



Hines REIT

Hines Real Estate Investment Trust

2013 ANNUAL REPORT

5050 CENTE

Hines

FRONT AND BACK COVER PHOTOS:
HOWARD HUGHES CENTER, LOS ANGELES, CALIFORNIA
INSIDE FRONT COVER PHOTO:
DAYTONA-LAGUNA PORTFOLIO, REDMOND, WASHINGTON



FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking statements, including those related to future activities and the economic outlook. Actual results may differ materially from the forward-looking statements as a result of various factors, including 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 SEC filings of Hines Real Estate Investment Trust, Inc.



LETTER TO SHAREHOLDERS

2013 ANNUAL REPORT

Dear Shareholder:

On behalf of the management team and board of directors, we are pleased to provide you with this update on Hines REIT's portfolio and our 2013 performance. We believe our real estate investments will continue to benefit from the ongoing recovery in the commercial real estate markets, and we continue to evaluate each asset's strategic position within the overall portfolio. We remain focused on managing and repositioning the portfolio with the primary objectives of maximizing the ultimate returns to our investors and our desire to continue to pay consistent distributions.

STRATEGIC SALES AND INVESTMENTS

As reported to you in last year's annual report, we started 2013 with two extremely successful asset sales: Houston's Williams Tower, headquarters to Hines; and the Brazilian logistics center, Distribution Park Rio. The proceeds from these transactions helped us reduce leverage in the portfolio, provided capital to boost occupancy levels and allowed us to reopen our share redemption program. This also enabled us to provide you with a special distribution of \$0.80 per share, which represented a partial return of your investment.

Strategic sales efforts continued to flourish during the summer. Hines REIT sold two west-coast properties: One Wilshire in Los Angeles and the Raytheon/DIRECTV buildings in El Segundo, California. The Hines Core Fund, in which Hines REIT holds an interest, sold three east-coast properties: 499 Park Avenue and 425 Lexington in New York City and 1200 19th Street in Washington, D.C. Proceeds from these dispositions provided liquidity to strengthen our balance sheet and to make a strategic investment in the Howard Hughes Center, a complex of five Class A office buildings with 1.3 million rentable square feet and 93 tenants including Pepperdine University, Sony Corporation and Qantas Airways, located in the strong submarket of West Los Angeles. The addition of this prime property located in a desirable west-coast, gateway city helps bolster our portfolio's collection of high-quality, core office properties located on the West Coast. This acquisition represents another step in repositioning our portfolio for a potential liquidity event in the future.

PORTFOLIO SUMMARY AS OF 12/31/13¹

Total Assets:	39 properties / 21 geographic markets
Estimated Aggregate Value:	\$2.3 billion ²
Total Square Feet:	Approximately 19.9 million
Portfolio Occupancy:	85%
Leverage (Loan-to-Value):	48%

¹Owned directly and indirectly and includes the acquisition of the Howard Hughes Center, the dissolution of the joint venture with Weingarten whereby eight properties were distributed to Hines REIT and the disposition of 101 Second Street by the Core Fund. ²Based on Hines REIT's pro rata share of the appraised values of each investment held directly and indirectly as of September 30, 2013. The estimated value of the property acquired subsequent to December 31, 2013 was based on the net purchase price. It does not necessarily reflect the current aggregate value of Hines REIT's assets.

PROACTIVE LEASING HIGHLIGHTS

New York, NY – 425 Lexington Avenue
Simpson Thacher & Bartlett LLP
552,000 Square Feet (SF) lease renewal through 2033

Richmond, VA – Riverfront Plaza
Hunton & Williams LLP
257,000 SF lease renewal through 2025

Los Angeles, CA – One Wilshire
CoreSite
130,000 SF lease renewal through 2022

Chicago, IL – One North Wacker
PricewaterhouseCoopers LLC
38,000 SF lease expansion through 2015
52,000 SF lease renewal through 2016
18,000 SF lease renewal through 2028

Macquarie Group Limited
17,000 SF lease expansion through 2020

Emeryville, CA – 2100 Powell
Art.com Inc.
72,000 SF lease renewal and expansion through 2019

NMI Holdings, Inc.
48,000 SF lease renewal and expansion through 2017

San Diego, CA – 525 B Street
City of San Diego
91,000 SF new lease through 2019

San Francisco, CA – 55 Second Street
KPMG
81,000 SF renewal through 2024

Los Angeles, CA – Warner Center
Viking River Cruises
72,000 SF lease renewal and expansion through 2020

Redmond, WA – Daytona-Laguna Portfolio
HCL America, Inc.
64,000 SF lease renewal and expansion through 2016

Chicago, IL – 321 North Clark
CBRE, Inc.
61,000 SF new lease through 2025

Richmond, VA – Riverfront Plaza
Merrill Lynch
23,000 SF new lease through 2024
Elliott Davis LLC
17,000 SF new lease through 2024
UBS
13,000 SF lease renewal through 2019
Ogletree Deakins
10,000 SF new lease through 2025

Melville, NY – Three Huntington Quadrangle
North Shore-LIJ Health System
25,000 SF expansion through 2018
Sovereign Bank, N.A.
25,000 SF lease renewal through 2018



STRATEGIC ASSET SALES

Williams Tower – Houston, TX¹

- Acquired: May 2008 for \$271.5 million
- Sold: March 2013 for \$412.0 million

One Wilshire – Los Angeles, CA¹

Raytheon and DIRECTV – El Segundo, CA¹

- Acquired: 2007 and 2008² for \$407.0 million
- Sold: July 2013 for \$550.0 million

499 Park – New York, NY³

425 Lexington – New York, NY³

1200 19th Street – Washington, DC^{3,4}

- Acquired: August 2003 for \$581.1 million
- Sold: June 2013 for \$1.3 billion

101 Second Street – San Francisco, CA⁵

- Acquired: September 2004 for \$157.0 million
- Sold: January 2014 for \$297.5 million

¹Hines REIT had a 100% ownership in these properties at the date of their sale. ²Acquisition date for One Wilshire was August 2007 and Raytheon and DIRECTV was March 2008. ³As a result of its investment in the Core Fund, Hines REIT had an 11% indirect investment in these properties at the time of their sale. ⁴Hines completed a \$99 million redevelopment of 1200 19th Street in 2009, which included expenses related to re-leasing the property. ⁵As a result of its investment in the Core Fund, Hines REIT had a 24% indirect investment in the property at the time of its sale.



