



Hines Global REIT II, Inc.

2016
ANNUAL REPORT

Hines



Cover photo: Rookwood Commons / Rookwood Pavilion, Cincinnati, Ohio

Inside cover photo: Cottonwood Corporate Center, Salt Lake City, Utah

FORWARD-LOOKING STATEMENTS:

Certain statements in this report are forward-looking statements, including those related to future activities and potential results and the economic outlook. Actual results may differ materially from the forward-looking statements as a result of various factors, including Hines Global REIT II's ability to effectively raise and deploy capital, real estate market conditions and those described in "Risk Factors" and elsewhere in the Annual Report on Form 10-K included in this report and the other SEC filings of Hines Global REIT II, Inc.



Letter to Stockholders

Dear Stockholders:

During 2016 and early 2017, your Hines Global REIT II management team has maintained its focus on building the company's portfolio of high-quality real estate investments. Since the beginning of last year, we have raised nearly \$200 million of additional capital through our public stock offering, bringing our total capital raised to \$307 million through March 2017. We used those proceeds and debt financing to acquire three additional properties during 2016 and two more thus far this year. In this annual letter, we'd like to update you on the execution of our diversified investment strategy, discuss our accomplishments since our last annual letter and talk about our outlook for the year ahead.

INVESTMENT OBJECTIVES AND STRATEGY

Our investment objectives for Hines Global REIT II remain the same as the day you invested: to invest in a diversified portfolio of real estate investments and provide you with income in the form of regular, stable cash distributions; to achieve modest growth in the value of the capital you've invested; and to produce attractive total returns for you through a potential future liquidity event.

A lot of thought and care goes into selecting investments for the Hines Global REIT II portfolio. We begin with our broad investment strategy, then narrow down our options using proprietary analytical tools developed by Hines' in-house research group to assess current market conditions and pricing dynamics. We then fold in our local teams' detailed sub-market knowledge about property-level considerations to determine which potential investments would be the most attractive strategic additions to our portfolio. Finally, every potential investment must be reviewed and approved by our board of directors, so you can be sure your investment dollars are being used strategically and responsibly.

ACQUISITIONS

Following the process described above, since the beginning of 2016 we have acquired five properties with an aggregate purchase price of \$487.8 million and comprising 2.3 million square feet: the Domain Apartments in Henderson, NV; the Cottonwood Corporate Center office building in Salt Lake City, UT; Goodyear Crossing II, an industrial property in Phoenix, AZ; Rookwood, a retail complex in Cincinnati, OH; and the Montrose Student Residences in Dublin, Ireland. We've included pictures of each of our properties in the margins of this letter.

INCREASE IN PER SHARES OFFERING PRICE

On February 27, 2017, our board of directors determined a new estimated per share net asset value ("NAV") of \$9.65 per share of our common stock as of December 31, 2016. This reflects a 6.4% increase in the aggregate appraised value of our real estate investments compared to the last valuation of \$9.03 determined in April of last year. For such a relatively newly acquired portfolio, we believe this represents very strong value growth and illustrates how the confluence of Hines' proprietary research and local market knowledge has the potential to yield positive results.

PORTFOLIO SUMMARY AS OF 12/31/16¹

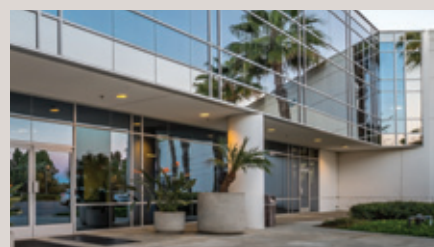
Investments: 7 projects, 2,643,827 square feet
Estimated Aggregate Value: \$643.4 million
Percentage Leased: 97%



Goodyear Crossing II – Phoenix, AZ
Acquisition Date: August 18, 2016
Square Feet: 820,384



Bishop's Square – Dublin, Ireland
Acquisition Date: March 3, 2015
Square Feet: 153,387



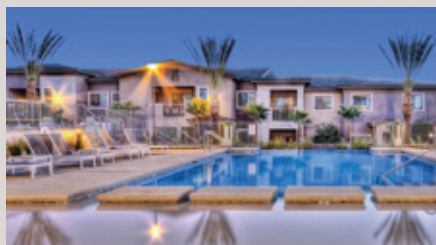
2819 Loker Avenue East – Carlsbad, CA
Acquisition Date: December 17, 2014
Square Feet: 161,310

¹Properties include Rookwood, which was acquired in January 2017 and the Montrose Student Residences, which was acquired in March 2017. The estimated aggregate value of the properties was determined using the appraised values as of December 31, 2016 for properties acquired prior to December 2016 and the net purchase price of any properties acquired subsequent to December 31, 2016.

**PORTFOLIO SUMMARY (CONTINUED)**

Cottonwood Corporate Center
Salt Lake City, UT

Acquisition Date: July 5, 2016
Square Feet: 490,030



Domain Apartments – Henderson, NV

Acquisition Date: January 29, 2016
Square Feet: 331,038



**Rookwood Pavilion and
Rookwood Commons – Cincinnati, OH**

Acquisition Date: January 6, 2017
Square Feet: 600,071



Montrose Student Residences
Dublin, Ireland

Acquisition Date: March 24, 2017
Building Details: Five stories; 200 units

For additional information on our estimated NAV per share, please see the “Market Information” discussion included in Item 5 in the Annual Report on Form 10-K included herein.

DISTRIBUTIONS

We achieved our objective to provide you with regular cash distributions during 2016 and believe our portfolio has the potential to continue doing so. Throughout the year, we declared distributions to you at an annualized per-share rate of \$0.58 for Class A shares and \$0.49 for Class T Shares. Additionally, in April of 2017 we increased the annualized per-share distribution rate to \$0.60 for Class A shares and \$0.51 for Class T Shares. This is the second time in the last 12 months that we have increased the distribution rate.²

MARKET OUTLOOK

In 2017, the U.S. enters its eighth year of general economic recovery with a dollar that remains strong around the globe. As we’ve mentioned in previous letters, it’s important to remember that global real estate markets don’t all move in the same direction at the same time. Therefore, at any point in time, different markets will be at various points in the real estate cycle—understanding and taking advantage of these cycles forms the basis for our investment strategy.

Macroeconomic events like Brexit have presented challenges in the past, but could also present opportunities going forward. While we anticipate that the dollar will remain strong and rising interest rates could provide a challenge, we will continue to leverage the power of our research team with our growing international presence in order to identify markets and properties where we see relative value and the potential for income and growth.

In 2017, Hines enters its 60th year in the commercial real estate business, and its dedication to maximizing stockholder value could not be stronger. We appreciate your investment in Hines Global REIT II and the trust you’ve placed in us.

Sincerely,



Jeffrey C. Hines

JEFFREY C. HINES
CHAIRMAN OF
THE BOARD



Sherri W. Schugart

SHERRI W. SCHUGART
PRESIDENT AND
CHIEF EXECUTIVE
OFFICER

²The actual distribution rate for Class T Shares will vary based on the total amount of distribution and stockholder fees payable with respect to such Class T Shares. For the years ended December 31, 2016, 2015 and 2014, respectively, Hines Global REIT II funded 60%, 23% and 100% of total distributions with cash flows from financing activities, which include offering proceeds. The use of sources other than our cash flow from operations to fund distributions could lower returns.

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

OR

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

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)

Registrant's telephone number, including area code: (888) 220-6121

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

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 ☒

Aggregate market value of the common stock held by non-affiliates of the registrant: No established market exists for the registrant's common stock.

As of March 17, 2017, approximately 17.9 million shares of the registrant's Class A common stock and 13.6 million shares of the registrant's Class T common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement in connection with its 2017 annual meeting of stockholders are incorporated by reference in Part III. The registrant's proxy statement will be filed with the Securities and Exchange Commission ("SEC") no later than May 1, 2017.

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PART I

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K includes certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements relate to, without limitation, potential future acquisitions, the completion of projects in development, economic conditions that may impact our operations, our future leverage and financial position, our future capital expenditures, future distributions, other developments and trends in the commercial real estate industry and our business strategy. Forward-looking statements are generally identifiable by the use of the words “may,” “will,” “should,” “expect,” “could,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “continue,” “predict,” “potential” or the negative of these words or other comparable terminology. These statements are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict.

The forward-looking statements in this Annual Report on Form 10-K 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 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, provide distributions to our stockholders and maintain the value of the real estate properties in which we hold an interest, may be significantly hindered.

Our stockholders are cautioned not to place undue reliance on any forward-looking statement in this Annual Report on Form 10-K. All forward-looking statements are made as of the date of this Annual Report on Form 10-K, and the risk that actual results will differ materially from the expectations expressed in this Annual Report on Form 10-K may increase with the passage of time. In light of the significant uncertainties inherent in the forward-looking statements in this Annual Report on Form 10-K, 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 Annual Report on Form 10-K will be achieved. Please see “Item 1A. Risk Factors” for a discussion of some of the risks and uncertainties that could cause actual results to differ materially from those presented in certain forward-looking statements.

Item 1. *Business*

General Description of Business and Operations

Hines Global REIT II, Inc. (“Hines Global II”) was formed as a Maryland corporation on July 31, 2013, for the purpose of investing in a diversified portfolio of quality commercial real estate properties and other real estate investments located throughout the United States and internationally. On August 20, 2014, Hines Global II commenced an offering of up to \$2.5 billion of its common stock for sale to the public (the “Offering”). Hines Global II is currently offering its common stock in any combination of Class A shares of common stock (“Class A Shares”) and Class T shares of common stock (“Class T Shares”). Hines Global II also issues shares pursuant to its distribution reinvestment plan at a price equal to the estimated per share net asset value (“NAV”) applicable to the class of shares on which the distributions are being made and most recently announced by Hines Global II in a public filing with the SEC as of the applicable date of the reinvestment. On March 2, 2017, Hines Global II announced a new estimated per share NAV of \$9.65 per Class A Share and Class T Share, which represents a \$0.62 increase over the previously determined estimated per share NAV of \$9.03 as of February 29, 2016. As of March 17, 2017, Hines Global II had received gross offering proceeds of \$307.3 million from the sale of 31.7 million common shares.

Hines Global II conducts most of its activities through, and most of its real estate investments are held directly or indirectly by, Hines Global REIT II Properties, LP (the “Operating Partnership”), which was formed on July 31, 2013. Hines Global II contributes the proceeds it receives from the issuance of common shares to the Operating Partnership and the Operating Partnership in turn issues general partner interests to Hines Global II. The general partner interests entitle Hines Global II to receive its share of the Operating Partnership’s earnings or losses and distributions of cash flow. Hines Global II is constructed in a manner that would allow the Operating Partnership to issue limited partner units from time to time in exchange for real estate properties. By structuring acquisitions in this manner, the sellers of the real estate will generally be able to defer the taxation of gains until they exchange their limited partner units from common shares of Hines Global II or sell or redeem their units.

We refer to Hines Global II, the Operating Partnership and its wholly-owned subsidiaries as the “Company,” and the use of “we,” “our,” “us” or similar pronouns in this annual report refers to Hines Global II or the Company as required by the context in which such pronoun is used.

As of March 27, 2017, we owned interests in seven real estate investments. The properties contain, in the aggregate, 2.6 million square feet of leasable space. We may purchase properties or make other real estate investments that relate to varying property types including office, retail, industrial, multi-family residential, student housing and hospitality or leisure. We may invest in operating properties, properties under development, and undeveloped properties such as land. Other real estate investments may include equity or debt interests, including securities, in other real estate entities and debt related to properties such as mortgages, mezzanine loans, B-notes, bridge loans, construction loans and securitized debt.

We have no employees. Our business is managed by Hines Global REIT II Advisors LP (the “Advisor”), an affiliate of Hines Interests Limited Partnership (“Hines”), under the terms and conditions of an advisory agreement between us and the Advisor (the “Advisory Agreement”). As compensation for these services, we pay our Advisor asset management, acquisition and disposition fees and we reimburse certain of the Advisor’s expenses incurred on our behalf in accordance with the Advisory Agreement. Hines or affiliates of Hines manage the leasing and operations of most of the properties in which we invest and, accordingly, we pay Hines property management and leasing fees in connection with these services. Hines is owned and controlled by, or for the benefit of, Gerald D. Hines and his son Jeffrey C. Hines, the Chairman of our board of directors. Hines and its 3,750 employees have 60 years of experience in the areas of investment selection, underwriting, due diligence, portfolio management, asset management, property management, leasing, disposition, finance, accounting and investor relations.

Our office is located at 2800 Post Oak Boulevard, Suite 5000, Houston, Texas 77056-6118. Our telephone number is 1-888-220-6121. Our web site is www.HinesSecurities.com/reits/hines-global-reit-2. The information on our website is not incorporated by reference into this report.

Primary Investment Objectives

Our primary investment objectives are to:

- preserve invested capital;
- invest in a diversified portfolio of quality commercial real estate properties and other real estate investments;
- provide income in the form of regular, stable cash distributions;
- provide modest growth in the value of invested capital;
- achieve attractive total returns upon the ultimate sale of our investments or occurrence of another liquidity event; and
- remain qualified as a real estate investment trust (“REIT”) for federal income tax purposes.

Acquisition and Investment Policies

We have invested and expect to continue to invest the 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. We may purchase properties or make other real estate investments that relate to varying property types including office, retail, industrial, multi-family residential, student housing and hospitality or leisure. We may invest in operating properties, properties under development, and undeveloped properties such as land. Other real estate investments may include equity or debt interests including securities in other real estate entities and debt related to properties such as mortgages, mezzanine loans, B-notes, bridge loans, construction loans and securitized debt. We believe that there is an opportunity to create attractive total returns by employing a strategy of investing in a diversified portfolio of such investments which are well-selected, well-managed and disposed of at an optimal time. Our principal targeted assets are investments in properties, and other real estate investments that relate to properties, that have quality construction and desirable locations which can attract quality tenants. These types of investments are, or relate to, properties generally located in central business districts or suburban markets of major metropolitan cities worldwide. We intend to invest in a geographically diverse portfolio in order to reduce the risk of reliance on a particular market, a particular property and/or a particular tenant. We anticipate that international real estate investments may comprise a substantial portion of our portfolio.

We may invest in real estate properties and other real estate investments directly by owning 100% of such investments or indirectly by owning less than 100% of such investments through co-ownership or joint-venture arrangements with third parties or with other Hines-affiliated entities. We intend to fund our future acquisitions and investments primarily with proceeds raised in the Offering and potential follow-on offerings as well as with proceeds from debt financings.

We are not limited as to the asset types or geographic areas in which we may invest and conduct our operations. We are not specifically limited in the number or size of investments we may make, or on the percentage of net proceeds of the Offering that we may invest in a single property, real estate investment or loan. Although the actual percentages may vary from those presently anticipated, after the proceeds of the Offering and any subsequent offerings have been fully invested, we anticipate that international real estate investments will comprise between 40% and 60% of our portfolio and real estate investments other than the acquisition of commercial real estate properties will comprise less than 30% of our portfolio. The number, size and mix of investments we make will depend upon real estate and market conditions and other circumstances existing at the time we are evaluating investment opportunities and the amount of proceeds we raise in the Offering and any subsequent offerings.

Financing Strategy and Policies

As of December 31, 2016, our portfolio was approximately 50% leveraged (based on the most recent appraised values of our real estate investments) with a weighted average interest rate of 2.37%. 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% — 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 we determine 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, including the payment of distributions. 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. As described

below, our independent directors have approved borrowings in excess of these limitations in connection with our first two investments, since we were in the early stages of raising capital through the Offering.

In November 2014, our board of directors, including all of our independent directors, approved a \$75.0 million unsecured credit facility (the “Hines Credit Facility”) between us and Hines to be used to fund acquisitions and other working capital needs. In December 2014, our board of directors, including all of our independent directors, approved a \$24.2 million borrowing under the Hines Credit Facility to fund our acquisition of 2819 Loker Avenue East, which was equal to approximately 95% of the contract purchase price of 2819 Loker Avenue East. Additionally, in January 2015, our board of directors, including all of our independent directors, approved \$45.2 million of additional borrowings under the Hines Credit Facility and a €55.2 million secured credit facility (\$62.1 million using \$1.12 per Euro as of the transaction date) for the purchase of Bishop’s Square in March 2015. In total, these borrowings represented approximately 104% of the cost of Bishop’s Square based on the contract purchase price.

Our existing indebtedness and any additional 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 on 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.

Distribution Objectives

In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income (excluding capital gains) to our stockholders. We intend, although we are not legally obligated, to continue to make regular monthly distributions to holders of our common shares in excess of the level required to maintain our REIT status unless our results of operations, our general financial condition, general economic conditions or other factors inhibit us from doing so. Distributions are authorized at the discretion of our board of directors, which is directed, in substantial part, by its obligation to cause us to comply with the REIT requirements of the Internal Revenue Code of 1986, as amended (the “Code”).

With the authorization of our board of directors, we declare distributions daily. 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 our 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 tables below outline the distribution rates declared per share, per day and the annualized distribution rates for each Class A Share and Class T Share.

Class A Shares		
Period Declared	Distribution Rate Per Share, Per Day	Annualized Distribution Rate Per Share
Beginning 4/1/2017	\$0.001653699	\$0.60
5/1/2016 - 3/31/2017	\$0.001594766	\$0.58
10/1/2014 - 4/30/2016	\$0.001575342	\$0.57

Class T Shares		
<u>Period Declared</u>	<u>Gross Distribution Rate Per Share, Per Day</u>	<u>Net Annualized Distribution Rate Per Share ⁽¹⁾</u>
Beginning 4/1/2017	\$0.001653699	\$0.51
5/1/2016 - 3/31/2017	\$0.001594766	\$0.49
8/24/2015 - 4/30/2016	\$0.001575342	\$0.48

- (1) Class T Shares are subject to an ongoing distribution and stockholder servicing fee of 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). The gross distribution rate is the rate prior to deduction of the distribution and stockholder servicing fees payable. For purposes of calculating the net annualized distribution rate per share, we deduct from the gross annualized distribution rate an amount equal to 1.0% of the gross offering price, assuming a constant, per share offering price of \$9.4489. The actual distribution rate for Class T Shares will vary based on the total amount of distribution and stockholder fees payable.

In our initial quarters of operations, and from time to time thereafter, we may continue to be unable to generate sufficient cash flow from operations to fully fund distributions paid. Therefore, some or all of our distributions 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. For example, we funded 60%, 23% and 100% of total distributions for the years ended December 31, 2016, 2015 and 2014, respectively, with cash flows from financing activities, which includes offering proceeds.

In addition, commencing with the quarter ended December 31, 2014, our Advisor agreed to waive the asset management fees for each quarter through the quarter ended December 31, 2016, to the extent that our modified funds from operations (“MFFO”), for a particular quarter, as disclosed in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, amounts to less than 100% of the aggregate distributions declared to our stockholders for such quarter. As a result of these fee 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. For additional information relating to MFFO, including a reconciliation of net loss to MFFO, for the years ended December 31, 2016, 2015 and 2014, respectively, refer to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The table below outlines, with respect to each of the years ended December 31, 2016, 2015 and 2014, the asset management fees earned by our Advisor before application of the waivers, the amounts that were waived pursuant to the asset management fee waivers described above, and the asset management fees earned by our Advisor after application of the waivers (in thousands).

<u>For the Years Ended</u>	<u>Asset Management Fee Pre-Waiver</u>	<u>Asset Management Fee Waived</u>	<u>Asset Management Fee Post-Waiver</u>
December 31, 2016	\$2,200	\$1,252	\$948
December 31, 2015	\$ 888	\$ 583	\$305
December 31, 2014	\$ 16	\$ 16	\$—

Our Advisor has also agreed to waive the asset management fees otherwise payable to it for the quarter ended March 31, 2017 to the extent that our MFFO for such quarter, as reduced to reflect the distribution and stockholder servicing fees payable for such quarter, as disclosed in our Quarterly Report on Form 10-Q, amounts to less than 100% of the aggregate distributions declared to our stockholders for that quarter.

Tax Status

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code, beginning with our taxable year ended December 31, 2015. Our management believes that we operate in such a manner as to qualify

for treatment as a REIT and we intend to operate in the foreseeable future in such a manner so that we will remain qualified as a REIT for federal income tax purposes. Accordingly, no provision has been made for U.S. federal income taxes for the years ended December 31, 2016 and 2015 in the accompanying consolidated financial statements. We did not elect to be taxed as a REIT for the taxable year ended December 31, 2014. This did not have an impact on our tax liability or the tax liability of our stockholders that invested in our public offering during 2014 since we did not have any taxable income for the year ended December 31, 2014.

Competition

Numerous real estate companies, real estate investment trusts and U.S. institutional and foreign investors, including Hines Global REIT, Inc. ("Hines Global I") compete with us in acquiring properties or making other real estate investments and obtaining creditworthy tenants to occupy such properties. Many of these entities have significant financial and other resources, allowing them to compete effectively with us. Principal factors of competition in our primary business of acquiring properties or making other real estate investments include access to capital, the quality of properties, leasing terms (including rent and other charges and allowances for inducements and tenant improvements), the quality and breadth of tenant services provided, and reputation as an owner and operator of commercial real estate investments in the relevant market. Additionally, our ability to compete depends upon, among other factors, trends of the global, national and local economies, investment alternatives, financial condition and operating results of current and prospective tenants, availability and cost of capital, taxes, governmental regulations, legislation and demographic trends.

We believe Hines' extensive real estate experience and depth and breadth of its organization of approximately 3,750 employees located in over 100 cities across the United States and 19 foreign countries allows it to better identify investment opportunities for us. However, competition may increase our cost of acquisitions.

Customers

We are dependent upon the ability of current tenants to pay their contractual rent amounts as the rents become due. Of our total rental revenue for the year ended December 31, 2016, approximately 21% was earned from The Commissioners of Public Works in Ireland, a state agency of Ireland, under a lease that expires in January 2028, 11% was earned from Western Digital, a tenant in the information industry, whose lease expires in 2021, and approximately 10% was earned from the Acushnet Company, under a lease that expires in July 2019. As of December 31, 2016, there were no other tenants that individually represented more than 10% of our total rental revenue.

Available Information

Stockholders may obtain copies of our filings with the Securities and Exchange Commission ("SEC"), free of charge from the website maintained by the SEC at www.sec.gov or from our website at www.HinesSecurities.com/reits/hines-global-reit-2. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our filings will be available on our website as soon as reasonably practicable after we electronically file such materials with the SEC. However, the information from our website is not incorporated by reference into this report.

Item 1A. Risk Factors

You should carefully read and consider the risks described below, together with all other information in this report. If certain of the following risks actually occur, it could have a material adverse effect on our business, financial condition, and results of operations and our ability to pay distributions would likely suffer materially or could be eliminated entirely. As a result, the value of our common shares may decline, and our stockholders could lose all or part of the money they paid to buy our common shares.

Investment Risks

We have a limited prior operating history, and the prior performance of other Hines affiliated entities may not be a good measure of our future results; therefore there is a higher risk that we will not be able to achieve our investment objectives compared to a real estate investment trust with a significant operating history.

We have a limited prior operating history. As a result, an investment in our shares of common stock may entail more risk than the shares of common stock of a real estate investment trust with a significant operating history and we may not be able to achieve our investment objectives. In addition, our stockholders should not rely on the past performance of investments by other investment vehicles sponsored by Hines to predict our future results. Our investment strategy and key employees may differ from the investment strategies and key employees of our affiliates in the past, present and future.

We offer a share redemption program for stockholders seeking liquidity of their shares. However, there is no public market for our common shares; therefore, it will be difficult for our stockholders to sell their shares and, if they are able to sell their shares, they will likely sell them at a substantial discount.

There is no public market for our common shares, and we do not expect one to develop. We have a share redemption program, but it is limited in terms of the amount of shares which may be redeemed. It will therefore be difficult for our stockholders to sell their shares of common stock promptly or at all. Additionally, our charter contains restrictions on the ownership and transfer of our shares, and these restrictions may limit the ability of our stockholders to sell their shares. If they are able to sell their shares, they may only be able to sell them at a substantial discount from the price they paid. This may be the result, in part, of the fact that the amount of funds available for investment are reduced by funds used to pay certain up-front fees and expenses, including organization and offering costs, such as issuer costs, selling commissions, and the dealer manager fee and acquisition fees and expenses in connection with our public offerings. Unless our aggregate investments increase in value to compensate for these up-front fees and expenses, which may not occur, it is unlikely that our stockholders will be able to sell their shares, without incurring a substantial loss. Stockholders may also experience substantial losses if we dispose of our assets or in connection with a liquidation event. We cannot assure stockholders that their shares will ever appreciate in value to equal the price they paid for their shares. Thus, prospective stockholders should consider our common shares as illiquid and a long-term investment, and they must be prepared to hold their shares for an indefinite length of time.

The Offering is a fixed price offering and the Offering price of each class of our common stock was not established on an independent basis; therefore, as it was arbitrarily determined, the fixed offering price will not accurately represent the current value of our assets at any particular time and may be higher than the value of our assets per share of our common stock at the time of the purchase.

The Offering is a fixed price offering, which means that the price for each class of our common stock in the Offering was fixed and does not vary based on the underlying value of our assets at any time. Our board of directors arbitrarily determined the offering price of each class of our common stock in its sole discretion. We do not intend to adjust the offering price after we acquire an asset and, therefore, the fixed offering price established for each class of our common stock will not accurately represent the value of our assets at any given time and the actual value of our stockholders' investment may be substantially less than what they pay. Our offering price

may not be indicative of either the price our stockholders would receive if they sold their shares, the price at which shares of our common stock would trade if they were listed on a national securities exchange or if we were liquidated or dissolved. Similarly, the amount our stockholders may receive upon redemption of their shares, if they determine to participate in our share redemption program, may be less than the amount they paid for such shares, regardless of any increase in the underlying value of any assets we own.

Because we are conducting an ongoing offering, we are providing information about our net tangible book value per share of our common stock. As of December 31, 2016, our net tangible book value per share was \$7.17 for each class of our common stock, which is less than the offering price for shares of each class of our common stock. Net tangible book value is a rough approximation of value calculated simply as total book value of assets minus total liabilities (all of which are adjusted for noncontrolling interests). It assumes that the value of real estate assets diminishes predictably over time as shown through the depreciation and amortization of real estate investments. Real estate values have historically risen or fallen with market conditions. Net tangible book value is used generally as a conservative measure of net worth that we do not believe reflects our estimated value per share. It is not intended to reflect the value of our assets upon an orderly liquidation of the Company in accordance with our investment objectives. However, net tangible book value does reflect certain dilution in value of our common stock from the issue price as a result of (i) accumulated depreciation and amortization of real estate investments, (ii) the funding of distributions from sources other than our cash flow from operations, (iii) the substantial fees paid in connection with our public offering, such as selling commissions and marketing fees, all or a portion of which have been reallocated by our dealer manager to participating broker dealers and (iv) the fees and expenses paid to our advisor and its affiliates in connection with the selection, acquisition, management and sale of our investments.

The Offering is a “blind pool” offering and our stockholders do not have the opportunity to evaluate our future investments prior to purchasing shares of our common stock.

Our stockholders will not be able to evaluate the economic merits, transaction terms or other financial or operational data concerning our future investments prior to purchasing shares of our common stock. In addition, our investment policies and strategies are very broad and permit us to invest in all types of properties and other real estate investments. Our stockholders must rely on our Advisor and our board of directors to implement our investment policies, to evaluate our investment opportunities and to structure the terms of our investments. Because our stockholders cannot evaluate our future investments in advance of purchasing shares of our common stock, a “blind pool” offering may entail more risk than other types of offerings. This additional risk may hinder our stockholders’ ability to achieve their personal investment objectives related to portfolio diversification, risk-adjusted investment returns and other objectives.

The Offering is a “best efforts” offering and if we are unable to raise substantial funds, we will be limited in the number and type of investments we may make which could negatively impact an investment in shares of our common stock.

The Offering is being made on a “best efforts” basis, whereby the broker dealers participating in the Offering are only required to use their best efforts to sell shares of our common stock and have no firm commitment or obligation to purchase any of the shares of our common stock. As a result, the amount of proceeds we raise in the Offering may be substantially less than the amount we would need to achieve a diversified industrial portfolio. Our inability to raise substantial funds would increase our fixed operating expenses as a percentage of gross income, and our financial condition and ability to make distributions could be adversely affected. As of March 17, 2017, we have raised approximately \$307.3 million from the sale of shares in the Offering and as of the date of this Annual Report on Form 10-K, we have acquired seven real estate investments. If we are unable to sell a significant number of the shares being offered in the Offering, we are more likely to focus on making investments in loans and real estate related entities, resulting in less diversification in terms of the number of investments owned, the geographic regions in which our property investments are located and the types of investments that we make. As a result, the likelihood increases that any single investment’s poor performance would materially affect our overall investment performance.

The availability and timing of distributions to our stockholders is uncertain and cannot be assured.

There is no assurance that distributions will continue to be authorized and paid. We cannot assure our stockholders that we will have sufficient cash to pay distributions to them or that the amount of any such distributions will increase over time. In addition, the distribution and stockholder servicing fees payable with respect to Class T Shares issued in the Offering will reduce the amount of funds available for distribution with respect to all Class T Shares (including Class T Shares issued pursuant to the distribution reinvestment plan). Should we fail for any reason to distribute at least 90% of our REIT taxable income, we would not qualify for the favorable tax treatment accorded to REITs.

We have and may continue to pay distributions from sources other than our cash flow from operations, including advances, deferrals or waivers of fees from our Advisor or affiliates, borrowings and/or proceeds of the Offering. We have not placed a cap on the amount of our distributions that may be paid from any of these sources. The use of sources other than our cash flow from operations to fund distributions could adversely impact our ability to pay distributions in future periods, decrease the amount of cash we have available for operations and new investments and/or potentially impact the value or result in dilution of our stockholders' investment.

In our initial quarters of operations, and from time to time thereafter, our cash flow from operations may be insufficient to fund distributions to stockholders. Our organizational documents permit us to make distributions from any source and we may choose to pay distributions when we do not have sufficient cash flow from operations to fund such distributions. 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. For example, we funded 23% of total distributions for 2015 and 60% of total distributions for 2016 with cash flows from financing activities which includes offering proceeds. In addition, our Advisor agreed to waive the asset management fee otherwise payable to it pursuant to our Advisory Agreement for the fourth quarter of 2014, each of the quarters in 2015 and 2016, and the first two quarters of 2017, to the extent that our MFFO for each respective quarter, as disclosed in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, amounts to less than 100% of the aggregate distributions declared for such quarter. Pursuant to this waiver agreement, our Advisor waived \$1.3 million, \$0.6 million and \$16,000 in asset management fees payable to it during the years ended December 31, 2016, December 31, 2015 and December 31, 2014, 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 our public offerings, cash advances by our Advisor and cash resulting from a waiver or deferral of fees. However, our Advisor and affiliates are under no obligation to advance funds to us or to defer or, subsequent to the second quarter of 2017, to continue to waive fees in order to support our distributions. When we pay distributions in excess of earnings and we use cash flows from financing activities, including offering proceeds and borrowings, to fund distributions, then we have less funds available for operations and for acquiring properties and other investments, which could adversely impact our ability to pay distributions in future periods, may reduce our stockholders' overall return and may result in the dilution of our stockholders' investment. In addition, our Advisor or its affiliates could choose to receive shares of our common stock or interests in the Operating Partnership in lieu of cash or deferred fees or the repayment of advances to which they are entitled, and the issuance of such securities may dilute our stockholders' interest in us. Furthermore, to the extent distributions exceed cash flow from operations, a stockholder's basis in our stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize capital gain.

Payments to the holders of the Special OP Units or any other OP Units will reduce cash available for distribution to our stockholders.

An affiliate of Hines has received OP Units in return for its \$190,000 contribution to the Operation Partnership. Our Advisor or its affiliates may also choose to receive OP Units in lieu of certain fees. The holders of all OP Units will be entitled to receive cash from operations pro rata with the distributions being paid to us and such distributions to the holder of the OP Units will reduce the cash available for distribution to our stockholders.

In addition, Hines Global REIT II Associates Limited Partnership, the holder of the Special OP Units, will be entitled to cash distributions, under certain circumstances, including from sales of our real estate investments, refinancings and other sources, which may reduce cash available for distribution to our stockholders and may negatively affect the value of our shares of common stock. Furthermore, under certain circumstances the Special OP Units and any other OP Units held by Hines or its affiliates are required to be repurchased, in cash at the holder's election and there may not be sufficient cash to make such a repurchase payment; therefore, we may need to use cash from operations, borrowings, or other sources to make the payment, which will reduce cash available for distribution to our stockholders.

Our stockholders' ability to have their shares redeemed is limited under our share redemption program, and if they are able to have their shares redeemed, it may be at a price that is less than the price they paid for the shares and the then-current market value of the shares.

Our share redemption program contains significant restrictions and limitations. For example, only stockholders who purchase their shares directly from us or who received their shares through a non-cash transaction, not in the secondary market, are eligible to participate, and stockholders must generally hold their shares for a minimum of one year before they can participate in our share redemption program. In addition, our share redemption program generally provides that only funds received from the prior month's distribution reinvestment plan may be used in the subsequent month to redeem shares. Our board of directors may terminate, suspend or amend the share redemption program upon 30 days' written notice without stockholder approval. As a result of these limitations, the redemption price our stockholders may receive upon any such redemption may not be indicative of the price our stockholders would receive if our shares were actively traded or if we were liquidated, and our stockholders should not assume that they will be able to sell all or any portion of their shares back to us pursuant to our share redemption program or to third parties at a price that reflects the then current market value of the shares or at all.

The actual value of shares that we redeem under our share redemption program may be substantially less than what we pay.

Under our share redemption program, shares may be repurchased at a price equal to the estimated per share NAV applicable to the class of shares being redeemed and most recently announced by us in a public filing with the SEC as of the applicable date of the redemption. However, if the redemptions are sought upon a stockholder's death or disability, shares will be redeemed at a price equal to the price paid to acquire such shares from us; provided that, the redemption price cannot exceed the then-current offering price, in which case, the redemption price will be reduced as necessary to equal the then-current offering price for such class of shares being redeemed. The estimated per share NAV and the price paid to acquire shares from us may not accurately represent the current value of our assets per share of our common stock at any particular time and may be higher or lower than the actual value of our assets per share at such time. Accordingly, we may redeem share at prices that are higher than the actual value of our shares, which would be dilutive to our remaining stockholders.

Our stockholders will not have the benefit of an independent due diligence review in connection with the Offering and, since there is no separate counsel for us and certain of our affiliates in connection with the Offering, if a conflict of interest arises between us and Hines, we may incur additional fees and expenses.

Because our Advisor and our Dealer Manager are affiliates of Hines, our stockholders will not have the benefit of an independent due diligence review and investigation of the type normally performed by an unaffiliated, independent underwriter in connection with a securities offering. In addition, Greenberg Traurig, LLP has acted as counsel to us, our Advisor and our Dealer Manager in connection with the Offering and, therefore, investors will not have the benefit of a due diligence review and investigation that might otherwise be performed by independent counsel which increases the risk of their investment. There is a possibility in the future that the interests of the various parties may become adverse and, under the code of professional responsibility of the legal profession, Greenberg Traurig, LLP may be precluded from representing any one or all of such parties.

