments.

9. REPORTABLE SEGMENTS

As described previously, the Company intends to invest the net proceeds from the Offering in a diversified portfolio of quality commercial real estate properties and other real estate investments throughout the United States and internationally. The Company's current business consists of owning, operating, acquiring, developing, investing in, and disposing of real estate assets. All of the Company's consolidated revenues and property operating expenses as of March 31, 2016 are from the Company's three consolidated real estate properties owned as of that date. As a result, the Company's operating segments have been classified into one of three reportable segments: domestic multi-family investments, domestic other investments, and international office investments.

The tables below provide additional information related to each of the Company's segments and a reconciliation to the Company's net loss, as applicable. "Corporate-Level Accounts" includes amounts incurred by the corporate-level entities which are not allocated to any of the reportable segments.

	Three Months Ended March 31,	
	2016	2015
Total Revenue		
Domestic multi-family investments	\$ 774,406	\$ —
Domestic other investments	607,667	595,731
International office investments	2,036,642	649,593
Total Revenue	\$ 3,418,715	\$ 1,245,324

For the three months ended March 31, 2016 and 2015, the Company's total revenue was attributable to the following countries:

	Three Months Ended March 31,	
	2016	2015
Total Revenue		
United States	40%	48%
Ireland	60%	52%

For the three months ended March 31, 2016 and 2015, the Company's property revenues in excess of expenses by segment were as follows:

	Three Months Ended March 31,	
	2016	2015
Property revenues in excess of expenses ⁽¹⁾		
Domestic multi-family investments	\$ 528,794	\$ —
Domestic other investments	448,356	400,117
International office investments	1,699,483	485,836
Property revenues in excess of expenses	\$ 2,676,633	\$ 885,953

(1) Revenues less property operating expenses, real property taxes and property management fees.

As of March 31, 2016 and December 31, 2015, the Company's total assets by segment were as follows:

	March 31, 2016	December 31, 2015
Total Assets		
Domestic multi-family investments	\$ 57,967,932	\$ —
Domestic other investments	24,048,545	24,294,382
International office investments	107,448,157	105,076,935
Corporate-level accounts	18,540,924	19,684,932
Total Assets	\$ 208,005,558	\$ 149,056,249

As of March 31, 2016 and December 31, 2015, the Company's total assets were attributable to the following countries:

	March 31, 2016	December 31, 2015
Total Assets		
United States	48%	30%
Ireland	52%	70%

For the three months ended March 31, 2016 and 2015 the Company's reconciliation of the Company's property revenues in excess of expenses to the Company's net loss is as follows:

	Three Months Ended March 31,	
	2016	2015
Reconciliation to net income (loss)		
Total property revenues in excess of expenses	\$ 2,676,633	\$ 885,953
Depreciation and amortization	(1,950,568)	(626,778)
Acquisition related expenses	(82,857)	(2,562,010)
Asset management and acquisition fees	(1,336,257)	(2,327,715)
General and administrative expenses	(507,752)	(409,454)
Gain (loss) on derivatives	(2,941)	(26,682)
Foreign currency gains (losses)	138,476	(234)
Interest expense	(357,179)	(301,537)
Interest income	10,578	1,890
Net income (loss)	\$ (1,411,867)	\$ (5,366,567)

10. COMMITMENTS AND CONTINGENCIES

The Company may be subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on the Company's condensed consolidated financial statements.

11. SUBSEQUENT EVENTS

Dividend Reinvestment Plan

On April 13, 2016, the Company's board of directors approved and adopted a third amended and restated distribution reinvestment plan, which it refers to as its distribution reinvestment plan, which superseded and replaced the prior version of the Company's distribution reinvestment plan, effective as of April 25, 2016. The Company's distribution reinvestment plan was amended and restated to reflect the new offering prices of our Class A Shares and Class T Shares to be issued pursuant to the plan. Effective as of April 25, 2016, shares issued pursuant to the distribution reinvestment plan are issued at \$9.61 per Class A Share and \$9.08 per Class T Share, which is equal to approximately 95% of the offering price of the primary shares of each respective class.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in Item 1 in this Quarterly Report on Form 10-Q. The following discussion should also be read in conjunction with our audited consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act"), as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as amended. Such statements include statements concerning future financial performance and distributions, future debt and financing levels, acquisitions and investment objectives, payments to Hines Global REIT II Advisors LP (the "Advisor"), and its affiliates and other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto as well as all other statements that are not historical statements. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terminology.

The forward-looking statements included in this Quarterly Report on Form 10-Q are based on our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, the availability of future financing and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Any of the assumptions underlying forward-looking statements could prove to be inaccurate. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, pay distributions to our shareholders and maintain the value of any real estate investments and real estate-related investments in which we may hold an interest in the future, may be significantly hindered.

The following are some of the risks and uncertainties, which could cause actual results to differ materially from those presented in certain forward-looking statements:

- Our current offering is a best efforts offering and as such, the risk that we will not be able to accomplish our business objectives and that the poor performance of a single investment will materially adversely affect our overall investment performance, will increase if only a small number of shares are purchased in the offering;
- Whether we will have the opportunity to invest offering and distribution reinvestment plan proceeds to acquire properties or other investments or whether such proceeds will be needed to redeem shares or for other purposes, and if proceeds are available for investment, our ability to make such investments in a timely manner and at appropriate amounts that provide acceptable returns;
- Competition for tenants and real estate investment opportunities, including competition with Hines Global REIT, Inc. and other programs sponsored by or affiliated with Hines Interests Limited Partnership ("Hines");
- Our reliance on our Advisor, Hines and affiliates of Hines for our day-to-day operations and the selection of real estate investments, and our Advisor's ability to attract and retain high-quality personnel who can provide service at a level acceptable to us;
- Risks associated with conflicts of interests that result from our relationship with our Advisor and Hines, as well as conflicts of interests certain of our officers and directors face relating to the positions they hold with other entities;
- The potential need to fund tenant improvements, lease-up costs or other capital expenditures, as well as increases in property operating expenses and costs of compliance with environmental matters or discovery of previously undetected environmentally hazardous or other undetected adverse conditions at our properties;
- The availability and timing of distributions we may pay is uncertain and cannot be assured;

- Our distributions have been paid using cash flows from financing activities, including proceeds from our public offering, as well as cash from the waiver of fees by our Advisor, and some or all of the distributions we pay in the future may be paid from similar sources or sources such as cash advances by our Advisor, cash resulting from a waiver or deferral of fees, borrowings and/or proceeds from the offering. When we pay distributions from sources other than our cash flow from operations, we will have less funds available for the acquisition of properties, and your overall return may be reduced;
- Risks associated with debt and our ability to secure financing;
- Risks associated with adverse changes in general economic or local market conditions, including terrorist attacks and other acts of violence, which may affect the markets in which we and our tenants operate;
- Catastrophic events, such as hurricanes, earthquakes, tornadoes and terrorist attacks; and our ability to secure adequate insurance at reasonable and appropriate rates;
- The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments;
- Changes in governmental, tax, real estate and zoning laws and regulations and the related costs of compliance and increases in our administrative operating expenses, including expenses associated with operating as a public company;
- International investment risks, including the burden of complying with a wide variety of foreign laws and the uncertainty of such laws, the tax treatment of transaction structures, political and economic instability, foreign currency fluctuations, and inflation and governmental measures to curb inflation may adversely affect our operations and our ability to make distributions;
- The lack of liquidity associated with our assets; and
- Our ability to qualify as a real estate investment trust (“REIT”) for federal income tax purposes.

