Client Account Statement Rule Changes: Rules 2340 and 2310

What does it all mean?

Griffin Capital Corporation

Kevin Shields *| Chairman & CEO*

Summary of Risk Factors

We are an "emerging growth company" under the federal securities laws and will be subject to reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. You should purchase these securities only if you can afford a complete loss of your investment. See "Risk Factors" beginning on page 19 of our Prospectus for a discussion of certain factors that should be carefully considered by prospective investors before making an investment in the shares offered hereby. These risks include but are not limited to the following:

- No public market currently exists for our shares and we may not list our shares on a national exchange immediately after completion of this offering, if at all. It will be difficult to sell your shares. If you sell your shares, it will likely be at a substantial discount. Our charter does not require us to pursue a liquidity transaction at any time.
- We may pay distributions from sources other than our cash flows from operations, including net proceeds of this offering or from borrowings in anticipation of future cash flows, and it is likely that we will do so to fund a portion of our initial distributions. We are not prohibited from undertaking such activities by our charter, bylaws or investment policies, and we may use an unlimited amount from any source to pay our distributions.
- This is an initial public offering; we have no prior operating history, and the prior performance of real estate programs sponsored by affiliates of our sponsor may not be indicative of our future results.

Summary of Risk Factors

- This is a "best efforts" offering. If we are unable to raise substantial funds in this offering, we may not be able to invest in a diverse portfolio of real estate and real estate-related investments, and the value of your investment may fluctuate more widely with the performance of specific investments.
- We are a "blind pool" because we have not identified any properties to acquire with the net proceeds from this offering. As a result, you will not be able to evaluate the economic merits of our future investments prior to their purchase. We may be unable to invest the net proceeds from this offering on acceptable terms to investors, or at all.
- There are substantial conflicts of interest among us and our sponsor, advisor, property manager and dealer manager.
- Our advisor will face conflicts of interest relating to the purchase of properties, including conflicts with Griffin Capital Essential Asset REIT, Inc., and such conflicts may not be resolved in our favor, which could adversely affect our investment opportunities.
- We have no employees and must depend on our advisor to select investments and conduct our operations, and there is no guarantee that our advisor will devote adequate time or resources to us.
- We will pay substantial fees and expenses to our advisor, its affiliates and participating broker-dealers, which will reduce cash available for investment and distribution.
- We may incur substantial debt, which could hinder our ability to pay distributions to our stockholders or could decrease the value of your investment
- We may fail to qualify as a REIT, which could adversely affect our operations and our ability to make distributions.

FINRA RN 15-02: Proposed Account Statement Rule

Proposed changes to Rules 2340 and 2310

- Rule Relates to Per Share Estimated Valuation for Unlisted DPP and real estate investment trusts
- Progression: 11-44 to 12-14 to 14-06 to 15-02
- IPA submitted detailed response March 21, 2014
- FINRA submitted letter to SEC extending timeline on action to October 17, 2014
- SEC adopted SR-FINRA 2014-006 October 10, 2014
- FINRA RN 15-02: Effective Date Set at April 11, 2016

FINRA RN 15-02: Proposed Account Statement Rule

Existing Rule: FINRA 09-09 for DPP and PNLR

- Must develop initial valuation no later than 18 months after close of offering
- Estimated valuation included on customer statements may be based on data up to 18 months old
- No disclosure required regarding impact of any distributions in excess of earnings
- Disclosures regarding valuation methodology limited in scope
- Account statement must include disclosures that securities are generally illiquid and estimated value may not be realized upon such liquidation

FINRA RN 15-02: Proposed Account Statement Rule

FINRA RN 15-02 proposes:

1. ***Broker-dealers*** provide per share estimated value of security on customer account statements in a manner reasonably designed to provide a reliable value – using one of two methodologies that are presumptively reliable:

   I. Net Investment Methodology (NIM) or

   II. Appraised Value Methodology (AVM)

FINRA RN 15-02: Proposed Account Statement Rule

FINRA RN 15-02 proposes:

- NIM equals Gross Offering Price less sales commissions, dealer-manager fees and organizational and offering expenses (based upon maximum offering amount)
- AVM is based upon an appraisal of the assets and liabilities of the program by or with the *material assistance of a third party valuation expert* in conformance with standard industry practice

FINRA RN 15-02: Proposed Account Statement Rule

FINRA RN 15-02 proposes:

- AVM may be used any time during the offering period
- Disclosures:
  I. Prior to reporting pursuant to AVM, account statement must include disclosure 'part of distribution constitutes return of capital, which reduces estimated per share value shown on account statement'

  II. Regardless of valuation methodology used, must state 'DPP and PNLR are not listed on a national exchange, generally illiquid and price received may be less than per share estimated value'

FINRA RN 15-02: Proposed Account Statement Rule

FINRA RN 15-02 proposes:

2. Timing and Frequency
   - NIM applicable anytime before 150 days following second anniversary of breaking escrow
   - After adopting AVM, appraisals must be performed every year thereafter
3. BDCs: DPPs are exempt – subject to '40 Act regulation
4. Effective Date: no earlier than 18 months following SEC approval – ***April 11, 2016,*** provides sufficient time for:
   I. Industry education about proper interpretation
   II. Re-program IT systems for compliance
   III. Create investor education material and adapt existing

FINRA RN 15-02: Proposed Account Statement Rule

Non-Listed REIT Exemplar

Equity Investment		$1,000,000
Sales Commission	7.0%	70,000
Dealer-Manager Fee	3.0%	30,000
Organizational and Offering Expenses	1.0%	10,000
Total Offering Load	11.0%	110,000
Net Investment (Account Stmt. Price)	89.0%	$890,000
Leverage Ratio	45.0%	728,182
Total Asset Purchase Price		$1,618,182
Fees as a Percentage of Equity		11.0%
Fees as a Percentage of Asset Purchase Price		6.8%

FINRA RN 15-02: Proposed Account Statement Rule

Home Purchase Example

Equity Investment		$1,000,000
Leverage Ratio	45.0%	818,182
Total Asset Purchase Price		$1,818,182
Sales Commissions and Closing Costs	7.0%	127,273
Net Sales Proceeds		$1,690,909
Less Leverage (Mortgage Debt)		818,182
Net Cash Proceeds (Account Stmt. Price)		$872,727
Fees as a Percentage of Equity		12.7%
Fees as a Percentage of Asset Purchase Price		7.0%

FINRA RN 15-02: Proposed Account Statement Rule

Non-Listed REIT Exemplar

Fees as a Percentage of Equity	11.0%
Fees as a Percentage of Asset Purchase Price	6.8%

Home Purchase Example

Fees as a Percentage of Equity	12.7%
Fees as a Percentage of Asset Purchase Price	7.0%

FINRA RN 15-02: Proposed Account Statement Rule

What Does it all Mean?

Incumbent upon industry to educate investors that:

1. Adoption of 15-02 does not represent a change in fee structure, just how such fees are disclosed on the account statement
2. Value on the account statement does not represent market value of the security prior to issuing a net asset value
3. The presentation of the Net Investment Methodology is not materially different than if we reflected the purchase of our home net of fees and expenses
4. Industry will coalesce around a share class design to mitigate impact of 15-02.

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GRIFFIN CAPITAL
guardians of wealth

Griffin Capital Corporation
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