If any situation arises in which our interests appear to be in conflict with those of our Advisor, our Dealer Manager or their affiliates, additional counsel may be retained by one or more of the parties to assure that their interests are adequately protected, which may result in us incurring additional fees and expenses. Moreover, should a conflict of interest not be readily apparent, Greenberg Traurig, LLP may inadvertently act in derogation of the interest of the parties which could affect our ability to meet our investment objectives.

The fees we pay in connection with the Offering and the agreements entered into with Hines and its affiliates were not determined on an arm's-length basis and therefore may not be on the same terms we could achieve from a third party.

The compensation paid to our Advisor, Dealer Manager, Hines and other affiliates for services they provide us was not determined on an arm's-length basis. All service agreements, contracts or arrangements between or among Hines and its affiliates, including our Advisor and us, were not negotiated at arm's-length. Such agreements include our Advisory Agreement, our Dealer Manager Agreement, and any property management and leasing agreements. A third party unaffiliated with Hines may be willing and able to provide certain services to us at a lower price.

We pay substantial compensation to Hines, our Advisor and their affiliates, which may be increased during the Offering or future offerings by our independent directors.

Subject to limitations in our charter, the fees, compensation, income, expense reimbursements, interests and other payments payable to Hines, our Advisor and their affiliates may increase during the Offering or in the future without stockholder approval if such increase is approved by a majority of our independent directors.

We do not, and do not expect to, have research analysts reviewing our performance.

We do not, and do not expect to, have research analysts reviewing our performance or our securities on an ongoing basis. Therefore, our stockholders will not have an independent review of our performance and the value of our common stock relative to publicly traded companies.

Our stockholders may experience dilution.

Our stockholders do not have preemptive rights. If we engage in a subsequent offering of common shares or securities convertible into common shares, issue shares pursuant to our distribution reinvestment plan or otherwise issue additional shares, investors who purchase shares in the Offering who do not participate in those other stock issuances will experience dilution in their percentage ownership of our outstanding shares. Furthermore, stockholders may experience a dilution in the value of their shares depending on the terms and pricing of any share issuances (including the shares being sold in the Offering) and the value of our assets at the time of issuance.

The prices of our Class A Shares and Class T Shares may each be adjusted to a price less than the price our stockholders paid for their shares.

The prices of our Class A Shares and Class T Shares may each be adjusted periodically in the discretion of our board of directors and therefore any future adjustments may result in an offering price lower than the price our stockholders paid for their shares.

We have disclosed an estimated per share NAV 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 per share NAV. Neither the estimated per share NAV 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 (“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 per share NAV of our common stock. The price at which we sell shares of our common stock is likely to be in excess of such estimated per share NAV. For example, the estimated per share NAV of our common stock determined by our board of directors on February 27, 2017 of \$9.65 per share is lower than the primary offering prices with respect to our Class A Shares and Class T Shares. The National Association of Securities Dealers (“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 per share NAV determined by our board of directors. In addition, we expect to use the estimated per share NAV 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 per share NAV, 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 per share NAV 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 per share NAV 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 per share NAV 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 per share NAV 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 accounting principles generally accepted in the United States of America (“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 per share NAV 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 per share NAV 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.

Risks Related to Our Business in General

Delays in purchasing properties or making other real estate investments with the proceeds received from the Offering may result in a lower rate of return to investors.

Our ability to locate and commit to purchase specific properties, or make investments, will be partially dependent on our ability to raise sufficient funds for such acquisitions and investments. We may be substantially delayed in making investments due to delays in:

- the sale of our common shares,
- obtaining debt financing,
- negotiating or obtaining the necessary purchase documentation,
- locating suitable investments or
- other factors.

We expect to invest proceeds we receive from the Offering in short-term, highly-liquid investments until we use such funds in our operations. We expect that the income we earn on these temporary investments will not be substantial. Further, we may use the principal amount of these investments, and any returns generated on these investments, to pay for fees and expenses in connection with the Offering and distributions. Therefore, delays in investing proceeds we raise from the Offering could impact our ability to generate cash flow for distributions.

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 took effect in 2016, with implementation scheduled to commence on April 10, 2017 and continue through January 1, 2018. On February 3, 2017, a Presidential Memorandum was issued directing the DOL to, among other things, examine the regulation to determine whether it may adversely affect the ability of Americans to gain access to market information and financial advice. The outcome of this review by the DOL and the ultimate impact of the final regulation are not yet known, but if the regulation is implemented, it could negatively impact the sale of shares of our common stock to such employee benefit plans and retirement plans and accounts. On March 2, 2017, a proposal by the DOL to delay the applicability date of the regulation for 60 days, or until June 9, 2017, was published in the Federal Register. The DOL’s proposal is subject to a 15-day comment period concerning the delay and also provides for a 45-day comment period concerning the review of the regulation being undertaken by the DOL.

A prolonged national or world-wide economic downturn or volatile capital market conditions could adversely affect our results of operations and our ability to pay distributions to our stockholders.

If disruptions in the capital and credit markets were to occur, they could adversely affect our ability to obtain loans, credit facilities, debt financing and other financing, or, when available, to obtain such financing on reasonable terms, which could negatively impact our ability to implement our investment strategy.

If these disruptions in the capital and credit markets should occur again as a result of, among other factors, uncertainty, changing regulation, changes in trade agreements, reduced alternatives or additional failures of significant financial institutions, our access to liquidity could be significantly impacted. Prolonged disruptions could result in us taking measures to conserve cash until the markets stabilize or until alternative credit

arrangements or other funding for our business needs could be arranged. Such measures could include deferring investments, reducing or eliminating the number of shares redeemed under our share redemption program and reducing or eliminating distributions we make to our stockholders.

We believe the risks associated with our business are more severe during periods of economic downturn if these periods are accompanied by declining values in real estate. For example, a prolonged economic downturn could negatively impact our property investments as a result of increased customer delinquencies and/or defaults under our leases, generally lower demand for rentable space, potential oversupply of rentable space leading to increased concessions, and/or customer improvement expenditures, or reduced rental rates to maintain occupancies.

Our operations could be negatively affected to a greater extent if an economic downturn occurs, is prolonged or becomes more severe, which could significantly harm our revenues, results of operations, financial condition, liquidity, business prospects and our ability to make distributions to our stockholders and may result in a decrease in the value of our stockholders' investment.

Yields on and safety of deposits may be lower due to the extensive decline in the financial markets.

Until we invest the proceeds of the Offering in real properties and other real estate investments, we may hold those funds in investments, including money market funds, bank money market accounts and CDs or other accounts at third-party depository institutions. Unusual declines in the financial markets, similar to those experienced during the Great Recession, could result in a loss of some or all of these funds. In particular, money market funds may experience intense redemption pressure and have difficulty satisfying redemption requests. As a result, we may not be able to access the cash in our money market investments. In addition, current yields from these investments are minimal.

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.

The Federal Deposit Insurance Corporation only insures amounts up to \$250,000 per depositor. It is likely that we will have cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. If any of the banking institutions in which we deposit funds ultimately fails, we may lose any amounts of our deposits over federally insured levels. The loss of our deposits could reduce the amount of cash we have available to distribute or invest and could result in a decline in the value of our stockholders' investment.

Because of our inability to retain earnings, we will rely on debt and equity financings for acquisitions, and if we do not have sufficient capital resources from such financings, our growth may be limited.

In order to qualify for taxation as a REIT, we generally are required to distribute to our stockholders at least 90% of our annual ordinary taxable income to maintain such qualification. This requirement limits our ability to retain income or cash flow from operations to finance the acquisition of new investments. We will explore acquisition opportunities from time to time with the intention of expanding our operations and increasing our profitability. We anticipate that we will use debt and equity financing for such acquisitions because of our inability to retain significant earnings. Consequently, if we cannot obtain debt or equity financing on acceptable terms, our ability to acquire new investments and expand our operations will be adversely affected.

We may need to incur borrowings that would otherwise not be incurred to meet REIT minimum distribution requirements.

In order to qualify as a REIT, we are required to distribute to our stockholders at least 90% of our annual ordinary taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid (or deemed paid) by us with respect to any calendar year are less than the sum

of (i) 85% of our ordinary income for that year, (ii) 95% of our capital gain net income for that year and (iii) 100% of our undistributed taxable income from prior years.

We expect our income, if any, to consist almost solely of our share of the Operating Partnership's income, and the cash available for the payment of distributions by us to our stockholders will consist of our share of cash distributions made by the Operating Partnership. As the general partner of the Operating Partnership, we will determine the amount of any distributions made by the Operating Partnership. However, we must consider a number of factors in making such distributions, including:

- the amount of the cash available for distribution;
- the impact of such distribution on other partners of the Operating Partnership;
- the Operating Partnership's financial condition;
- the Operating Partnership's capital expenditure requirements and reserves therefor; and
- the annual distribution requirements contained in the Code necessary to qualify and maintain our qualification as a REIT.

Differences in timing between the actual receipt of income and actual payment of deductible expenses and the inclusion of such income and deduction of such expenses when determining our taxable income, as well as the effect of nondeductible capital expenditures, the creation of reserves, the use of cash to purchase shares under our share redemption program or required debt amortization payments, could result in our having taxable income that exceeds cash available for distribution.

In view of the foregoing, we may be unable to meet the REIT minimum distribution requirements and/or avoid the 4% excise tax described above. In certain cases, we may decide to borrow funds in order to meet the REIT minimum distribution and/or avoid the 4% excise tax even if our management believes that the then prevailing market conditions generally are not favorable for such borrowings or that such borrowings would not be advisable in the absence of such tax considerations.

Lenders may require us to enter into restrictive covenants that relate to or otherwise limit our operations, which could limit our ability to make distributions to our stockholders, to replace our Advisor or to otherwise achieve our investment objectives.

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we enter into may contain covenants that limit our ability to further mortgage property, discontinue insurance coverage, or make distributions under certain circumstances. In addition, provisions of our loan documents may deter us from replacing our Advisor because of the consequences under such agreements and may limit our ability to replace the property manager or terminate certain operating or lease agreements related to the property. These or other limitations may adversely affect our flexibility and our ability to achieve our investment objectives.

Actions of our joint venture partners, including other Hines investment vehicles and third parties, could negatively impact our performance.

We may purchase or develop properties or other real estate investments or make investments in joint ventures or partnerships, co-tenancies or other co-ownership arrangements with Hines affiliates, the sellers of the properties, developers or similar persons. Joint ownership of properties or other investments, under certain circumstances, may involve risks not otherwise present with other methods of owning real estate or other real estate investments. Examples of these risks include:

- the possibility that our partners or co-investors might become insolvent or bankrupt;
- that such partners or co-investors might have economic or other business interests or goals that are inconsistent with our business interests or goals, including inconsistent goals relating to the sale of

properties or other investments held in the joint venture or the timing of the termination and liquidation of the venture;

- the possibility that we may incur liabilities as the result of actions taken by our partners or co-investors; or
- that such partners or co-investors may be in controlling positions and/or be in a position to take actions contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT.

Actions by a co-venturer, co-tenant or partner may result in subjecting the assets of the joint venture to unexpected liabilities. Under joint venture arrangements, neither co-venturer may have the power to control the venture, and under certain circumstances, an impasse could result and this impasse could have an adverse impact on the operations and profitability of the joint venture.

If we have a right of first refusal or buy/sell right to buy out a co-venturer or partner, we may be unable to finance such a buy-out if it becomes exercisable or we are required to purchase such interest at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture for any reason or if our interest is likewise subject to a right of first refusal of our co-venturer or partner, our ability to sell such interest may be adversely impacted by such right. Joint ownership arrangements with Hines affiliates may also entail conflicts of interest.

If we invest in a limited partnership as a general partner, we could be responsible for all liabilities of such partnership.

In some joint ventures or other investments we may make, if the entity in which we invest is a limited partnership, we may acquire all or a portion of our interest in such partnership as a general partner. As a general partner, we could be liable for all the liabilities of such partnership. Additionally, we may acquire a general partner interest in the form of a non-managing general partner interest. As a non-managing general partner, we are potentially liable for all liabilities of the partnership without having the same rights of management or control over the operation of the partnership as the managing general partner. Therefore, we may be held responsible for all of the liabilities of an entity in which we do not have full management rights or control, and our liability may far exceed the amount or value of investment we initially made or then had in the partnership.

We may acquire various financial instruments for purposes of “hedging” or reducing our risks, which may be costly and ineffective and may reduce our cash available for distribution to our stockholders.

We may enter into currency rate swaps and caps, or similar hedging or derivative transactions or arrangements, in order to manage or mitigate our risk of exposure to the effects of currency changes as a result of our international investments. Similarly, we may enter into interest rate swaps and caps, or similar hedging or derivative transactions or arrangements, in order to manage or mitigate our risk of exposure to the effects of interest rate changes due to variable interest rate debt that we may have.

We are different in some respects from other investment vehicles sponsored by Hines, and therefore the past performance of such investments may not be indicative of our future results. In addition, Hines has limited experience in acquiring and operating certain types of real estate investments that we may acquire.

We are Hines' third publicly-offered real estate investment vehicle. We collectively refer to real estate joint ventures, funds and programs as real estate investment vehicles. All but two of the previous real estate investment vehicles of Hines and its affiliates were conducted through privately-held entities not subject to either

the up-front commissions, fees and expenses associated with the Offering or all of the laws and regulations that govern us, including reporting requirements under the federal securities laws and tax and other regulations applicable to REITs.

The past performance of other investment vehicles sponsored by Hines or its affiliates may not be indicative of our future results, and we may not be able to successfully operate our business and implement our investment strategy, which may be different in a number of respects from the operations previously conducted by Hines. In addition, Hines has limited experience in acquiring and operating certain types of real estate investments that we may acquire. For example, a significant amount of real estate investments that have been made by Hines' other investment vehicles have consisted of acquisitions and development of office or industrial properties or land. Therefore, we may need to use third parties to source or manage investments in which Hines has limited experience. In addition, a significant portion of Hines' other programs and investments involve development projects. Although we are able to invest in development projects, we do not anticipate that a significant portion of the proceeds from the Offering will be invested in development projects. As a result of all of these factors, our stockholders should not rely on the past performance of other investment vehicles sponsored by Hines and its affiliates to predict, or as an indication of, our future performance.

Our success will be dependent on the performance of Hines as well as key employees of Hines. Certain other investment vehicles sponsored by Hines have experienced adverse developments in recent years and there is a risk that we may experience similar adverse developments. Adverse changes in affiliated programs could also adversely affect our ability to raise capital.

Our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of Hines and its affiliates as well as key employees of Hines in the identification and acquisition of investments, the selection of tenants, the determination of any financing arrangements, the management of our assets and operation of our day-to-day activities. Our board of directors and our Advisor have broad discretion when identifying, evaluating, making and managing our investments with the proceeds of the Offering. Our stockholders will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. We will rely on the management ability of Hines and the oversight of our board of directors as well as the management of any entities or ventures in which we invest.

We may not be able to retain our key employees. To the extent we are unable to retain and/or find qualified successors for key employees that depart from the company, our results of operations may be adversely impacted. Our officers and the management of our Advisor also serve in similar capacities for numerous other entities. If Hines or any of its key employees are distracted by these other activities or suffer from adverse financial or operational problems in connection with operations unrelated to us, the ability of Hines and its affiliates to allocate time and/or resources to our operations may be adversely affected. If Hines is unable to allocate sufficient resources to oversee and perform our operations for any reason, our results of operations would be adversely impacted. We will not provide key-man life insurance policies for any of Hines' key employees.

Certain other investment vehicles sponsored by Hines have experienced adverse developments in recent years. Although it was re-opened with respect to ordinary redemption requests in April 2013, Hines REIT suspended its share redemption program, except with respect to redemptions in connection with the death or disability of a stockholder in December 2009. As of December 31, 2015, shares redeemed pursuant to the share redemption program were redeemed at \$5.45 per share, with respect to ordinary redemption requests, and with respect to requests in connection with the death or disability of a stockholder commencing with redemptions made on January 1, 2016, shares were redeemed at \$6.65 per share. In May 2011, November 2012, April 2013, November 2013, December 2014 and September 2015, Hines REIT's board of directors determined an estimated per share net asset value, or NAV of \$7.78, \$7.61, \$6.75, \$6.40, \$6.50, and \$6.65, respectively, each of which was lower than the most recent primary offering price of \$10.08 per share. The reduction in the estimated NAV between November 2012 and April 2013 was due to Hines REIT's payment to its stockholders of special

distributions in excess of \$0.80 per share (all of which represented a return of capital). In addition, Hines REIT decreased its distribution rate in July 2010 and further decreased the rate in April 2013. The board of directors of Hines Global I, another public investment vehicle sponsored by Hines, determined an estimated per share NAV of \$10.03, \$10.24, \$9.44, \$8.90 and \$8.78, respectively, as of December 31, 2016, 2015, 2014, 2013, 2012, each of which was lower than the most recent primary offering price of \$10.40 per share.

In addition to Hines REIT, Hines Global I, and HMS Income Fund, Inc. (“HMS”), Hines has sponsored more than 20 privately-offered programs in the past ten years. Several of Hines’ privately-offered programs have experienced adverse economic developments due to the global financial crisis and deteriorating economic conditions in several European and South American countries, Mexico and several U.S. markets between 2007 and 2009. The adverse market conditions experienced by these programs may result in them altering their investment strategy, generating returns lower than originally expected, or ultimately may cause such programs to incur losses. There is a risk that we may experience similar adverse developments, as an investment vehicle sponsored by Hines.

Adverse results in the other non-traded REITs on the Hines platform have the potential to affect Hines’ and our reputation among financial advisors and investors, which could affect our ability to raise capital.

Terrorist attacks and other acts of violence, civilian unrest or war may affect the markets in which we operate, our business and our profitability.

Terrorist attacks and other acts of violence, civilian unrest or war may negatively affect our operations and our stockholders’ investment in our shares. We may acquire real estate investments located in or that relate to real estate located in areas that are susceptible to attack. In addition, any kind of terrorist activity or violent criminal acts, including terrorist acts against public institutions or buildings or modes of public transportation (including airlines, trains or buses) could have a negative effect on our business. These events may directly impact the value of our assets through damage, destruction, loss or increased security costs. We may not be able to obtain insurance against the risk of terrorism because it may not be available or may not be available on terms that are economically feasible. Further, even if we do obtain terrorism insurance, we may not be able to obtain sufficient coverage to fund any losses we may incur. Risks associated with potential acts of terrorism in the areas in which we acquire properties or other real estate investments could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases have begun to insist that specific coverage against terrorism be purchased by commercial owners as a condition for providing loans.

The consequences of any armed conflict are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business or our stockholders’ investment. More generally, any terrorist attack, other act of violence or war, including armed conflicts, could result in increased volatility in or damage to, the United States and worldwide financial markets and economy. They also could result in a continuation of the current economic uncertainty in the United States or abroad. Our revenues will be dependent upon the payment of rent and the return of our other investments which may be particularly vulnerable to uncertainty in the local economy. Increased economic volatility could adversely affect our tenants’ ability to pay rent or the return on our other investments or our ability to borrow money or issue capital stock at acceptable prices and have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to make distributions to our stockholders and the value of their investment.

We may be subject to litigation which could have a material adverse effect on our business and financial condition.

We may be subject to litigation, including claims relating to our operations, offerings, unrecognized pre-acquisition contingencies and otherwise in the ordinary course of business. Some of these claims may result in potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to vigorously defend ourselves; however, we cannot be certain of the ultimate outcomes of claims that

may arise in the future. Resolution of these types of matters against us may result in our payment of significant fines or settlements, which, if not insured against, or if these fines and settlements exceed insured levels, would adversely impact our earnings and cash flows. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured and/or adversely impact our ability to attract officers and directors.

Our business could suffer in the event our Advisor, our Dealer Manager, our transfer agent or any other party that provides us with services essential to our operations experiences system failures or cyberincidents or a deficiency in cybersecurity.

Our Advisor, our Dealer Manager, our transfer agent and other parties that provide us with services essential to our operations are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that may include, but is not limited to, gaining unauthorized access to systems to disrupt operations, corrupt data, steal assets or misappropriate confidential information, such as confidential stockholder records. As reliance on technology in our industry has increased, so have the risks posed to our systems, both internal and those we have outsourced. In addition, the risk of a cyber incident, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and instructions from around the world have increased. The remediation costs and lost revenues experienced by a victim of a cyber incident may be significant and significant resources may be required to repair system damage, protect against the threat of future security breaches or to alleviate problems, including reputational harm, loss of revenues and litigation, caused by any breaches. There also may be liability for any stolen assets or misappropriated confidential information. Any material adverse effect experienced by our Advisor, our Dealer Manager, our transfer agent and other parties that provide us with services essential to our operations could, in turn, have an adverse impact on us.

Risks Related to Investments in Real Estate

Geographic concentration of our portfolio may make us particularly susceptible to adverse economic developments in the real estate markets of those areas.

In the event that we have a concentration of properties in, or real estate investments that invest in properties located in, a particular geographic area, our operating results and ability to make distributions are likely to be impacted by economic changes affecting the real estate markets in that area. Therefore, an investment in our common stock will be subject to greater risk to the extent that we lack a geographically diversified portfolio. As of December 31, 2016, we owned interests in five real estate investments, each of which was located in different domestic and international real estate markets. Please see Item 2. Properties for additional information regarding our investments, including market concentration.

Industry concentration of our tenants may make us particularly susceptible to adverse economic developments in these industries.

In the event we have a concentration of tenants in a particular industry, our operating results and ability to make distributions may be adversely affected by adverse developments in those industries and we will be subject to a greater risk to the extent that our tenants are not diversified by industry. For example, based on leased square footage of our commercial real estate properties, as of December 31, 2016 and including the effect of our acquisition of Rookwood in January 2017, approximately 60% is leased to tenants in the retail industry. Please see Item 2. Properties for additional information regarding our investments, including industry concentration.

We have not established investment criteria limiting the size of property acquisitions. If we have an investment that represents a material percentage of our assets which experiences a loss, the value of an investment in us would be significantly diminished.

We are not limited in the size of any single property acquisition we may make and certain of our investments may represent a significant percentage of its assets. Should we experience a loss on a portion or all of an investment that represents a significant percentage of our assets, this event would have a material adverse effect on our business and financial condition, which would result in an investment in us being diminished.

We depend on tenants for our revenue, and therefore our revenue will be dependent on the success and economic viability of our tenants. Our reliance on single or significant tenants in certain buildings may decrease our ability to lease vacated space.

We expect that rental income from real property will, directly or indirectly, constitute a significant portion of our income. Delays in collecting accounts receivable from tenants could adversely affect our cash flows and financial condition. In addition, the inability of a single major tenant or a number of smaller tenants to meet their rental obligations would adversely affect our income. Therefore, our financial success will be indirectly dependent on the success of the businesses operated by the tenants in our properties or in the properties securing loans we may own. Of our total rental revenue for the year ended December 31, 2016, approximately 21% was earned from the Commissioner of Public Works in Ireland, a state agency of Ireland, whose lease expires in 2028, 11% was earned from Western Digital, a tenant in the information industry, whose lease expires in 2021, and approximately 10% was earned from Acushnet, a tenant in the manufacturing industry, whose lease expires in 2019. The weakening of the financial condition or the bankruptcy or insolvency of a significant tenant or a number of smaller tenants and vacancies caused by defaults of tenants or the expiration of leases, may adversely affect our operations and our ability to pay distributions.

Generally, under U.S. bankruptcy law, a debtor tenant has 120 days to exercise the option of assuming or rejecting the obligations under any unexpired lease for nonresidential real property, which period may be extended once by the bankruptcy court. If the tenant assumes its lease, the tenant must cure all defaults under the lease and may be required to provide adequate assurance of its future performance under the lease. If the tenant rejects the lease, we will have a claim against the tenant's bankruptcy estate. Although rent owing for the period between filing for bankruptcy and rejection of the lease may be afforded administrative expense priority and paid in full, pre-bankruptcy arrears and amounts owing under the remaining term of the lease will be afforded general unsecured claim status (absent collateral securing the claim). Moreover, amounts owing under the remaining term of the lease will be capped. Other than equity and subordinated claims, general unsecured claims are the last claims paid in a bankruptcy and therefore funds may not be available to pay such claims in full. In addition, while the specifics of the bankruptcy laws of international jurisdictions may differ from the U.S. bankruptcy laws described herein, the bankruptcy or insolvency of a significant tenant or a number of smaller tenants at any of the international properties we may acquire, may similarly adversely impact our operations and our ability to pay distributions.

Two of our properties are and in the future, we may invest in additional properties that are leased to a single or significant tenant and, accordingly, may be suited to the particular or unique needs of such tenant. We may have difficulty replacing such a tenant if the floor plan of the vacant space limits the types of businesses that can use the space without major renovation. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

A change in U.S. accounting standards regarding operating leases may make the leasing of our properties less attractive to our potential tenants, which could reduce overall demand for our leasing services.

Under current authoritative accounting guidance for leases, a lease is classified by a tenant as a capital lease if the significant risks and rewards of ownership are considered to reside with the tenant. Under capital lease

accounting, both the leased asset and liability are reflected on the tenant's balance sheet. If the terms of the lease do not meet the criteria for a capital lease, the lease is considered an operating lease and no leased asset or contractual lease obligation is recorded on the tenant's balance sheet. Accordingly, under the current accounting standards for leases, the entry into an operating lease with respect to real property can appear to enhance a tenant's reported financial condition or results of operations in comparison to the tenant's direct ownership of the property.

In order to address concerns raised by the SEC regarding the transparency of contractual lease obligations under the existing accounting standards for operating leases, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02 on February 25, 2016, which substantially changes the current lease accounting standards, primarily by significantly changing the concept of operating lease accounting. As a result, a lease asset and obligation will be recorded on the tenant's balance sheet for all lease arrangements. In addition, ASU 2016-02 will impact the method in which contractual lease payments will be recorded. In order to mitigate the effect of the new lease accounting standards, tenants may seek to negotiate certain terms within new lease arrangements or modify terms in existing lease arrangements, such as shorter lease terms, which would generally have less impact on their balance sheets. Also, tenants may reassess their lease-versus-buy strategies. This could result in a greater renewal risk, a delay in investing our offering proceeds, or shorter lease terms, all of which may negatively impact our operations and our ability to pay distributions to our stockholders. The new leasing standard is effective on January 1, 2019, with early adoption permitted.

Due to the risks involved in the ownership of real estate investments and real estate acquisitions, a return on an investment in us is not guaranteed, and our stockholders may lose some or all of their investment.

By owning our shares, stockholders will be subjected to significant risks associated with owning and operating real estate investments. The performance of their investment in us will be subject to such risks, including:

- changes in the general economic climate;
- changes in local conditions such as an oversupply of space or reduction in demand for real estate;
- changes in interest rates and the availability of financing;
- changes in property level operating expenses due to inflation or otherwise;
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes; and
- changes due to factors that are generally outside of our control, such as terrorist attacks and international instability, natural disasters and acts of God, over-building, adverse national, state or local changes in applicable tax, environmental or zoning laws and a taking of any of the properties which we own or in which we otherwise have interests by eminent domain.

In addition, we expect to acquire properties in the future, which may subject us to additional risks associated with real estate property acquisitions, including the risks that:

- the investments will fail to perform in accordance with our expectations because of conditions or liabilities we did not know about at the time of acquisition; and
- our projections or estimates with respect to the performance of the investments, the costs of operating or improving the properties or the effect of the economy or capital markets on the investments will prove inaccurate.

Any of these factors could have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to make distributions to our stockholders and the value of their investment.

An economic slowdown or rise in interest rates or other unfavorable changes in economic conditions in the markets in which we operate could adversely impact our business, results of operations, cash flows and financial condition and our ability to make distributions to our stockholders and the value of their investment.

The development of negative economic conditions in the markets in which we operate may significantly affect occupancy, rental rates and our ability to collect rent from our tenants, as well as our property values, which could have a material adverse impact on our cash flows, operating results and carrying value of investment property. For example, an economic recession or rise in interest rates could make it more difficult for us to lease real properties, may require us to lease the real properties we acquire at lower rental rates and may lead to an increase in tenant defaults. In addition, these conditions may also lead to a decline in the value of our properties and make it more difficult for us to dispose of these properties at an attractive price. Other risks that may affect conditions in the markets in which we operate include:

- Local conditions, such as an oversupply of the types of properties we invest in or a reduction in demand for such properties in the area; and
- Increased operating costs, if these costs cannot be passed through to tenants.

International, national, regional and local economic climates have been adversely affected by the slow job growth of recent years. To the extent any of the adverse conditions described above occurs in the specific markets in which we operate, market rents, occupancy rates and our ability to collect rents from our tenants will likely be affected and the value of our properties may decline. We could also face challenges related to adequately managing and maintaining our properties, should we experience increased operating cost and as a result, we may experience a loss of rental revenues. Any of these factors may adversely affect our business, results of operations, cash flows and financial condition, our ability to make distributions to our stockholders and the value of their investment.

Our use of borrowings to partially fund acquisitions and improvements on properties could result in foreclosures and unexpected debt service expenses upon refinancing, both of which could have an adverse impact on our operations and cash flow.

We are relying and intend to continue to rely in part on borrowings under credit facilities and other external sources of financing to fund the costs of new investments, capital expenditures and other items. Accordingly, we are subject to the risks that our cash flow will not be sufficient to cover required debt service payments and that we will be unable to meet other covenants or requirements in the credit agreements.

If we cannot meet our required debt obligations, the property or properties securing such indebtedness could be foreclosed upon by, or otherwise transferred to, our lender, with a consequent loss of income and asset value to us. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we may not receive any cash proceeds. Additionally, we may be required to refinance our debt subject to “lump sum” or “balloon” payment maturities on terms less favorable than the original loan or at a time we would otherwise prefer to not refinance such debt. A refinancing on such terms or at such times could increase our debt service payments, which would decrease the amount of cash we would have available for operations, new investments and distribution payments and may cause us to determine to sell one or more properties at a time when we would not otherwise do so.

Uninsured losses relating to real property may adversely impact the value of our portfolio.

We will attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, there are types of losses, generally catastrophic in nature, which are uninsurable, are not economically insurable or are only insurable subject to limitations. Examples of such catastrophic events include acts of war or terrorism, earthquakes, floods, hurricanes and pollution or environmental matters. We may not have adequate

coverage in the event we or our buildings suffer casualty losses. If we do not have adequate insurance coverage, the value of our assets will be reduced as the result of, and to the extent of, any such uninsured losses. Additionally, we may not have access to capital resources to repair or reconstruct any uninsured damage to a property.

We may be unable to obtain desirable types of insurance coverage at a reasonable cost, if at all, and we may be unable to comply with insurance requirements contained in mortgage or other agreements due to high insurance costs.

We may not be able either to obtain certain desirable types of insurance coverage, such as terrorism, earthquake, flood, hurricane and pollution or environmental matter insurance, or to obtain such coverage at a reasonable cost in the future, and this risk may limit our ability to finance or refinance debt secured by our properties. Additionally, we could default under debt or other agreements if the cost and/or availability of certain types of insurance make it impractical or impossible to comply with covenants relating to the insurance we are required to maintain under such agreements. In such instances, we may be required to self-insure against certain losses or seek other forms of financial assurance.

The real estate industry is subject to extensive regulation, which may result in higher expenses or other negative consequences that could adversely affect us.

Our activities are subject to federal, state and municipal laws, and to regulations, authorizations and license requirements with respect to, among other things, zoning, environmental protection and historical heritage, all of which may affect our business. We may be required to obtain licenses and permits with different governmental authorities in order to acquire and manage our assets.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which generally took effect in 2011, contains a sweeping overhaul of the regulation of U.S. financial institutions and financial markets. Key provisions of the Dodd-Frank Act require extensive rulemaking by the SEC and the U.S. Commodity Futures Trading Commission, some of which remains ongoing. Thus, the full impact of the Dodd-Frank Act on our business cannot be fully assessed until all final implementing rules and regulations are promulgated.

Various rules currently in effect under the Dodd-Frank Act may have a significant impact on our business, including, without limitation, provisions of the legislation that increase regulation of and disclosure requirements related to investment advisors, swap transactions and hedging policies, corporate governance and executive compensation, investor protection and enforcement provisions, and asset-backed securities. In February 2017, the U.S. President ordered the Secretary of the U.S. Treasury to review certain existing rules and regulations, such as those promulgated under the Dodd-Frank Act; however, the implications of that review are not yet known and none of the rules and regulations promulgated under the Dodd-Frank Act have been modified or rescinded as of the date of this report.

For example, but not by way of limitation, the Dodd-Frank Act and the rules and regulations promulgated thereunder provides for significantly increased regulation of the derivatives markets and transactions that affect our interest rate hedging activities, including: (i) regulatory reporting, (ii) subject to limited exemptions, mandated clearing through central counterparties and execution on regulated exchanges or execution facilities, and (iii) margin and collateral requirements. While the full impact of the Dodd-Frank Act on our interest rate hedging activities cannot be fully assessed until all final implementing rules and regulations are promulgated, the foregoing requirements may affect our ability to enter into hedging or other risk management transactions, may increase our costs in entering into such transactions, and/or may result in us entering into such transactions on less favorable terms than prior to the Dodd-Frank Act. For example, subject to an exception for “end-users” of swaps upon which we may seek to rely, we may be required to clear certain interest rate hedging transactions by submitting them to a derivatives clearing organization. To the extent we are required to clear any such

transactions, we will be required to, among other things, post margin in connection with such transactions. The occurrence of any of the foregoing events may have an adverse effect on our business and our stockholders' return.

In addition, public authorities may enact new and more stringent standards, or interpret existing laws and regulations in a more restrictive manner, which may force companies in the real estate industry, including us, to spend funds to comply with these new rules. Any such action on the part of public authorities may adversely affect our results from operations.

In the event of noncompliance with such laws, regulations, licenses and authorizations, we may face the payment of fines, project shutdowns, cancellation of licenses, and revocation of authorizations, in addition to other civil and criminal penalties.

We operate in a competitive business, and many of our competitors have significant resources and operating flexibility, allowing them to compete effectively with us.

Numerous real estate companies that operate in the markets in which we may operate will compete with us in acquiring real estate investments and obtaining creditworthy tenants to occupy such properties or the properties owned by such investments. Such competition could adversely affect our business. There are numerous real estate companies, real estate investment trusts and U.S. institutional and foreign investors that will compete with us in seeking investments and tenants for properties, including Hines Global I. Many of these entities have significant financial and other resources, including operating experience, allowing them to compete effectively with us. In addition, our ability to charge premium rental rates to tenants may be negatively impacted. This increased competition may increase our costs of acquisitions or investments or lower our occupancy rates and the rent we may charge tenants. In addition, the arrival of new competitors in the immediate areas where we have assets could require unplanned investments in our assets, which may adversely affect us. We may also have difficulty in renewing leases or in leasing to new tenants, which may lead to a reduction in our cash flow and operating income, since the proximity of new competitors could divert existing or new tenants to such competitors, resulting in vacancies.

We may have difficulty selling real estate investments, and our ability to distribute all or a portion of the net proceeds from such sales to our stockholders may be limited.