These risks are more fully discussed in, and all forward-looking statements should be read in light of, all of the risk factors discussed in “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

You are cautioned not to place undue reliance on any forward-looking statements included in this Quarterly Report on Form 10-Q. All forward-looking statements are made as of the date of this Quarterly Report on Form 10-Q and the risk that actual results will differ materially from the expectations expressed in this Quarterly Report on Form 10-Q may increase with the passage of time. In light of the significant uncertainties inherent in the forward-looking statements included in this Quarterly Report on Form 10-Q, the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Quarterly Report on Form 10-Q will be achieved. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties. Each forward-looking statement speaks only as of the date of the particular statement, and we do not undertake to update any forward-looking statement.

Executive Summary

Hines Global REIT II, Inc. (“Hines Global II” and, together with its consolidated subsidiaries, “we,” “us” or the “Company”) was formed in July 2013 to invest in a diversified portfolio of quality commercial real estate properties and other real estate investments located throughout the United States and internationally. On August 2014, we commenced an offering of up to \$2.5 billion of our common stock (the “Offering”) in any combination of Class A shares (“Class A Shares”) and Class T shares (“Class T Shares”) of the Company’s common stock. We engaged Hines Securities, Inc., an affiliate of our Advisor, to serve as the dealer manager for the Offering and market our shares. As of May 6, 2016, we have received gross offering proceeds of \$153.6 million from the sale of 15.6 million shares.

On April 13, 2016, our board of directors unanimously approved an estimated net asset value, or NAV, per share of our common stock of \$9.03, based on the number of shares issued and outstanding as of February 29, 2016. The estimated NAV per share reflects a 6.1% increase in the aggregate appraised value of our real estate investments when compared to the purchase price of our real estate investments excluding closing costs, transaction fees and additional capital investments since acquisition. This 6.1% net increase resulted from a 7.9% appreciation in the aggregate appraised values of our real estate investments since their purchase, which was offset by 1.8% dilution resulting from the devaluation of the Euro against the U.S. dollar. See our Current Report on Form 8-K filed with the SEC on April 15, 2016 for more information on the methodologies used to determine, and the limitations of, our estimated NAV per share.

Our cash flow from operations has been and may continue to be insufficient to fund distributions to stockholders. We may choose to use advances, deferrals or waivers of fees, if available, from our Advisor or affiliates, borrowings and/or proceeds of the Offering or other sources to fund distributions to our stockholders. Our Advisor has agreed to waive the asset management fees otherwise payable to it for each of the quarters ended March 31, 2016 and June 30, 2016, to the extent that our modified funds from operations (“MFFO”), as disclosed in each Quarterly Report on Form 10-Q, for a particular quarter, amounts to less than 100% of the aggregate distributions declared to our stockholders for such quarter. As a result of this waiver, our Advisor waived all of the \$363,873 in asset management fees payable to it for the three months ended March 31, 2016. There can be no assurances that our Advisor will continue this waiver, and if not, cash available to pay distributions in future periods may be reduced.

We intend to meet our primary investment objectives by investing in a portfolio of real estate properties and other real estate investments that relate to properties that are generally diversified by geographic area, lease expirations and tenant industries. The following table provides additional information regarding each of the properties in which we owned an interest as of March 31, 2016.

Property ⁽¹⁾	Location	Investment Type	Date Acquired/ Net Purchase Price (in millions) ⁽²⁾	Estimated Going-in Capitalization Rate ⁽³⁾	Leasable Square Feet	Percent Leased
2819 Loker Avenue East	Carlsbad, California	Industrial	12/2014; \$25.4	6.5%	161,310	100%
Bishop's Square	Dublin, Ireland	Office	3/2015; \$103.2	6.1%	153,569	100%
Domain Apartments	Las Vegas, Nevada	Multi-family	1/2016; \$58.1	5.5%	331,038	92%
Total for All Investments					645,917	96%

- (1) On March 31, 2016, we effectively owned a 99.8% interest in these properties through our ownership interest in the Operating Partnership as its sole general partner. Hines Global REIT II Associates Limited Partnership (“HALP II”), an affiliate of Hines, owned the remaining 0.2% interest in the Operating Partnership.
- (2) The net purchase price for Bishop’s Square was denominated in Euros and has been translated at an exchange rate based on the rate in effect on the acquisition date.
- (3) The estimated going-in capitalization rate is determined as of the date of acquisition by dividing the projected property revenues in excess of expenses for the first fiscal year by the net purchase price (excluding closing costs and taxes). Property revenues in excess of expenses includes all projected operating revenues (rental income, tenant reimbursements, parking and any other property-related income) less all projected operating expenses (property operating and maintenance expenses, property taxes, insurance and property management fees). The projected property revenues in excess of expenses includes assumptions which may not be indicative of the actual future performance of the property, including the assumption that the tenants will perform under their lease agreements during the 12 months following our acquisition of the properties and assumptions concerning estimates of timing and rental rates related to re-leasing vacant space.

Critical Accounting Policies

Each of our critical accounting policies involves the use of estimates that require management to make assumptions that are subjective in nature. Management relies on its experience, collects historical and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates. In addition, application of these accounting policies involves the exercise of judgments regarding assumptions as to future uncertainties. Actual results could materially differ from these estimates. For a discussion of recent accounting pronouncements, see [Note 2](#) — Summary of Significant Accounting Policies, to the accompanying condensed consolidated financial statements. Also, a disclosure of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2015 in Management’s Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to our policies during 2016.

Financial Condition, Liquidity and Capital Resources

Our principal demands for funds are to purchase real estate properties and make other real estate investments, for the payment of operating expenses and distributions, and for the payment of principal and interest on any indebtedness we incur. Generally, we expect to meet operating cash needs from our cash flows from operating activities, and we expect to fund our investments using proceeds of the Offering and debt proceeds.