Real estate investments are relatively illiquid. We will have a limited ability to vary our portfolio in response to changes in economic or other conditions. We will also have a limited ability to sell assets in order to fund working capital and similar capital needs such as share redemptions. We expect to generally hold a real estate investment for the long term. When we sell any of our real estate investments, we may not realize a gain on such sale or the amount of our taxable gain could exceed the cash proceeds we receive from such sale. We may not distribute any proceeds from the sale of real estate investments to our stockholders. Rather, we may use such proceeds to:

- purchase additional real estate investments;
- repay debt;
- buy out interests of any co-venturers or other partners in any joint venture in which we are a party;
- purchase shares under our share redemption program;
- create working capital reserves; or
- make repairs, maintenance, tenant improvements or other capital improvements or expenditures to our other properties.

Our ability to sell our properties may also be limited by our desire to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. In order to avoid such characterization and to take advantage of certain safe harbors under the Code, we may determine to hold our properties for a minimum period of time, generally two years.

Our investment strategy may cause us to incur penalty taxes, fail to maintain our REIT status or own and sell properties through TRSs, each of which would diminish the return to our stockholders.

The sale of one or more of our properties may be considered a prohibited transaction under the Code. Any “inventory-like” sales could be considered such a prohibited transaction. If we are deemed to have engaged in a “prohibited transaction” (i.e., we sell a property held by us primarily for sale in the ordinary course of our trade or business), all net gain that we derive from such sale would be subject to a 100% penalty tax. The Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% penalty tax. The principal requirements of the safe harbor are that: (i) the REIT must hold the applicable property for not less than two years for the production of rental income prior to its sale; (ii) the aggregate expenditures made by the REIT, or any partner of the REIT, during the two-year period preceding the date of sale which are includible in the basis of the property do not exceed 30% of the net selling price of the property; and (iii) property sales by the REIT do not exceed at least one of the following thresholds: (a) seven sales in the current year; (b) sales in the current year that do not exceed 10% of the REIT’s assets as of the beginning of the year (as measured by either fair market value or tax basis); or (c) sales in the current year that do not exceed 20% of the REIT’s assets as of the beginning of the year, and sales over a three-year period do not exceed, on average, 10% per annum of the REIT’s assets, in each case as measured by either fair market value or tax basis. Given our investment and operating strategy, the sale of one or more of our properties may not satisfy the above prohibited transaction safe harbor.

If we desire to sell a property pursuant to a transaction that does not satisfy the safe harbor, we may be able to avoid the prohibited transaction tax if we hold and sell the property through a TRS. In that case, any gain would be taxable to the TRS at regular corporate income tax rates. We may decide to forego the use of a TRS in a transaction that does not meet the safe harbor based on our own internal analysis, the opinion of counsel or the opinion of other tax advisors that the disposition will not be subject to the prohibited transaction tax. In cases where a property disposition is not effected through a TRS, the Internal Revenue Service could assert that the disposition constitutes a prohibited transaction. If such an assertion were successful, all of the net gain from the sale of the property will be payable as a tax which will have a negative impact on cash flow and the ability to make cash distributions.

As a REIT, the value of our ownership interests held in our TRSs may not exceed 25% of the value of all of our assets at the end of any calendar quarter (20% commencing in 2018). If the IRS were to determine that the value of our interests in all of our TRSs exceeded 25% of the value of our total assets at the end of any calendar quarter (or 20% after 2017), then we could fail to qualify as a REIT. If we determine it to be in our best interest to own a substantial number of our properties through one or more TRSs, then it is possible that the IRS may conclude that the value of our interests in our TRSs exceeds 25% (or 20%) of the value of our total assets at the end of any calendar quarter and therefore cause us to fail to qualify as a REIT. Additionally, as a REIT, generally no more than 25% of our gross income with respect to any year may be from sources other than real estate. Distributions paid to us from a TRS are considered to be non-real estate income. Therefore, we may fail to qualify as a REIT if distributions from all of the Company’s TRSs, when aggregated with all other non-real estate income with respect to any one year, are more than 25% of the Company’s gross income with respect to such year.

Potential liability as the result of, and the cost of compliance with, environmental matters could adversely affect our operations.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic

substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances.

We expect to invest in, or make investments in real estate investments that have interests in, properties historically used for industrial, manufacturing and commercial purposes. These properties are more likely to contain, or may have contained, underground storage tanks for the storage of petroleum products and other hazardous or toxic substances. All of these operations create a potential for the release of petroleum products or other hazardous or toxic substances. Leasing properties to tenants that engage in industrial, manufacturing, and commercial activities will cause us to be subject to increased risk of liabilities under environmental laws and regulations. The presence of hazardous or toxic substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such property as collateral for future borrowings.

Environmental laws also may impose restrictions on the manner in which properties may be used or businesses may be operated, and these restrictions may require expenditures. Such laws may be amended so as to require compliance with stringent standards which could require us to make unexpected, substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. We may be potentially liable for such costs in connection with the acquisition and ownership of our properties in the United States. In addition, we may invest in properties located in countries that have adopted laws or observe environmental management standards that are less stringent than those generally followed in the United States, which may pose a greater risk that releases of hazardous or toxic substances have occurred to the environment. The cost of defending against claims of liability, compliance with environmental regulatory requirements or remediating any contaminated property could be substantial and require a material portion of our cash flow.

We face possible risks associated with the physical effects of climate change.

We cannot predict with certainty whether climate change is occurring and, if so, at what rate. However, the physical effects of climate change could have a material adverse effect on our properties, operations and business. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity, such as those experienced in Super Storm Sandy in October 2012, and rising sea-levels. Over time, these conditions could result in declining demand for office space in our buildings or the inability of us to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy and increasing the cost of snow removal at our properties. There can be no assurance that climate change will not have a material adverse effect on our properties, operations or business.

The properties we acquire will be subject to property taxes that may increase in the future, which could adversely affect our cash flow.

Any properties we acquire will be subject to real and personal property taxes that may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. We anticipate that most of our leases will generally provide that the property taxes, or increases therein, are charged to the lessees as an expense related to the properties that they occupy. As the owner of the properties, however, we are ultimately responsible for payment of the taxes to the government. If property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes. In addition, we will generally be responsible for property taxes related to any vacant space. If we purchase residential properties, the leases for such properties typically will not allow us to pass through real estate taxes and other taxes to residents of such properties. Consequently, any tax increases may adversely affect our results of operations at such properties.

Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

If any of our properties has or develops mold we may be required to undertake a costly program to remediate, contain or remove the mold. Mold growth may occur when moisture accumulates in buildings or on building materials. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing because exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. We may become liable to our tenants, their employees and others if property damage or health concerns arise, all of which could have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to make distributions to our stockholders and the value of their investment.

If we set aside insufficient working capital reserves, we may be required to defer necessary or desirable property improvements.

If we do not establish sufficient reserves for working capital to supply necessary funds for capital improvements or similar expenses, we may be required to defer necessary or desirable improvements to our properties. If we defer such improvements, the applicable properties may decline in value, it may be more difficult for us to attract or retain tenants to such properties or the amount of rent we can charge at such properties may decrease.

Risks related to the development of real properties may have an adverse effect on our results of operations and returns to our stockholders.

We may invest in properties on which developments or improvements are to be constructed or completed. As such, we may be subject to the risks associated with development and construction activities including the following:

- long periods of time may elapse between the commencement and the completion of our projects;
- our original estimates may not be accurate and our actual construction and development costs may exceed those estimates;
- the level of interest of potential tenants for a recently launched development may be low;
- construction materials and equipment may be unavailable or cost more than expected due to changes in supply and demand;
- construction and sales may not be completed on time, resulting in a cost increase;
- we may not be able to acquire or we may pay too much for the land we acquire for new developments or properties;
- labor may be in limited availability; and
- changes in tax, real estate and zoning laws may be unfavorable to us.

In addition, our reputation and the construction quality of our real estate developments, whether operated individually or through partnerships, may be determining factors for our ability to lease space and grow. The timely delivery of real estate projects and the quality of our developments, however, depend on certain factors beyond our full control, including the quality and timeliness of construction materials delivered to us and the technical capabilities of our contractor. If one or more problems affect our real estate developments, our reputation and future performance may be negatively affected and we may be exposed to civil liability.

We depend on a variety of factors outside of our control to build, develop and operate real estate projects. These factors include, among others, the availability of market resources for financing, land acquisition and

project development. Any scarcity of market resources, including human capital, may decrease our development capacity due to either difficulty in obtaining credit for land acquisition or construction financing or a need to reduce the pace of our growth. The combination of these risks may adversely affect our business, results of operations, cash flows and financial condition and our ability to make distributions to our stockholders and the value of their investment.

Delays in the development and construction of real properties may have adverse effects on portfolio diversification, results of operations and returns to our stockholders.

If we experience delays in the development of our real properties, it could adversely affect returns to our stockholders. When properties are acquired prior to the start of construction or during the early stages of construction, it will typically take several months or longer to complete construction, to rent available space, and for rent payments to commence. Therefore, we may not receive any income from these properties and our ability to pay distributions to our stockholders could suffer. If we are delayed in the completion of any such construction project, our tenants may have the right to terminate preconstruction leases for space at such newly developed project. We may incur additional risks when we make periodic progress payments or other advances to builders prior to completion of construction. Each of these factors could result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly-constructed projects. Furthermore, the price we agree to pay for a real property will be based on our projections of rental income and expenses and estimates of the fair market value of the real property upon completion of construction. If our projections are inaccurate, we may pay too much for a property.

Changes in supply of or demand for similar properties in a particular area may increase the price of real estate assets we may seek to purchase or adversely affect the value of the properties we own.

The real estate industry is subject to market forces and we are unable to predict certain market changes including changes in supply of or demand for similar properties in a particular area. For example, if demand for the types of real estate assets in which we seek to invest were to sharply increase or supply of those assets were to sharply decrease, the prices of those assets could rise significantly. Any potential purchase of an overpriced asset could decrease our rate of return on these investments and result in lower operating results and overall returns to you. Likewise, a sharp increase in supply could adversely affect lease rates and occupancy, which could result in lower operating results and overall returns to you.

Retail properties depend on anchor tenants to attract shoppers and could be adversely affected by the loss of a key anchor tenant.

We may acquire retail properties in the future. Retail properties, like other properties, are subject to the risk that tenants may be unable to make their lease payments or may decline to extend a lease upon its expiration. A lease termination by a tenant that occupies a large area of a retail center (commonly referred to as an anchor tenant) could impact leases of other tenants. Other tenants may be entitled to modify the terms of their existing leases in the event of a lease termination by an anchor tenant, or the closure of the business of an anchor tenant that leaves its space vacant even if the anchor tenant continues to pay rent. Any such modifications or conditions could be unfavorable to us as the property owner and could decrease rents or expense recoveries. Additionally, major tenant closures may result in decreased customer traffic, which could lead to decreased sales at other stores. In the event of default by a tenant or anchor store, we may experience delays and costs in enforcing our rights as landlord to recover amounts due to us under the terms of our agreements with those parties.

Leases with retail properties' tenants may restrict us from re-leasing space.

Most leases with retail tenants contain provisions giving the particular tenant the exclusive right to sell particular types of merchandise or provide specific types of services within the particular retail center. These provisions may limit the number and types of prospective tenants interested in leasing space in a particular retail property.

Short-term multifamily community leases associated with any multifamily residential properties we acquire may expose us to the effects of declining market rent and could adversely impact our ability to make cash distributions to our stockholders.

We expect that substantially all of our multifamily community leases will be for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues may be impacted by declines in market rents more quickly than if our leases were for longer terms.

High levels of unemployment could adversely affect the occupancy and rental rates of any multifamily residential properties we acquire, with high quality multifamily communities suffering even more severely.

Increased levels of unemployment in multifamily markets could significantly decrease occupancy and rental rates. In times of increasing unemployment, multifamily occupancy and rental rates have historically been adversely affected by:

- rental residents deciding to share rental units and therefore rent fewer units;
- potential residents moving back into family homes or delaying leaving family homes;
- a reduced demand for higher-rent units, such as those of high quality multifamily communities;
- a decline in household formation;
- persons enrolled in college delaying leaving college or choosing to proceed to or return to graduate school in the absence of available employment;
- the inability or unwillingness of residents to pay rent increases; and
- increased collection losses.

These factors generally have contributed to lower rental rates. If these factors worsen, our results of operations, financial condition and ability to make distributions to our stockholders may be adversely affected.

We may face risks associated with our student housing property.

Unlike other apartment housing, student housing communities are typically leased on an individual lease basis, by the bed, which limits each resident's liability to his or her own rent without liability for a roommate's rent. The lease terms are typically for one year or less and student housing properties must be almost entirely re-leased each year, exposing us to increased leasing risk. If we are unable to find new individual tenants for these properties, it could have an adverse effect on our results of operations.

Many colleges and universities own and operate their own competing on-campus housing facilities, and changes in university admission policies could adversely affect us. For example, if a university reduces the number of student admissions or requires that certain students, such as freshmen, live in a university-owned facility, the demand for beds at our student housing property may be reduced and the occupancy rate at the property may decline.

If we acquire hospitality, leisure or healthcare properties, we will depend on others to manage those facilities.

In order to qualify as a REIT, we will not be able to operate any hospitality, leisure or healthcare properties that we acquire or participate in the decisions affecting the daily operations of these properties. We may lease any hospitality, leisure or healthcare properties we acquire to a taxable REIT subsidiary, or TRS, in which we may own up to a 100% interest. In the event our TRS will enter into management agreements with eligible independent contractors, potentially including Hines or its affiliates, that are not our subsidiaries or otherwise

controlled by us to manage these properties. Thus, independent operators, under management agreements with our TRS, will control the daily operations of our hospitality, leisure and healthcare-related properties.

We will depend on these independent management companies to operate our hospitality, leisure or healthcare properties. We will not have the authority to require these properties to be operated in a particular manner or to govern any particular aspect of the daily operations, such as establishing room rates at our hospitality or leisure properties. Thus, even if we believe our hospitality, leisure or healthcare properties are being operated inefficiently or in a manner that does not result in satisfactory results, we may not be able to force the management company to change its method of operation of these properties. We can only seek redress if a management company violates the terms of the applicable management agreement with the TRS, and then only to the extent of the remedies provided for under the terms of the management agreement. In the event that we need to replace any management company, we may be required by the terms of the management agreement to pay substantial termination fees and may experience significant disruptions at the affected properties.

The hospitality or leisure industry is seasonal.

The hospitality or leisure industry is seasonal in nature. As a result of the seasonality of the hospitality or leisure industry, there will likely be quarterly fluctuations in results of operations of any hospitality or leisure properties that we may own. Quarterly financial results may be adversely affected by factors outside our control.

The hospitality or leisure market is highly competitive and generally subject to greater volatility than our other market segments.

The hospitality or leisure business is highly competitive and influenced by factors such as location, room rates, quality, service levels, reputation and reservation systems, among many other factors. There are many competitors in this market, and these competitors may have substantially greater marketing and financial resources than those available to us. This competition, along with other factors, such as over-building in the hospitality or leisure industry and certain deterrents to traveling, may increase the number of rooms available and may decrease the average occupancy and room rates of our hospitality or leisure properties. The demand for rooms at any hospitality or leisure properties that we may acquire will change much more rapidly than the demand for space at other properties that we acquire. This volatility in room demand and occupancy rates could have a material adverse effect on our financial condition, results of operations and ability to pay distributions to our stockholders.

If we purchase assets at a time when the commercial real estate market is experiencing substantial influxes of capital investment and competition for properties, the real estate we purchase may not appreciate or may decrease in value.

Real estate investment transaction volume has increased and estimated going-in capitalization rates, or cap rates (ratio of the net projected operating income of a property in its initial fiscal year divided by the net purchase price), have fallen relative to their post-recession peaks in late 2009. There continues to be a significant amount of investment capital pursuing high-quality, well-located assets that generate stable cash flows, causing aggressive competition and pricing for assets which match our investment strategy. This may continue to drive prices higher, resulting in lower cap rates and returns. To the extent we purchase real estate in the future in this environment, we are subject to the risks that the value of our assets may not appreciate or may decrease significantly below the amount we paid for such assets if the real estate market ceases to attract the same level of capital investment in the future as it has recently attracted, or if the number of companies seeking to acquire such assets decreases. If any of these circumstances occur or the values of our investments are otherwise negatively affected, the value of our stockholders' investment may be lower.

Risks Related to Investments in Debt

Hines does not have substantial experience investing in mortgage, mezzanine, bridge or construction loans, B Notes, securitized debt or other debt related to properties in which we may invest, which could adversely affect our return on our loan investments.

We may make investments in mortgage, mezzanine, bridge or construction loans, B-Notes, securitized debt or other debt related to properties if our Advisor determines that it is advantageous to us due to the state of the real estate market or in order to diversify our investment portfolio. However, neither our Advisor nor any of its affiliates has any substantial experience investing in these types of loans and we may not have the expertise necessary to maximize the return on our investment in these types of loans.

If we make or invest in loans, our loans may be impacted by unfavorable real estate market conditions, which could decrease the value of our loan investments.

If we make or invest in loans, we will be at risk of default by the borrowers on those loans. These defaults may be caused by many conditions beyond our control, including interest rate levels and local and other economic conditions affecting real estate values. We may invest in unsecured loans. Even with respect to loans secured by real property, we will not know whether the values of the properties securing the loans will remain at the levels existing on the dates of origination of the loans. If the values of such underlying properties drop, our risk will increase with respect to secured loans because of the lower value of the security associated with such loans.

If we make or invest in loans, our loans will be subject to interest rate fluctuations, which could reduce our returns as compared to market interest rates as well as the value of the loans in the event we sell the loans.

If we invest in fixed-rate, long-term loans and interest rates rise, the loans could yield a return that is lower than then-current market rates. If interest rates decrease, we will be adversely affected to the extent that loans are prepaid, because we may not be able to make new loans at the previously higher interest rate. If we invest in variable interest rate loans, if interest rates decrease, our revenues will likewise decrease. Finally, if interest rates increase, the value of fixed-rate loans we own at such time would decrease which would lower the proceeds we would receive in the event we sell such assets.

Delays in liquidating defaulted loans could reduce our investment returns.

If there are defaults under our loans secured by real property, we may not be able to repossess and sell the underlying properties quickly. The resulting time delay could reduce the value of our investment in the defaulted loans. An action to foreclose on a property securing a loan is regulated by state statutes and rules and is subject to many of the delays and expenses of other lawsuits if the defendant raises defenses or counterclaims. In the event of default by a borrower, these restrictions, among other things, may impede our ability to foreclose on or sell the secured property or to obtain proceeds sufficient to repay all amounts due to us on the loan.

We may make or invest in mezzanine loans, which involve greater risks of loss than senior loans secured by real properties.

We may make or invest in mezzanine loans that generally take the form of subordinated loans secured by second mortgages on the underlying real property or loans secured by a pledge of the ownership interests of an entity that directly or indirectly owns real property. These types of investments involve a higher degree of risk than long-term senior mortgage loans secured by real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our mezzanine loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only

after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than traditional mortgage loans, resulting in less equity in the real property and increasing our risk of loss of principal.

We may invest in B-Notes, which are subject to additional risks as a result of the privately negotiated structure and terms of such transactions which may result in losses.

We may invest in B-Notes, which are typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to an A-Note secured by the same first mortgage on the same collateral. If a borrower defaults on a B-Note, A-Note holders would be paid first and there may not be sufficient funds remaining to repay us and other B-Note holders. B-Notes can vary in their structural characteristics and risks because each transaction is privately negotiated. For example, the rights of holders of B-Notes to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each B-Note investment. Moreover, because B-Notes are typically secured by a single property or group of related properties, such investments may not be as diversified as investments secured by a pool of properties and therefore may be subject to increased risks.

Bridge loans may involve a greater risk of loss than conventional mortgage loans.

We may provide bridge loans secured by first lien mortgages on properties to borrowers who are typically seeking short-term capital in connection with acquisitions, developments or refinancings of real estate. In connection with such investments, there is a risk that the borrower may not achieve its investment objectives and that we may therefore not recover some or all of our investment in such bridge loans. For example, if we provide a bridge loan to a borrower who has identified an undervalued asset, either due to mismanagement of the underlying assets or as a result of what the borrowers deem to be a recovering market, and the market in which such asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan.

In addition, owners usually borrow funds under a conventional mortgage loan to repay a bridge loan. If the borrower is unable to obtain permanent financing to repay our bridge loan, we may lose some or all of our investment. Bridge loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event we make a bridge loan to a borrower who defaults, we bear the risk of loss of principal and nonpayment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the bridge loan. To the extent we suffer such losses with respect to our investments in bridge loans, it could adversely impact our business, results of operations, cash flows and financial ability and our ability to make distributions to our stockholders and the value of their investment.

Non-conforming and non-investment grade loans are subject to an increased risk of loss.

Loans we may acquire or originate may not conform to conventional loan criteria applied by traditional lenders and may not be rated or may be rated as "non-investment grade." Non-investment grade ratings for these loans typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the properties' underlying cash flow or other factors. Therefore, non-conforming and investment loans we acquire or originate may have a higher risk of default and loss than conventional loans. Any loss we incur may adversely impact our business, results of operations, cash flows and financial ability and our ability to make distributions to our stockholders and the value of their investment.

We may invest in commercial mortgage-backed securities, or CMBS, which are subject to all of the risks of the underlying mortgage loans and the additional risks of the securitization process.

CMBS are securities that evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. In a rising interest rate environment, the value of CMBS may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of CMBS may also change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities market as a whole. In addition, CMBS are subject to the credit risk associated with the performance of the underlying mortgage properties.

The securitization process that CMBS go through may also result in additional risks. Generally, CMBS are issued in classes similar to mortgage loans. To the extent that we invest in a subordinate class, we will be paid interest only to the extent that there are funds available after paying the senior classes. To the extent the collateral pool includes delinquent loans, subordinate classes will likely not be fully paid and may not be paid at all. Subordinate CMBS are also subject to greater credit risk than those CMBS that are more highly rated. Further, the ratings assigned to any particular class of CMBS may not ultimately prove to be accurate. Thus, any particular class of CMBS may be riskier and more volatile than the rating assigned to such security which may result in the returns on any such CMBS investment to be less than anticipated.

Our debt investments may be considered illiquid and we may not be able to adjust our portfolio in response to changes in economic and other conditions.

The debt investments we may make in connection with privately negotiated transactions may not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited. The mezzanine loans we may purchase in the future will be particularly illiquid investments due to their short life, their unsuitability for securitization and the greater difficulty of recoupment in the event of a borrower's default.

Risks Related to International Investments

We are subject to additional risks from our international investments.

We expect to continue to purchase real estate investments located in, or related to assets located in, the United States and internationally, and may make or purchase loans or participations in loans secured by property located outside the United States. These investments may be affected by factors particular to the laws and business practices of the jurisdictions in which the properties are located. These laws and business practices may expose us to risks that are different from and in addition to those commonly found in the United States. Foreign investments are subject to risk, including the following risks:

- the burden of complying with a wide variety of foreign laws;
- changing governmental rules and policies, including changes in land use and zoning laws, more stringent environmental laws or changes in such environmental laws;
- existing or new laws relating to the foreign ownership of real property or loans and laws restricting the ability of foreign persons or companies to remove profits earned from activities within the country to the person's or company's country of origin;
- the potential for expropriation;
- possible currency transfer restrictions;
- imposition of adverse or confiscatory taxes;

- changes in real estate and other tax rates and changes in other operating expenses in particular countries;
- possible challenges to the anticipated tax treatment of the structures that allow us to acquire and hold investments;
- adverse market conditions caused by terrorism, civil unrest and changes in national or local governmental or economic conditions;
- the willingness of domestic or foreign lenders to make loans in certain countries and changes in the availability, cost and terms of loan funds resulting from varying national economic policies;
- general political and economic instability in certain regions;
- the potential difficulty of enforcing obligations in other countries; and
- Hines' limited experience and expertise in foreign countries relative to its experience and expertise in the United States.

Investments in properties or other real estate investments outside the United States subject us to foreign currency risks, which may adversely affect distributions and our REIT status.

Revenues generated from any properties or other real estate investments we acquire or ventures we enter into relating to transactions involving assets located in markets outside the United States likely will be denominated in the local currency. Therefore, any investments we make outside the United States may subject us to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. As a result, changes in exchange rates of any such foreign currency to the U.S. dollar may affect our revenues, operating margins and distributions and may also affect the book value of our assets and the amount of stockholders' equity.

Changes in foreign currency exchange rates used to value a REIT's foreign assets may be considered changes in the value of the REIT's assets. These changes may adversely affect our status as a REIT. Further, bank accounts in foreign currency which are not considered cash or cash equivalents may adversely affect our status as a REIT.

The United Kingdom's non-binding referendum of June 23, 2016 to exit the European Union could adversely affect market rental rates and commercial real estate values in the United Kingdom and Europe.

On June 23, 2016, the United Kingdom held a non-binding referendum in which a majority of voters voted in favor of the United Kingdom's exit from the European Union. Negotiations to determine the terms of the United Kingdom's relationship with the European Union after the exit, including, among other things, the terms of trade between the United Kingdom and the European Union are expected to commence. The effects of the exit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. The Brexit vote may:

- adversely affect European and worldwide economic and market conditions;
- adversely affect commercial property market rental rates in the United Kingdom and continental Europe;
- adversely affect commercial property market values in the United Kingdom and continental Europe;
- adversely affect the availability of financing for commercial properties in the United Kingdom and continental Europe, which could reduce the price for which we are able to sell properties we have acquired in such geographic locations; and
- create further instability in global financial and foreign exchange markets, including volatility in the value of the sterling and euro.

Each of these effects may occur regardless of whether the United Kingdom departs from the European Union because the capital and credit markets are subject to volatility and disruption. As of December 31, 2016, 31% of our real estate investment portfolio consisted of a property located in Dublin, Ireland (based on the estimated aggregate value of our real estate investments). A decline in economic conditions could negatively impact commercial real estate fundamentals and result in lower occupancy, lower rental rates and declining values in our portfolio, which could, among other things, adversely affect our business and financial condition.

Inflation in foreign countries, along with government measures to curb inflation, may have an adverse effect on our investments.

Certain countries have in the past experienced extremely high rates of inflation. Inflation, along with governmental measures to curb inflation, coupled with public speculation about possible future governmental measures to be adopted, has had significant negative effects on these international economies in the past and this could occur again in the future. The introduction of governmental policies to curb inflation can have an adverse effect on our business. High inflation in the countries in which we purchase real estate or make other investments could increase our expenses and we may not be able to pass these increased costs on to our tenants.

Lack of compliance with the United States Foreign Corrupt Practices Act, or FCPA, could subject us to penalties and other adverse consequences.

We are subject to the FCPA, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including potential competitors, are not subject to these prohibitions. Fraudulent practices, including corruption, extortion, bribery, pay-offs, theft and others, occur from time-to-time in countries in which we may do business. If people acting on our behalf or at our request are found to have engaged in such practices, severe penalties and other consequences could be imposed on us that may have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to make distributions to our stockholders and the value of their investment.

Risks Related to Organizational Structure

Any interest in us will be diluted by the Special OP Units and any other OP Units in the Operating Partnership and any interest in us may be diluted if we issue additional shares.

We owned a 99.9% general partner interest in the Operating Partnership as of December 31, 2016. Hines Global REIT II Associates Limited Partnership owns the remaining interest in the Operating Partnership, including the Special OP Units in the Operating Partnership, which were issued as consideration for an obligation by Hines and its affiliates to perform future services in connection with our real estate operations. Please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies — Treatment of Management Compensation and Expense Reimbursements” for a summary of these interests. Payments with respect to these interests will reduce the amount of distributions that would otherwise be payable to our stockholders in the future.

Stockholders do not have preemptive rights to acquire any shares issued by us in the future. Therefore, investors purchasing our common shares in the Offering may experience dilution of their equity investment if we:

- sell shares in the Offering or sell additional shares in the future, including those issued pursuant to our distribution reinvestment plan;
- sell securities that are convertible into shares, such as OP Units;
- at the option of our Advisor, issue OP Units to pay for certain fees;

- issue OP Units or common shares to our Advisor or affiliates in exchange for advances or deferrals of fees;
- issue shares in a private offering; or
- issue shares to sellers of properties acquired by us in connection with an exchange of partnership units from the Operating Partnership.

The repurchase of interests in the Operating Partnership held by Hines and its affiliates (including the Special OP Units and other OP Units) as required in our Advisory Agreement may discourage a takeover attempt.

Under certain circumstances, including a merger, consolidation or sale of substantially all of our assets or any similar transaction, a purchase, tender or exchange offer that results in the tender or exchange of more than 50% of our outstanding common shares, a transaction pursuant to which a majority of our board of directors then in office are replaced or removed, or the termination or non-renewal of our Advisory Agreement, including termination by us for cause or non-renewal for poor performance, the Operating Partnership is, at the election of Hines or its affiliates, required to purchase the Special OP Units and any OP Units that Hines or its affiliates own for cash (or, in certain cases, a promissory note) or our shares, at the election of the holder. These rights may deter these types of transactions which may limit the opportunity for stockholders to receive a premium for their common shares that might otherwise exist if an investor attempted to acquire us.

Hines' ability to cause the Operating Partnership to purchase the Special OP Units and any other OP Units that it or its affiliates hold in connection with the termination of our Advisory Agreement may deter us from terminating our Advisory Agreement.

Under certain circumstances, if we are not advised by an entity affiliated with Hines, including under circumstances where our Advisory Agreement is terminated by us for cause or not renewed due to poor performance, Hines or its affiliates may cause the Operating Partnership to purchase some or all of the Special OP Units or any other OP Units then held by such entities. Under these circumstances if the amount necessary to purchase Hines' and its affiliates' interests in the Operating Partnership is substantial, these rights could discourage or deter us from terminating our Advisory Agreement under circumstances in which we would otherwise do so.

We have issued shares of common stock as dividends and may issue preferred shares or separate classes or series of common shares, which issuance could adversely affect the holders of our common shares.

Holders of our common stock do not have preemptive rights to any shares issued by us in the future. With the authorization of our board of directors, we declared special daily stock dividends for the period from October 1, 2014 through June 30, 2015, which may dilute the value of our shares. In addition, we may issue, without stockholder approval, preferred shares or a class or series of common shares with rights that could adversely affect the holders of our common shares. Upon the affirmative vote of a majority of our directors (including, in the case of preferred shares, a majority of our independent directors), our charter authorizes our board of directors (without any further action by our stockholders) to issue preferred shares or common shares in one or more classes or series, and to fix the voting rights (subject to certain limitations), liquidation preferences, distribution rates, conversion rights, redemption rights and terms, including sinking fund provisions, and certain other rights and preferences with respect to such classes or series of shares. If we ever create and issue preferred shares with a distribution preference over common shares, payment of any distribution preferences of outstanding preferred shares would reduce the amount of funds available for the payment of distributions on the common shares. Further, holders of preferred shares are normally entitled to receive a preference payment in the event we liquidate, dissolve or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. We could also designate and issue shares in a class or series of common shares with similar rights. In addition, under certain

circumstances, the issuance of preferred shares or a separate class or series of common shares may render more difficult or tend to discourage:

- a merger, tender offer or proxy contest;
- the assumption of control by a holder of a large block of our securities; and/or
- the removal of incumbent management.

Our board of directors determines our major policies and operations which increases the uncertainties faced by our stockholders.

Our board of directors determines our major policies, including our policies regarding acquisitions, dispositions, financing, growth, debt capitalization, REIT qualification, redemptions and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under the Maryland General Corporation Law and our charter, our stockholders have a right to vote only on limited matters. Our board of directors' broad discretion in setting policies and the inability of our stockholders to exert control over those policies increases the uncertainty and risks they face, especially if our board of directors and our stockholders disagree as to what course of action is in the best interests of our stockholders.

The ownership limit in our charter may discourage a takeover attempt.

Our charter provides that no holder of shares, other than any person to whom our board of directors grants an exemption, may directly or indirectly own more than 9.9% of the number or value, whichever is more restrictive, of the aggregate of our outstanding shares or more than 9.9% of the number or value, whichever is more restrictive, of the outstanding shares of any class or series of our outstanding securities. This ownership limit may deter tender offers for our common shares, which offers may be attractive to our stockholders, and thus may limit the opportunity for stockholders to receive a premium for their common shares that might otherwise exist if an investor attempted to assemble a block of common shares in excess of 9.9% of the number or value, whichever is more restrictive, of the aggregate of our outstanding shares, or 9.9% in number or value, whichever is more restrictive, of the outstanding common shares or otherwise to effect a change of control in us.

We will not be afforded the protection of the Maryland General Corporation Law relating to business combinations.

Provisions of the Maryland General Corporation Law prohibit business combinations, unless prior approval of the board of directors is obtained before the person seeking the combination became an interested stockholder, with:

- any person who beneficially owns 10% or more of the voting power of our outstanding voting shares (an "interested stockholder");
- any of our affiliates or associates who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding shares (also an "interested stockholder"); or
- an affiliate of an interested stockholder.

These prohibitions are intended to prevent a change of control by interested stockholders who do not have the support of our board of directors. Because our charter contains limitations on ownership of more than 9.9% of our common shares, our board of directors has adopted a resolution presently opting out of the business combinations statute. Therefore, we will not be afforded the protections of this statute and, accordingly, there is no guarantee that the ownership limitations in our charter will provide the same measure of protection as the business combinations statute and prevent an undesired change of control by an interested stockholder.

We are not registered as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act, and therefore we will not be subject to the requirements imposed on an investment company by the Investment Company Act which may limit or otherwise affect our investment choices.

Hines Global II, the Operating Partnership, and our subsidiaries will conduct our businesses so that none of such entities are required to register as “investment companies” under the Investment Company Act. The operation of a business in a manner so as not to be subject to regulation as an investment company requires an analysis of and compliance with complex laws, regulations and SEC staff interpretations, not all of which are summarized herein. Although we could modify our business methods at any time, at the present time we expect that the focus of our activities will involve investments in real estate, buildings, and other assets that can be referred to as “sticks and bricks” and therefore we will not be an investment company under Section 3(a)(1)(A) of the Investment Company Act. We may invest in other real estate investments and will otherwise be considered to be in the real estate business.

Companies subject to the Investment Company Act are required to comply with a variety of substantive requirements such as requirements relating to:

- limitations on the capital structure of the entity;
- restrictions on certain investments;
- prohibitions on transactions with affiliated entities; and
- public reporting disclosures, record keeping, voting procedures, proxy disclosure and similar corporate governance rules and regulations.

These and other requirements are intended to provide benefits and/or protections to security holders of investment companies. Because we and our subsidiaries do not expect to be subject to these requirements, our stockholders will not be entitled to these benefits or protections. It is our policy to operate in a manner that will not require us to register as an investment company, and we do not expect or intend to register as an “investment company” under the Investment Company Act.

We do not expect that we, the Operating Partnership, or other subsidiaries will be an investment company because we intend to ensure that holdings of investment securities by each such entity will not exceed 40% of the total assets of that entity and that no such entity holds itself out as being engaged primarily in the business of investing in securities. If an entity were to hold investment securities having a value exceeding 40% of the value of the entity’s total assets, and no other exclusion from registration was available, that entity might be required to register as an investment company. In order to avoid such a result, we, the Operating Partnership, or a subsidiary may be unable to sell assets we would otherwise want to sell or may need to sell assets we would otherwise wish to retain. In addition, we may also have to forgo opportunities to acquire certain investments or interests in companies or entities that we would otherwise want to acquire, or acquire assets we might otherwise not select for purchase.

If Hines Global II, the Operating Partnership or any subsidiary owns assets that qualify as “investment securities” and the value of such assets exceeds 40% of the value of its total assets, the entity would be deemed to be an investment company absent another exclusion from the Investment Company Act. Certain of the subsidiaries that we may form in the future could seek to rely upon the exclusion provided by Section 3(c)(5)(C) of that Act, which is available for, among other things, entities “primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” This exclusion, as interpreted by the staff of the SEC, generally requires that at least 55% of an entity’s portfolio be comprised of qualifying interests and the remaining 45% of the entity’s portfolio be comprised primarily of real estate-type interests (as such terms have been interpreted by the staff of the SEC). SEC staff no-action letters have indicated that the foregoing real estate-type interests test will be met if at least 25% of such entity’s assets are invested in real

estate-type interests, which threshold is subject to reduction to the extent that the entity invested more than 55% of its total assets in qualifying interests, and no more than 20% of such entity's total assets are invested in miscellaneous investments. Qualifying interests for this purpose include actual interests in real estate, certain mortgage loans and other assets as interpreted in a manner consistent with SEC staff guidance. We intend to treat the following as real estate-type interests: non-agency RMBS; CMBS, debt and equity securities of companies primarily engaged in real estate businesses; agency partial pool certificates and securities issued by pass-through entities of which substantially all of the assets consist of qualifying interests; and/or real estate-related assets. Due to the factual nature of this test, we, the Operating Partnership, or a subsidiary may be unable to sell assets we would otherwise want to sell or may need to sell assets we would otherwise wish to retain, if we deem it necessary to remain in compliance with the foregoing standards. In addition, we may have to forgo opportunities to acquire certain investments or interests in companies or entities that we would otherwise want to acquire, or acquire assets we might otherwise not select for purchase, if we deem it necessary to remain in compliance with the foregoing standards.

In addition, we, the Operating Partnership and/or our subsidiaries may rely upon other exclusions, including the exclusion provided by Section 3(c)(6) of the Investment Company Act (which excludes, among other things, parent entities whose primary business is conducted through majority-owned subsidiaries relying upon the exclusion provided by Section 3(c)(5)(C) (discussed above)), from the definition of an investment company and the registration requirements under the Investment Company Act.

There can be no assurance that the laws and regulations governing the Investment Company Act status of REITs (and/or their subsidiaries), including actions by the SEC or its staff providing more specific or different guidance regarding these exclusions, will not change in a manner that adversely affects our operations. For example, on August 31, 2011, the SEC issued a concept release requesting comments regarding a number of matters relating to the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act, including the nature of assets that qualify for purposes of the exclusion and whether mortgage REITs should be regulated in a manner similar to investment companies. To the extent that the SEC or the SEC staff provides more specific guidance regarding any of the matters bearing upon the exclusions discussed above or other exclusions from the definition of an investment company under the Investment Company Act upon which we may rely, we may be required to change the way we conduct our business or adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen. If we meet the definition of an investment company under the Investment Company Act and we fail to qualify for an exclusion therefrom, our ability to use leverage and other business strategies would be substantially reduced. Our business will be materially and adversely affected if we fail to qualify for an exclusion from regulation under the Investment Company Act.

If Hines Global II or the Operating Partnership is required to register as an investment company under the Investment Company Act, the additional expenses and operational limitations associated with such registration may reduce our stockholders' investment return or impair our ability to conduct our business as planned.

If we become an investment company or are otherwise required to register as an investment company, we might be required to revise some of our current policies, or substantially restructure our business, to comply with the Investment Company Act. This would likely require us to incur the expense and delay of holding a stockholder meeting to vote on proposals for such changes. Further, if we were required to register as an investment company, but failed to do so, we would be prohibited from engaging in our business, criminal and civil actions could be brought against us, some of our contracts might be unenforceable, unless a court were to direct enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

If we internalize our management functions, we could incur adverse effects on our business and financial condition, including significant costs associated with becoming and being self-managed and the percentage of our outstanding common stock owned by our stockholders could be reduced.

If we seek to list our shares on an exchange as a way of providing our stockholders with a liquidity event, we may consider internalizing the functions performed for us by our Advisor. An internalization could take many forms, for example, we may hire our own group of executives and other employees or we may acquire our Advisor or its respective assets including its existing workforce. Any internalization could result in significant payments, including in the form of our stock, to the owners of our Advisor as compensation, which could reduce the percentage ownership of our then existing stockholders and concentrate ownership in Hines. In addition, there is no assurance that internalizing our management functions will be beneficial to us and our stockholders. For example, we may not realize the perceived benefits because of: (i) the costs of being self-managed; (ii) our inability to effectively integrate a new staff of managers and employees; or (iii) our inability to properly replicate the services provided previously by our Advisor or its affiliates. Additionally, internalization transactions have also, in some cases, been the subject of litigation and even if these claims are without merit, we could be forced to spend significant amounts of money defending claims which would reduce the amount of funds available for us to invest in real estate investments or to pay distributions. In connection with any such internalization transaction, a special committee consisting of our independent directors will be appointed to evaluate the transaction and to determine whether a fairness opinion should be obtained.

Risks Related to Potential Conflicts of Interest

We compete with affiliates of Hines for real estate investment opportunities and some of these affiliates have preferential rights to accept or reject certain investment opportunities in advance of our right to accept or reject such opportunities.

Hines has existing real estate joint ventures, funds and programs, which we collectively refer to as real estate investment vehicles, with investment objectives and strategies similar to ours, including Hines Global I. Because we compete with these real estate investment vehicles for investment opportunities, Hines faces conflicts of interest in allocating investment opportunities between us and these other real estate investment vehicles. We have limited rights to specific investment opportunities located by Hines. Some of these entities have a priority right over other Hines real estate investment vehicles, including us, to accept investment opportunities that meet certain defined investment criteria. Because we and other Hines real estate investment vehicles rely on Hines to present us with investment opportunities, these rights will reduce our investment opportunities. Please see “Conflicts of Interest — Competitive Activities of Hines and its Affiliates” for a description of some of these entities and priority rights. We therefore may not be able to invest in, or we may only invest indirectly with or through another Hines affiliated real estate investment vehicle in, certain investments we otherwise would make directly. To the extent we invest in opportunities with another real estate investment vehicles affiliated with Hines, we may not have the control over such investment we would otherwise have if we owned all of or otherwise controlled such assets.

We do not have priority rights to specific investment opportunities located by Hines. Our right to participate in Hines’ investment allocation process will terminate once we have fully invested the proceeds of our public offerings or if we are no longer advised by an affiliate of Hines. For investment opportunities not covered by this allocation procedure, Hines will decide in its discretion, subject to any priority rights it grants or has granted to other Hines-managed or otherwise affiliated real estate investment vehicles, how to allocate such opportunities among us, Hines and other real estate investment vehicles. Because we do not have a right to accept or reject any investment opportunities before Hines or one or more Hines real estate investment vehicles have the right to accept such opportunities, and are otherwise subject to Hines’ discretion as to the investment opportunities we will receive, we may not be able to review and/or invest in opportunities which we would otherwise pursue if we were the only real estate investment vehicle sponsored by Hines or had a priority right in regard to such investments. We are subject to the risk that, as a result of the conflicts of interest between Hines, us and other real estate investment vehicles sponsored or managed by or affiliated with Hines, and the priority rights Hines

has granted or may in the future grant to any such other real estate investment vehicles, we may not be offered favorable investment opportunities located by Hines when it would otherwise be in our best interest to accept such investment opportunities, and our business, results of operations, cash flows and financial condition and our ability to make distributions to our stockholders and the value of their investment may be adversely impacted thereby.

We may compete with other investment vehicles affiliated with Hines for tenants.

Hines and its affiliates are not prohibited from engaging, directly or indirectly, in any other business or from possessing interests in any other business venture or ventures, including businesses and ventures involved in the acquisition, development, ownership, management, leasing or sale of real estate projects. Hines or its affiliates own and/or manage properties in most, if not all, geographical areas in which we expect to acquire interests in real estate assets. Therefore, our properties may compete for tenants with other properties owned and/or managed by Hines and its affiliates, including Hines Global I. Hines may face conflicts of interest when evaluating tenant opportunities for our properties and other properties owned and/or managed by Hines and its affiliates and these conflicts of interest may have a negative impact on our ability to attract and retain tenants.

Employees of our Advisor and Hines will face conflicts of interest relating to time management and allocation of resources and investment opportunities.

We do not have employees. Pursuant to a contract with Hines, we rely on employees of Hines and its affiliates to manage and operate our business and they are contractually bound to devote the time and attention reasonably necessary to conduct our business in an appropriate manner. Our officers and the officers and employees of our Advisor, Hines and its affiliates hold similar positions in numerous entities and they may from time to time allocate more of their time to service the needs of such entities than they allocate to servicing our needs. Hines is not restricted from acquiring, developing, operating, managing, leasing or selling real estate through entities other than us and Hines will continue to be actively involved in real estate operations and activities other than our operations and activities. Hines currently controls and/or operates other entities that own properties in many of the markets in which we will seek to invest. Hines spends a material amount of time managing these properties and other assets unrelated to our business. We lack the ability to manage it without the time and attention of Hines' employees.

Hines and its affiliates are general partners and sponsors of other real estate investment vehicles having investment objectives and legal and financial obligations similar to ours, including Hines Global I. Because Hines and its affiliates have interests in other real estate investment vehicles and also engage in other business activities, they may have conflicts of interest in allocating their time and resources among our business and these other activities. Our officers and directors, as well as those of our Advisor, own equity interests in entities affiliated with Hines from which we may buy properties. These individuals may make substantial profits in connection with such transactions, which could result in conflicts of interest. Likewise, such individuals could make substantial profits as the result of investment opportunities allocated to entities affiliated with Hines other than us. As a result of these interests, they could pursue transactions that may not be in our best interest.

Hines may face conflicts of interest if it sells properties it acquires or develops to us.

We may in the future acquire properties from Hines and affiliates of Hines. We may acquire properties Hines currently owns or hereafter acquires from third parties. Hines may also develop properties and then sell the completed properties to us. Similarly, we may provide development loans to Hines in connection with these developments. Hines, its affiliates and its employees (including our officers and directors) may make substantial profits in connection with such transactions. We must follow certain procedures when purchasing assets from Hines and its affiliates. Hines may owe fiduciary and/or other duties to the selling entity in these transactions and conflicts of interest between us and the selling entities could exist in such transactions. Because we are relying on Hines, these conflicts could result in transactions based on terms that are less favorable to us than we would receive from a third party.

Hines and its affiliates may face conflicts of interest caused by compensation arrangements with us, which could result in actions that are not in our stockholders' best interest.

Hines, our Advisor and their affiliates receive substantial fees from us in return for their services and these fees could influence our Advisor's advice to us. Among other matters, the compensation arrangements could affect their judgment with respect to:

- public offerings of equity by us, which allow our Dealer Manager to earn additional dealer manager fees;
- property dispositions in circumstances where Hines or an affiliate of Hines manages the property and earns significant fees for managing the property;
- property acquisitions, which may allow our Advisor or its affiliates to earn additional acquisition fees, asset management fees and other fees; and
- various liquidity events and whether to pursue a liquidity event at all.

Further, our Advisor may recommend that we invest in a particular asset or pay a higher purchase price for the asset than it would otherwise recommend if it did not receive an acquisition fee. Similarly, our Advisor has incentives to recommend that we purchase properties using debt financing since the acquisition fees that we pay to our Advisor could increase if we raise the level of debt financing in connection with the acquisition of certain properties. Certain potential acquisition fees and asset management fees paid to our Advisor and property management and leasing fees paid to Hines and its affiliates would be paid irrespective of the quality of the underlying real estate or property management services during the term of the related agreement. Our Advisor is also entitled to a fee equal to a percentage of the total consideration paid in connection with a disposition. This fee may incentivize our Advisor to recommend the disposition of a property or properties through a sale, merger, or other transaction that may not be in our best interests at the time. In addition, the premature disposition of an asset may add concentration risk to the portfolio or may be at a price lower than if we held the property. Moreover, our Advisor has considerable discretion with respect to the terms and timing of acquisition, disposition and leasing transactions. Our Dealer Manager will be paid an annual distribution and stockholder servicing fee with respect to Class T Shares until the earliest to occur of several events, including (i) a listing of the Class A Shares on a national securities exchange, and (ii) such Class T Shares no longer being outstanding, which may incentivize our Advisor not to recommend a sale, merger or other liquidity event until our Dealer Manager has been paid all distribution and stockholder servicing fees, because the completion of such transactions would cause our Dealer Manager to no longer be paid such fees. In evaluating investments and other management strategies, the opportunity to earn these fees may lead our Advisor to place undue emphasis on criteria relating to its and its affiliates' compensation at the expense of other criteria, such as preservation of capital, in order to achieve higher short-term compensation. Considerations relating to compensation from us to our Advisor and its affiliates could result in decisions that are not in the best interests of our stockholders, which could hurt our ability to pay our stockholders distributions or result in a decline in the value of our stockholders' investment.

Hines may face conflicts of interest in connection with the management of our day-to-day operations and in the enforcement of agreements between Hines and its affiliates.

Hines and our Advisor manage our day-to-day operations and properties pursuant to an advisory agreement. This agreement was not negotiated at arm's length and certain fees payable by us under such agreement are paid regardless of our performance. Hines and its affiliates may encounter conflicts of interest with respect to position as to matters relating to this agreement. Areas of potential conflict include the computation of fees and reimbursements under such agreements, the enforcement, renewal and/or termination of the agreements and the priority of payments to third parties as opposed to amounts paid to affiliates of Hines. These fees may be higher than fees charged by third parties in an arm's-length transaction as a result of these conflicts.

Certain of our officers and directors face conflicts of interest relating to the positions they hold with other entities.

All of our officers and non-independent directors are also officers and directors of our Advisor and/or other entities controlled by Hines. Some of these entities, including Hines Global I, may compete with us for investment and leasing opportunities. These personnel owe fiduciary duties to these other entities and their security holders and these duties may from time to time conflict with the fiduciary duties such individuals owe to us and our stockholders. For example, conflicts of interest adversely affecting our investment decisions could arise in decisions or activities related to:

- the allocation of new investments among us and other entities operated by Hines;
- the allocation of time and resources among us and other entities operated by Hines;
- the timing and terms of the investment in or sale of an asset;
- investments with Hines and affiliates of Hines;
- the compensation paid to our Advisor; and
- our relationship with Hines in the management of our properties.

These conflicts of interest may also be impacted by the fact that such individuals may have compensation structures tied to the performance of such other entities controlled by Hines and these compensation structures may potentially provide for greater remuneration in the event an investment opportunity is presented to a Hines affiliate rather than us.

Our officers and directors have limited liability.

Generally, we are obligated under our charter to indemnify our officers and directors against certain liabilities incurred in connection with their services. We enter into indemnification agreements with each of our officers and directors pursuant to which we generally agree to indemnify our officers and directors for any such liabilities that they incur. These indemnification agreements, as well as the indemnification provisions in our charter, could limit our ability and the ability of our stockholders to effectively take action against our officers and directors arising from their service to us. In addition, there could be a potential reduction in distributions resulting from our payment of premiums associated with insurance or payments of a defense, settlement or claim.

Our UPREIT structure may result in potential conflicts of interest.

Persons holding OP Units have the right to vote on certain amendments to the Agreement of Limited Partnership of the Operating Partnership, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our stockholders. As general partner of the Operating Partnership, we will be obligated to act in a manner that is in the best interest of all partners of the Operating Partnership. Circumstances may arise in the future when the interests of limited partners in the Operating Partnership may conflict with the interests of our stockholders.

Risks Related to Taxes

If we fail to qualify as a REIT, our operations and our ability to pay distributions to our stockholders would be adversely impacted.

We believe that we qualify as a REIT under the Code. A REIT generally is not taxed at the corporate level on income that it currently distributes to its stockholders. Qualification as a REIT involves the application of highly technical and complex rules for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to continue to qualify as a REIT. In addition, new legislation, regulations, administrative interpretations or court

decisions could significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If we were to fail to qualify as a REIT in any taxable year:

- we would not be allowed to deduct our distributions to our stockholders when computing our taxable income;
- we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;
- we would be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;
- our cash available for distribution would be reduced and we would have less cash to distribute to our stockholders; and
- we might be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations we may incur as a result of our disqualification.

We may be required to defer repatriation of cash from foreign jurisdictions in order to qualify as a REIT.

Investments in foreign real property may be subject to foreign currency gains and losses. Certain foreign currency gains will generally be excluded from income for purposes of determining our satisfaction of one or both of the REIT gross revenue tests; however, under certain circumstances (for example, if we regularly trade in foreign securities) such gains will be treated as non-qualifying income. To reduce the risk of foreign currency gains adversely affecting our REIT qualification, we may be required to defer the repatriation of cash from foreign jurisdictions or to employ other structures that could affect the timing, character or amount of income we receive from our foreign investments. No assurance can be given that we will be able to manage our foreign currency gains in a manner that enables us to qualify as a REIT or to avoid U.S. federal income and other taxes on our income as a result of foreign currency gains.

If the Operating Partnership is classified as a “publicly traded partnership” under the Code, our operations and our ability to pay distributions to our stockholders could be adversely affected.

We believe that the Operating Partnership will be treated as a partnership, and not as an association or a publicly traded partnership for federal income tax purposes. In this regard, the Code generally classifies “publicly traded partnerships” (as defined in Section 7704 of the Code) as associations taxable as corporations (rather than as partnerships), unless substantially all of their taxable income consists of specified types of passive income. In order to minimize the risk that the Code would classify the Operating Partnership as a “publicly traded partnership” for tax purposes, we placed certain restrictions on the transfer and/or repurchase of partnership units in the Operating Partnership. However, if the Internal Revenue Service, or IRS, successfully determines that the Operating Partnership should be taxed as a corporation, the Operating Partnership would be required to pay U.S. federal income tax at corporate rates on its net income, its partners would be treated as stockholders of the Operating Partnership and distributions to partners would constitute non-deductible distributions in computing the Operating Partnership’s taxable income. In addition, we could fail to qualify as a REIT and the imposition of a corporate tax on the Operating Partnership would reduce the amount of cash available for distribution to our stockholders.

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our common shares nor gain from the sale of common shares should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our common shares may be treated as unrelated business taxable income if our stock is predominately held

by qualified employee pension trusts, we are required to rely on a special look through rule for purposes of meeting the REIT stock ownership tests, and we are not operated in such a manner as to otherwise avoid treatment of such income or gain as unrelated business taxable income;

- part of the income and gain recognized by a tax exempt investor with respect to our common shares would constitute unrelated business taxable income if such investor incurs debt in order to acquire the common shares; and
- part or all of the income or gain recognized with respect to our common shares by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under Sections 501(c)(7), (9), (17), or (20) of the Code may be treated as unrelated business taxable income.

Stockholders who participate in our distribution reinvestment plan may realize taxable income without receiving cash distributions.

If our stockholders participate in the distribution reinvestment plan, they will be required to take into account, in computing their taxable income, ordinary and capital gain distributions allocable to shares that they own, even though they receive no cash because such distributions are reinvested. In addition, the difference between the public offering price of our shares and the amount paid for shares purchased pursuant to our distribution reinvestment plan may be deemed to be taxable as income to participants in the plan.

Foreign investors may be subject to the Foreign Investment in Real Property Tax Act (“FIRPTA”) on sale of common shares if we are unable to qualify as a “domestically controlled” REIT.

A foreign person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to tax under FIRPTA on the gain recognized on the disposition. FIRPTA does not apply, however, to the disposition of stock in a REIT if the REIT is “domestically controlled.” A REIT is “domestically controlled” if less than 50% of the REIT’s capital stock, by value, has been owned, directly and indirectly, by persons who are not U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT’s existence.

We cannot assure our stockholders that we will qualify as a “domestically controlled” REIT. If we were to fail to so qualify, gains realized by foreign investors other than “qualified foreign pension plans” on a sale of our common shares would be subject to tax under FIRPTA (unless our common shares were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 5% (10% after December 18, 2015) of the value of our outstanding common shares). Our common shares are not currently traded on an established securities market.

In certain circumstances, we may be subject to federal, state, and local or foreign income or other taxes, which would reduce our cash available to pay distributions to our stockholders.

Even if we qualify and maintain our status as a REIT, we may be subject to certain federal, state, local or foreign, income or other taxes. For example, if we have net income from a “prohibited transaction,” such income will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid paying federal income tax and/or the 4% excise tax that applies to certain income retained by a REIT. We may also decide to retain income that we earn from the sale or other disposition of our properties and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. We may also be subject to state and local taxes on our income or property, either directly or at the level of the Operating Partnership or of other entities through which we indirectly own our assets. Any taxes that we pay will reduce our cash available for distribution to our stockholders.

We have entered, and may continue to enter into, certain hedging transactions which may have a potential impact on our REIT status.

We have entered into hedging transactions with respect to certain of our activities and may continue to enter into similar transactions in the future. Our hedging activities may include entering into interest rate and/or foreign currency swaps, caps and floors, options to purchase these items, and futures and forward contracts. The gross income tests applicable to REITs generally exclude any income or gain from a hedging or similar transaction entered into by the REIT primarily to manage the risk of interest rate, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets or to manage the risk of currency fluctuations with respect to an item of income or gain that would be qualifying income under the 75% or 95% gross income test (or any property which generates such income or gain), provided that we properly identify such hedges and other transactions in the manner required by the Code and regulations. To the extent that we do not properly identify such transactions as hedges or we hedge with other types of financial instruments, or hedge asset values or other types of indebtedness, the income from those transactions is likely to be treated as non-qualifying income for purposes of the gross income tests and may affect our ability to qualify as a REIT. In addition, to the extent that our position in a hedging transaction has positive value, the instrument may be treated as a non-qualifying asset that does not qualify for purposes of the gross asset tests to which REITs are subject.

Entities through which we hold foreign real estate investments may be subject to foreign taxes, notwithstanding our status as a REIT.

Even if we maintain our status as a REIT, entities through which we hold investments in assets located outside the United States may be subject to income taxation by jurisdictions in which such assets are located. Our cash available for distribution to our stockholders will be reduced by any such foreign income taxes.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from “qualified dividends” payable to U.S. stockholders that are individuals, trusts or estates is currently 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts or estates to perceive investments in our common shares to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of our common shares.

Recharacterization of sale-leaseback transactions may cause us to lose our REIT status.

We may purchase real properties and lease them back to the sellers of such properties. We will use commercially reasonable efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a “true lease,” thereby allowing us to be treated as the owner of the property for federal income tax purposes, but cannot assure our stockholders that the IRS will not challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for U.S. federal income tax purposes, deductions for depreciation relating to such property would be disallowed. We might fail to satisfy the REIT qualification “asset tests” or the “income tests” and, consequently, lose our REIT status effective with the year of recharacterization if a sale-leaseback transaction were so recharacterized. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

Investments in other REITs and real estate partnerships could subject us to the tax risks associated with the tax status of such entities.

We may invest in the securities of other REITs and real estate partnerships. Such investments are subject to the risk that any such REIT or partnership may fail to satisfy the requirements to qualify as a REIT or a

partnership, as the case may be, in any given taxable year. In the case of a REIT, such failure would subject such entity to taxation as a corporation. Failure to qualify as a REIT may require such REIT to incur indebtedness to pay its tax liabilities, may reduce its ability to make distributions to us, and may render it ineligible to elect REIT status prior to the fifth taxable year following the year in which it fails to so qualify. In the case of a partnership, such failure could subject such partnership to an entity level tax and reduce the entity's ability to make distributions to us. In addition, such failures could, depending on the circumstances, jeopardize our ability to qualify as a REIT.

Complying with the REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of shares of our common stock. We may be required to forego otherwise attractive investments or make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with the REIT requirements may force us to liquidate otherwise attractive investments.

We must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets in order to ensure our qualification as a REIT. The remainder of our investments (other than governmental securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% (the limit will decrease to 20% after December 31, 2017) of the value of our total assets can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

The failure of a mezzanine loan or any other loan which is not secured by a mortgage on real property to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

The IRS has issued Revenue Procedure 2003-65, which provides a safe harbor pursuant to which a mezzanine loan that is secured by interests in a pass-through entity will be treated by the IRS as a real estate asset for purposes of the REIT tests, and interest derived from such loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We may make investments in loans secured by interests in pass-through entities in a manner that complies with the various requirements applicable to our qualification as a REIT. To the extent, however, that any such loans do not satisfy all of the requirements for reliance on the safe harbor set forth in the Revenue Procedure, there can be no assurance that the IRS will not challenge the tax treatment of such loans, which could jeopardize our ability to qualify as a REIT. Similarly any other loan which we make which is not secured by a mortgage on real property may fail to qualify as a real estate asset for purposes of the REIT qualification tests and therefore could adversely affect our ability to qualify as a REIT.

Legislative or regulatory action could adversely affect us and/or our investors.

In recent years, numerous legislative, judicial and administrative changes have been made to the U.S. federal income tax laws applicable to the qualification and taxation of REITs and to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future and may be given

retroactive or prospective effect, and we cannot assure our stockholders that any such changes will not adversely affect how we are taxed or the taxation of a stockholder. There is a substantial lack of clarity around the likelihood, timing and details of any tax reform. Any such changes could have an adverse effect on us and on an investment in shares of our common stock. We urge our stockholders to consult with their own tax advisors with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in shares of our common stock.

Potential changes to the U.S. tax laws could have a significant negative impact on our business operations, financial condition and earnings.

The current presidential administration has included as part of its agenda a potential reform of U.S. tax laws. The details of the potential reform have not yet emerged but during the campaign, the President outlined several possible changes to business taxes. In addition, House Republicans and Congress have drafted an initial tax reform (“Tax Reform Blueprint”) to significantly amend the Code. The convergence of the administration’s reform agenda and the Tax Reform Blueprint’s potential reforms has not yet taken place, however, key changes within the proposals include:

- elective replacement of current depreciation deductions with a cost recovery system for capital asset investments (excluding land investments);
- elimination of the deductibility of corporate interest expense, if a cost recovery system is elected;
- restriction or elimination of benefits of like-kind exchanges that defer capital gains for tax purposes;
- reduction of the maximum business tax rate from 35% to 15-20%;
- elimination of the corporate alternative minimum tax;
- implementation of a one-time deemed repatriation tax rate of 10% on corporate profits held offshore; and
- elimination of most corporate tax expenditures except for the Research and Development credit.

The specific details regarding potential tax reforms have not yet emerged. In addition, it is not yet known if the potential reform of the U.S. tax laws will include changes that may impact existing REIT rules under the Code. If the tax reform is enacted with some or all of the changes outlined above, our taxable income and the amount of distributions to our stockholders required in order to maintain our REIT status may significantly increase. As a REIT, we are required to distribute at least 90% of our taxable income to our shareholders annually.

We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be issued, nor is the long-term impact of proposed tax reforms (including future reforms that may be part of any enacted tax reform) on the real estate industry or REITs clear. Furthermore, the proposed tax reform may negatively impact our customers’ operating results, financial condition and future business plans. Prospective investors are urged to consult their tax advisors regarding the effect of potential changes to the U.S. federal tax laws on an investment in our shares. A reform of the U.S. tax laws by the administration may be enacted in a manner that negatively impacts our operating results, financial condition and business operations and could adversely affect our ability to pay distributions to our stockholders.

Risks Related to ERISA

If our assets are deemed to be plan assets under ERISA, we, our Advisor and the fiduciaries of investing ERISA plans may be exposed to liabilities under Title I of ERISA and the Internal Revenue Code.

In some circumstances where an ERISA plan holds an interest in an entity, an undivided interest in the assets of the entity attributable to that interest are deemed to be ERISA plan assets unless an exception applies.

This is known as the “look-through rule.” Under those circumstances, the obligations and other responsibilities of plan sponsors, plan fiduciaries and plan administrators, and of parties in interest and disqualified persons, under Title I of ERISA and Section 4975 of the Code, as applicable, may be applicable, and there may be liability under these and other provisions of ERISA and the Code. We believe that our assets should not be treated as plan assets because the shares should qualify as “publicly-offered securities” that are exempt from the look-through rules under applicable regulations of the U.S. Department of the Treasury, because we have 100 stockholders that are independent of us and one another. We note, however, that because certain limitations are imposed upon the transferability of shares so that we may qualify as a REIT, and perhaps for other reasons, it is possible that this exemption may not apply. If that is the case, and if our Advisor or we are exposed to liability under ERISA or the Code, our performance and results of operations could be adversely affected. In addition, if that were the case, an investment in our common shares might constitute an ineffective delegation of fiduciary responsibility to our Advisor, and expose the fiduciary of the benefit plan to co-fiduciary liability under ERISA for any breach by our Advisor of the fiduciary duties mandated under ERISA. If our Advisor or we are exposed to liability under ERISA or the Code, our performance and results of operations could be adversely affected. Prior to making an investment in us, potential investors should consult with their legal and other advisors concerning the impact of ERISA and the Code on such investors’ investment and our performance.

There are special considerations that apply to pension or profit sharing trusts or individual retirement accounts, or IRAs, investing in our common stock.

If a stockholder is investing the assets of an IRA, pension, profit sharing, 401(k), Keogh or other qualified retirement plan, they should satisfy themselves that:

- their investment is consistent with their fiduciary obligations under ERISA and the Code;
- their investment is made in accordance with the documents and instruments governing their plan or IRA, including their plan’s investment policy;
- their investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA;
- their investment will not impair the liquidity of the plan or IRA;
- their investment will not produce “unrelated business taxable income” for the plan or IRA;
- they will be able to value the assets of the plan annually in accordance with ERISA requirements; and
- their investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

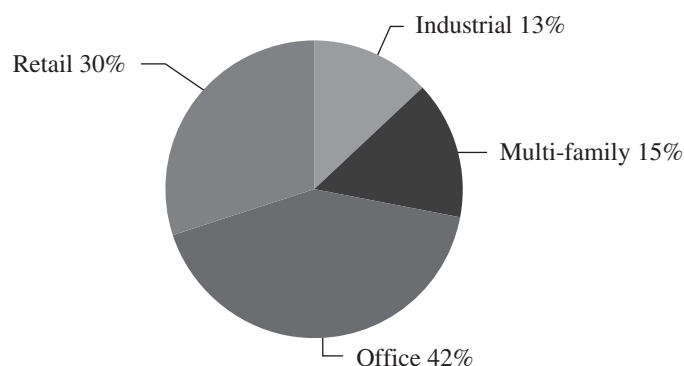
As of December 31, 2016, we owned five real estate investments. Additionally, we acquired our sixth real estate investment, Rookwood, in January 2017. The following table provides additional information regarding each of these properties. The information in this table is presented as of December 31, 2016 for properties acquired prior to December 31, 2016 or the date of acquisition with respect to Rookwood and Montrose, which were acquired on January 6, 2017 and March 24, 2017, respectively.

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%	153,387	100%
Domain Apartments ⁽⁴⁾	Las Vegas, Nevada	Multi-family	1/2016; \$58.1	5.5%	331,038	94%
Cottonwood Corporate Center	Salt Lake City, Utah	Office	7/2016; \$139.2	6.9%	490,030	92%
Goodyear Crossing II	Phoenix, Arizona	Industrial	8/2016; \$56.2	8.5%	820,384	100%
Rookwood	Cincinnati, Ohio	Retail	1/2017; \$193.7	6.0%	600,071	97%
Montrose Student Residence ⁽⁵⁾	Dublin, Ireland	Multi-family	3/2017; \$40.6	5.5%	87,607	100%
Total for All Investments					<u>2,643,827</u>	<u>97%</u>

- (1) On December 31, 2016, we effectively owned a 99.9% interest in the five properties acquired prior to December 31, 2016 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 0.1% 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.
- (4) The Domain Apartments consist of 308 units with an average effective monthly rental rate of \$1,198 per unit as of December 31, 2016.
- (5) The Montrose Student Residence consists of 205 beds with an average effective weekly rental rate of €250 (approximately \$270 assuming a rate of \$1.08 per EUR as of the acquisition date) per bed.

Investment Type

Our portfolio is comprised of investments in a variety of real estate asset classes, including retail, office, industrial, multi-family and student housing properties. The following chart depicts the percentage of our portfolio's investment types based on our pro-rata share of the estimated value of each of our investments as of December 31, 2016 and includes the effect of Rookwood, which we acquired in January 2017. The estimated values of our real estate property investments were based on the most recent appraised values of our real estate values except for Rookwood and the Montrose Student Residence which were based on their net purchase prices.



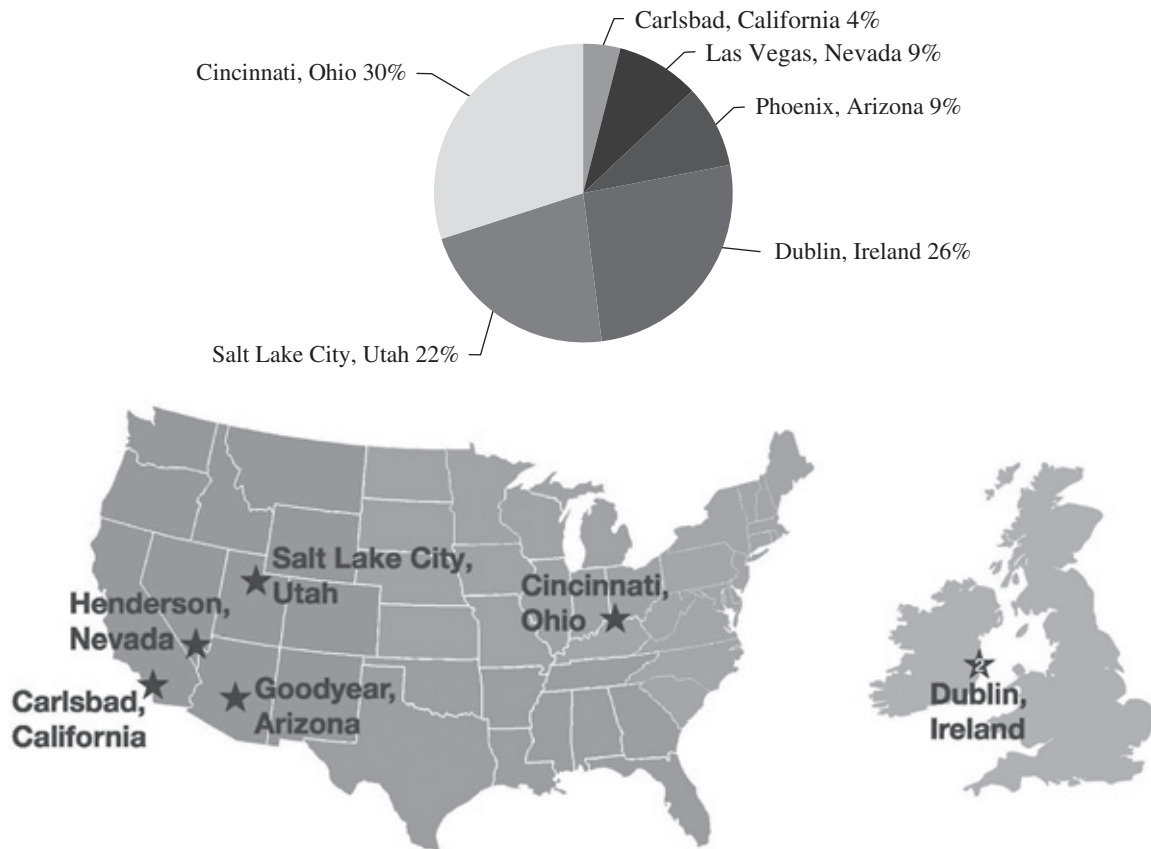
Lease Expirations

The following table lists the scheduled lease expirations and related expiring base rents of our commercial properties for each of the years ending December 31, 2017 through December 31, 2026 and the period thereafter for the five commercial properties in which we owned an interest as of December 31, 2016, and Rookwood, which we acquired in January 2017. It does not include the effect of the Domain Apartments or the Montrose Student Residence. The table also shows the approximate leasable square feet represented by the applicable lease expirations.