We expect that once we have fully invested the proceeds of the Offering and other potential subsequent offerings, our debt financing, including our pro rata share of the debt financing of entities in which we invest, will be in the range of approximately 40% to 60% of the aggregate value of our real estate investments and other assets. Financing for acquisitions and investments may be obtained at the time an asset is acquired or an investment is made or at such later time as determined to be appropriate. In addition, debt financing may be used from time to time for property improvements, lease inducements, tenant improvements and other working capital needs. Additionally, the amount of debt placed on an individual property or related to a particular investment, including our pro rata share of the amount of debt incurred by an individual entity in which we invest, may be less than 40% or more than 60% of the value of such property/investment or the value of the assets owned by such entity, depending on market conditions and other factors. Our aggregate borrowings, secured and unsecured, must be reasonable in relation to our net assets and must be reviewed by our board of directors at least quarterly.

Our charter limits our borrowing to 300% of our net assets (which approximates 75% of the cost of our assets) unless any excess borrowing is approved by a majority of our independent directors and is disclosed to our stockholders in our next quarterly report along with justification for the excess. Our independent directors have approved borrowings in excess of these limitations in connection with our first two investments, as we are in the early stages of raising capital through the Offering. As of March 31, 2016, our portfolio was approximately 44% leveraged, based on the most recent appraised values of our real estate investments.

Notwithstanding the above, depending on market conditions and other factors, we may choose not to place debt on our portfolio or our assets and may choose not to borrow to finance our operations or to acquire properties. Any indebtedness we do incur will likely be subject to continuing covenants, and we will likely be required to make continuing representations and warranties about our company in connection with such debt. Moreover, some or all of our debt may be secured by some or all of our assets. If we default in the payment of interest or principal on any such debt, breach any representation or warranty in connection with any borrowing or violate any covenant in any loan document, our lender may accelerate the maturity of such debt requiring us to immediately repay all outstanding principal. If we are unable to make such payment, our lender could foreclose on our assets that are pledged as collateral to such lender. The lender could also sue us or force us into bankruptcy. Any such event would have a material adverse effect on the value of an investment in our common shares.

The discussions below provide additional details regarding our cash flows.

Cash Flows from Operating Activities

Our real estate properties generate cash flow in the form of rental revenues, which are used to pay direct leasing costs, property-level operating expenses and interest payments. Property-level operating expenses consist primarily of salaries and wages of property management personnel, utilities, cleaning, insurance, security and building maintenance costs, property management and leasing fees, and property taxes. Additionally, we incur general and administrative expenses, acquisition fees and expenses and asset management fees.

Net cash used in operating activities for the three months ended March 31, 2016 and 2015 was \$525,243 and \$4.6 million, respectively. Net cash provided by operating activities increased as a result of the acquisition of the Domain Apartments in January 2016 and the operation of Bishop's Square (acquired March 2015) for the entire three months ended March 31, 2016 but was then reduced by the payment of acquisition fees and acquisition-related expenses totaling \$1.4 million and \$4.7 million for the three months ended March 31, 2016 and 2015, respectively. Under accounting principles generally accepted in the United States ("GAAP"), acquisition fees and expenses and acquisition-related expenses are expensed and therefore reduce cash flows from operating activities. However, we fund these expenses with proceeds from the Offering and/or acquisition-related indebtedness.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended March 31, 2016 and 2015 were primarily due to the payment of \$56.5 million and \$102.7 million related to the acquisition of the Domain Apartments and Bishop's Square, respectively, along with their respective lease intangibles.

Cash Flows from Financing Activities

Initial Public Offering

We commenced the Offering in August 2014 and met our minimum offering requirements for every state, except Washington and Pennsylvania, in September 2014 (the minimum offering requirements were met in March 2015 with respect to

the state of Washington and December 2015 with respect to the state of Pennsylvania). During the three months ended March 31, 2016 and 2015, we raised gross proceeds of \$30.4 million and \$20.0 million, respectively, from the Offering, excluding proceeds from the distribution reinvestment plan.

In addition to the investing activities described previously, we use proceeds from the Offering to make certain payments to our Advisor, our Dealer Manager and Hines and their affiliates during the various phases of our organization and operation. During the organization and offering stage, these include payments to our Dealer Manager for selling commissions, dealer manager fees, and payments to our Advisor for reimbursement of issuer costs. During the three months ended March 31, 2016 and 2015, we made payments of \$4.4 million and \$2.8 million, respectively, for selling commissions, dealer manager fees, and issuer costs related to the Offering.

Distributions

Our board of directors authorized us to declare distributions with respect to Class A Shares for the period from October 1, 2014 through April 30, 2016, which have been calculated based on stockholders of record each day in an amount equal to \$0.001575342 per Class A Share, per day. The board of directors also authorized us to declare distributions with respect to Class T Shares for the period from August 24, 2015 through April 30, 2016, which have been calculated based on stockholders of record each day in an amount equal to \$0.001575342 per Class T Share, per day less the distribution and stockholder servicing fees, that are payable with respect to such Class T Shares (as calculated on a daily basis).

In connection with the determination of the estimated NAV per share, our board of directors determined to increase the offering prices for Class A Shares and Class T Shares in the Offering effective April 25, 2016. At that time, with the authorization of our board of directors, we also declared distributions to our stockholders and HALP II for the month of May 2016. With respect to Class A Shares, these distributions were or will be calculated based on stockholders of record each day in an amount equal to \$0.001594766 per Class A Share, per day. With respect to Class T Shares, these distributions were or will be calculated based on stockholders of record each day in an amount equal to \$0.001594766 per Class T Share, per day less the distribution and stockholder servicing fees that are payable with respect to such Class T Shares (as calculated on a daily basis). These amounts per share, per day are an increase from the amounts per share, per day described above that were declared for the period from October 1, 2014 through April 30, 2016.

All distributions were or will be paid in cash or reinvested in shares of our common stock for those participating in our distribution reinvestment plan and have been or will be paid or issued, respectively, on the first business day following the completion of the month to which they relate. Distributions reinvested pursuant to the distribution reinvestment plan have been or will be reinvested in shares of the same class as the shares on which the distributions are being made. Distributions paid to stockholders (including those reinvested in shares pursuant to our distribution reinvestment plan) during the three months ended March 31, 2016 and 2015 were \$1.6 million and \$78,564, respectively.

We have not generated sufficient cash flows from operations to fully fund distributions paid. Therefore some or all of our distributions have been and may continue to be paid from other sources, such as proceeds from our debt financings, proceeds from the Offering, cash advances by our Advisor, cash resulting from a waiver or deferral of fees and/or proceeds from the sale of assets. We have not placed a cap on the amount of our distributions that may be paid from any of these sources. For example, for the three months ended March 31, 2016 and 2015, we funded 100% of total distributions with cash flows from financing activities, which includes offering proceeds. Since the quarter ended December 31, 2014, our Advisor has agreed to waive the asset management fees for each quarter through June 30, 2016, to the extent that our MFFO, for a particular quarter, as disclosed in our Quarterly Report on Form 10-Q or Annual Report on Form 10-K, as applicable, amounts to less than the aggregate distributions declared to our stockholders for such quarter. As a result of these waivers, for the three months ended March 31, 2016 and 2015, our Advisor waived the full amount of its asset management fees, in an amount equal to \$363,873 and \$129,524, respectively. Also, as a result of these waivers, cash flows from operations that would have been paid to our Advisor for asset management fees may be available to pay distributions to stockholders. These fee waivers are not deferrals and accordingly, any fees that are waived will not be paid to our Advisor in cash at any time in the future.

The following table outlines our total distributions declared to stockholders and noncontrolling interests (HALP II) for each of the quarters during 2016 and 2015, including the breakout between the distributions declared in cash and those reinvested pursuant to our distribution reinvestment plan.

Distributions for the Three Months Ended	Stockholders			Noncontrolling Interests	Sources			
	Cash Distributions	Distributions Reinvested	Total Declared	Total Declared	Cash Flows From Operating Activities		Cash Flows From Financing Activities	
2016								
March 31, 2016	\$ 871,004	\$ 886,755	\$ 1,757,759	\$ 3,026	\$ —	—%	\$ 1,760,785	100%
Total	\$ 871,004	\$ 886,755	\$ 1,757,759	\$ 3,026	\$ —	—%	\$ 1,760,785	100%
2015								
December 31, 2015	\$ 603,936	\$ 655,664	\$ 1,259,600	\$ 3,059	\$ 754,717	60%	\$ 507,942	40%
September 30, 2015	457,698	489,796	947,494	3,060	950,554	100%	—	—%
June 30, 2015	279,432	287,799	567,231	3,027	570,258	100%	—	—%
March 31, 2015	91,135	58,691	149,826	2,993	—	—%	152,819	100%
Total	\$ 1,432,201	\$ 1,491,950	\$ 2,924,151	\$ 12,139	\$ 2,275,529	77%	\$ 660,761	23%

Debt Financings

As mentioned previously, our portfolio was approximately 44% leveraged as of March 31, 2016 (based on the most recent appraised values of our real estate investments) with a weighted average interest rate of 1.56%. Below is additional information regarding our loan activity for the three months ended March 31, 2016 and 2015. See [Note 5](#) — Debt Financing for additional information regarding our outstanding debt.

2016

- We entered into \$34.3 million of permanent mortgage financing related to the acquisition of the Domain Apartments.
- We borrowed \$3.0 million under the Hines Credit Facility and made payments of \$3.0 million on this facility. No amounts remained outstanding under this facility as of March 31, 2016.
- We made payments of \$231,541 for financing costs related to our mortgage loan on the Domain Apartments.

2015

- We entered into \$61.8 million of permanent mortgage financing related to the acquisition of Bishop's Square.
- We borrowed \$50.3 million under the Hines Credit Facility and made payments of \$20.2 million on this facility.
- We made payments of \$607,937 for financing costs related to our loans and \$47,876 for an interest rate cap related to the mortgage loan secured by Bishop's Square.

Results of Operations

Our results of operations for the three months ended March 31, 2016 and 2015 are not indicative of those expected in future periods as we did not make our first real estate investment until December 2014. Amounts recorded in our condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015 are due to the following:

- Total revenues, property operating expenses, real property taxes, property management fees, depreciation and amortization, and interest expense relate to the operation of 2819 Loker Avenue East (acquired in December 2014), Bishop's Square (acquired in March 2015), and the Domain Apartments (acquired in January 2016).
- Acquisition-related expenses represent costs related to the acquisition of our real estate investments, including those properties which we may acquire in future periods.
- We expect to pay monthly asset management fees to our Advisor based on an annual fee equal to 0.75% of (i) the cost of our real estate investments or (ii) with respect to our real estate investments included in our board of directors' most recent determination of an estimated net asset value per share, the most recently determined value of such real estate

investments. As described previously, our Advisor agreed to waive asset management fees for each of the quarters ended March 31, 2016 and 2015, to the extent that our MFFO, for a particular quarter, is less than our distributions declared for such quarter. As a result of these waivers, our Advisor waived \$363,873 and \$129,524 in asset management fees payable to it during the three months ended March 31, 2016 and March 31, 2015, respectively.

- We pay our Advisor acquisition fees equal to 2.25% of the purchase price of our real estate investments. Acquisition fees for the three months ended March 31, 2016 and 2015 are comprised of the \$1.3 million acquisition fee incurred in relation to our acquisition of the Domain Apartments in January 2016 and the \$2.3 million acquisition fee incurred in relation to our acquisition of Bishop's Square in March 2015.
- We pay our Dealer Manager distribution and stockholder servicing fees equal to 1.0% per annum of the gross offering price per share (or, if we are no longer offering primary shares, the then-current estimated net asset value per share, if any has been disclosed) for Class T Shares sold in the Offering. For the three months ended March 31, 2016, we incurred \$28,568 of distribution and stockholder servicing fees. For the three months ended March 31, 2015, we incurred no distribution and stockholder servicing fees because no Class T Shares had been sold.
- General and administrative expenses for the three months ended March 31, 2016 and 2015 primarily consist of legal and accounting fees, costs and expenses associated with our board of directors, transfer agent costs and insurance costs. Certain of these costs are variable and will increase in the future as we continue to raise capital and make additional real estate investments.
- Foreign currency gains (losses) reflect the effect of changes in foreign currency exchange rates on transactions that were denominated in currencies other than our functional currencies. During the three months ended March 31, 2016 and 2015, these foreign currency gains (losses) were primarily related to the weakening of the U.S. dollar against the Euro.