Year	Number of Leases	Leasable Area		Annual Base Rental Income of Expiring Leases	Percent of Total Annual Base Rental Income
		Approximate Square Feet	Percent of Total Leasable Area		
Vacant	—	58,628	2.6%	\$ —	— %
2017	18	72,771	3.3%	\$1,750,148	4.5%
2018	16	128,250	5.8%	\$3,794,013	9.8%
2019	14	1,089,525	49.1%	\$8,963,053	23.1%
2020	20	178,869	8.1%	\$4,441,076	11.5%
2021	14	280,541	12.6%	\$7,336,418	18.9%
2022	4	41,231	1.9%	\$1,193,490	3.1%
2023	8	110,143	5.0%	\$2,056,296	5.3%
2024	6	81,662	3.7%	\$2,360,842	6.1%
2025	3	10,738	0.5%	\$ 320,079	0.8%
2026	2	8,500	0.4%	\$ 322,751	0.8%
Thereafter	2	158,859	7.0%	\$6,202,177	16.1%

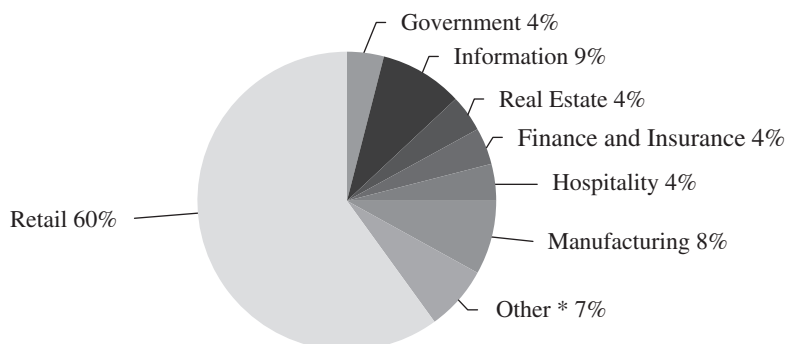
Market Concentration

The following charts depict the location of our real estate investments as of December 31, 2016 and include the effect of our acquisition of Rookwood in January 2017 and the Montrose Student Residence in March 2017. Approximately 74% of our portfolio is located throughout the United States and approximately 26% is located internationally (based on our pro rata share of the estimated value of each of the real estate investments). The estimated values of our real estate property investments were based on the most recent appraised values of our real estate values except for Rookwood and the Montrose Student Residence, which were based on their net purchase prices.



Industry Concentration

The following table provides a summary of the industry concentration of the tenants in our five commercial properties based on their leased square footage as of December 31, 2016 and includes the effect of Rookwood, which was acquired in January 2017:



* Other is made up of industries which individually comprise less than 3% of our portfolio and includes: Administrative and Support Services, Construction, Oil and Gas, Other Professional Services, Other Services, and Wholesale Trade.

Item 3. 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 March 27, 2017, neither we nor any of our subsidiaries were a party to any material pending legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

As of December 31, 2016, we had 16.5 million Class A shares of our common stock ("Class A Shares") and 10.1 million Class T shares of our common stock ("Class T Shares") outstanding, held by a total of 6,433 stockholders. The number of stockholders is based on the records of our registrar and transfer agent. There is no established public trading market for our common stock. Therefore, there is a risk that a stockholder may not be able to sell our stock at a time or price acceptable to the stockholder.

To assist the Financial Industry Regulatory Authority ("FINRA") members and their associated persons that participate in our public offerings in their effort to comply with National Association of Securities Dealers ("NASD") Rule 2340, we disclose in each Annual Report on Form 10-K a per share estimated value of the shares, the method by which it was developed and the date of the data used to develop the estimated value. In addition, we plan to prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the annual reporting requirements of ERISA in the preparation of their reports relating to an investment in our shares and such statements should not be used for any other purpose. On February 27, 2017, our board of directors determined a new estimated per share net asset value ("NAV") of \$9.65 as of December 31, 2016. This new estimated per share NAV represents a 6.9% increase over the previously determined estimated per share NAV of \$9.03 as of February 29, 2016. Our estimated per share NAV was determined utilizing the guidelines established by the Investment Program Association Practice Guideline 2013-01 — "Valuation of Publicly Registered, Non-Listed REITs" issued on April 29, 2013. Our deemed estimated per share NAV is provided to assist plan fiduciaries in fulfilling their annual valuation and reporting responsibilities, and should not be used for any other purpose. We cannot assure you that this deemed per share NAV, or the method used to establish it, complies with the ERISA or IRS requirements. It is currently anticipated that the estimated per share NAV will next be determined no later than March 2018.

Methodology

We engaged Cushman and Wakefield, Inc., or "Cushman", an independent third party real estate advisory and consulting firm, to provide third party appraisals for each of our real estate properties as of December 31, 2016. These appraisals were performed in accordance with Uniform Standards of Professional Appraisal Practice with respect to our four domestic real estate investments and performed in accordance with the professional standards as published by the Royal Institution of Chartered Surveyors with respect to our international real estate investment. Cushman has extensive experience in conducting appraisals and valuations on real properties and each of our appraisals with respect to our domestic properties was prepared by personnel who are members of the Appraisal Institute and have the Member of Appraisal Institute, or MAI, designation.

We also engaged Jones Lang LaSalle, an independent third party real estate advisory and consulting services firm, to perform valuations of our debt obligations as of December 31, 2016.

In establishing the estimated NAV per share of \$9.65, in addition to using the appraised values of our real estate investments and values of our debt obligations, the valuation committee also included in its determination the values of other assets and liabilities such as cash, tenant and other receivables, accounts payable and accrued expenses, distributions payable and other assets and liabilities, all of which were valued at cost. No liquidity discounts or discounts relating to the fact that we are externally managed were applied to the estimated NAV per share and no attempt was made to value the company as an enterprise.

Additionally, we engaged Altus Group U.S., Inc., or "Altus", to review the appraisals provided by Cushman and to assess the reasonableness of our new estimated NAV per share. The appraisal reviews were conducted

under the supervision of a member of the MAI. In assessing the reasonableness of our new estimated NAV, Altus utilized the appraised values provided by Cushman as described above, the valuations of our debt obligations provided by Jones Lang LaSalle and information provided by management regarding balances of cash, tenant and other receivables, accounts payable and accrued expenses, distributions payable and other assets and liabilities. Altus concluded that the new estimated per share NAV determined by our board of directors was reasonable.

The aggregate appraised value of our real estate investments as of December 31, 2016 was \$409.1 million, which represents a 5.2% net increase when compared to the previously determined appraised value of our assets as of February 29, 2016, including the purchase price of the real estate investments acquired since that time. This 5.2% net increase resulted from a 6.4% appreciation in the aggregate appraised values of our real estate investments since their appraisals on February 29, 2016, including the purchase price of the real estate investments acquired since that time, which was offset by a 1.2% dilution resulting from the devaluation of the Euro against the U.S dollar from February 29, 2016 to December 31, 2016.

The aggregate appraised value of our real estate property investments also represents an 8.3% increase when compared to the purchase price of the real estate investments excluding closing costs, transaction fees and additional capital investments since their acquisition. This 8.3% net increase resulted from a 10.6% appreciation in the aggregate appraised values of our real estate investments since their purchase, which was offset by 2.3% dilution resulting from the devaluation of the Euro against the U.S dollar.

The table below sets forth the calculation of our estimated NAV per share and the offering price of each class of shares of our common stock as of December 31, 2016 and 2015 (in thousands, except per share amounts):

	December 31, 2016		February 29, 2016	
	Gross Amount	Per Share	Gross Amount	Per Share
Real estate investments	\$ 409,066	\$15.41	\$198,233	\$15.45
Other assets	107,610	4.05	15,067	1.17
Debt obligations and other liabilities	(260,340)	(9.81)	(97,143)	(7.57)
Noncontrolling interests	(204)	—	(221)	(0.02)
Estimated NAV	\$ 256,132	\$ 9.65	\$115,936	\$ 9.03
Shares outstanding	26,543		12,832	

The Company's offering prices per Class A Share and Class T Share are calculated as follows:

Class A Shares:

Estimated NAV	\$ 9.65
Costs of raising capital	1.15
Advisor Payment of a Portion of the Dealer Manager Fees	(0.16)
Offering price per Class A Share	<u>\$10.64</u>

Class T Shares:

Estimated NAV	\$ 9.65
Costs of raising capital	0.56
Advisor Payment of a Portion of the Dealer Manager Fees	(0.15)
Offering price per Class T Share	<u>\$10.06</u>

The valuation committee and our board of directors determined the estimated NAV per share by (i) utilizing the appraised values of our real estate investments of \$409.1 million and adding our other assets (comprised of cash, tenant and other receivables, deposits on investment property and other assets) of \$107.6 million; (ii) subtracting the values of our debt obligations and other liabilities comprised of our accounts payable and

accrued expenses, due to affiliates, distributions payable and other liabilities of \$260.3 million, as well as amounts related to noncontrolling interests of approximately \$204,000; and (iii) dividing the total by the shares of our common stock outstanding as of December 31, 2016 of 26.5 million, resulting in an estimated NAV per share of \$9.65.

The primary drivers of the change in the estimated NAV per share value from \$9.03 as of February 29, 2016 to \$9.65 as of December 31, 2016 are as follows:

- \$0.93 per share net increase in the aggregate value of our real estate investments, which represents a 6.4% net increase in value;
- \$0.21 per share reduction resulting from acquisition fees and expenses related to properties that we have acquired;
- \$0.15 per share increase resulting from an increase in the fair market value of our debt;
- \$0.10 per share reduction resulting from the effect of devaluation of the Euro against the U.S. dollar; and
- \$0.07 per share reduction resulting from the payment of issuer costs in excess of our estimated cost of raising capital.

Additionally, our board of directors considered the costs and expenses associated with raising equity in connection with this offering, consisting of selling commissions, dealer manager fees and estimated issuer costs, resulting in primary offering prices of \$10.64 per Class A Share and \$10.06 per Class T Share, which reflect an increase of \$0.68 and \$0.65, respectively, over the previous primary offering prices of our Class A Shares and Class T Shares.

The estimated NAV per share does not reflect any distribution and stockholder servicing fees that may become payable after December 31, 2016, which fees may not ultimately be paid in certain circumstances, including if the Company was liquidated or if there was a listing of our common stock. We have estimated that approximately \$4.6 million of distribution and shareholder servicing fees were potentially payable in the future with respect to the Class T Shares outstanding as of December 31, 2016. Any estimated liability for future potential distribution and stockholder servicing fees, which will be accrued under U.S. generally accepted accounting principles at the time each Class T Share is sold, will not be reflected in the calculation of the estimated NAV per share. Accordingly, the estimated NAV per share as of December 31, 2016 does not reflect any amounts related to such future distribution and stockholder servicing fees.

Other than with respect to the appraised values of our real estate investments and values of our debt obligations, the values of the assets and liabilities described above were determined based on their cost as of December 31, 2016. Additionally, the calculation of the estimated NAV per share excluded certain items on our consolidated balance sheet that were determined to have no future value or economic impact on the valuation. Examples include receivables related to straight-line rental revenue, costs incurred to put debt in place and issuer costs in excess of our 2.5% cap payable to Hines Global REIT II Advisors LP, our Advisor. Other items were excluded because they were already considered elsewhere in the valuation. Examples include intangible lease assets and liabilities related to our real estate investments and costs incurred for capital expenditures that were included in the appraised values of our real estate investments.

The appraised values provided by Cushman described above were determined primarily by using methodologies that are commonly used in the commercial real estate industry. These methodologies included discounted cash flow analyses and reviews of current, historical and projected capitalization rates for properties comparable to those owned by us as well as going-in capitalization rates for properties comparable to those

owned by us. Each appraisal assumes a 10-year hold period. The tables below summarize the key assumptions that were used in the valuations of our real estate investments.

	<u>Rate</u>	<u>Weighted Average</u>
Domestic Real Estate Investments		
<i>Office</i>		
Exit capitalization rate	7.25%	7.25%
Discount rate/internal rate of return	9.00%	9.00%
<i>Industrial</i>		
Exit capitalization rate	6.50% - 7.25%	6.73%
Discount rate/internal rate of return	7.75% - 8.50%	8.27%
<i>Multi-Family</i>		
Exit capitalization rate	6.00%	6.00%
Discount rate/internal rate of return	7.50%	7.50%
International Real Estate Investments		
<i>Office</i>		
Going-in capitalization rate	4.72%	4.72%

While our board of directors believes that the assumptions used in determining the appraised values of our real estate investments are reasonable, a change in these assumptions would impact the calculation of such values. For example, assuming all other factors remained unchanged, an increase in the average discount rate of 25 basis points would yield a decrease in the appraised values of our real estate investments of 2.0%, while a decrease in the average discount rate of 25 basis points would yield an increase in the appraised values of our real estate investments of 1.6%. Likewise, an increase in the average exit capitalization rate of 25 basis points would yield a decrease in the appraised values of our real estate investments of 2.3%, while a decrease in the average exit capitalization rate of 25 basis points would yield an increase in the appraised values of our real estate investments of 1.9%. Additionally, an increase in the average going-in capitalization rate of 25 basis points would yield a decrease in the appraised value of our real estate investments of 4.5%, while a decrease in the average going-in capitalization rate of 25 basis points would yield an increase in the appraised value of our real estate investments of 5.0%.

Limitations of Estimated NAV Per Share and Offering Prices Per Share

As with any valuation methodology, the methodology used to determine the estimated NAV per share was based upon a number of assumptions, estimates and judgments that may not be accurate or complete. Further, different parties using different property-specific and general real estate and capital market assumptions, estimates, judgments and standards could derive an estimated NAV per share that could be significantly different from the estimated NAV per share determined by our board of directors. The estimated NAV per share and the offering prices per share described above are not intended to represent the fair value of our assets less liabilities in accordance with U.S. generally accepted accounting principles, and such estimated NAV per share and offering prices per share are not a representation, warranty or guarantee that (i) a stockholder would be able to realize the estimated NAV per share or the respective offering price per share if such stockholder attempts to sell his or her shares; (ii) a stockholder would ultimately realize distributions per share equal to the estimated NAV per share or the respective offering price per share upon our liquidation or sale; (iii) shares of our common stock would trade at the estimated NAV per share or the respective offering price per share on a national securities exchange; (iv) a third party would offer the estimated NAV per share or the respective offering price per share in an arm's-length transaction to purchase all or substantially all of our shares of common stock; or (v) the methodologies used to determine the estimated NAV per share would be acceptable to FINRA. In addition, we can make no claim as to whether the estimated NAV per share will or will not satisfy the applicable annual valuation requirements under ERISA and the Code with respect to employee benefit plans subject to ERISA and other retirement plans or accounts subject to Section 4975 of the Code that are investing in shares of our common stock.

Further, the estimated NAV per share and the offering prices per share were calculated as of a moment in time, and, although the value of shares of our common stock will fluctuate over time as a result of, among other things, developments related to individual assets, changes in the real estate and capital markets, acquisitions or dispositions of assets, the distribution of proceeds from the sale of real estate to our stockholders and changes in corporate policies such as our distribution level relative to earnings, we do not undertake to update the offering prices per share on a regular basis. As a result, stockholders should not rely on the estimated NAV per share or the respective offering price per share as an accurate measure of the then-current value of shares of our common stock in making a decision to buy or sell shares of our common stock, including whether to invest in the offering, whether to reinvest distributions by participating in our distribution reinvestment plan and whether to request redemption under our share redemption program. In addition, our board of directors may in its discretion from time to time change the offering prices per share of our common stock, and therefore the number of shares being offered in the offering, through one or more supplements or amendments to our prospectus or post-effective amendments to the registration statement of which our prospectus is a part. We cannot assure you that the offering prices per share will increase or that they will not decrease during the offering or in connection with any future offering of shares of our common stock. Included among the circumstances under which our board of directors may determine to change the offering prices per share are the commencement of a new follow-on offering, an event that results in significant changes to the value of our assets or the adoption of new rules by FINRA or other regulatory authorities.

Prior Engagement of Independent Valuation Firms

We have paid each of Cushman, Jones Lange LaSalle and Altus a fee for providing the services described herein in connection with the determination of the estimated NAV per share of our common stock. In addition, with the approval of the valuation committee, we engaged and compensated Cushman and Jones Lange LaSalle to assist in the valuation of our real estate properties and our debt obligations, respectively, in connection with our board of directors' determination of the estimated per share NAV of our common stock in April 2016. Further, during the past two years, affiliates of Hines have engaged and compensated Cushman, Jones Lange LaSalle and Altus, primarily for various real estate-related services, and we anticipate that Cushman, Jones Lange LaSalle and Altus will continue to provide similar real estate-related services to affiliates of Hines in the future.

Distributions

With the authorization of our board of directors, we declare distributions daily. 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 our 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 tables below outline the daily distribution rates declared per share, per day and the annualized distribution rates for each Class A Share and Class T Share.

Class A Shares		
<u>Period Declared</u>	<u>Distribution Rate Per Share, Per Day</u>	<u>Annualized Distribution Rate Per Share</u>
Beginning 4/1/2017	\$0.001653699	\$0.60
5/1/2016 - 3/31/2017	\$0.001594766	\$0.58
10/1/2014 - 4/30/2016	\$0.001575342	\$0.57

Class T Shares		
<u>Period Declared</u>	<u>Gross Distribution Rate Per Share, Per Day</u>	<u>Net Annualized Distribution Rate Per Share ⁽¹⁾</u>
Beginning 4/1/2017	\$0.001653699	\$0.51
5/1/2016 - 3/31/2017	\$0.001594766	\$0.49
8/24/2015 - 4/30/2016	\$0.001575342	\$0.48

- (1) Class T Shares are subject to an ongoing distribution and stockholder servicing fee payable to the Dealer Manager of 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). The gross distribution rate is the rate prior to deduction of the distribution and stockholder servicing fees payable. For purposes of calculating the net annualized distribution rate per share, we deduct from the gross annualized distribution rate an amount equal to 1.0% of the gross offering price, assuming a constant, per share offering price \$9.4489. The actual distribution rate for Class T Shares will vary based on the total amount of distribution and stockholder fees payable.

In our initial quarters of operations, and from time to time thereafter, we may continue to be unable to generate sufficient cash flow from operations to fully fund distributions paid. Therefore, some or all of our distributions 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. For example, we funded 60%, 23% and 100% of total distributions for the years ended December 31, 2016, 2015 and 2014, respectively, with cash flows from financing activities, which includes offering proceeds.

In addition, commencing with the quarter ended December 31, 2014, our Advisor agreed to waive the asset management fees for each quarter through December 31, 2016, to the extent that our MFFO, for a particular quarter, as disclosed in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, amounts to less than 100% of the aggregate distributions declared to our stockholders for such quarter. As a result of these fee 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 table below outlines, with respect to each of the years ended December 31, 2016, 2015 and 2014, the asset management fees earned by our Advisor without the waivers, the amounts waived pursuant to the asset management fee waivers described above, and the asset management fees earned by our Advisor after application of the waivers (in thousands).

<u>For the Years Ended</u>	<u>Asset Management Fee Pre-Waiver</u>	<u>Asset Management Fee Waived</u>	<u>Asset Management Fee Post-Waiver</u>
December 31, 2016	\$2,200	\$1,252	\$948
December 31, 2015	\$ 888	\$ 583	\$305
December 31, 2014	\$ 16	\$ 16	\$—

Our Advisor has also agreed to waive the asset management fees otherwise payable to it for the quarter ended March 31, 2017 to the extent that our MFFO for such quarter, as reduced to reflect the distribution and stockholder servicing fees payable for such quarter, as disclosed in our Quarterly Report on Form 10-Q, amounts to less than 100% of the aggregate distributions declared to our stockholders for that quarter.

The following table outlines our total cash distributions declared to stockholders for each of the quarters during the years ended December 31, 2016 and 2015, including the breakout between the distributions declared in cash and those reinvested pursuant to our distribution reinvestment plan (in thousands), as well as the sources used to fund the distributions.

<u>Distributions for the three months ended</u>	<u>Stockholders</u>		
	<u>Cash Distributions</u>	<u>Distributions Reinvested</u>	<u>Total Declared</u>
2016			
December 31, 2016	\$1,608	\$1,744	\$ 3,352
September 30, 2016	1,340	1,427	2,767
June 30, 2016	1,107	1,128	2,235
March 31, 2016	871	887	1,758
	<u>\$4,926</u>	<u>\$5,186</u>	<u>\$10,112</u>
2015			
December 31, 2015	\$ 604	\$ 656	\$ 1,260
September 30, 2015	458	490	948
June 30, 2015	279	288	567
March 31, 2015	91	58	149
Total	<u>\$1,432</u>	<u>\$1,492</u>	<u>\$ 2,924</u>

Generally, distributions to stockholders are characterized for federal income tax purposes as ordinary income, capital gains, non-taxable return of capital or a combination of the three. Distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital for tax purposes rather than a distribution and reduce the stockholders' basis in our common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the stockholders' basis in the common shares, it will generally be treated as a capital gain. We annually notify stockholders of the taxability of distributions paid during the preceding year.

For the years ended December 31, 2016 and 2015, respectively, approximately 67% and 99% of the distributions paid were taxable as ordinary income and approximately 33% and 1% were treated as a return of capital for federal income tax purposes. The amount of distributions paid and taxable portion are not indicative or predictive of amounts anticipated in future periods.

Recent Sales of Unregistered Securities

There have been no sales of unregistered securities within the past three years.

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 December 31, 2016, we received gross proceeds of approximately \$164.0 million through the sale of 16.5 million Class A Shares and \$95.2 million through the sale of 10.1 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 \$18.1 million of selling commissions and dealer manager fees and \$6.3 million of issuer costs related to the Offering. See Note 2 — Summary of Significant Accounting Policies — Issuer Costs 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 our Advisor as a percentage

of gross offering proceeds. As a result of the amendment to our Advisory Agreement, our Advisor reimbursed us \$4.0 million for issuer costs that we had previously reimbursed to our Advisor. See Note 8— Related Party Transactions for additional information regarding the amendment of the Dealer Manager Agreement, pursuant to which our Advisor will pay a portion of the dealer manager fees payable to the dealer manager, without reimbursement from us. 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 \$227.0 million. A portion of these proceeds, along with proceeds from debt financing, were used to make approximately \$134.5 million of investments in real estate, including the purchase price of our real estate investments, deposits paid for future acquisitions, acquisition fees and expenses, and costs of leveraging each real estate investment. We had approximately \$93.7 million in uninvested offering proceeds as of December 31, 2016, which were subsequently used to acquire Rookwood in January 2017.

Additionally, we may not generate sufficient cash flow from operations to fully fund distributions paid. From inception through December 31, 2016, a portion of our distributions have been funded with cash flows from financing activities, which includes offering proceeds. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition, Liquidity and Capital Resources — Distributions”

Share Redemption Program

We offer a share redemption program that may allows stockholders who have purchased shares from us or received their shares through a non-cash transaction, not in the secondary market, to have their shares redeemed subject to certain limitations and restrictions. We intend to allow redemptions of our shares on a monthly basis. No fees will be paid to Hines in connection with any redemption. Our board of directors may terminate, suspend or amend the share redemption program upon 30 days’ written notice without stockholder approval, which notice shall take the form of a report on Form 8-K filed at least 30 days prior to the effective date of such termination, suspension or amendment.

Subject to the limitations of and restrictions of the program, and subject to funds being available as described below, the number of shares repurchased during any consecutive 12-month period will be limited to no more than 5% of the number of outstanding shares of common stock at the beginning of that 12-month period. Unless our board of directors determines otherwise, the funds available for redemptions in each month will be limited to the funds received from the distribution reinvestment plan in the prior month. Our board of directors has complete discretion to determine whether all of such funds from the prior month’s distribution reinvestment plan will be applied to redemptions in the following month, whether such funds are needed for other purposes or whether additional funds from other sources may be used for redemptions.

On September 15, 2016, our board of directors approved and adopted the Amended and Restated Share Redemption Program (the “Amended SRP”) applicable to Class A Shares and Class T Shares, which took effect on October 31, 2016. The Amended SRP will continue to provide eligible stockholders with limited, interim liquidity by enabling them to present for redemption all or a portion of their Class A Shares or Class T Shares and was amended solely to reflect new redemption pricing effective as of October 31, 2016. Subject to the limitations of the Amended SRP and the special pricing applicable to redemptions in connection with the death or disability of a stockholder, shares redeemed under the Amended SRP will be redeemed at a price equal to the estimated per share NAV applicable to the class of shares being redeemed and most recently disclosed by the Company in a public filing with the Commission, which was \$9.03 as of December 31, 2016 and \$9.65 as of March 9, 2017. Shares that are redeemed in connection with the death or disability of a stockholder will be redeemed at a price equal to the price paid to acquire such shares from us; provided, that, the redemption price

cannot exceed the then-current offering price and therefore, as described below, the redemption price will be reduced as necessary to be equal to then-current offering price for such class of shares.

In the event a stockholder is having all his shares redeemed, we may waive the one-year holding requirement for shares purchased under our distribution reinvestment plan. In addition, we may waive the one-year holding requirement in the event of a stockholder's bankruptcy. If we determine to waive the one-year holding requirement in these circumstances, then, for purposes of determining the applicable redemption price, the stockholder will be deemed to have held his shares continuously for one year.

During the period of any public offering, the redemption price will be equal to or less than the price of the shares offered in the relevant offering. If we are engaged in a public offering and the redemption price calculated in accordance with the guidelines set forth above would result in a price that is higher than the then-current public offering price of our common shares, then the redemption price, including the redemption price for death and disability redemptions, will be reduced and will be equal to the then-current public offering price of such class of our common shares.

In the event that funds are insufficient to repurchase all of the shares for which repurchase requests have been submitted in a particular month and our board of directors determines that we will redeem shares in that month, then shares will be repurchased on a pro rata basis and the portion of any unfulfilled repurchase request will be held and considered for redemption until the next month unless withdrawn by the stockholder.

Issuer Redemptions of Equity Securities

All eligible requests for redemptions were redeemed using proceeds from our distribution reinvestment plan. The following table lists shares we redeemed under our share redemption program during the quarter ended December 31, 2016, including the average price paid per share.

Period	Total Number of Shares Redeemed	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Redeemed Under the Plans or Programs ⁽¹⁾
October 1, 2016 to October 31, 2016	22,204	\$9.49	22,204	53,411
November 1, 2016 to November 30, 2016 . . .	7,211	\$9.03	7,211	59,036
December 1, 2016 to December 31, 2016 . . .	14,528	\$9.96	14,528	62,996
Total	43,943		43,943	

- (1) See description of our share redemption programs above for a description of the limitations on the number of shares that may be redeemed.

Item 6. Selected Financial Data

The following selected consolidated financial data is qualified by reference to and should be read in conjunction with our Consolidated Financial Statements and Notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” below (in thousands, except per share amounts).

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013 ⁽¹⁾</u>
Operating Data:				
Revenues	\$ 24,349	\$ 9,410	\$ 94	\$—
Depreciation and amortization	\$ 15,372	\$ 4,207	\$ 49	\$—
Asset management and acquisition fees	\$ 6,645	\$ 2,640	\$ 570	\$—
General and administrative	\$ 2,044	\$ 1,546	\$ 556	\$—
Net income (loss)	\$ (11,341)	\$ (5,638)	\$ (1,328)	\$—
Net (income) loss attributable to noncontrolling interests	\$ (12)	\$ (12)	\$ 187	\$—
Net income (loss) attributable to common stockholders	\$ (11,353)	\$ (5,650)	\$ (1,141)	\$—
Basic and diluted income (loss) per common share	\$ (0.62)	\$ (1.06)	\$ (14.63)	\$—
Cash distributions declared per Class A Share	\$ 0.58	\$ 0.57	\$ 0.15	\$—
Cash distributions declared per Class T Share	\$ 0.49	\$ 0.17	\$ —	\$—
Weighted average common shares outstanding—basic and diluted ...	18,191	5,308	78	1
Balance Sheet Data:				
Total investment property	\$283,875	\$ 72,426	\$21,355	\$—
Cash and cash equivalents	\$ 98,137	\$ 17,224	\$ 2,727	\$200
Total assets	\$470,345	\$149,054	\$28,551	\$200
Long-term obligations ⁽²⁾	\$258,451	\$ 59,700	\$24,200	\$—

- (1) For the period from July 31, 2013 (date of inception) through December 31, 2013 for operating data and as of December 31, 2013 for balance sheet data.
- (2) Includes notes payable and the distribution and stockholder servicing fees payable to our Dealer Manager with respect to Class T Shares.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis together with our consolidated financial statements and notes thereto included in this Annual Report on Form 10-K. The following information contains forward-looking statements, which are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, actual results may differ materially from those expressed or implied by the forward-looking statements. Please see "Special Note Regarding Forward-Looking Statements" above for a description of these risks and uncertainties.

Executive Summary

As described in more detail in Item 1. Business to this Annual Report, 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. As of March 17, 2017, we had received gross offering proceeds of \$307.3 million from the sale of 31.7 million shares.

We intend to meet our primary investment objectives by investing in a portfolio of quality commercial real estate properties and other real estate investments that relate to properties that are generally diversified by geographic area, lease expirations and tenant industries. As of December 31, 2016, we owned interests in five real estate investments which contain, in the aggregate, 2.0 million square feet of leasable space. Additionally, in January 2017, we acquired Rookwood, two contiguous shopping centers, consisting of 600,071 square feet in the aggregate. Further, in March 2017, we acquired the Montrose Student Residence, a Class-A student housing property consisting of 87,607 square feet located in Dublin, Ireland. See Item 2. Properties for additional information regarding our real estate investments.

On February 27, 2017, our board of directors determined the new estimated per share NAV of our common stock of \$9.65, based on the number of shares issued and outstanding as of December 31, 2016, which represents a 6.9% increase over the previously determined estimated NAV per share of \$9.03 as of February 29, 2016. The new estimated per share NAV reflects an 8.3% 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 8.3% net increase resulted from a 10.6% appreciation in the aggregate appraised values of our real estate investments since their purchase, which was offset by 2.3% dilution resulting from the devaluation of the Euro against the U.S dollar.

Hines is committed to our success and we have executed different agreements described below between Hines and its affiliates to reduce costs and to ensure our product remains competitive in the marketplace.

On July 25, 2016, we, our Dealer Manager and our Advisor entered into the Third Amended and Restated Dealer Manager Agreement, effective as of August 2, 2016 (the "Amended Dealer Manager Agreement"). Pursuant to the Amended Dealer Manager Agreement, our Advisor will pay a portion of the dealer manager fees payable to our dealer manager in an amount equal to 1.5% of the gross offering proceeds with respect to Class A Shares and Class T Shares sold in the primary Offering on and after August 2, 2016. Our Advisor will not be reimbursed by us in any way for the payment of such dealer manager fees.

Also, 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. As a result, 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 2.5% cap. From inception through December 31, 2016, we have reimbursed the Advisor \$6.3 million in issuer costs out of \$11.1 million in issuer costs incurred by the Advisor.

Further, commencing with the quarter ended December 31, 2014, our Advisor agreed to waive the asset management fees for each quarter through December 31, 2016, to the extent that our MFFO, for a particular quarter, as disclosed in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, amounts to less than 100% of the aggregate distributions declared to our stockholders for such quarter. As a result of these fee 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 table below outlines, with respect to each of the years ended December 31, 2016, 2015 and 2014, the asset management fees earned by our Advisor before application of the waivers, the amounts waived pursuant to the asset management fee waivers described above, and the asset management fees that were earned by our Advisor after application of the waivers (in thousands).

<u>For the Years Ended</u>	<u>Asset Management Fee Pre-Waiver</u>	<u>Asset Management Fee Waived</u>	<u>Asset Management Fee Post-Waiver</u>
December 31, 2016	\$2,200	\$1,252	\$948
December 31, 2015	\$ 888	\$ 583	\$305
December 31, 2014	\$ 16	\$ 16	\$—

Our Advisor has also agreed to waive the asset management fees otherwise payable to it for the quarter ended March 31, 2017 to the extent that our MFFO for such quarter, as reduced to reflect the distribution and stockholder servicing fees payable for such quarter, as disclosed in our Quarterly Report on Form 10-Q, amounts to less than 100% of the aggregate distributions declared to our stockholders for that quarter.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Additionally, application of our accounting policies involves exercising judgments regarding assumptions as to future uncertainties. Actual results may differ from these estimates under different assumptions or conditions. The following is a discussion of our critical accounting policies. For a discussion of all of our significant accounting policies, see Note 2 — Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.

Basis of Presentation

Our consolidated financial statements included in this Annual Report include the accounts of Hines Global II and the Operating Partnership (over which we exercise financial and operating control). All intercompany balances and transactions have been eliminated in consolidation.

We may enter into various joint venture agreements with unrelated third parties to hold or develop real estate assets. We will evaluate the need to consolidate joint ventures and will consolidate those that are determined to be variable interest entities for which we are the primary beneficiary. We will also consolidate joint ventures that are not determined to be variable interest entities, but for which we exercise control over major operating decisions through substantive participation rights, such as approval of budgets, selection of property managers, asset management, investment activity and changes in financing. The analysis required to identify VIEs and primary beneficiaries is complex and requires substantial judgment. Accordingly, we believe

the decisions made to choose an appropriate accounting framework are critical. To date, we have not entered into any such joint ventures.

Investment Property and Lease Intangibles

When we acquire a property, we allocate the purchase price of the acquisition based upon our assessment of the fair value of various components, including to land and building, land, building and improvements, and intangible lease assets and liabilities. Fair value determinations are based on estimated cash flow projections that utilize discount and/or capitalization rates, as well as certain available market information. The fair value of land, building and improvements considers the value of the property as if it were vacant. The fair value of intangible lease assets is based on our evaluation of the specific characteristics of each lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, current market conditions and market rates, the customer's credit quality and costs to execute similar leases. The fair value of out-of-market leases is calculated as the present value (using a discount rate that reflects the risks associated with the leases) of the difference between the contractual amounts to be paid pursuant to each in-place lease and our estimate of fair market lease rates for each corresponding in-place lease. In estimating carrying costs, we include estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider customer improvements, leasing commissions and legal and other related expenses. Initial valuations are subject to change until such information is finalized, which will occur no later than 12 months after the acquisition date.

Real estate assets are reviewed for impairment each reporting period if events or changes in circumstances indicate that the carrying amount of the individual property may not be recoverable. In such an event, a comparison will be made of the current and projected operating cash flows and expected proceeds from the eventual disposition of each property on an undiscounted basis to the carrying amount of such property. If the carrying amount exceeds the undiscounted cash flows, it would be written down to the estimated fair value to reflect impairment in the value of the asset. The determination of whether investment property is impaired requires a significant amount of judgment by management and is based on the best information available to management at the time of the evaluation. No impairment charges were recorded during the years ended December 31, 2016, 2015, and 2014.