Funds from Operations and Modified Funds from Operations

Funds from Operations ("FFO") is a non-GAAP financial performance measure defined by the National Association of Real Estate Investment Trusts ("NAREIT") and is widely recognized by investors and analysts as one measure of operating performance of a real estate company. FFO excludes items such as real estate depreciation and amortization. Depreciation and amortization, as applied in accordance with GAAP, implicitly assumes that the value of real estate assets diminishes predictably over time and also assumes that such assets are adequately maintained and renovated as required in order to maintain their value. Since real estate values have historically risen or fallen with market conditions such as occupancy rates, rental rates, inflation, interest rates, the business cycle, unemployment and consumer spending, it is management's view, and we believe the view of many industry investors and analysts, that the presentation of operating results for real estate companies using historical cost accounting alone is insufficient. In addition, FFO excludes gains and losses from the sale of real estate and impairment charges related to depreciable real estate assets and in-substance real estate equity investments, which we believe provides management and investors with a helpful additional measure of the historical performance of our real estate portfolio, as it allows for comparisons, year to year, that reflect the impact on operations from trends in items such as occupancy rates, rental rates, operating costs, general and administrative expenses and interest costs. A property will be evaluated for impairment if events or circumstances indicate that the carrying amount may not be recoverable (i.e. the carrying amount exceeds the total estimated undiscounted future cash flows from the property). Undiscounted future cash flows are based on anticipated operating performance, including estimated future net rental and lease revenues, net proceeds on the sale of the property, and certain other ancillary cash flows. While impairment charges are excluded from the calculation of FFO as described above, stockholders are cautioned that due to the limited term of our operations, it could be difficult to recover any impairment charges.

In addition to FFO, management uses MFFO, as defined by the Investment Program Association, (the "IPA"), as a non-GAAP supplemental financial performance measure to evaluate our operating performance. The IPA has recommended the use of MFFO as a supplemental measure for publicly registered, non-listed REITs to enhance the assessment of the operating performance of a non-listed REIT. MFFO is not equivalent to our net income or loss as determined under GAAP, and MFFO may not be useful as a measure of the long-term operating performance of our investments or as a comparative measure to other publicly registered, non-listed REITs if we do not continue to operate with a limited life and targeted exit strategy, as currently intended and described herein. MFFO includes funds generated by the operations of our real estate investments and funds used in our corporate-level operations. MFFO is based on FFO, but includes certain additional adjustments which we believe are appropriate. Such items include reversing the effects of straight-line rent revenue recognition, fair value adjustments to derivative instruments that do not qualify for hedge accounting treatment and certain other items as described below. Some of these adjustments are necessary to address changes in the accounting and reporting rules under GAAP such as the accounting for acquisition-related expenses from a capitalization/depreciation model to an expensed-as-incurred model that

were put into effect in 2009 and other changes to GAAP rules for real estate subsequent to the establishment of NAREIT's definition of FFO. These changes in the accounting and reporting rules under GAAP affected all industries, and as a result of these changes, acquisition fees and expenses are typically accounted for as operating expenses under GAAP. Management believes these fees and expenses do not affect our overall long-term operating performance. These changes also have prompted a significant increase in the magnitude of non-cash and non-operating items included in FFO, as defined. Such items include amortization of out-of-market lease intangible assets and liabilities and certain tenant incentives.

Other adjustments included in MFFO are necessary to address issues that are common to publicly registered, non-listed REITs. Publicly registered, non-listed REITs typically have a significant amount of acquisition activity and are substantially more dynamic during their initial years of investment and operations. While other start-up entities may also experience significant acquisition activity during their initial years, we believe that non-listed REITs like us are unique in that they have a limited life with targeted exit strategies within a relatively limited time frame after the acquisition activity ceases. We will use the proceeds raised in our offerings to make real estate investments, and intend to begin the process of considering our alternatives for the execution of a Liquidity Event (i.e., a sale of our assets, our sale or merger, a listing of our shares on a national securities exchange, or another similar transaction) five to eight years following the end of the Offering. Thus, as a limited life REIT we will not continuously purchase assets and will have a limited life.

The purchase of properties, and the corresponding expenses associated with that process, including acquisition fees and expenses, is a key operational feature of our business plan to generate operational income and cash flows in order to make distributions to our stockholders. MFFO excludes acquisition fees payable to our Advisor and acquisition expenses. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income. These expenses are paid in cash by us, and therefore such funds will not be available to distribute to our stockholders. All paid and accrued acquisition fees and expenses with respect to the acquisition of a property negatively impact our operating performance during the period in which the property is acquired and will have negative effects on returns to our stockholders, the potential for future distributions, and future cash flows, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, the related acquisition fees and expenses and other costs related to such property. In addition, if we acquire a property after all offering proceeds from the Offering have been invested, there will not be any offering proceeds to pay the corresponding acquisition-related costs. Accordingly, unless our Advisor determines to waive the payment of any then-outstanding acquisition-related costs otherwise payable to our Advisor, such costs will be paid from additional debt, operational earnings or cash flow, net proceeds from the sale of properties, or ancillary cash flows. Therefore, MFFO may not be an accurate indicator of our operating performance, especially during periods in which properties are being acquired. Since MFFO excludes acquisition fees and expenses, MFFO would only be comparable to the operations of non-listed REITs that have completed their acquisition activity and have other similar operating characteristics.

Management uses MFFO to evaluate the financial performance of our investment portfolio, including the impact of potential future investments. In addition, management uses MFFO to evaluate and establish our distribution policy and the sustainability thereof. Further, we believe MFFO is one of several measures that may be useful to investors in evaluating the potential performance of our portfolio following the conclusion of the acquisition phase, as it excludes acquisition fees and expenses, as described herein.

MFFO has limitations as a performance measure in an offering such as ours where the price of a share of common stock is a stated value and there is no net asset value determination during the offering stage and for a period thereafter. MFFO is useful in assisting management and investors in assessing the sustainability (that is, the capacity to continue to be maintained) of operating performance in future operating periods, and in particular, after the offering and acquisition stages are complete and net asset value is disclosed. MFFO is not a useful measure in evaluating net asset value because impairments are taken into account in determining net asset value but not in determining MFFO.

FFO and MFFO should not be construed to be more relevant or accurate than the current GAAP methodology in calculating net income or in its applicability in evaluating our operating performance. In addition, FFO and MFFO should not be considered as alternatives to net income (loss) or income (loss) from continuing operations as an indication of our performance or as alternatives to cash flows from operating activities as an indication of our liquidity, but rather should be reviewed in conjunction with these and other GAAP measurements. Further, FFO and MFFO are not intended to be used as liquidity measures indicative of cash flow available to fund our cash needs, including our ability to make distributions to our stockholders. Please see the limitations listed below associated with the use of MFFO:

- As we are currently in the acquisition phase of our life cycle, acquisition costs and other adjustments that are increases to MFFO are, and may continue to be, a significant use of cash and dilutive to the value of an investment in our shares.