Deferred Leasing Costs

We consider a number of different factors to evaluate whether we or the lessee is the owner of the tenant improvements for accounting purposes. These factors include: (i) whether the lease stipulates how and on what a tenant improvement allowance may be spent; (ii) whether the tenant or landlord retains legal title to the improvements; (iii) the uniqueness of the improvements; (iv) the expected economic life of the tenant improvements relative to the term of the lease; and (v) who constructs or directs the construction of the improvements. The determination of who owns the tenant improvements for accounting purposes is subject to significant judgment. In making that determination, we consider all of the above factors. No one factor, however, necessarily establishes any determination.

Revenue Recognition and Valuation of Receivables

We are required to recognize minimum rent revenues on a straight-line basis over the terms of tenant leases, including rent holidays and bargain renewal options, if any. Revenues associated with tenant reimbursements are recognized in the period in which the expenses are incurred based upon the tenant's lease provision. Leases are not uniform in dealing with such cost reimbursements and there are many variations in the computation. We make quarterly accrual adjustments, positive or negative, to tenant reimbursement revenue to adjust the recorded amounts to our best estimate of the final amounts to be billed and collected with respect to the cost reimbursements. 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 and are included in other revenue in the accompanying consolidated statements of operations. To the extent our leases provide for rental increases at specified intervals, we will record a receivable for rent not yet due under the lease terms. Accordingly, our management must determine, in its judgment, to what extent the unbilled rent receivable applicable to each specific tenant is collectible. We review unbilled rent receivables on a quarterly basis and take into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of unbilled rent with respect to any given tenant is in doubt, we would be required to record an increase in our allowance for doubtful accounts or record a direct write-off of the specific rent receivable, which would have an adverse effect on our net income for the year in which the reserve is increased or the direct write-off is recorded and would decrease our total assets and stockholders' equity.

Distribution and Stockholder Servicing Fees

We record distribution and stockholder servicing fees as a reduction to additional paid-in capital and the related liability in an amount equal to the maximum fees payable in relation to the Class T Shares on the date the shares are issued. The liability will be relieved over time, as the fees are paid to our Dealer Manager, or it will be adjusted if the fees are no longer payable. See Note 8 — Related Party Transactions for additional information regarding the distribution and stockholder servicing fees.

Recent Accounting Pronouncements

See Note 2 — Summary of Significant Accounting Policies for a discussion regarding recent accounting pronouncements and the potential impact, if any, on our financial statements.

Financial Condition, Liquidity and Capital Resources

Our principal demands for funds are to make 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 from the Offering and from debt proceeds.

As of December 31, 2016, our portfolio was approximately 50% leveraged based (based on the most recent appraised values of our real estate values) with a weighted average interest rate of 2.37%. 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 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. In December 2014, our board of directors, including all of our independent directors, approved a \$24.2 million borrowing under the Hines Credit Facility to fund our acquisition of 2819 Loker Avenue East, which was equal to approximately 95% of the contract purchase price of

2819 Loker Avenue East. Additionally, in January 2015, our board of directors, including all of our independent directors, approved \$45.2 million of additional borrowings under the Hines Credit Facility and a €55.2 million secured credit facility (\$62.1 million using \$1.12 per Euro as of the transaction date) for the purchase of Bishop's Square in March 2015. In total, these borrowings represented approximately 104% of the cost of Bishop's Square based on the contract purchase price.

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 provided by operating activities was \$4.1 million for the year ended December 31, 2016 compared to net cash used in operating activities of \$1.6 million for the year ended December 31, 2015. Net cash provided by operating activities increased as a result of the acquisition of the Domain Apartments, Cottonwood Corporate Center and Goodyear Crossing II during the year ended December 31, 2016 and the operation of Bishop's Square (acquired March 2015) for the entire year ended December 31, 2016. We paid acquisition fees and acquisition-related expenses totaling \$6.0 million and \$5.8 million for the years ended December 31, 2016 and 2015, respectively. Under U.S generally accepted accounting principles ("GAAP"), acquisition fees 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.

Net cash used in operating activities for the years ended December 31, 2015 and 2014 was \$1.6 million and \$241,000, respectively. Net cash provided by operating activities was reduced by the payment of acquisition fees and acquisition-related expenses totaling \$5.8 million and \$24,000 for the years ended December 31, 2015 and 2014, respectively. Under GAAP, acquisition fees 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 years ended December 31, 2016, 2015 and 2014 were primarily due to the following:

2016

- Payment of \$244.8 million related to the acquisition of the Domain Apartments, Cottonwood Corporate Center and Goodyear Crossing II and their related lease intangibles.

- Capital expenditures of approximately \$350,000 incurred at Bishop's Square and the Domain Apartments primarily related to a planned expansion at Bishop's Square and new pool equipment, furniture and fixtures at the Domain Apartments.
- Payment of a \$5.0 million earnest money deposit in connection with the acquisition of Rookwood, which we acquired in January 2017.

2015

- Payment of \$102.7 million related to the acquisition of Bishop's Square and its related lease intangibles in March 2015.
- Capital expenditures of approximately \$333,000 incurred at Bishop's Square primarily related to a planned expansion and new equipment at the property.
- Payment of a \$1.5 million earnest money deposit in connection with the acquisition of the Domain Apartments.

2014

- Payment of \$25.1 million related to the acquisition of 2819 Loker Avenue East and its related lease intangibles.

Cash Flows from Financing Activities

Initial Public Offering

We commenced the Offering in August 2014 and raised gross proceeds of \$146.3 million, \$101.4 million and \$3.8 million, respectively, during the years ended December 31, 2016, 2015 and 2014, respectively, excluding proceeds from the distribution reinvestment plan. In addition, during the year ended December 31, 2016, we redeemed \$0.7 million in shares of common stock pursuant to our share redemption program. Shares of our common stock redeemed pursuant to our share redemption program were insignificant in prior years.

In addition to the investing activities described previously, we use proceeds from the Offering to make certain payments to our Advisor and our Dealer Manager during the various phases of our organization and operation. During the organization and offering stage, these include, without limitation, payments to our Dealer Manager for selling commissions, dealer manager fees, distribution and stockholder servicing fees and payments to our Advisor for reimbursement of issuer costs. During the years ended December 31, 2016, 2015 and 2014, we made payments of \$8.9 million, \$9.4 million and \$78,000, respectively, for selling commissions, dealer manager fees, distribution and stockholder servicing fees with respect to Class T Shares and issuer costs related to the Offering. Selling commissions and dealer manager fees are lower than they are with respect to Class A Shares and the decrease in the payment of these fees and commissions noted from 2015 to 2016 is primarily due to a higher proportion of Class T Shares than Class A Shares being sold during 2016. In addition, we amended our Dealer Manager Agreement in July 2016 to reduce the dealer manager fees payable from offering proceeds, as described previously.

Our Advisory Agreement was amended, effective February 29, 2016, to cap the amount which we will reimburse our Advisor for the cumulative issuer costs incurred in connection with our organization and our public offerings at 2.5% of gross proceeds raised through our offerings. As a result of the cap on reimbursement as a percentage of gross offering proceeds, during the year ended December 31, 2016, our Advisor reimbursed us for \$4.0 million in issuer costs that we had previously reimbursed in excess of this new 2.5% cap. As we raise additional offering proceeds, we expect to reimburse our Advisor for the \$4.0 million in issuer costs they recently repaid to us to the extent such costs do not exceed 2.5% of gross offering proceeds from our public offerings.

Distributions

With the authorization of our board of directors, we declare distributions daily. 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 our 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 tables below outline the distribution rates declared per share, per day and the annualized distribution rates for each Class A Share and Class T Share.

Class A Shares		
<u>Period Declared</u>	<u>Distribution Rate Per Share, Per Day</u>	<u>Annualized Distribution Rate Per Share</u>
Beginning 4/1/2017	\$0.001653699	\$0.60
5/1/2016 - 3/31/2017	\$0.001594766	\$0.58
10/1/2014 - 4/30/2016	\$0.001575342	\$0.57
Class T Shares		
<u>Period Declared</u>	<u>Gross Distribution Rate Per Share, Per Day</u>	<u>Net Annualized Distribution Rate Per Share ⁽¹⁾</u>
Beginning 4/1/2017	\$0.001653699	\$0.51
5/1/2016 - 3/31/2017	\$0.001594766	\$0.49
8/24/2015 - 4/30/2016	\$0.001575342	\$0.48

- (1) Class T Shares are subject to an ongoing distribution and stockholder servicing fee payable to the Dealer Manager of 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 purposes of calculating the net annualized distribution rate per share, we deduct from the gross annualized distribution rate an amount equal to 1.0% of the gross offering price, assuming a constant, per share offering price \$9.4489. The actual distribution rate for Class T Shares will vary based on the total amount of distribution and stockholder fees payable.

In our initial quarters of operations, and from time to time thereafter, we may continue to be unable to generate sufficient cash flow from operations to fully fund distributions paid. Therefore, some or all of our distributions 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. For example, we funded 60%, 23% and 100% of total distributions for the years ended December 31, 2016, 2015 and 2014, respectively, with cash flows from financing activities, which includes offering proceeds.

In addition, commencing with the quarter ended December 31, 2014, our Advisor agreed to waive the asset management fees for each quarter through December 31, 2016, to the extent that our MFFO, for a particular quarter, as disclosed in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, amounts to less than 100% of the aggregate distributions declared to our stockholders for such quarter. As a result of these fee 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 table below outlines, with respect to each of the years ended December 31, 2016, 2015 and 2014, the asset management fees earned by our Advisor before application of the waivers, the amounts waived pursuant to the asset management fee waivers described above, and the asset management fees that were earned by our Advisor after application of the waivers (in thousands).

<u>For the Years Ended</u>	<u>Asset Management Fee Pre-Waiver</u>	<u>Asset Management Fee Waived</u>	<u>Asset Management Fee Post-Waiver</u>
December 31, 2016	\$2,200	\$1,252	\$948
December 31, 2015	\$ 888	\$ 583	\$305
December 31, 2014	\$ 16	\$ 16	\$ —

Our Advisor has also agreed to waive the asset management fees otherwise payable to it for the quarter ended March 31, 2017 to the extent that our MFFO for such quarter, as reduced to reflect the distribution and stockholder servicing fees payable for such quarter, as disclosed in our Quarterly Report on Form 10-Q, amounts to less than 100% of the aggregate distributions declared to our stockholders for that quarter.

The following table outlines our total distributions declared to stockholders for the years ended December 31, 2016, 2015 and 2014, including the breakout between the distributions declared in cash and those reinvested pursuant to our distribution reinvestment plan (in thousands).

<u>Distributions for the Years Ended</u>	<u>Stockholders</u>			<u>Sources ⁽²⁾</u>			
	<u>Cash Distributions</u>	<u>Distributions Reinvested</u>	<u>Total Declared</u>	<u>Cash Flows From Operating Activities</u>		<u>Cash Flows From Financing Activities</u>	
December 31, 2016	\$4,926	\$5,186	\$10,112	\$4,066	40%	\$6,058	60%
December 31, 2015	\$1,432	\$1,492	\$ 2,924	\$2,276	77%	\$ 660	23%
December 31, 2014 ⁽¹⁾	\$ 40	\$ 2	\$ 42	\$ —	— %	\$ 45	100%

- (1) During 2014, cash distributions were only declared for the quarter ended December 31, 2014.
- (2) Includes sources used to fund distributions paid to noncontrolling interests which were equal to approximately \$12,000 for each of the years ended December 31, 2016 and 2015 and \$3,000 for the year ended December 31, 2014.

Debt Financings

As mentioned previously, our portfolio was 50% leveraged as of December 31, 2016 (based on the most recent appraised values of our real estate investments) with a weighted average interest rate of 2.37%. Below is additional information regarding our loan activity for the years ended December 31, 2016, 2015 and 2014. See Note 5 — Debt Financing for additional information regarding our outstanding debt.

2016

- We entered into \$141.3 million of permanent mortgage financing related to the acquisition of the Domain Apartments, Cottonwood Corporate Center and Goodyear Crossing II and made payments of \$0.7 million for financing costs related to such loans.
- We borrowed \$81.5 million under the Hines Credit Facility and made payments of \$25.5 million on this facility, which resulted in a \$56.0 million outstanding balance under this facility as of December 31, 2016.

2015

- We entered into \$61.8 million of permanent mortgage financing and borrowed \$50.3 million under our Hines Credit Facility related to the acquisition of Bishop's Square.

- We made payments of \$74.5 million on our Hines Credit Facility using net proceeds from the Offering, which reduced our balance on this facility to zero as of December 31, 2015.
- We made payments of \$0.6 million for financing costs related to our loans and \$48,000 for an interest rate cap related to the mortgage loan secured by Bishop's Square.

2014

- We borrowed \$24.2 million under the Hines Credit Facility, in connection with the acquisition of 2819 Loker Avenue East.

Results of Operations

Year ended December 31, 2016 compared to the year ended December 31, 2015

We owned five properties that were 97% leased as of December 31, 2016 compared to two properties that were 100% leased as of December 31, 2015. As we are currently in the acquisition phase of our life cycle, changes in our results of operations related to our properties are primarily due to the acquisition of properties. Amounts recorded in our consolidated statements of operations for the years ended December 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 our five properties, the first of which was acquired in December 2014.
- Acquisition-related expenses represent costs related to the acquisition of our real estate investments, including those properties which we may acquire in future periods. These costs vary significantly from one acquisition to the next. For example, during the year ended December 31, 2015, we incurred a \$2.0 million Stamp Duty tax related to the acquisition of Bishop's Square. No similar acquisition expenses were incurred in relation to any of our acquisitions during the years ended December 31, 2016.
- 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 per share NAV, the most recently determined value of such real estate investments. As described previously, our Advisor agreed to waive asset management fees for each quarter in 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 \$1.3 million in asset management fees payable to it during the year ended December 31, 2016. Further, our Advisor waived \$0.6 million of the total \$0.9 million in asset management fees payable to it during the year ended December 31, 2015.
- We pay our Advisor acquisition fees equal to 2.25% of the purchase price of our real estate investments. Acquisition fees for the year ended December 31, 2016 were higher than those for the year ended December 31, 2015 due to an increase in our acquisition activity. We acquired three properties for an aggregate purchase price of \$253.5 million during the year ended December 31, 2016 as compared to one property for \$103.2 million during the year ended December 31, 2015.
- General and administrative expenses for the years ended December 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.

Year ended December 31, 2015 compared to the year ended December 31, 2014

Our results of operations for the years ended December 31, 2015 and 2014 are not indicative of those expected in future periods as we did not meet our minimum offering requirements until September 2014 (and

subsequent dates with respect to Washington and Pennsylvania) and did not make our first real estate investment until December 2014. We completed our second acquisition on March 3, 2015. Amounts recorded in our consolidated statements of operations for the years ended December 31, 2015 and 2014 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) and Bishop's Square (acquired in March 2015).
- Acquisition-related expenses represent costs related to the acquisition of our real estate investments, including those properties which we may acquire in future periods. During 2015, these costs included a \$2.0 million Stamp Duty tax related to the acquisition of Bishop's Square.
- We pay our Advisor acquisition fees equal to 2.25% of the purchase price of our real estate investments. Acquisition fees for the years ended December 31, 2015 and 2014 are comprised of the \$2.3 million acquisition fee incurred in relation to our acquisition of Bishop's Square in March 2015 and the \$0.6 million acquisition fee incurred in relation to our acquisition of 2819 Loker Avenue East in December 2014.
- We incurred \$63,000 in organizational costs, which consisted of expenses associated with our formation during the year ended December 31, 2014. No organizational costs were incurred during the year ended December 31, 2015.
- General and administrative expenses for the years ended December 31, 2015 and 2014 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.
- We entered into an interest rate cap agreement in March 2015 as an economic hedge against the variability of future interest rates on one of our variable interest rate borrowings. We have not designated this contract as a hedge for accounting purposes. Changes in the fair value of this interest rate cap resulted in a loss of \$41,000 during the year ended December 31, 2015.
- Total income or loss attributable to noncontrolling interests for the years ended December 31, 2015 and 2014 relates to our allocation of our net loss to HALP II based on its ownership in the Operating Partnership.

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 years ended December 31, 2016, 2015 and 2014 and the period from inception through December 31, 2016 (in thousands, except per share amounts). 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.

	Years ended December 31,			Period from July 31, 2013 (date of inception) through December 31, 2016
	2016	2015	2014	
Net income (loss)	\$(11,341)	\$(5,638)	\$(1,328)	\$(18,307)
Depreciation and amortization ⁽¹⁾	15,372	4,207	49	19,628
Adjustments for noncontrolling interests ⁽²⁾	(23)	36	185	198
Funds From Operations attributable to common stockholders	4,008	(1,395)	(1,094)	1,519
Loss (gain) on derivative instruments ⁽³⁾	6	41	—	47
Loss (gain) on foreign currency ⁽⁴⁾	(11)	11	—	—
Other components of revenues and expenses ⁽⁵⁾ . . .	(2,030)	(938)	(6)	(2,974)
Acquisition fees and expenses ⁽⁶⁾	7,452	5,246	699	13,397
Adjustments for noncontrolling interests ⁽²⁾	(6)	(40)	(33)	(79)
Modified Funds From Operations attributable to common stockholders	<u>\$ 9,419</u>	<u>\$ 2,925</u>	<u>\$ (434)</u>	<u>\$ 11,910</u>
Basic and diluted income (loss) per common share	\$ (0.62)	\$ (1.06)	\$(14.63)	\$ (2.57)
Funds From Operations attributable to common stockholders per common share	\$ 0.22	\$ (0.26)	\$(14.03)	\$ 0.21
Modified Funds From Operations attributable to common stockholders per common share	\$ 0.52	\$ 0.55	\$ (5.56)	\$ 1.69
Weighted average shares outstanding	18,191	5,308	78	7,068

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 years ended December 31, 2016, 2015 and 2014 and the period from inception through December 31, 2016:

	Years ended December 31,			Period from July 31, 2013 (date of inception) through December 31, 2016
	2016	2015	2014	
Straight-line rent adjustment ^(a)	\$(1,897)	\$(627)	\$ (6)	\$(2,529)
Amortization of lease incentives ^(b)	5	1	—	6
Amortization of out-of-market leases ^(b)	(138)	(312)	—	(451)
	<u>\$(2,030)</u>	<u>\$(938)</u>	<u>\$ (6)</u>	<u>\$(2,974)</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 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.

Set forth below is additional information relating to certain items excluded from the analysis above which may be helpful in assessing our operating results:

- For the years ended December 31, 2016 and 2015, we incurred \$408,000 and \$7,000, respectively, in distribution and stockholder servicing fees with respect to Class T Shares. No distribution and stockholder servicing fees were incurred for the year ended December 31, 2014.

As noted previously, our cash flows from operations have been and may continue to be insufficient to fund distributions to stockholders. Therefore, some or all of our distributions 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. For example, we funded 60%, 23% and 100% of total distributions for the years ended December 31, 2016, 2015 and 2014, respectively, with cash flows from financing activities, which includes offering proceeds.

In addition, commencing with the quarter ended December 31, 2014, our Advisor agreed to waive the asset management fees for each quarter through December 31, 2016, to the extent that our modified funds from operations (“MFFO”), for a particular quarter, as disclosed in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, amounts to less than 100% of the aggregate distributions declared to our stockholders for such quarter. As a result of these fee 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 table below outlines, with respect to each of the years ended December 31, 2016, 2015 and 2014, the asset management fees earned by our Advisor before application of the waivers, the amounts waived pursuant to the asset management fee waivers described above, and the asset management fees that were earned by our Advisor after application of the waivers (in thousands).

<u>For the Years Ended</u>	<u>Asset Management Fee Pre-Waiver</u>	<u>Asset Management Fee Waived</u>	<u>Asset Management Fee Post-Waiver</u>
December 31, 2016	\$2,200	\$1,252	\$948
December 31, 2015	\$ 888	\$ 583	\$305
December 31, 2014	\$ 16	\$ 16	\$—

Our Advisor has also agreed to waive the asset management fees otherwise payable to it for the quarter ended March 31, 2017 to the extent that our MFFO for such quarter, as reduced to reflect the distribution and stockholder servicing fees payable for such quarter, as disclosed in our Quarterly Report on Form 10-Q, amounts to less than 100% of the aggregate distributions declared to our stockholders for that quarter.

From inception through December 31, 2016, we declared \$13.1 million of cash distributions to our stockholders (including those reinvested in shares pursuant to our distribution reinvestment plan), compared to our total aggregate FFO loss of \$1.5 million and our total aggregate net loss of \$18.3 million for that period. 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 December 31, 2016, we incurred acquisition fees and expenses totaling \$13.4 million. For the year ended December 31, 2016, we declared \$10.1 million of cash distributions to our stockholders (including those reinvested in shares pursuant to our distribution reinvestment plan), compared to our total aggregate FFO of \$4.0 million. For the years ended December 2015 and 2014, we declared cash distributions to our stockholders (including those reinvested in shares pursuant to our distribution reinvestment plan) totaling \$2.9 million and \$42,000, respectively, compared to our total aggregate FFO loss of \$1.4 million and \$1.1 million, respectively.

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 8 — Related Party Transactions in the Notes to the Consolidated Financial Statements contained elsewhere in this Annual Report on Form 10-K for additional information concerning our related party transactions and agreements.

Off-Balance Sheet Arrangements

As of December 31, 2016 and 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.

Contractual Obligations

The following table lists our known contractual obligations as of December 31, 2016. Specifically included are our obligations under long-term debt agreements and capital lease agreements (in thousands):

Contractual Obligations	Payments due by Period				Total ⁽²⁾
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Notes payable ⁽¹⁾	\$ 6,046	\$11,013	\$72,756	\$130,647	\$220,462
Hines Credit Facility ⁽¹⁾	\$56,605	\$ —	\$ —	\$ —	\$ 56,605
Capital lease obligation	\$ 139	\$ —	\$ —	\$ —	\$ 139
Total contractual obligations ⁽²⁾	\$62,790	\$11,013	\$72,756	\$130,647	\$277,206

(1) Includes principal and interest payments outstanding as of December 31, 2016.

(2) Excluded from the table above is the settlement of the \$4.6 million distribution and stockholder servicing fee liability payable to our Dealer Manager with respect to Class T Shares as of December 31, 2016. We cannot predict the length of time over which this fee will be paid due to potential changes in the offering price or estimated per share NAV of the Company's Class T Shares and future redemptions related to Class T Shares. If we assumed a constant per share offering price or NAV per share, the distribution and stockholder servicing fee with respect to Class T Shares would be paid over 5.25 years from the date of purchase. See Note 8 — Related Party Transactions for additional information regarding the distribution and shareholder servicing fee.

Recent Developments and Subsequent Events

Rookwood

In January 2017, we acquired Rookwood Commons and Rookwood Pavilion, two contiguous shopping centers located in Cincinnati, Ohio, collectively referred to as “Rookwood”. The net purchase price was \$193.7 million, exclusive of transaction costs and working capital reserves. Rookwood consists of 600,071 square feet that is, in the aggregate, 97% leased. As a result of the acquisition of Rookwood, we incurred approximately \$4.4 million in acquisition fees payable to our Advisor.

We have not concluded our accounting for this recent acquisition, but we expect that the purchase price will primarily be allocated to building, land, in-place lease assets, above-market lease assets, and below market lease liabilities.

In connection with the acquisition of Rookwood, we entered into two loan assumption and modification agreements, with Nationwide Life Insurance Company (“Nationwide”) and with CLP-SPF Rookwood Commons, LLC and CLP-SPF Rookwood Pavilion, LLC. Pursuant to the loans, we assumed two secured mortgage facilities with a combined original principal amount of \$96.0 million. Nationwide is not affiliated with us or our affiliates. The loans are secured by first priority liens on our interest in Rookwood and assignments of all of its leases and rents and the personal property on the premises of Rookwood.

Interest accrued on the unpaid principal balance of the Rookwood Commons and Rookwood Pavilion secured mortgage facilities are due and payable on the first day of each month commencing in February 2017. The Rookwood Commons and Rookwood Pavilion secured mortgage facilities have fixed interest rates of 3.13% and 2.87%, respectively, and mature on July 1, 2020. Each secured mortgage facility may be prepaid in full, subject to certain conditions, including but not limited to providing 30 days' advance written notice to Nationwide.

Montrose Student Residence

In March 2017, we acquired the Montrose Student Residence (“Montrose”), a Class-A student housing asset located in Dublin, Ireland. The contract purchase price for Montrose was €37.7 million (approximately \$40.6 million assuming a rate of \$1.08 per EUR as of the contract date), exclusive of transaction costs and working capital reserves. Montrose consists of 205 beds and is 100% leased. As a result of this acquisition, we incurred approximately \$0.9 million in acquisition fees payable to our Advisor.

We have not concluded our accounting for this recent acquisition, but we expect that the purchase price will be primarily allocated to building, land, furniture and fixtures and in-place lease assets.

In connection with the acquisition of Montrose, we entered into a secured facility agreement (the “Montrose Facility”) with Wells Fargo Bank, National Association London Branch, for €22.6 million (approximately \$24.4 million assuming a rate of \$1.08 per EUR as of the date of the agreement). Commencing on May 1, 2017, interest payments are due and payable each quarter and repayment of principal is due upon the maturity of the Montrose Facility on March 23, 2022. The Montrose Facility has a floating interest rate of EURIBOR plus 1.85% through September 2019. Commencing in October 2019, the Montrose Facility will have a floating interest rate of EURIBOR plus 1.85% or 2.0%, depending upon certain debt yield metrics. The Montrose Facility may be prepaid in full, or in part, subject to a prepayment fee if it is prepaid in the first two years. In addition, pursuant to the terms of the Montrose Facility, we entered into a €17.0 million (approximately \$18.3 million assuming a rate of \$1.08 per EUR as of the date of the agreement) five-year interest rate cap agreement, which effectively caps the EURIBOR interest rate on the Montrose Facility to 1.25%, to limit exposure to interest rate fluctuations.

Item 7A. *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 December 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 December 31, 2016, we had \$177.3 million of variable-rate debt outstanding. If interest rates were to increase by 1%, we would incur an additional \$1.8 million 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 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 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 \$0.7 million and would have reduced the year-to-date net income (loss) of Bishop’s Square by \$216,000.

Other Risks

As described elsewhere in this Annual Report on Form 10-K, our Advisor has agreed to waive the asset management fee otherwise payable to it pursuant to our Advisory Agreement for each of the quarters in 2014 — 2016 and the first quarter of 2017, to the extent that our MFFO for each respective quarter, as disclosed in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, 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 first quarter of 2017, and if not, cash available to pay distributions in future periods may be reduced.

Item 8. *Financial Statements and Supplementary Data*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hines Global REIT II, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of Hines Global REIT II, Inc. and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), equity (deficit), and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Hines Global REIT II, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Houston, Texas
March 27, 2017

HINES GLOBAL REIT II, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015

	2016 (in thousands, except per share amounts)	2015 (in thousands, except per share amounts)
ASSETS		
Investment property, net	\$283,875	\$ 72,426
Cash and cash equivalents	98,137	17,224
Restricted cash	1,576	1,565
Tenant and other receivables	4,803	3,890
Intangible lease assets, net	76,070	52,152
Deferred leasing costs, net	314	61
Deferred financing costs, net	—	17
Other assets	5,570	1,719
Total assets	<u>\$470,345</u>	<u>\$149,054</u>
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 7,549	\$ 920
Due to affiliates	12,141	3,186
Intangible lease liabilities, net	2,421	2,470
Other liabilities	3,041	1,867
Distributions payable	1,195	480
Note payable to affiliate	56,000	—
Notes payable, net	197,815	59,693
Total liabilities	<u>\$280,162</u>	<u>\$ 68,616</u>
Commitments and contingencies (Note 12)	—	—
Equity:		
Stockholders' equity:		
Preferred shares, \$0.001 par value per share; 500,000 preferred shares authorized, none issued or outstanding as of December 31, 2016 and December 31, 2015	—	—
Class A common stock, \$0.001 par value per share; 600,000 authorized; 16,469 and 10,275 issued and outstanding as of December 31, 2016 and December 31, 2015, respectively	16	10
Class T common stock, \$0.001 par value per share; 900,000 authorized; 10,074 and 787 issued and outstanding as of December 31, 2016 and December 31, 2015, respectively	10	1
Additional paid-in capital	224,134	91,576
Accumulated distributions in excess of earnings	(31,222)	(9,757)
Accumulated other comprehensive income (loss)	(2,755)	(1,392)
Total stockholders' equity	<u>190,183</u>	<u>80,438</u>
Noncontrolling interests	—	—
Total equity	<u>190,183</u>	<u>80,438</u>
Total liabilities and equity	<u>\$470,345</u>	<u>\$149,054</u>

See notes to the consolidated financial statements.

HINES GLOBAL REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(in thousands, except per share amounts)</u>		
Revenues:			
Rental revenue	\$ 23,667	\$ 9,278	\$ 94
Other revenue	682	132	—
Total revenues	24,349	9,410	94
Expenses:			
Property operating expenses	4,593	1,871	22
Real property taxes	1,648	298	9
Property management fees	438	129	2
Depreciation and amortization	15,372	4,207	49
Acquisition related expenses	1,855	2,963	131
Asset management and acquisition fees	6,645	2,640	570
Organizational expenses	—	—	63
General and administrative expenses	2,044	1,546	556
Total expenses	32,595	13,654	1,402
Income (loss) before other income (expenses)	(8,246)	(4,244)	(1,308)
Other income (expenses):			
Gain (loss) on derivative instruments	(6)	(41)	—
Foreign currency gains (losses)	(4)	(12)	—
Interest expense	(3,154)	(1,345)	(20)
Interest income	69	4	—
Net income (loss)	(11,341)	(5,638)	(1,328)
Net (income) loss attributable to noncontrolling interests	(12)	(12)	187
Net income (loss) attributable to common stockholders	<u>\$(11,353)</u>	<u>\$(5,650)</u>	<u>\$(1,141)</u>
Basic and diluted income (loss) per common share	<u>\$ (0.62)</u>	<u>\$ (1.06)</u>	<u>\$(14.63)</u>
Weighted average number of common shares outstanding	18,191	5,308	78
Cash distributions declared per Class A Share	\$ 0.58	\$ 0.57	\$ 0.15
Cash distributions declared per Class T Share	\$ 0.49	\$ 0.17	\$ —
Comprehensive income (loss):			
Net income (loss)	\$(11,341)	\$(5,638)	\$(1,328)
Other comprehensive income (loss):			
Foreign currency translation adjustment	(1,363)	(1,392)	—
Comprehensive income (loss)	<u>\$(12,704)</u>	<u>\$(7,030)</u>	<u>\$(1,328)</u>
Comprehensive (income) loss attributable to noncontrolling interests	(12)	(12)	187
Comprehensive income (loss) attributable to common stockholders	<u>\$(12,716)</u>	<u>\$(7,042)</u>	<u>\$(1,141)</u>

See notes to the consolidated financial statements.

HINES GLOBAL REIT II, INC.
CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
For the Years Ended December 31, 2016, 2015 and 2014
(in thousands)

	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, 2014 . . .	1	\$—	—	\$—	\$ 10	\$ —	\$ —	\$ 10	\$ 190
Issuance of common shares	420	—	—	—	3,863	—	—	3,863	—
Distributions declared	—	—	—	—	—	(42)	—	(42)	(3)
Selling commissions and dealer manager fees	—	—	—	—	(88)	—	—	(88)	—
Issuer costs	—	—	—	—	(3,743)	—	—	(3,743)	—
Net income (loss)	—	—	—	—	—	(1,141)	—	(1,141)	(187)
Balance as of December 31, 2014	421	\$—	—	\$—	\$ 42	\$ (1,183)	\$ —	\$ (1,141)	\$ —

	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	421	\$—	—	\$—	\$ 42	\$ (1,183)	\$ —	\$ (1,141)	\$ —
Issuance of common shares	9,855	10	787	1	105,479	—	—	105,490	—
Distributions declared	—	—	—	—	—	(2,924)	—	(2,924)	(12)
Redemption of common shares	(1)	—	—	—	(12)	—	—	(12)	—
Selling commissions, dealer manager fees and distribution and stockholder servicing fees	—	—	—	—	(9,750)	—	—	(9,750)	—
Issuer costs	—	—	—	—	(4,183)	—	—	(4,183)	—
Net income (loss)	—	—	—	—	—	(5,650)	—	(5,650)	12
Foreign currency translation adjustment	—	—	—	—	—	—	(1,392)	(1,392)	—
Balance as of December 31, 2015	10,275	\$ 10	787	\$ 1	\$ 91,576	\$ (9,757)	\$(1,392)	\$ 80,438	\$ —

	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	10,275	\$ 10	787	\$ 1	\$ 91,576	\$ (9,757)	\$ (1,392)	\$ 80,438	\$ —	
Issuance of common shares	6,270	6	9,287	9	149,738	—	—	149,753	—	
Distributions declared	—	—	—	—	—	(10,112)	—	(10,112)	(12)	
Redemption of common shares	(76)	—	—	—	(859)	—	—	(859)	—	
Selling commissions, dealer manager fees and distribution and stockholder servicing fees	—	—	—	—	(13,214)	—	—	(13,214)	—	
Issuer costs	—	—	—	—	(3,107)	—	—	(3,107)	—	
Net income (loss)	—	—	—	—	—	(11,353)	—	(11,353)	12	
Foreign currency translation adjustment	—	—	—	—	—	—	(1,363)	(1,363)	—	
Balance as of December 31, 2016	16,469	\$ 16	10,074	\$ 10	\$224,134	\$(31,222)	\$(2,755)	\$190,183	\$ —	

See notes to the consolidated financial statements.

HINES GLOBAL REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (11,341)	\$ (5,638)	\$ (1,328)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	15,422	3,982	49
Foreign currency (gains) losses	4	12	—
(Gain) loss on derivative instruments	6	41	—
Changes in assets and liabilities:			
Change in other assets	(275)	(131)	(71)
Change in tenant and other receivables	(2,288)	(928)	(6)
Change in deferred leasing costs	(261)	(62)	—
Change in accounts payable and accrued expenses	270	640	107
Change in other liabilities	23	1,401	(86)
Change in due to affiliates	2,565	(942)	1,094
Net cash from operating activities	<u>4,125</u>	<u>(1,625)</u>	<u>(241)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in acquired properties and lease intangibles	(244,817)	(102,689)	(25,111)
Capital expenditures at operating properties	(350)	(333)	—
Deposits on investment property	(5,000)	(1,500)	—
Net cash from investing activities	<u>(250,167)</u>	<u>(104,522)</u>	<u>(25,111)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	146,265	101,354	3,801
Redemption of common shares	(714)	(12)	—
Payment of issuer costs	(5,073)	(5,270)	(17)
Reimbursement of issuer costs	4,049	—	—
Payment of selling commissions, dealer manager fees and distribution and stockholder servicing fees	(8,897)	(9,385)	(78)
Distributions paid to stockholders and noncontrolling interests	(4,601)	(1,227)	(27)
Proceeds from notes payable	141,300	61,769	—
Payments on notes payable	(539)	—	—
Proceeds from related party note payable	81,500	50,300	24,200
Payments on related party note payable	(25,500)	(74,500)	—
Change in security deposit liability	40	22	—
Deferred financing costs paid	(666)	(626)	—
Payments related to interest rate contracts	—	(48)	—
Net cash from financing activities	<u>327,164</u>	<u>122,377</u>	<u>27,879</u>
Effect of exchange rate changes on cash and restricted cash	<u>(198)</u>	<u>(168)</u>	<u>—</u>
Net change in cash, restricted cash and cash equivalents	80,924	16,062	2,527
Cash, restricted cash and cash equivalents, beginning of period	18,789	2,727	200
Cash, restricted cash and cash equivalents, end of period	<u>\$ 99,713</u>	<u>\$ 18,789</u>	<u>\$ 2,727</u>

See notes to the consolidated financial statements.