- MFFO excludes acquisition fees payable to our Advisor and acquisition expenses. Although these amounts reduce net income, we generally fund such costs with proceeds from the Offering and/or acquisition-related indebtedness and do not consider these fees and expenses in the evaluation of our operating performance and determining MFFO.
- We use an interest rate cap as an economic hedge against the variability of interest rates on one of our variable interest rate borrowings. Although we expect to hold this instrument to maturity, if we were to settle this instrument currently, it would have an impact on our operating performance. Additionally, this derivative instrument is measured at fair value on a quarterly basis in accordance with GAAP. MFFO excludes gains (losses) related to changes in the estimated value of our derivative instrument because such adjustments may not be reflective of ongoing operations and may reflect unrealized impacts on our operating performance.
- We utilize the definition of FFO as set forth by NAREIT and the definition of MFFO as set forth by the IPA. Our FFO and MFFO as presented may not be comparable to amounts calculated by other REITs, if they use different approaches.
- Our business is subject to volatility in the real estate markets and general economic conditions, and adverse changes in those conditions could have a material adverse impact on our business, results of operations and MFFO. Accordingly, the predictive nature of MFFO is uncertain and past performance may not be indicative of future results.

Neither the SEC, NAREIT nor any regulatory body has passed judgment on the acceptability of the adjustments that we use to calculate FFO or MFFO. In the future, the SEC, NAREIT or a regulatory body may decide to standardize the allowable adjustments across the non-listed REIT industry and we would have to adjust our calculation and characterization of FFO or MFFO.

The following section presents our calculation of FFO and MFFO attributable to common stockholders and provides additional information related to our operations for the three months ended March 31, 2016 and 2015 and the period from inception through March 31, 2016. As we are in the capital raising and acquisition phase of our operations, FFO and MFFO are not useful in comparing operations for the periods presented below. We expect revenues and expenses to increase in future periods as we raise additional offering proceeds and use them to make additional real estate investments.

	Three months ended March 31,		Period from July 31, 2013 (date of inception) through March 31, 2016
	2016	2015	
Net income (loss)	\$ (1,411,867)	\$ (5,366,567)	\$ (8,377,104)
Depreciation and amortization ⁽¹⁾	1,950,568	626,778	6,206,456
Adjustments for noncontrolling interests ⁽²⁾	(810)	39,340	219,878
Funds From Operations attributable to common stockholders	537,891	(4,700,449)	(1,950,770)
Loss (gain) on derivative instruments ⁽³⁾	2,941	26,682	43,476
Loss (gain) on foreign currency ⁽⁴⁾	(128,190)	—	(117,790)
Other components of revenues and expenses ⁽⁵⁾	(259,381)	(139,985)	(1,203,607)
Acquisition fees and expenses ⁽⁶⁾	1,390,107	4,889,725	7,334,999
Adjustments for noncontrolling interests ⁽²⁾	(1,512)	(39,644)	(74,285)
Modified Funds From Operations attributable to common stockholders	<u>\$ 1,541,856</u>	<u>\$ 36,329</u>	<u>\$ 4,032,023</u>

Notes to the table:

- (1) Represents the depreciation and amortization of real estate assets. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that such depreciation and amortization may be of limited relevance in evaluating current operating performance and, as such, these items are excluded from our determination of FFO.
- (2) Includes income attributable to noncontrolling interests and all adjustments to eliminate the noncontrolling interests' share of the adjustments to convert our net loss to FFO and MFFO.
- (3) Represents components of net income (loss) related to the estimated changes in the values of our interest rate contract derivative. We have excluded this change in value from our evaluation of our operating performance and MFFO because

such adjustments may not be reflective of our ongoing performance and may reflect unrealized impacts on our operating performance.

- (4) Represents components of net income (loss) primarily resulting from transactions that are denominated in currencies other than our functional currencies. We have excluded these changes in value from our evaluation of our operating performance and MFFO because such adjustments may not be reflective of our ongoing performance and may reflect unrealized impacts on our operating performance.
- (5) Includes the following components of revenues and expenses that we do not consider in evaluating our operating performance and determining MFFO for the three months ended March 31, 2016 and 2015 and the period from inception through March 31, 2016:

	Three months ended March 31,		Period from July 31, 2013 (date of inception) through March 31, 2016
	2016	2015	
Straight-line rent adjustment ^(a)	\$ (169,409)	\$ (106,667)	\$ (802,288)
Amortization of lease incentives ^(b)	1,264	—	2,100
Amortization of out-of-market leases ^(b)	(91,236)	(33,318)	(403,419)
	<u>\$ (259,381)</u>	<u>\$ (139,985)</u>	<u>\$ (1,203,607)</u>

- (a) Represents the adjustments to rental revenue as required by GAAP to recognize minimum lease payments on a straight-line basis over the respective lease terms. We have excluded these adjustments from our evaluation of our operating performance and in determining MFFO because we believe that the rent that is billable during the current period is a more relevant measure of our operating performance for such period.
- (b) Represents the amortization of lease incentives and out-of-market leases.
- (6) Represents acquisition expenses and acquisition fees paid to our Advisor that are expensed in our condensed consolidated statements of operations. We fund such costs with proceeds from the Offering and/or acquisition-related indebtedness, and therefore do not consider these expenses in evaluating our operating performance and determining MFFO.

As noted previously, our cash flows from operations have been and may continue to be insufficient to fund distributions to stockholders. We may continue to choose to use proceeds from our debt financings, proceeds from the Offering, cash advances from our Advisor, cash resulting from a waiver or deferral of fees and/or proceeds from the sale of assets to fund distributions to our stockholders. For the three months ended March 31, 2016 and 2015, we funded 100% of total distributions with cash flows from financing activities, which includes offering proceeds. Additionally, our Advisor waived \$363,873 and \$129,524 in asset management fees payable to it for the three months ended March 31, 2016 and 2015, respectively. We have not placed a cap on the amount of our distributions that may be paid from sources other than cash flows from operations, including proceeds from our debt financings, proceeds from the Offering, cash advances by our Advisor and cash resulting from a waiver or deferral of fees.

From inception through March 31, 2016, we declared cash distributions (including those reinvested in shares pursuant to our distribution reinvestment plan) to our stockholders totaling \$4.7 million, compared to our total aggregate FFO loss of \$2.0 million. During the Offering and investment stages, we incur acquisition fees and expenses in connection with our real estate investments, which are recorded as reductions to net income (loss) and FFO. From inception through March 31, 2016, we incurred acquisition fees and expenses totaling \$7.3 million. For the three months ended March 31, 2016, we declared cash distributions (including those reinvested in shares pursuant to our distribution reinvestment plan) to our stockholders totaling \$1.8 million, compared to our total aggregate FFO of \$537,891. For the three months ended March 2015, we declared cash distributions (including those reinvested in shares pursuant to our distribution reinvestment plan) to our stockholders totaling \$149,826, compared to our total aggregate FFO loss of \$4.7 million.