HINES GLOBAL REIT II, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

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 has operated and 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 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 of common stock (“Class A Shares”) and Class T shares of common stock (“Class T Shares”) of the Company’s common stock. The Company engaged Hines Securities, Inc. (the “Dealer Manager”), an affiliate of the Advisor, to serve as the dealer manager for the Offering and market its shares. As of March 17, 2017, the Company had received gross offering proceeds of \$307.3 million from the sale of 31.7 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 December 31, 2016, the Company owned direct investments in five real estate properties totaling 2.0 million square feet that were 97% leased. See the table in “Item 2. Properties for additional information regarding each of the properties in which the Company owned an interest as of December 31, 2016. Also, see Note 14 — Subsequent Events for additional information regarding the acquisition of Rookwood Commons and Rookwood Pavilion, collectively referred to as “Rookwood” in January 2017 and the Montrose Student Residence in March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of the consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company evaluates its assumptions and estimates on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Additionally, application of the Company’s accounting policies involves exercising judgments regarding assumptions as to future uncertainties. Actual results may differ from these estimates under different assumptions or conditions.

Basis of Presentation

The consolidated financial statements of the Company 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. 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.

Investment Property and Lease Intangibles

Real estate assets acquired by the Company are stated at fair value at the date of acquisition less accumulated depreciation. Depreciation is computed using the straight-line method. The estimated useful lives for computing depreciation are generally 10 years for furniture and fixtures, 15-20 years for electrical and mechanical installations and 40 years for buildings. Major replacements that extend the useful life of the assets are capitalized and maintenance and repair costs are expensed as incurred.

Acquisitions of properties are accounted for utilizing the acquisition method and, accordingly, are recorded at the estimated fair values of the assets acquired and liabilities assumed. The results of operations of acquired properties are included in the Company's results of operations from their respective dates of acquisition. Estimates of fair values are based upon estimates of future cash flows and other valuation techniques that the Company believes are similar to those used by market participants and are used to record the purchase of identifiable assets acquired, such as land, buildings and improvements, equipment and identifiable intangible assets related to in-place leases and liabilities assumed, such as amounts related to acquired out-of-market leases, asset retirement obligations, and mortgage notes payable. Values of buildings and improvements are determined on an as-if-vacant basis. Initial valuations are subject to change until such information is finalized, which will occur no later than 12 months after the acquisition date. Acquisition-related costs such as transaction costs and acquisition fees paid to the Advisor are expensed as incurred.

The estimated fair value of acquired in-place leases are the costs the Company would have incurred to lease the properties to the occupancy level of the properties at the date of acquisition. Such estimates include the fair value of leasing commissions, legal costs and other direct costs that would be incurred to lease the properties to such occupancy levels. Additionally, the Company evaluates the time period over which such occupancy levels would be achieved. Such evaluation will include an estimate of the net market-based rental revenues and net operating costs (primarily consisting of real estate taxes, insurance and utilities) that would be incurred during the lease-up period. Acquired in-place leases as of the date of acquisition are amortized over the remaining lease terms. Should a tenant terminate its lease, the unamortized portion of the in-place lease value is charged to amortization expense.

Acquired out-of-market lease values (including ground leases) are recorded based on the present value (using a discount rate that reflects the risks associated with the lease acquired) of the difference between the contractual amounts paid pursuant to the in-place leases and management's estimate of fair market value lease rates for the corresponding in-place leases. The capitalized out-of-market lease values are amortized as adjustments to rental revenue (or ground lease expense, as applicable) over the remaining terms of the respective leases, which include periods covered by bargain renewal options. Should a tenant terminate its lease, the unamortized portion of the out-of-market lease value is charged to rental revenue.

Management estimates the fair value of assumed mortgage notes payable based upon indications of then-current market pricing for similar types of debt with similar maturities. Assumed mortgage notes payable are initially recorded at their estimated fair value as of the assumption date, and the difference between such estimated fair value and the outstanding principal balance of the note will be amortized over the life of the mortgage note payable.

Impairment of Investment Property

Real estate assets are reviewed for impairment each reporting period if events or changes in circumstances indicate that the carrying amount of the individual property may not be recoverable. In such an event, a comparison will be made of the current and projected operating cash flows and expected proceeds from the eventual disposition of each property on an undiscounted basis to the carrying amount of such property. If the carrying amount exceeds the undiscounted cash flows, it would be written down to the estimated fair value to reflect impairment in the value of the asset. The determination of whether investment property is impaired

requires a significant amount of judgment by management and is based on the best information available to management at the time of the evaluation. No impairment charges were recorded during the years ended December 31, 2016, 2015, and 2014.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments that are readily convertible to cash with a maturity of three months or less at the time of purchase to be cash equivalents.

Concentration of Credit Risk

As of December 31, 2016, the Company had cash and cash equivalents deposited in certain financial institutions in excess of federally insured levels. Management regularly monitors the financial stability of these financial institutions in an effort to manage the Company's exposure to any significant credit risk in cash and cash equivalents.

International Operations

The Euro ("EUR") is the functional currency for the Company's subsidiary operating in Ireland. This subsidiary has translated its financial statements into U.S. dollars for reporting purposes. Assets and liabilities are translated at the exchange rate in effect as of the balance sheet date while income statement accounts are translated using the average exchange rate for the period and significant nonrecurring transactions using the rate on the transaction date. Gains or losses resulting from translation are included in accumulated other comprehensive income (loss) within stockholders' equity. Upon disposal of this subsidiary, the Company will remove the accumulated translation adjustment from stockholders' equity and include it in the gain or loss on disposal in its consolidated statement of operations.

This subsidiary may have transactions denominated in currencies other than its functional currency. In these instances, assets and liabilities are remeasured into the functional currency at the exchange rate in effect at the end of the period and income statement accounts are remeasured at the average exchange rate for the period. These gains or losses are included in the Company's results of operations.

This subsidiary also records gains or losses in the income statement when a transaction with a third party, denominated in a currency other than its functional currency, is settled and the functional currency cash flows realized are more or less than expected based upon the exchange rate in effect when the transaction was initiated.

Restricted Cash

The Company has restricted cash primarily related to certain escrow accounts required by the Bishop's Square secured facility.

Tenant and Other Receivables

Tenant and other receivable balances consist primarily of base rents, tenant reimbursements and receivables attributable to straight-line rent. An allowance for the uncollectible portion of tenant and other receivables is determined based upon an analysis of the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. Tenant and other receivables are shown at cost, net of any applicable allowance for doubtful accountants. As of December 31, 2016 and December 31, 2015, no such allowances have been recorded.

In addition, as of December 31, 2016 and December 31, 2015, tenant and other receivables also included a receivable from the Company's transfer agent related to offering proceeds not yet received of \$1.6 million and \$2.9 million, respectively.

Deferred Leasing Costs

Direct leasing costs, primarily consisting of third-party leasing commissions, tenant inducements and legal costs are capitalized and amortized over the life of the related lease. Tenant inducement amortization is recorded as an offset to rental revenue and the amortization of other direct leasing costs is recorded in amortization expense.

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 \$1.0 million and \$0.5 million for the years ended December 31, 2016 and 2015. 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 years ended December 31, 2016 and 2015, \$183,000 and \$88,000 of deferred financing costs were amortized into interest expense in the accompanying consolidated statement of operations, respectively. The Company had no amortization of deferred financing costs for the year ended December 31, 2014.

Other Assets

Other assets included the following (in thousands):

	December 31, 2016	December 31, 2015
Deposits on investment property ⁽¹⁾⁽²⁾	\$5,000	\$1,500
Prepaid insurance	219	203
Prepaid property taxes	74	—
Other	277	16
Other assets	<u>\$5,570</u>	<u>\$1,719</u>

- (1) As of December 31, 2016, this amount consisted of a \$5.0 million earnest money deposit in connection with the acquisition of Rookwood in January 2017. See Note 14 — Subsequent Events for additional information regarding the acquisition of Rookwood.
- (2) As of December 31, 2015, this amount consisted of an earnest money deposit paid in relation 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 \$2.5 million and \$0.6 million as of December 31, 2016 and 2015, respectively. Straight-line rent receivable consists 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 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.

Other revenues consist primarily of parking revenue, insurance proceeds, administrative fees, and tenant reimbursements related to utilities, insurance, and other operating expenses. Parking revenue represents amounts generated from contractual and transient parking and is recognized in accordance with contractual terms or as services are rendered. Other revenues relating to tenant reimbursements are recognized in the period that the expense is incurred.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (“the Code”), beginning with its taxable year ended December 31, 2015. The Company’s management believes that it operates in such a manner as to qualify for treatment as a REIT and intends to operate in the foreseeable future in such a manner so that it will remain qualified as a REIT for federal income tax purposes. Accordingly, no provision has been made for U.S. federal income taxes for the years ended December 31, 2016 and 2015 in the accompanying consolidated financial statements. The Company did not elect to be taxed as a REIT for the taxable year ended December 31, 2014. This did not have an impact on the Company’s tax liability or the tax liability of the Company’s stockholders that invested in the Company’s public offering during 2014 since the Company did not have any taxable income for the year ended December 31, 2014.

Distribution and Stockholder Servicing Fees

Per the terms of the Company’s Third Amended and Restated Dealer Manager Agreement, the Company will pay a distribution and stockholder servicing fee of 1.0% per annum of the gross offering price per Class T Share (or, if the Company is no longer offering primary shares, the then-current estimated per share NAV, if any has been disclosed) sold in the Offering. The Company will cease paying the distribution and stockholder servicing fee with respect to any particular Class T Share and that Class T Share will convert into a number of Class A Shares on the occurrence of certain defined events.

The Company records distribution and stockholder servicing fees as a reduction to additional paid-in capital and the related liability in an amount equal to the maximum fees payable in relation to the Class T Shares on the date the shares are issued. The liability will be relieved over time, as the fees are paid to the Dealer Manager, or it will be adjusted if the fees are no longer payable. For the years ended December 31, 2016 and 2015, the Company has recorded a liability of \$4.6 million and \$7,000, respectively, related to these fees, which is included in due to affiliates on the consolidated financial statements.

Redemption of Common Stock

The Company complies with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”) 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.

Reclassifications

As described more fully below, in connection with recent amendments to the Codification regarding the presentation of restricted cash in the statements of cash flows, the Company reclassified \$1.6 million of restricted cash on the statements of cash flows from investing activities to the cash and cash equivalent balances in 2015 to be consistent with the presentation of cash and cash equivalent balances in 2016. There was no restricted cash for the year ended December 31, 2014.

Per Share Data

Net income (loss) per common share is calculated by dividing the net income (loss) attributable to common stockholders for each period by the weighted average number of common shares outstanding during such period. Net income (loss) per common share on a basic and diluted basis is the same because the Company has no potentially dilutive common shares outstanding.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”), issued Accounting Standards Update (“ASU”) 2014-09 to provide guidance on recognizing revenue from contracts with customers. The amendments also replace prior guidance regarding the recognition of revenue from sales of real estate, except for revenue from sales that are part of a sale-leaseback transaction. Subsequent to ASU 2014-09, the FASB has issued multiple ASUs clarifying multiple aspects of the new revenue recognition standard, which include the deferral of the effective date by one year, and additional guidance for partial sales of non-financial assets. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 with retrospective or modified retrospective adoption. The Company is currently evaluating each of its revenue streams to identify differences in the timing, measurement or presentation of revenue recognition under the new standard, as well as evaluating methods of adoption, however a substantial portion of the Company’s revenue consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09 and will be evaluated with the adoption of the lease accounting standard, ASU 2016-02. Additionally, the Company has not had any sales or partial sales of real estate since its inception.

In September 2015, the FASB issued ASU 2015-16 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 was permitted. The adoption of this guidance did not have any impact on the Company’s financial statements.

In February 2016, the FASB issued ASU 2016-02 which is intended to improve financial reporting about leasing transactions. ASU 2016-02 will require companies that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The accounting by companies that own the assets leased by the lessee (the lessor) will remain largely unchanged from current GAAP. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The guidance is effective for public entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. While the Company is still evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures, it expects to recognize right-of-use assets and related lease liabilities on its consolidated balance sheets related to ground leases under which it is the lessee.

In August 2016 and November 2016, the FASB issued ASU 2016-15 and ASU 2016-18 to the Codification to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. Additionally, the guidance addressed the presentation of restricted cash in the cash flow statement whereby restricted cash should be included in the cash and cash equivalents balance in the statement of cash flows. The amendments to the Codification are effective for public entities for annual and interim periods in fiscal years beginning after December 15, 2017 and early adoption is permitted. The Company adopted this guidance as of December 31, 2016. See the “— Reclassifications” subheading above for the impact the adoption of this guidance had on the Company.

In January 2017, the FASB issued ASU 2017-01 to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We expect the adoption of this guidance to require that most real estate transactions be accounted for under the asset acquisition guidance and, accordingly, acquisition expenses related to those acquisitions will be capitalized. The amendments in the Codification are effective for public entities for annual and interim periods in fiscal years beginning after December 15, 2017 and early adoption is permitted with prospective application. The Company plans to adopt ASU 2017-01 beginning January 1, 2017.

3. INVESTMENT PROPERTY

For the years ended December 31, 2016 and 2015, the Company acquired three and one properties, respectively, for a total net purchase price of \$253.5 million and \$103.2 million, respectively. Investment property consisted of the following amounts as of December 31, 2016 and December 31, 2015 (in thousands):

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Buildings and improvements ⁽¹⁾	\$256,452	\$66,684
Less: accumulated depreciation	<u>(6,337)</u>	<u>(1,458)</u>
Buildings and improvements, net	250,115	65,226
Land	<u>33,760</u>	<u>7,200</u>
Investment property, net	<u>\$283,875</u>	<u>\$72,426</u>

- (1) Included in buildings and improvements is approximately \$331,000 and \$176,000 of construction-in-progress related to a planned expansion at Bishop's Square as of December 31, 2016 and December 31, 2015, respectively.

See Item 2. Properties and Note 4 — Recent Acquisitions of Real Estate for additional information regarding our real estate portfolio. See Note 14 — Subsequent Events for additional information regarding the acquisition of Rookwood and the Montrose Student Residence, which were acquired subsequent to December 31, 2016.

As of December 31, 2016, the cost basis and accumulated amortization related to lease intangibles were as follows (in thousands):

	<u>Lease Intangibles</u>		
	<u>In-Place Leases</u>	<u>Out-of-Market Lease Assets</u>	<u>Out-of-Market Lease Liabilities</u>
Cost	\$ 84,473	\$3,230	\$(3,224)
Less: accumulated amortization	<u>(11,238)</u>	<u>(395)</u>	<u>803</u>
Net	<u>\$ 73,235</u>	<u>\$2,835</u>	<u>\$(2,421)</u>

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

	<u>Lease Intangibles</u>		
	<u>In-Place Leases</u>	<u>Out-of-Market Lease Assets</u>	<u>Out-of-Market Lease Liabilities</u>
Cost	\$54,448	\$414	\$(2,815)
Less: accumulated amortization	<u>(2,664)</u>	<u>(46)</u>	<u>345</u>
Net	<u>\$51,784</u>	<u>\$368</u>	<u>\$(2,470)</u>

Amortization expense of in-place leases was \$10.4 million, \$2.8 million and \$35,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Net amortization of out-of-market leases resulted in an increase to rental revenue of \$138,000 and \$312,000 for the years ended December 31, 2016 and 2015, respectively. There was no amortization of out-of-market leases for the year ended December 31, 2014.

Anticipated amortization of the Company's in-place leases for each of the years ending December 31, 2017 through December 31, 2021 are as follows (in thousands):

	<u>In-Place Lease</u>	<u>Out-of-Market Leases, Net</u>
2017	\$10,698	\$370
2018	9,050	459
2019	6,809	371
2020	4,702	(97)
2021	3,497	(82)

Leases

The Company has entered into non-cancelable lease agreements with tenants for space. As of December 31, 2016, the approximate fixed future minimum rentals for each of the years ending December 31, 2017 through 2021 and thereafter for the Company's commercial properties are as follows (in thousands):

	<u>Fixed Future Minimum Rentals</u>
2017	\$ 26,472
2018	25,492
2019	21,820
2020	16,568
2021	13,892
Thereafter	49,295
Total	<u>\$153,539</u>

Of the Company's total rental revenue for the year ended December 31, 2016, approximately 21% was earned from the Commissioner of Public Works in Ireland, a state agency of Ireland, whose lease expires in 2028, 11% was earned from Western Digital, a tenant in the information industry, whose lease expires in 2021, and approximately 10% was earned from Acushnet, a tenant in the manufacturing industry, whose lease expires in 2019.

Of the Company's total rental revenue for the year ended December 31, 2015, approximately 44% was earned from the Commissioner of Public Works in Ireland, 26% was earned from Acushnet, and approximately 15% was earned from International Financial Data Services, an investor record-keeping and transfer agency provider, whose lease expires in 2024.

Of the Company's total rental revenue for the year ended December 31, 2014, 100% was earned from Acushnet.

Capital Lease Obligations

In May 2016, the Company entered into a lease agreement for equipment at Bishop's Square which is being treated as a capital lease that expires in May 2017. This leased asset with a value of approximately \$201,000 has been recorded in buildings and improvements in the Company's consolidated balance sheet as of December 31, 2016. The Company has \$139,000 outstanding under this capital lease obligation as of December 31, 2016 which is recorded in the consolidated balance sheet under the caption, other liabilities, and expects to repay this obligation in 2017.

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, 2015 and 2014 as follows (in thousands):

<u>Property Name</u>	<u>Acquisition Date</u>	<u>Building and Improvements ⁽¹⁾</u>	<u>Land ⁽¹⁾</u>	<u>In-place Lease Intangibles ⁽¹⁾</u>	<u>Out-of-Market Lease Intangibles, Net ⁽¹⁾</u>	<u>Total ⁽¹⁾</u>
2016						
Domain Apartments	1/29/2016	\$50,790	\$ 5,690	\$ 1,640	\$ —	\$ 58,120
Cottonwood Corporate Center	7/5/2016	\$98,758	\$13,600	\$26,550	\$ 290	\$139,198
Goodyear Crossing II	8/18/2016	\$41,620	\$ 7,270	\$ 5,280	\$ 2,030	\$ 56,200
2015						
Bishop's Square	3/3/2015	\$53,643	\$ — ⁽²⁾	\$51,995	\$(2,478)	\$103,160
2014						
2819 Loker Avenue East	12/17/2014	\$14,170	\$ 7,200	\$ 3,980	\$ —	\$ 25,350

(1) For Bishop's Square, which was denominated in Euros, 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 weighted average amortization period for the intangible assets and liabilities acquired in connection with the 2016, 2015 and 2014 acquisitions, as of the date of the respective acquisition, was as follows (in years):

	<u>In-Place Leases</u>	<u>Above-Market Lease Assets</u>	<u>Below-Market Lease Liabilities</u>
2016 Acquisitions:			
Domain Apartments	0.6	—	—
Cottonwood Corporate Center . .	4.5	8.2	4.7
Goodyear Crossing II	3.1	3.1	—
2015 Acquisition:			
Bishop's Square ⁽¹⁾	10.7	7.5	8.3
2014 Acquisition:			
2819 Loker Avenue East	4.6	—	—

(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 acquisitions completed during the year ended December 31, 2016, which are included in the Company's consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2016 (in thousands):

<u>2016 Acquisitions</u>		<u>For the Year Ended December 31, 2016</u>
Domain Apartments	Revenue	\$ 4,318
	Net income (loss)	\$(1,524)
Cottonwood Corporate Center	Revenue	\$ 7,420
	Net income (loss)	\$(3,339)
Goodyear Crossing II	Revenue	\$ 1,918
	Net income (loss)	\$ (164)

The following unaudited consolidated information is presented to give effect to the acquisitions completed during the year ended December 31, 2016 as if the acquisitions had occurred on January 1, 2015. The pro forma net loss was adjusted to exclude acquisition-related fees and expenses of \$7.5 million for the year ended December 31, 2016. For the year ended December 31, 2015, the pro forma net loss was adjusted to include acquisition fees and expenses of \$7.1 million, relating to the 2016 acquisitions, 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 these acquisitions on January 1, 2015, nor does it purport to represent the Company's future operations (in thousands):

	<u>For the Years Ended December 31,</u>	
	<u>Pro Forma 2016</u>	<u>Pro Forma 2015</u>
Revenues	\$35,616	\$ 34,333
Net income (loss) attributable to common stockholders	\$(8,536)	\$(21,958)

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

<u>2015 Acquisition</u>		<u>For the Year Ended December 31, 2015</u>
Bishop's Square	Revenue	\$ 6,999
	Net income (loss)	\$(1,626)

The following unaudited consolidated information is presented to give effect to the acquisition completed during the year ended December 31, 2015 as if the acquisition had occurred on January 1, 2014. The pro forma net loss was adjusted to exclude acquisition-related fees and expenses of \$5.3 million for the year ended December 31, 2015. For the year ended December 31, 2014, the pro forma net loss was adjusted to include acquisition fees and expenses of \$4.9 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 (in thousands):

	<u>For the Years Ended December 31,</u>	
	<u>Pro Forma 2015</u>	<u>Pro Forma 2014</u>
Revenues	\$10,815	\$ 8,497
Net income (loss) attributable to common stockholders	\$ (939)	\$(4,991)

The table below includes the amounts of revenue and net income (loss) of the acquisition completed during the year ended December 31, 2014, which are included in the Company's consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2014 (in thousands):

<u>2014 Acquisition</u>		<u>For the Year Ended December 31, 2014</u>
2819 Loker Avenue East	Revenue	\$ 94
	Net income (loss)	\$(80)

The following unaudited consolidated information is presented to give effect to the acquisition completed during the year ended December 31, 2014 as if the acquisition occurred on July 31, 2013 (date of inception). The pro forma net loss was adjusted to exclude acquisition-related fees and expenses of \$0.7 million for the year ended December 31, 2014. For the period from inception through December 31, 2013, the pro forma net loss was adjusted to include acquisition fees and expenses of \$0.7 million relating to the 2014 acquisition, as if these fees and expenses had been incurred as of July 31, 2013 (date of inception). The information below is not necessarily indicative of what the actual results of operations would have been had we completed these transactions on July 31, 2013, nor does it purport to represent our future operations:

	<u>Pro Forma 2014</u>	<u>Pro Forma for the Period from July 31, 2013 (date of inception) through December 31, 2013</u>
Revenues	\$2,295	\$ 956
Net income (loss) attributable to stockholders	\$ (567)	\$(795)

5. DEBT FINANCING

As of December 31, 2016 and 2015, the Company had approximately \$254.8 million and \$60.2 million of debt outstanding, with a weighted average years to maturity of 4.3 years and 6.2 years, and a weighted average interest rate of 2.37% and 1.30%, respectively. The following table describes the Company's debt outstanding at December 31, 2016 and 2015 (in thousands, except interest rates):

<u>Description</u>	<u>Origination or Assumption Date</u>	<u>Maturity Date</u>	<u>Maximum Capacity in Functional Currency</u>	<u>Interest Rate Description</u>	<u>Interest Rate as of December 31, 2016</u>	<u>Principal Outstanding at December 31, 2016</u>	<u>Principal Outstanding at December 31, 2015</u>
Secured Mortgage Debt							
Bishop's Square	3/3/2015	3/2/2022	€55,200	Euribor + 1.30%	1.30%	\$ 58,048	\$60,201
Domain Apartments	1/29/2016	1/29/2020	\$34,300	Libor + 1.60%	2.37%	34,300	—
Cottonwood Corporate Center ..	7/5/2016	8/1/2023	\$78,000	Fixed	2.98%	77,461	—
Goodyear Crossing II	8/18/2016	8/18/2021	\$29,000	Libor + 2.00%	2.62%	29,000	—
Notes Payable						<u>\$198,809</u>	<u>\$60,201</u>
Affiliate Note Payable							
Credit Facility with Hines	12/15/2014	12/15/2017	\$75,000	Variable	2.52%	56,000	—
Total Note Payable to Affiliate						<u>\$ 56,000</u>	<u>\$ —</u>
Total Principal Outstanding						<u>\$254,809</u>	<u>\$60,201</u>
Unamortized financing fees						(994)	(508)
Total						<u><u>\$253,815</u></u>	<u><u>\$59,693</u></u>

Bishop's Square Facility

In connection with the acquisition of Bishop's Square, a wholly-owned subsidiary of the Company entered into a secured facility agreement (the "Bishop's Square Facility") with DekaBank Deutsche Girozentrale totaling €55.2 million (approximately \$62.1 million assuming a rate of \$1.12 per EUR as of the transaction date). The

Bishop's Square Facility requires quarterly interest payments, which commenced in July 2015, and repayment of principal upon the maturity of the Bishop's Square Facility on March 2, 2022. The Bishop's Square Facility has a floating interest rate of EURIBOR plus 1.30% and is subject to an interest rate cap with a strike rate of 2.0%. The Bishop's Square Facility may be repaid in full prior to maturity, subject to a prepayment premium if it is repaid in the first 3 years.

Domain Apartments Mortgage Loan

In connection with the acquisition of the Domain Apartments, the Company entered into a loan agreement with Wells Fargo Bank, National Association ("Wells Fargo") 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 from February 2016 through the term of the loan. 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.

Cottonwood Corporate Center Mortgage Loan

In connection with the acquisition of Cottonwood Corporate Center, the Company entered into a loan agreement with Principal Life Insurance Company ("Principal Life") for a principal sum of \$78.0 million. Principal and interest accrued on the loan are due and payable on the first day of each month commencing in September 2016. The loan has a fixed interest rate per annum equal to 2.98% and matures on August 1, 2023. The loan may be prepaid at any time on or after April 1, 2023 without penalty, subject to certain conditions, including but not limited to providing 30 days' advance written notice to Principal Life, and in the event of prepayment of the loan prior to April 1, 2023, the payment of a prepayment penalty.

Goodyear Crossing II Mortgage Loan

In connection with the acquisition of Goodyear Crossing II, the Company entered into a loan agreement with SunTrust Bank ("SunTrust") for a principal sum of \$29.0 million. Interest accrued on the loan is due and payable on the fifth of each month commencing in October 2016. The loan has a floating interest rate of Libor + 2.00%. Repayment of principal is due upon the maturity of the loan on the earlier of (i) August 18, 2021, or (ii) the date on which the principal amount of the loan has been declared or automatically has become due and payable. The loan may be prepaid at any time, in whole or in part, without premium or penalty, subject to certain conditions, including but not limited to providing three days' advance written notice to SunTrust.

Hines Credit Facility

On December 15, 2014, the Operating Partnership entered into a credit facility with Hines (the "Hines Credit Facility") with a maximum principal amount of \$75.0 million. Interest on each advance is charged monthly at a variable rate, which is the greater of (i) Hines' then-current borrowing rate under its revolving credit facility and (ii) if the Company enters into a revolving credit facility through the Operating Partnership, the rate under such facility. Each advance under Hines Credit Facility must be repaid within six months, subject to one six-month extension at our option and subject to the satisfaction of certain conditions. In December 2016, the Company entered into the first amendment to the Hines Credit Facility to extend the termination date for a period of up to one additional year. As amended, the Hines Credit Facility will terminate on the earlier of (a) the termination of the availability period as determined by Hines at its discretion (which will not impact the maturity date of any outstanding or previously approved advance under the credit facility); (b) December 15, 2017; and (c) the date Hines accelerates the repayment of the Hines Credit Facility pursuant to any event of default.

Notwithstanding that each advance under the Hines Credit Facility matures six months after it is made, the Company is required to repay each advance 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 its offering proceeds to repay the OP Facility, if any, prior to repaying any advances under the Hines Credit Facility. The Hines Credit Facility also permits voluntary prepayment of principal and accrued interest.

For the year ended December 31, 2016, the Company made draws of \$81.5 million and payments of \$25.5 million under the Hines Credit Facility. Additionally, from January 1, 2017 through March 27, 2017, the Company made draws of \$7.0 million and repayments of \$29.8 million. The borrowings and payments resulted in an outstanding principal balance of \$33.2 million under the Hines Credit Facility as of March 27, 2017.

Financial Covenants

The Company’s mortgage and other 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 December 31, 2016.

Principal Payments on Debt

The Company is required to make the following principal payments on its outstanding notes payable for each of the years ending December 31, 2017 through December 31, 2021 and for the period thereafter (in thousands).

	Payments Due by Year					
	2017	2018	2019	2020	2021	Thereafter
Principal payments	\$57,650	\$1,700	\$1,751	\$36,104	\$30,859	\$126,745

6. DERIVATIVE INSTRUMENTS

The Company entered into an interest rate cap agreement with Chatham Financial Corporation in connection with the Bishop’s Square Facility. The interest rate cap agreement was entered into as an economic hedge against the variability of future interest rates on one of its variable interest rate borrowings. The Company’s interest rate cap contract has economically limited the interest rate on the loan to which it relates. The Company has not designated this derivative as a hedge for accounting purposes. See Note 9 — Fair Value Measurements for additional information regarding the fair value of the Company’s interest rate contract.

The table below provides additional information regarding the Company’s interest rate contract (in thousands, except percentages).

Interest Rate Contracts

<u>Type</u>	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Notional Amount ⁽¹⁾</u>	<u>Interest Rate Received</u>	<u>Pay Rate / Strike Rate</u>
Interest rate cap	March 3, 2015	April 25, 2018	\$58,048	EURIBOR	2.00%

(1) For notional amounts denominated in a foreign currency, amounts have been translated at a rate based on the rate in effect on December 31, 2016.

The Company has not entered into a master netting arrangement with its third-party counterparty and does not offset on its consolidated balance sheet the fair value amount recorded for its derivative instrument. The fair

value of the Company's derivative instrument is included in the caption, other assets, on the consolidated balance sheets. The table below presents the effects of the changes in fair value of the Company's derivative instrument in the Company's consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2016 and 2015 (in thousands):

	Gain (Loss) Recorded on Derivative Instruments	
	Year Ended	
	December 31, 2016	December 31, 2015
Derivatives not designated as hedging instruments:		
Interest rate cap	<u><u>\$ (6)</u></u>	<u><u>\$ (41)</u></u>
Total gain (loss) on derivatives	<u><u>\$ (6)</u></u>	<u><u>\$ (41)</u></u>

7. DISTRIBUTIONS

With the authorization of its board of directors, the Company declares distributions daily. 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 tables below outline the distribution rates declared per share, per day for Class A Shares and Class T Shares.

Class A Shares		Class T Shares	
Period Declared	Distribution Rate Per Share, Per Day	Period Declared	Gross Distribution Rate Per Share, Per Day ⁽¹⁾
Beginning 4/1/2017	\$0.001653699	Beginning 4/1/2017	\$0.001653699
5/1/2016 - 3/31/2017	\$0.001594766	5/1/2016 - 3/31/2017	\$0.001594766
10/1/2014 - 4/30/2016	\$0.001575342	8/24/2015 - 4/30/2016	\$0.001575342

- (1) Class T Shares are subject to an ongoing distribution and stockholder servicing fee payable to the Dealer Manager of 1.0% per annum of the gross offering price per share (or, if the Company is no longer offering primary shares, the then-current estimated net asset value per share, if any has been disclosed). The gross distribution rate is the rate prior to deduction of the distribution and stockholder servicing fees payable. The actual per share, per day distribution rate for Class T Shares will vary based on the total amount of distribution and stockholder fees payable for that particular period.

The following table outlines the Company's total cash distributions declared to stockholders for the years ended December 31, 2016, 2015 and 2014, including the breakout between the distributions declared in cash and those reinvested pursuant to the Company's distribution reinvestment plan (in thousands).

Distributions for the Years Ended	Stockholders		
	Cash Distributions	Distributions Reinvested	Total Declared
December 31, 2016	\$4,926	\$5,186	\$10,112
December 31, 2015	\$1,432	\$1,492	\$ 2,924
December 31, 2014 ⁽¹⁾	\$ 40	\$ 2	\$ 42

- (1) Amounts pertain to only the fourth quarter of 2014.

8. 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 years ended December 31, 2016, 2015 and 2014 and amounts unpaid as of December 31, 2016 and 2015 (in thousands):

Type and Recipient	Incurred During the Years Ended December 31,			Unpaid as of	
	2016	2015	2014	December 31, 2016	December 31, 2015
Selling Commissions - Dealer Manager	\$ 5,339	\$ 6,661	\$ 61	\$ 54	\$ 277
Dealer Manager Fee - Dealer Manager	3,017	3,089	28	2	98
Distribution & Stockholder Servicing Fee - Dealer Manager	4,858	7	—	4,636	7
Issuer Costs- the Advisor	3,107	3,818	4,153	4,785	2,701
Acquisition Fee - the Advisor and affiliates of Hines	5,704	2,328	570	1,265	—
Asset Management Fee - the Advisor and affiliates of Hines ⁽¹⁾	948	305	—	941	(120)
Other- the Advisor ⁽²⁾	1,183	1,111	366	295	181
Interest Expense - Hines ⁽³⁾	64	570	20	37	—
Property Management Fee - Hines	265	46	2	(19)	—
Expense Reimbursement - Hines (with respect to management and operations of the Company's properties)	675	334	1	145	42
Total	<u>\$25,160</u>	<u>\$18,269</u>	<u>\$5,201</u>	<u>\$12,141</u>	<u>\$3,186</u>

- (1) The Advisor waived \$1.3 million and \$0.6 million in asset management fees payable to it during the years ended December 31, 2016 and 2015, respectively. See “— Advisory Agreement” below for a discussion of the asset management fee waiver.
- (2) 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.
- (3) Includes amounts paid related to the Hines Credit Facility.

Dealer Manager Agreement

In connection with sales of Class A Shares, the Dealer Manager receives a commission of up to 7.0% of gross offering proceeds and a dealer manager fee of up to 3.0% of gross offering proceeds, both of which will be recorded as an offset to additional paid-in-capital in the Company's financial statements. Pursuant to separately negotiated agreements, the Dealer Manager may reallow all of its commission and a portion of its dealer manager fee to broker-dealers participating in the Offering.

In connection with sales of Class T Shares, the Dealer Manager receives a commission of up to 2.0% of gross offering proceeds and a dealer manager fee of up to 2.75% of gross offering proceeds, both of which will be recorded as an offset to additional paid-in-capital in the Company's financial statements.

On July 25, 2016, the Company, the Dealer Manager and the Advisor entered into the Third Amended and Restated Dealer Manager Agreement, effective as of August 2, 2016 (the “Amended Dealer Manager Agreement”). Pursuant to the Amended Dealer Manager Agreement, the Advisor will pay a portion of the dealer manager fees payable to the Dealer Manager in an amount equal to 1.5% of the gross offering proceeds with respect to Class A Shares and Class T Shares sold in the primary Offering on and after August 2, 2016. The Advisor will not be reimbursed by the Company in any way for the payment of such dealer manager fees.

In addition, the Dealer Manager will receive annual distribution and stockholder servicing fees of 1.0% of the gross offering price per share (or, if the Company is no longer offering primary shares, the then-current net asset value per share of such class of shares, if any has been disclosed) for the Class T Shares purchased and outstanding. The Company will cease paying the distribution and stockholder servicing fee with respect to any particular Class T Share and that Class T Share will convert into a number of Class A Shares on the occurrence of earlier of: (i) a listing of the Class A Shares on a national securities exchange; (ii) a merger or consolidation of the Company with or into another entity, or the sale or other disposition of all or substantially all of the Company's assets; (iii) the end of the month in which the Dealer Manager determines that total underwriting compensation paid in the Offering including the distribution and stockholder servicing fee paid on all Class T Shares sold in the Offering is equal to 10.0% of the gross proceeds of the Offering from the sale of both Class A Shares and Class T Shares; (iv) the end of the month in which the transfer agent, on behalf of the Company, determines that underwriting compensation paid in the primary offering including the distribution and stockholder servicing fee paid with respect to the Class T Shares held by a stockholder within his or her particular account equals 10.0% of the gross offering price at the time of investment of the Class T Shares held in such account; and (v) on any Class T Share that is redeemed or repurchased. Although the Company cannot predict the length of time over which this fee will be paid due to potential changes in the offering price or estimated net asset value of the Company's Class T Shares, this fee would be paid over approximately 5.25 years from the date of purchase, assuming a constant per share offering price or estimated net asset value, as applicable.

Pursuant to separately negotiated agreements, the Dealer Manager may reallocate all of its commission, all or a portion of its dealer manager fee and all or a portion of its distribution and stockholder servicing fees to broker-dealers participating in the Offering. No selling commissions, dealer manager fees or distribution and stockholder servicing fees will be paid for sales of shares pursuant to the Company's distribution reinvestment plan.

Advisory Agreement

Pursuant to the Advisory Agreement and the Operating Partnership Agreement, the Company is required to pay the following fees and expense reimbursements:

Acquisition Fee — The Advisor receives acquisition fees of 2.25% of (i) the purchase price of real estate investments acquired, including any debt attributable to such investments, or the total principal amounts borrowed under any loans made or acquired directly by the Company, or (ii) when the Company makes an investment or makes or acquires a loan indirectly through another entity, such investment's pro rata share of the gross asset value of real estate investments held by that entity, including any debt attributable to such investments, or the total principal amount borrowed under any loans made or acquired by that entity.

Asset Management Fee — The Advisor also receives asset management fees of 0.0625% per month of the cost of the Company's real estate investments at the end of each month; provided that, if the Company's board of directors has determined an estimated net asset value per share, then, with respect to real estate investments included in the board of director's determination, the asset management fees will be equal to 0.0625% per month of the most recently determined value of such real estate investments at the end of each month.

In addition, commencing with the quarter ended December 31, 2014, the Advisor agreed to waive the asset management fees for each quarter through December 31, 2016, to the extent that the Company's MFFO, for a particular quarter, as disclosed in the Company's Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as applicable, amounts to less than 100% of the aggregate distributions declared to the Company's stockholders for such quarter. As a result of these fee waivers, cash flows from operations that would have been paid to the 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 the Advisor in cash at any time in the future.

The table below outlines, with respect to each of the years ended December 31, 2016, 2015 and 2014, the asset management fees earned by the Advisor before application of the waivers, the amounts waived pursuant to the asset management fee waivers described above, and the asset management fees that were earned by our Advisor after application of the waivers (in thousands).

<u>For the Years Ended</u>	<u>Asset Management Fee Pre-Waiver</u>	<u>Asset Management Fee Waived</u>	<u>Asset Management Fee Post-Waiver</u>
December 31, 2016	\$2,200	\$1,252	\$948
December 31, 2015	\$ 888	\$ 583	\$305
December 31, 2014	\$ 16	\$ 16	\$—

The Advisor has also agreed to waive the asset management fees otherwise payable to it for the quarter ended March 31, 2017 to the extent that our MFFO for such quarter, as reduced to reflect the distribution and stockholder servicing fees payable for such quarter, as disclosed in our Quarterly Report on Form 10-Q, amounts to less than 100% of the aggregate distributions declared to our stockholders for that quarter.

Disposition Fee — If the Advisor, its affiliates or related parties provide a substantial amount of services, as determined in good faith by a majority of the Company’s independent directors, the Company will pay the Advisor, its affiliates or related parties a disposition fee in an amount equal to (a) 1.0% of the market value determined in connection with a listing of the Company’s common stock on a national securities exchange, or 1.0% of the gross consideration received or to be received by the Company or its stockholders upon the occurrence of any other liquidity event involving the Company or the Operating Partnership, pursuant to which the Company’s stockholders receive in exchange for their shares of the Company’s common stock, cash, listed securities, securities redeemable for cash, or a combination thereof, or (b) 1.0% of the gross sales price upon the sale or transfer of one or more real estate investments (including a sale of all of the Company’s real estate investments).

Even if the Advisor, its affiliates or related parties receive a disposition fee, the Company may still be obligated to pay fees or commissions to another third party. However, when a real estate or brokerage fee is payable in connection with a particular transaction, the amount of the disposition fee paid to the Advisor or its affiliates or related parties, as applicable, may not exceed an amount equal to the lesser of (i) one-half of a competitive real estate or brokerage commission and (ii) 1.0% of the gross sales price and, when added to the sum of all real estate or brokerage fees and commissions paid to unaffiliated parties, may not exceed the lesser of (x) a competitive real estate or brokerage commission or (y) an amount equal to 6.0% of the gross sales price.

Special OP Units — An affiliate of the Advisor holds special partnership interests in the Operating Partnership (“Special OP Units”), which will entitle them to receive distributions in an amount equal to 15.0% of distributions, including from sales of real estate investments, refinancings and other sources, but only after the Company’s stockholders have received, or are deemed to have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.0% cumulative, non-compounded annual return on such invested capital.

Additionally, at the sole discretion of the Advisor, the acquisition fees, asset management fees or disposition fees are payable, in whole or in part, in cash or units of the Operating Partnership (“OP Units”). In the case of the disposition fee, the Advisor may also elect to be paid, if applicable, in securities issued by another entity. For the purposes of the payment of these fees, each OP Unit will be valued at the per share offering price of the Company’s common stock in the Company’s most recent public offering less selling commissions and dealer manager fees payable with respect to such common stock, to account for the fact that no selling commissions or dealer manager fees will be paid in connection with any such issuances. Each OP unit will be convertible into one share of the Company’s common stock. The Company will recognize the expense related to these OP Units as the related service is performed, as each OP Unit will be fully vested upon issuance.

The Company reimburses the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse the Advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of: (A) 2.0% of its average invested assets, or (B) 25.0% of its net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of the Company's assets for that period (the "2%/25% Limitation"). Notwithstanding the above, the Company may reimburse the Advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended September 30, 2015, the Company's total operating expenses exceeded the 2%/25% Limitation. Based upon a review of unusual and non-recurring factors, including but not limited to the Company being in the early stages of raising and deploying capital, the limited number of assets acquired to date and the timing of those acquisitions, a majority of the Company's independent directors determined that the excess expenses were justified and thus reimbursable to the Advisor. For the four fiscal quarters ended December 31, 2016, the Company's total operating expenses did not exceed the 2%/25% Limitation.

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 December 31, 2016, issuer costs incurred by the Advisor on the Company's behalf totaled \$11.1 million, of which \$46,000 related to organizational issuer costs. However, the total reimbursement related to issuer costs, selling commissions, dealer manager fees and the distribution and stockholder servicing fees may not exceed 15.0% of gross proceeds from the Offering. 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 2.5% cap. Despite the 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.

Property Management and Leasing Agreements

The Company pays Hines fees for the management and leasing of the Company's properties. Property management fees will be paid in an amount equal to a market-based percentage of the gross revenues of the properties managed by Hines. In addition, if Hines provides leasing services with respect to a property, the Company will pay Hines leasing fees in an amount equal to the leasing fees charged by unaffiliated persons rendering comparable services in the same geographic area of the applicable property. The Company generally will be required to reimburse Hines for certain operating costs incurred in providing property management and leasing services pursuant to the property management and leasing agreements. Included in this reimbursement of operating costs will be the cost of personnel and overhead expenses related to such personnel located at the property as well as off-site personnel located in Hines' headquarters and regional offices, to the extent the same relate to or support the performance of Hines' duties under the agreement.

Hines may perform construction management services for the Company for both re-development activities and tenant construction. These fees are considered incremental to the construction effort and will be capitalized

to the associated real estate project as incurred. Costs related to tenant construction will be depreciated over the estimated useful life. Costs related to redevelopment activities will be depreciated over the estimated useful life of the associated project. Leasing activities will generally be performed by Hines on the Company's behalf. Leasing fees will be capitalized and amortized over the life of the related lease.

9. 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 December 31, 2016, the Company estimated that the fair value of its notes payable, excluding deferred financing costs, which had a book value of \$254.8 million, was \$251.0 million. As of December 31, 2015, the Company estimated that the book value of its note payable, excluding deferred financing costs, approximates its fair value since its variable interest rate approximated the then-current lending rate for loans with similar maturities and credit quality. 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.

10. 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 December 31, 2016 are from the Company's five consolidated real estate properties owned as of that date. As a result, the Company's operating segments have been aggregated into one of four reportable segments: domestic office investments, 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 (in thousands) and a reconciliation to the Company's net income (loss), as applicable. "Corporate-Level Accounts" includes amounts incurred by the corporate-level entities which are not allocated to any of the reportable segments.

	Years Ended December 31,		
	2016	2015	2014
Total Revenue			
Domestic office investments	\$ 7,420	\$ —	\$—
Domestic multi-family investments	4,318	—	—
Domestic other investments	4,335	2,411	94
International office investments	8,276	6,999	—
Total Revenue	\$24,349	\$9,410	\$ 94

For the years ended December 31, 2016, 2015 and 2014, the Company's total revenue was attributable to the following countries:

	Years Ended December 31,		
	2016	2015	2014
Total Revenue			
United States	66%	26%	100%
Ireland	34%	74%	— %

For the years ended December 31, 2016, 2015 and 2014, the Company's property revenues in excess of expenses by segment were as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Property revenues in excess of expenses ⁽¹⁾			
Domestic office investments	\$ 4,910	\$ —	\$—
Domestic multi-family investments	2,830	—	—
Domestic other investments	3,248	1,746	61
International office investments	6,682	5,366	—
Property revenues in excess of expenses	\$17,670	\$7,112	\$ 61

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

For the years ended December 31, 2016 and 2015, the Company's total assets by segment were as follows (in thousands):

	December 31, 2016	December 31, 2015
Total Assets		
Domestic office investments	\$137,407	\$ —
Domestic multi-family investments	55,201	—
Domestic other investments	78,182	24,294
International office investments	99,002	105,077
Corporate-level accounts	100,553	19,683
Total Assets	\$470,345	\$149,054

For the years ended December 31, 2016 and 2015, the Company's total assets were attributable to the following countries:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>Total Assets</u>		
United States	79%	30%
Ireland	21%	70%

For the years ended December 31, 2016, 2015 and 2014, the Company's reconciliation to the Company's property revenue in excess of expenses is as follows (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Reconciliation to property revenue in excess of expenses</u>			
Net income (loss)	\$(11,341)	\$(5,638)	\$(1,328)
Depreciation and amortization	15,372	4,207	49
Acquisition related expenses	1,855	2,963	131
Asset management and acquisition fees	6,645	2,640	570
Organizational expenses	—	—	63
General and administrative expenses	2,044	1,546	556
Gain (loss) on derivatives	6	41	—
Foreign currency gains (losses)	4	12	—
Interest expense	3,154	1,345	20
Interest income	(69)	(4)	—
Total property revenues in excess of expenses	<u>\$ 17,670</u>	<u>\$ 7,112</u>	<u>\$ 61</u>

11. SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow disclosures for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$2,679	\$1,080	\$ —
Supplemental Schedule of Non-Cash Investing and Financing Activities			
Distributions declared and unpaid	\$1,195	\$ 480	\$ 18
Distributions reinvested	\$4,808	\$1,248	\$ —
Shares tendered for redemption	\$ 145	\$ —	\$ —
Offering proceeds due from transfer agent	\$1,630	\$2,950	\$ 62
Non-cash net liabilities acquired	\$7,201	\$ 470	\$ 239
Offering costs payable to the Advisor	\$ 735	\$2,701	\$4,107
Selling commissions, dealer manager fees and distribution and stockholder servicing fees payable to the Dealer Manager	\$4,691	\$ —	\$ —
Equipment acquired under capital lease	\$ 142	\$ —	\$ —

12. 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 consolidated financial statements.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents selected unaudited quarterly financial data for each quarter during the years ended December 31, 2016 and 2015 (in thousands, except per share information):

	Quarters Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Revenues	\$ 3,419	\$3,865	\$ 8,113	\$ 8,952
Net income (loss)	\$(1,412)	\$ (780)	\$(7,165)	\$(1,984)
Net income (loss) attributable to common stockholders	\$(1,415)	\$ (783)	\$(7,168)	\$(1,987)
Income (loss) per common share, basic and diluted	\$ (0.11)	\$ (0.05)	\$ (0.36)	\$ (0.08)

	Quarters Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Revenues	\$ 1,245	\$2,695	\$ 2,698	\$ 2,772
Net income (loss)	\$(5,367)	\$ (291)	\$ 1	\$ 19
Net income (loss) attributable to common stockholders	\$(5,370)	\$ (294)	\$ (2)	\$ 16
Income (loss) per common share, basic and diluted	\$ (4.82)	\$ (0.07)	\$ —	\$ —

14. SUBSEQUENT EVENTS

Rookwood

In January 2017, the Company acquired Rookwood Commons and Rookwood Pavilion (collectively, "Rookwood"), two contiguous shopping centers located in Cincinnati, Ohio. The contract purchase price was \$193.7 million, exclusive of transaction costs and working capital reserves. Rookwood consists of 600,071 square feet that is, in the aggregate, 97% leased. As a result of the acquisition of Rookwood, the Company incurred approximately \$4.4 million in acquisition fees payable to the Advisor.

The Company has not concluded its accounting for this recent acquisition, but it expects that the purchase price will primarily be allocated to building, land, in-place lease assets, above-market lease assets, and below-market lease liabilities.

In connection with the acquisition of Rookwood, the Company entered into two loan assumption and modification agreements, with Nationwide Life Insurance Company ("Nationwide"), and with CLP-SPF Rookwood Commons, LLC and CLP-SPF Rookwood Pavilion, LLC. Pursuant to the loans, the Company assumed two secured mortgage facilities with a combined original principal amount of \$96.0 million.

Interest accrued on the unpaid principal balance of the Rookwood Commons and Rookwood Pavilion secured mortgage facilities are due and payable on the first day of each month commencing in February 2017. The Rookwood Commons and Rookwood Pavilion secured mortgage facilities have fixed interest rates of 3.13% and 2.87%, respectively, and mature on July 1, 2020. Each secured mortgage facility may be prepaid in full, subject to certain conditions, including but not limited to providing 30 days' advance written notice to Nationwide.

Montrose Student Residence

In March 2017, the Company acquired Montrose, a Class-A student housing asset located in Dublin, Ireland. The contract purchase price for Montrose was €37.7 million (approximately \$40.6 million assuming a rate of \$1.08 per EUR as of the contract date), exclusive of transaction costs and working capital reserves. Montrose consists of 205 beds and is 100% leased. As a result of this acquisition, the Company incurred approximately \$0.9 million in acquisition fees payable to the Advisor.

The Company has not concluded on accounting for this recent acquisition, but it expects that the purchase price will be primarily allocated to building, land, furniture and fixtures and in-place lease assets.

In connection with the acquisition of Montrose, the Company entered into a secured facility agreement (the “Montrose Facility”) with Wells Fargo Bank, National Association London Branch, for €22.6 million (approximately \$24.4 million assuming a rate of \$1.08 per EUR as of the date of the agreement). Commencing on May 1, 2017, interest payments are due and payable each quarter and repayment of principal is due upon the maturity of the Montrose Facility on March 23, 2022. The Montrose Facility has a floating interest rate of EURIBOR plus 1.85% through September 2019. Commencing in October 2019, the Montrose Facility will have a floating interest rate of EURIBOR plus 1.85% or 2%, depending upon certain debt yield metrics. The Montrose Facility may be prepaid in full, or in part, subject to a prepayment fee if it is prepaid in the first two years. In addition, pursuant to the terms of the Montrose Facility, the Company entered into a €17.0 million (approximately \$18.3 million assuming a rate of \$1.08 per EUR as of the date of the agreement) five-year interest rate cap agreement, which effectively caps the EURIBOR interest rate on the Montrose Facility to 1.25%, to limit exposure to interest rate fluctuations.

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *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 December 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management's assessment of the effectiveness of our internal control system as of December 31, 2016 was based on the framework for effective internal control over financial reporting described in the 2013 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, as of December 31, 2016, our system of internal control over financial reporting was effective at the reasonable assurance level.

This annual report does not include an attestation report of our independent registered public accounting firm regarding control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to Item 308(b) of Regulation S-K, which only requires such an attestation when the filer is an accelerated filer or a large accelerated filer.

March 27, 2017

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 three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. *Other Information*

None.

PART III**Item 10. *Directors, Executive Officers and Corporate Governance***

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC no later than May 1, 2017.

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC no later than May 1, 2017.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC no later than May 1, 2017.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC no later than May 1, 2017.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC no later than May 1, 2017.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) *Financial Statements*

Hines Global REIT II, Inc.

Consolidated Financial Statements — as of December 31, 2016 and 2015 and for the Years Ended December 31, 2016, 2015 and 2014.

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(2) *Financial Statement Schedules*

Schedule III — Real Estate Assets and Accumulated Depreciation is set forth beginning on page 113 hereof.

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable and therefore have been omitted.

(b) *Exhibits*

Reference is made to the Index beginning on page 116 for a list of all exhibits filed as a part of this report.

* * * * *

Schedule III — Real Estate Assets and Accumulated Depreciation
December 31, 2016

Description (a)	Location	Initial Cost (b)			Costs Capitalized Subsequent to Acquisition (c)			Gross Amount at Which Carried at 12/31/2016			Accumulated Depreciation (c)	Date of Construction	Date Acquired
		Encumbrances	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total (d)					
									(In thousands)				
2819 Loker Avenue East	Carlsbad, California	\$ —	\$ 7,200	\$ 14,170	\$ 21,370	\$ —	\$ 7,200	\$ 14,170	\$ 21,370	\$ (723)	1998	December-14	
Bishop's Square	Dublin, Ireland	58,048	—	53,643	53,643	(2,626)	—	51,017	51,017	(2,330)	2001	March-15	
Domain Apartments	Las Vegas, Nevada	34,300	5,690	50,790	56,480	66	5,690	50,856	56,546	(1,684)	2014	January-16	
Cottonwood Corporate Center	Salt Lake City, Utah	77,461	13,600	98,758	112,358	31	13,600	98,789	112,389	(1,214)	1997, 2000	July-16	
Goodyear Crossing II	Phoenix, Arizona	29,000	7,270	41,620	48,890	—	7,270	41,620	48,890	(386)	2008, 2009	August-16	
		<u>\$198,809</u>	<u>\$33,760</u>	<u>\$258,981</u>	<u>\$292,741</u>	<u>\$(2,529)</u>	<u>\$33,760</u>	<u>\$256,452</u>	<u>\$290,212</u>	<u>\$(6,337)</u>			

(a) Assets consist of quality office, retail, industrial and multi-family properties.

(b) Components of initial cost for the property acquired using a foreign currency were converted using the currency exchange rate as of the date of acquisition.

(c) Includes the effect of changes in the exchange rate between the date of acquisition and December 31, 2016 for the property that is denominated in a foreign currency.

(d) The aggregate cost for federal income tax purposes is \$294.6 million as of December 31, 2016.

(e) Real estate assets are depreciated or amortized using the straight-line method over the useful lives of the assets by class. The estimated useful lives for computing depreciation are generally 10 years for furniture and fixtures, 15-20 years for electrical and mechanical installations and 40 years for buildings.

The changes in total real estate assets for the years ended December 31,:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross real estate assets			
Balance, beginning of period	\$ 73,883	\$21,370	\$ —
Additions during the period:			
Acquisitions	217,728	53,643	21,370
Other additions	483	339	—
Effect of changes in foreign currency exchange rates ...	(1,882)	(1,469)	—
Balance, end of period	<u>\$290,212</u>	<u>\$73,883</u>	<u>\$21,370</u>
Accumulated Depreciation			
Balance, beginning of period	\$ (1,458)	\$ (15)	\$ —
Depreciation	(4,985)	(1,455)	(15)
Effect of changes in foreign currency exchange rates ...	106	12	—
Balance, end of period	<u>\$ (6,337)</u>	<u>\$ (1,458)</u>	<u>\$ (15)</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized representative.

HINES GLOBAL REIT II, INC.
(registrant)

March 27, 2017

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 27, 2017.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeffrey C. Hines</u> Jeffrey C. Hines	Chairman of the Board of Directors	March 27, 2017
<u>/s/ Sherri W. Schugart</u> Sherri W. Schugart	President and Chief Executive Officer (Principal Executive Officer)	March 27, 2017
<u>/s/ Ryan T. Sims</u> Ryan T. Sims	Chief Financial Officer and Secretary (Principal Financial Officer)	March 27, 2017
<u>/s/ J. Shea Morgenroth</u> J. Shea Morgenroth	Chief Accounting Officer and Treasurer (Principal Accounting Officer)	March 27, 2017
<u>/s/ Charles M. Baughn</u> Charles M. Baughn	Director	March 27, 2017
<u>/s/ Humberto “Burt” Cabañas</u> Humberto “Burt” Cabañas	Director	March 27, 2017
<u>/s/ Dougal A. Cameron</u> Dougal A. Cameron	Director	March 27, 2017
<u>/s/ John O. Niemann, Jr.</u> John O. Niemann, Jr.	Director	March 27, 2017

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
1.1	Third Amended and Restated Dealer Manager Agreement, dated July 25, 2016 and effective as of August 2, 2016, by and among Hines Global REIT II, Inc., Hines Securities, Inc. and Hines Global REIT II Advisors LP (filed as Exhibit 1.1 to the Registrant’s Current Report on Form 8-K on July 25, 2016 and incorporated by reference herein)
1.2	Form of Selected Dealer Agreement (filed as Exhibit 1.2 to Pre-effective Amendment No. 1 to Post-Effective Amendment No. 5 to the Registration Statement on August 7, 2015 and incorporated by reference herein)
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 No. 1 to Amended and Restated Bylaws of Hines Global REIT II, Inc., dated September 23, 2015 (filed as Exhibit 3.5 to Post-Effective Amendment No. 7 to the Registration Statement on November 17, 2015 and incorporated by reference herein)
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. Fifth Amended and Restated Distribution Reinvestment Plan, effective as of October 31, 2016 (filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K on September 22, 2016 and incorporated by reference herein)
10.1	Advisory Agreement, dated as of August 15, 2014, among Hines Global REIT II Advisors LP, Hines Global REIT II Properties LP, and Hines Global REIT II, Inc. (filed as Exhibit 10.2 to Pre-Effective Amendment No. 5 to the Registration Statement on August 15, 2014 and incorporated by reference herein)
10.2	Amended and Restated Escrow Agreement, dated as of December 12, 2014, by and among Hines Securities Inc., Hines Global REIT II, Inc. and UMB Bank, N.A. (filed as Exhibit 10.3 to Post-Effective Amendment No. 1 to the Registration Statement on December 12, 2014 and incorporated by reference herein)
10.3	Form of Indemnification Agreement entered into between Hines Global REIT II, Inc. and each of the following persons as of August 15, 2014: Jeffrey C. Hines, Charles M. Baughn, Humberto Cabañas, Dougal A. Cameron, John O. Niemann, Jr., Sherri W. Schugart, Ryan T. Sims, David L. Steinbach, Kevin L. McMeans and J. Shea Morgenroth (filed as Exhibit 10.4 to the Registration Statement on September 11, 2013 and incorporated by reference herein)
10.4	Waiver to Hines Global REIT II Advisory Agreement (filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K on September 24, 2014 and incorporated by reference herein)

<u>Exhibit No.</u>	<u>Description</u>
10.5	Purchase and Sale Agreement, dated as of November 12, 2014, by and between Hines Interests Limited Partnership and Canoga-Rincon Loker Industrial, LLC (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on November 20, 2014 and incorporated by reference herein)
10.6	Assignment of Contract of Purchase and Sale, dated as of November 14, 2014, by and between Hines Interests Limited Partnership and HGREIT II 2819 Loker LP (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed November 20, 2014 and incorporated by reference herein)
10.7	Uncommitted Loan Agreement, dated as of December 15, 2014, by and between Hines Global REIT II, Inc., as borrower, and Hines Interests Limited Partnership, as lender (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K on December 19, 2014 and incorporated by reference herein)
10.8	Selected Dealer Agreement, dated as of December 31, 2014, by and between Hines Global REIT II, Inc., Hines Securities, Inc., Hines Global REIT II Advisors LP and Ameriprise Financial Services, Inc. (filed as Exhibit 10.9 to Post-Effective Amendment No. 3 to the Registration Statement on March 5, 2015 and incorporated by reference herein)
10.9	Particulars and Conditions of Sale of Bishop's Square, Bishop's Street/Kevin Street Lower, Dublin 2, dated as of January 30, 2015, by and between Bishop Ireland GREIT II Limited and Violet Yarrow Real Estate (Dublin) Limited (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on February 5, 2015 and incorporated by reference herein)
10.10	Facility Agreement, dated as of March 3, 2015 by and between Deutsche Girozentrale as Agent, Original Hedge Counterparty, Arranger, Security Trustee and Lender and Hines GREIT II Ireland Fund PLC, acting for and on behalf of its sub-fund Hines GREIT II Bishop Fund, as Borrower (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K on March 5, 2015 and incorporated by reference herein)
10.11	Amendment to Selected Dealer Agreement, dated February 27, 2015, by and among Hines Global REIT II, Inc., Hines Securities, Inc., Hines Global REIT II Advisors LP and Ameriprise Financial Services, Inc. (filed as Exhibit 10.12 to Post-Effective Amendment No. 3 to the Registration Statement on March 5, 2015 and incorporated by reference herein)
10.12	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Hines Global REIT II Properties LP, dated as of March 23, 2015 (filed as Exhibit 10.13 to Post-Effective Amendment No. 4 to the Registration Statement on April 17, 2015 and incorporated by reference herein)
10.13	Amendment to Advisory Agreement, dated as of December 4, 2014, among Hines Global REIT II Advisors LP, Hines Global REIT II Properties LP, and Hines Global REIT II, Inc. (filed as Exhibit 10.14 to Post-Effective Amendment No. 4 to the Registration Statement on April 17, 2015 and incorporated by reference herein)
10.14	Second Amended and Restated Agreement of Limited Partnership of Hines Global REIT II Properties LP, dated as of August 12, 2015 (filed as Exhibit 10.1 to Post-Effective Amendment No. 6 to the Registration Statement on August 12, 2015 and incorporated by reference herein)
10.15	Amendment No. 2 to Selected Dealer Agreement, dated as of September 3, 2015, by and between Hines Global REIT II, Inc., Hines Securities, Inc., Hines Global REIT II Advisors LP and Ameriprise Financial Services, Inc. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 10, 2015 and incorporated by reference herein)

<u>Exhibit No.</u>	<u>Description</u>
10.16	First Amendment to Real Estate Purchase Agreement, dated as of August 7, 2015, by and between Hines Global REIT II 891 Coronado LLC and LV Eastern, LLC (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 10, 2015 and incorporated by reference herein)
10.17	Second Amendment to Real Estate Purchase Agreement, dated as of August 21, 2015, by and between Hines Global REIT II 891 Coronado LLC and LV Eastern, LLC (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on December 10, 2015 and incorporated by reference herein)
10.18	Third Amendment to and Reinstatement of Real Estate Purchase Agreement, dated as of December 4, 2015, by and between Hines Global REIT II 891 Coronado LLC and LV Eastern, LLC (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on December 10, 2015 and incorporated by reference herein)
10.19	Real Estate Purchase Agreement, dated as of July 8, 2015, by and between Hines Global REIT II 891 Coronado LLC and LV Eastern, LLC (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on July 14, 2015 and incorporated by reference herein)
10.20	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 filed on February 4, 2016 and incorporated by reference herein)
10.21	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 filed on February 4, 2016 and incorporated by reference herein)
10.22	Amendment No. 2 to Advisory Agreement, dated as of April 13, 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)
10.23	Amendment No. 3 to Selected Dealer Agreement, dated April 12, 2016, by and among Hines Global REIT II, Inc., Hines Securities, Inc., Hines Global REIT II Advisors LP and Ameriprise Financial Services, Inc. (filed as Exhibit 10.23 to Post-Effective Amendment No. 8 to the Registration Statement on April 15, 2016 and incorporated by reference herein)
10.24	Sale, Purchase and Escrow Agreement, dated as of May 13, 2016, by and between NOP Cottonwood Holdings, LLC, HGREIT II Cottonwood Center LLC, Commonwealth Land Title Insurance Company, Hines Global REIT II Properties LP and National Office Partners LLC (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on May 19, 2016 and incorporated by reference herein)
10.25	Agreement of Purchase and Sale, dated as of June 24, 2016, by and between RT GOODYEAR, LLC and HGREIT II Goodyear Crossing LLC (filed as Exhibit 10.6 to the registrant's Quarterly Report on Form 10-Q on August 12, 2016 and incorporated by reference herein)
10.26	Loan Agreement, dated as of July 5, 2016 by and between Principal Life Insurance Company, as Lender and HGREIT II Cottonwood Center LLC, as Borrower (filed as Exhibit 10.26 to Post-Effective Amendment No. 10 to the Registration Statement on October 5, 2016 and incorporated by reference herein)

<u>Exhibit No.</u>	<u>Description</u>
10.27	Term Loan Agreement, dated as of August 18, 2016 by and between SunTrust Bank, as Lender and HGREIT II Goodyear Crossing LLC, as Borrower (filed as Exhibit 10.27 to Post-Effective Amendment No. 10 to the Registration Statement on October 5, 2016 and incorporated by reference herein)
10.28	Agreement of Purchase and Sale, dated as of September 16, 2016, by and between CLP-SPF Rookwood Commons, LLC and CLP-SPF Rookwood Pavilion, LLC and HGREIT II Edmonson Road LLC and HGREIT II Madison Road LLC (filed as Exhibit 10.28 to Post-Effective Amendment No. 10 to the Registration Statement on October 5, 2016 and incorporated by reference herein)
10.29	Form of Property Management and Leasing Agreement between Subsidiary of Hines Global REIT II and Hines Interests Limited Partnership (Domestic Office Properties) (filed as Exhibit 10.29 to Post-Effective Amendment No. 10 to the Registration Statement on October 5, 2016 and incorporated by reference herein)
10.30	Form of Property Management and Leasing Agreement between Subsidiary of Hines Global REIT II and Hines Interests Limited Partnership (Domestic Multi-family and Industrial Properties) (filed as Exhibit 10.30 to Post-Effective Amendment No. 10 to the Registration Statement on October 5, 2016 and incorporated by reference herein)
10.31	Amendment No. 4 to Selected Dealer Agreement, dated as of December 8, 2016, by and among Hines Global REIT II, Inc., Hines Securities, Inc., Hines Global REIT II Advisors LP and Ameriprise Financial Services, Inc. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on December 8, 2016 and incorporated by reference herein)
10.32	Cost Reimbursement Agreement, dated as of December 8, 2016 and effective as of January 1, 2017, by and among Hines Global REIT II, Inc., Hines Securities, Inc., Hines Global REIT II Advisors LP and American Enterprise Investment Services Inc. (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K on December 8, 2016 and incorporated by reference herein)
10.33	First Amendment to Uncommitted Loan Agreement, dated as of December 12, 2016, by and between Hines Global REIT II, Inc., as borrower, and Hines Interests Limited Partnership, as lender (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on December 12, 2016 and incorporated by reference herein)
10.34	Open End Mortgage and Security Agreement dated as of April 1, 2015 by and between Nationwide Life Insurance Company, as Lender, and CLP-SPF Rookwood Commons, LLC, as Borrower (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K on January 6, 2017 and incorporated by reference herein)
10.35	Open End Mortgage and Security Agreement dated as of July 1, 2013 by and between Nationwide Life Insurance Company, as Lender, and CLP-SPF Rookwood Pavilion, LLC, as Borrower (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K on January 6, 2017 and incorporated by reference herein)
10.36	Assumption and Modification Agreement dated as of January 6, 2017, by and between Nationwide Life Insurance Company, as Lender, CLP-SPF Rookwood Pavilion LLC, as Original Borrower, and HGREIT II Madison Road LLC, as Borrower (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K on January 6, 2017 and incorporated by reference herein)
10.37	Assumption and Modification Agreement dated as of January 6, 2017, by and between Nationwide Life Insurance Company, as Lender, CLP-SPF Rookwood Commons LLC, as Original Borrower, and HGREIT II Edmondson Road LLC, as Borrower (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K on January 6, 2017 and incorporated by reference herein)

<u>Exhibit No.</u>	<u>Description</u>
21.1*	List of Subsidiaries of Hines Global REIT II, Inc.
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 Annual Report on Form 10-K for the year ended December 31, 2016, filed on March 27, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Equity (Deficit), (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

* Filed with the Registrant’s Annual Report on Form 10-K.

Corporate and Stockholder Information



CORPORATE HEADQUARTERS

Hines Global REIT II, Inc.
2800 Post Oak Blvd.
Suite 5000
Houston, TX 77056
888.220.6121
www.hinessecurities.com

ANNUAL MEETING

Hines Global REIT II's Annual Meeting of Stockholders will be held at 9:00 a.m. on Wednesday, September 13, 2017.
Williams Tower
2nd Floor Conference Center
2800 Post Oak Blvd.
Houston, TX 77056

TRANSFER AGENT

DST Systems, Inc.
430 W. 7th Street
Kansas City, MO 64105

AUDITORS

Deloitte & Touche LLP

LEGAL COUNSEL FOR THE COMPANY

Greenberg Traurig, LLP

LEGAL COUNSEL FOR THE INDEPENDENT DIRECTORS

Winston & Strawn LLP

FORM 10-K

Hines Global REIT II's annual report on Form 10-K, as filed with the Securities and Exchange Commission (the SEC), is available at no charge upon written request to Hines Global REIT II Investor Relations, at the address below. The SEC maintains a website located at www.sec.gov that contains reports, proxy statements and other information regarding the Company that is filed electronically with the SEC. In addition, the Company makes its annual report on Form 10-K available free of charge at www.hinessecurities.com.

CERTIFICATIONS

We filed the CEO and CFO certifications regarding the quality of our public disclosure as Exhibits 31.1 and 31.2 to our Form 10-K with the SEC for the year ended December 31, 2016, as required by Section 302 of the Sarbanes-Oxley Act.

QUESTIONS ABOUT HINES GLOBAL REIT II OR YOUR ACCOUNT SHOULD BE DIRECTED TO:

Hines Global REIT II Investor Relations
2800 Post Oak Blvd.
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