Related Party Transactions and Agreements

We have entered into agreements with our Advisor, Dealer Manager and Hines and its affiliates, whereby we pay certain fees and reimbursements to these entities during the various phases of our organization and operation. During the organization and offering stage, these include payments to our Dealer Manager for selling commissions, the dealer manager fee, distribution and stockholder servicing fees, and payments to our Advisor for reimbursement of issuer costs. During the acquisition and operational stages, these include payments for certain services related to acquisitions, financing and management of our investments and operations provided to us by our Advisor and Hines and its affiliates pursuant to various agreements we have entered into with these entities. See [Note 7](#) — Related Party Transactions in this Quarterly Report on Form 10-Q for additional information concerning our related party transactions and agreements.

Off-Balance Sheet Arrangements

As of March 31, 2016 and December 31, 2015, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Subsequent Events

Dividend Reinvestment Plan

On April 13, 2016, our board of directors approved and adopted a third amended and restated distribution reinvestment plan, which we refer to as our distribution reinvestment plan, which superseded and replaced the prior version of our distribution reinvestment plan, effective as of April 25, 2016. Our distribution reinvestment plan was amended and restated to reflect the new offering prices of our Class A Shares and Class T Shares to be issued pursuant to the plan. Effective as of April 25, 2016, shares issued pursuant to the distribution reinvestment plan are issued at \$9.61 per Class A Share and \$9.08 per Class T Share, which is equal to approximately 95% of the offering price of the primary shares of each respective class.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market-sensitive instruments. In pursuing our business plan, we believe that interest rate risk, currency risk and real estate valuation risk are the primary market risks to which we are exposed. As of March 31, 2016, we were exposed to the market risks listed below.

Interest Rate Risk

We are exposed to the effects of interest rate changes primarily as a result of debt used to maintain liquidity and fund expansion of our real estate investment portfolio and operations. As of March 31, 2016, we had \$97.0 million of variable-rate debt outstanding. If interest rates were to increase by 1%, we would incur an additional \$969,796 in interest expense. Additionally, in March 2015, we entered into an interest rate cap to limit our exposure to rising interest rates related to our mortgage loan secured by Bishop's Square. See [Note 5](#) — Debt Financing in the Notes to the Condensed Consolidated Financial Statements for more information concerning our outstanding debt.

Foreign Currency Risk

Our investment in Bishop's Square is subject to the effects of exchange rate movements between the Euro and the U.S. dollar, which may affect future costs and cash flows as well as amounts translated into U.S. dollars for inclusion in our condensed consolidated financial statements. We have entered into a mortgage loan denominated in Euros for this investment, which provides a natural hedge with regard to changes in exchange rates between the Euro and U.S. dollar and reduces our exposure to exchange rate differences. Additionally, we are typically a net receiver of Euros, and, as a result, our foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar. Based upon our analysis, a 10% immediate, unfavorable change in the exchange rate between the Euro and U.S. dollar would have decreased the net book value of our investment in Bishop's Square by approximately \$4.0 million and would have reduced the quarterly net income (loss) of Bishop's Square by \$61,556.

Other Risks

As described elsewhere in this Quarterly Report on Form 10-Q, our Advisor has agreed to waive the asset management fee otherwise payable to it pursuant to our Advisory Agreement for each of the quarters ended March 31, 2016 and June 30, 2016, to the extent that our MFFO, for each respective quarter, as disclosed in each Quarterly Report on Form 10-Q, for such quarter, amounts to less than 100% of the aggregate distributions declared for such quarter. There can be no assurances that our Advisor will continue this waiver subsequent to the second quarter of 2016, and if not, cash available to pay distributions in future periods may be reduced.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2016, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Change in Internal Controls

No changes have occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time in the ordinary course of business, we or our subsidiaries may become subject to legal proceedings, claims or disputes. As of May 10, 2016, neither we nor any of our subsidiaries were a party to any material pending legal proceedings.

Item 1A. *Risk Factors*

We are subject to a number of risks and uncertainties, which are discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015. With the exception of the risk factors set forth below, there have been no material changes from the risk factors set forth under Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

We have disclosed an estimated NAV per share of our common stock and the current purchase price our stockholders pay for shares of each class of our common stock in the Offering is higher than such estimated NAV per share. Neither the estimated NAV per share nor the offering price may be an accurate reflection of the fair market value of our assets and liabilities and likely will not represent the amount of net proceeds that would result if we liquidated or dissolved or the amount you would receive upon the sale of your shares.

Due to rules of the Financial Industry Regulatory Authority, or FINRA, and due to contractual obligations in the selling agreements between our participating broker dealers and our Dealer Manager, we may from time to time disclose an estimated NAV per share of our common stock. The price at which we sell shares of our common stock is likely to be in excess of such estimated NAV per share. For example, the estimated NAV per share of our common stock determined by our board of directors on April 13, 2016 is 10.8% and 5.6%, respectively, lower than the primary offering prices with respect to Class A Shares and Class T Shares. National Association of Securities Dealers, or “NASD,” Conduct Rule 2340, which took effect on April 11, 2016, sets forth the obligations of FINRA members to provide per share values in customer account statements calculated in a certain manner. In accordance with this rule, the customer account statements that we issue to our stockholders will reflect the estimated NAV per share determined by our board of directors. In addition, we expect to use the estimated NAV per share as the deemed estimated per share value for purposes of reports to fiduciaries of retirement plans. Because we have used a portion of the proceeds from this offering to pay selling commissions, dealer manager fees and issuer costs in connection with our organization and the Offering, which reduce the amount of funds available for investment, unless our aggregate investments increase in value to compensate for these up-front fees and expenses, the estimated NAV per share, which will be the “value” shown on our stockholders’ account statements, will be lower than the purchase price paid by our stockholders in the Offering.

The estimated NAV per share and the primary offering price per share of each class of our common stock are likely to differ from the price that you would receive upon a resale of your shares or upon our liquidation because: (i) there is no public trading market for the shares at this time; (ii) the primary offering price involves the payment of underwriting compensation and other offering-related costs, which are likely to produce a higher purchase price than could otherwise be obtained; (iii) the estimated NAV per share and the primary offering price per share do not take into account how market fluctuations affect the value of our investments, including how disruptions in the financial and real estate markets may affect the values of our investments; and (v) the estimated NAV per share and the primary offering price per share do not take into account how developments related to individual assets may have increased or decreased the value of our portfolio.

Further, the estimated NAV per share and the primary offering price of each class of our common stock may not be an accurate reflection of the fair value of our assets and liabilities in accordance with GAAP, may not reflect the price at which we would be able to sell all or substantially all of our assets or the outstanding shares of our common stock in an arm’s-length transaction, may not represent the value that stockholders could realize upon a sale of the company or upon the liquidation of our assets and settlement of our liabilities, and may not be indicative of the prices at which Class A Shares or Class T Shares would trade if they were listed on a national securities exchange. In addition, any estimated NAV per share that we disclose may not be the equivalent of the disclosure of a market price by an open-ended real estate fund.

The methodology used to determine the estimated NAV per share of our common stock may be based upon assumptions, estimates and judgments that may not be accurate or complete, such that, if different property-specific and general real estate and capital market assumptions, estimates and judgments were used, it could result in an estimated NAV per share that is significantly different.

The U.S. Department of Labor, or DOL, has adopted certain amendments, including an amendment to the definition of “fiduciary” under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, and the Code, which could impact our ability to raise significant additional capital in the Offering.

The DOL has adopted certain amendments, including an amendment to the definition of “fiduciary” under ERISA and the Code. The amendments have broadened the definition of “fiduciary” and have changed the prohibited transaction exemptions relating to investments by employee benefit plans subject to Title I of ERISA or retirement plans or accounts subject to Section 4975 of the Code (including individual retirement accounts). The amendments take effect between April 10, 2017 and January 1, 2018. The ultimate impact of the amendments is not yet known, but when they take effect, they could have a significantly negative effect on the sale of shares of our common stock to such plans or accounts.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

During the three months ended March 31, 2016, we did not sell or issue any equity securities that were not registered under the Securities Act of 1933, as amended.

Use of Proceeds from Registered Securities

On August 20, 2014, the Registration Statement on Form S-11 (File No. 333-191106) for the Offering was declared effective under the Securities Act of 1933. The Offering commenced on August 20, 2014 and is currently expected to terminate on or before August 20, 2017, unless extended by our board of directors.

From August 20, 2014 through March 31, 2016, we received gross proceeds of approximately \$120.8 million through the sale of 12.2 million Class A Shares and \$17.4 million through the sale of 1.8 million Class T Shares to the public in connection with the Offering. Since August 20, 2014, we have used proceeds from the Offering to pay \$11.9 million of selling commissions and dealer manager fees and \$7.2 million of issuer costs related to the Offering. See [Note 7](#) — Related Party Transactions for additional information regarding the amendment to our Advisory Agreement executed in April 2016 and effective February 29, 2016, which has reduced the amount of issuer costs payable to the Advisor as a percentage of gross offering proceeds. The selling commissions and dealer manager fees were not paid with respect to the shares sold through our distribution reinvestment plan. The selling commissions and dealer manager fees were paid to our dealer manager, which is an affiliate of Hines and is wholly-owned, indirectly, by, or for the benefit of, our Chairman, Jeffrey C. Hines and his father, Gerald D. Hines.

Net proceeds available for investment after the payment of the costs described above were approximately \$116.4 million. A portion of these proceeds, along with proceeds from debt financing, were used to make approximately \$98.3 million of investments in real estate, including the purchase price of our investments, acquisition fees and expenses, and costs of leveraging each real estate investment. We had approximately \$17.8 million in uninvested offering proceeds as of March 31, 2016.

Additionally, we have not generated sufficient cash flow from operations to fully fund distributions paid. From inception through March 31, 2016, a portion of our distributions have been funded with cash flows from financing activities, which includes offering proceeds. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition, Liquidity and Capital Resources — Distributions" for a description of the sources that have been used to fund our distributions.

Item 3. *Defaults Upon Senior Securities*

Not applicable.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

Not applicable.

Item 6. *Exhibits*

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HINES GLOBAL REIT II, INC.

May 10, 2016

By: /s/ Sherri W. Schugart
Sherri W. Schugart
President and Chief Executive Officer

May 10, 2016

By: /s/ Ryan T. Sims
Ryan T. Sims
Chief Financial Officer and Secretary

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Articles of Amendment and Restatement of Hines Global REIT II, Inc. (filed as Exhibit 3.1 to Pre- Effective Amendment No. 5 to the Registrant's Registration Statement on Form S-11, File No. 333-191106 (the "Registration Statement") on August 15, 2014 and incorporated by reference herein)
3.2	Articles Supplementary of Hines Global REIT II, Inc. (filed as Exhibit 3.1 to Post-Effective Amendment No. 1 to the Registration Statement on December 12, 2014 and incorporated by reference herein)
3.3	Amended and Restated Bylaws of Hines Global REIT II, Inc. (filed as Exhibit 3.2 to Pre-Effective Amendment No. 5 to the Registration Statement on August 15, 2014 and incorporated by reference herein)
3.4	Articles Supplementary of Hines Global REIT II, Inc. (filed as Exhibit 3.1 to Post-Effective Amendment No. 6 to the Registration Statement on August 12, 2015 and incorporated by reference herein)
3.5	Amendment to Amended and Restated Bylaws of Hines Global REIT II, Inc., dated September 23, 2015.
4.1	Forms of Subscription Agreement (filed as Appendix B-1 and Appendix B-2 to the Prospectus filed on August 12, 2015 and incorporated by reference herein)
4.2	Hines Global REIT II, Inc. Third Amended and Restated Distribution Reinvestment Plan (filed as Appendix C to the Prospectus filed on April 29, 2016 and incorporated by reference herein)
10.1	Amendment No. 2 to Advisory Agreement, dated as of April 13, 2016 and effective as of February 29, 2016, among Hines Global REIT II Advisors LP, Hines Global REIT II Properties LP, and Hines Global REIT II, Inc. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on April 15, 2016 and incorporated by reference herein)
10.2	Loan Agreement, dated as of January 29, 2016 by and between Wells Fargo Bank, National Association, as Lender and Hines Global REIT II 891 Coronado LLC, as Borrower (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K on February 4, 2016 and incorporated by reference herein)
10.3	Promissory Note, dated as of January 29, 2016 by and between Hines Global REIT II 891 Coronado LLC, as borrower, and Wells Fargo Bank, National Association, as lender (filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K on February 4, 2016 and incorporated by reference herein)
31.1*	Certification
31.2*	Certification
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Pursuant to SEC Release 34-47551 this Exhibit is furnished to the SEC herewith and shall not be deemed to be "filed."
101*	The following materials from Hines Global REIT II, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed on May 10, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Equity (Deficit), (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.
*	Filed herewith