SHAREHOLDER LIQUIDITY

We are pleased to report that we were able to reopen our share redemption program in April 2013 and have been able to honor all redemption requests from our shareholders who have requested liquidity, using proceeds from the sales discussed on the previous page. Additionally, we have continued to pay quarterly distributions to investors although at a lower per-share distribution rate beginning in April 2013.

NAV ANNOUNCEMENT AND LEASING ACTIVITY

In November 2013, we announced a new per share net asset value (NAV) of \$6.40, down from our previous NAV of \$6.78. Although we had an increase in the aggregate value of our assets of approximately \$0.18 per share, this was offset in part by the significant amount of leasing capital expenditures required to maintain occupancy levels and attract new tenants at our properties.

Leasing remains a primary focus of our management team and is the cash flow driver of our business. Despite challenges in certain industries such as contractions of space due to headcount reductions or densification opportunities created by new technologies, we were able to renew or enter into new leases totaling over 1.4 million square feet in 2013. Although the near-term impact of the associated leasing capital expenditures resulted in a slight decrease to the NAV, these expenditures helped us to maintain our occupancy percentage, which provided the cash flows enabling us to continue to pay quarterly dividends throughout the year. We will continue to focus our efforts on increasing the occupancy of our portfolio to strengthen each asset's position in its market.

OUTLOOK

The economic recovery has been quite strong in core real estate markets like New York, San Francisco, and Los Angeles. We have also recently seen encouraging positive strides in the capital and real estate markets in second-tier locations such as Seattle, Phoenix and Atlanta, where several of our assets are located. Our management team and board of directors have been working diligently to evaluate each asset to position the portfolio for an eventual liquidity event that will be intended to maximize returns to you. In the meantime, we appreciate your investment and your continued support of Hines REIT.

Sincerely,



Jeffrey C. Hines

Jeffrey C. Hines
Chairman of the Board



Sherri W. Schugart

Sherri W. Schugart
President and Chief Executive Officer

Other Financial Information

Information included herein was excerpted from our annual report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on March 28, 2014. Certain portions of the Form 10-K were not reprinted for inclusion in this annual report to shareholders in accordance with SEC regulations. The Form 10-K may be viewed in its entirety on our website (www.hinessecurities.com/hines-reit/sec-filings/).

TABLE OF CONTENTS

PART I

Item 1.	Business	1
Item 1A.	Risk Factors	5
Item 1B.	Unresolved Staff Comments	31
Item 2.	Properties	32
Item 3.	Legal Proceedings	37
Item 4.	Mine Safety Disclosures	37

PART II

Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	38
Item 6.	Selected Financial Data	46
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	47
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	74
Item 8.	Financial Statements and Supplementary Data	75
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	110
Item 9A.	Controls and Procedures	110
Item 9B.	Other Information	111

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	112
Item 11.	Executive Compensation	112
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	112
Item 13.	Certain Relationships and Related Transactions, and Director Independence	112
Item 14.	Principal Accountant Fees and Services	112

PART IV

Item 15.	Exhibits, Financial Statement Schedules	113
-----------------	---	-----

SIGNATURES

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, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements relate to, without limitation, potential future sales of assets, 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 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 Form 10-K. All forward-looking statements are made as of the date of this Form 10-K, and the risk that actual results will differ materially from the expectations expressed in this Form 10-K may increase with the passage of time. In light of the significant uncertainties inherent in the forward-looking statements in this 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 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 Real Estate Investment Trust, Inc., a Maryland corporation (“Hines REIT”), was formed by Hines Interests Limited Partnership (“Hines”) on August 5, 2003, primarily for the purpose of engaging in the business of owning interests in real estate. Hines REIT has invested primarily in institutional-quality office properties located throughout the United States. As of December 31, 2013, we owned direct and indirect investments in 43 properties. These properties consisted of 30 U.S. office properties, one industrial property in Dallas, Texas and a portfolio of 12 grocery-anchored shopping centers located in five states primarily in the southeastern United States (the “Grocery-Anchored Portfolio”). These properties contain, in the aggregate, 19.4 million square feet of leasable space. Hines REIT is structured as an umbrella partnership real estate investment trust, or UPREIT, and substantially all of Hines REIT’s current and future business is and will be conducted through Hines REIT Properties, L.P. (the “Operating Partnership”). We refer to Hines REIT, 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 REIT or the Company as required by the context in which such pronoun is used.

We made investments directly through entities wholly-owned by the Operating Partnership, or indirectly through other entities, such as through our investment in Hines US Core Office Fund LP (the “Core Fund”) in which we own a 28.8% non-managing general partner interest as of December 31, 2013. The Core Fund is a

partnership organized in August 2003 by Hines to invest in existing “core” office properties in the United States that Hines believes are desirable long-term “core” holdings. As of December 31, 2013, we also owned a 70% interest in the Grocery-Anchored Portfolio indirectly through a joint venture with Weingarten Realty Investors (“Weingarten”). See “Item 7. — Recent Developments and Subsequent Events” regarding the dissolution of our joint venture with Weingarten in January 2014. As a result of the joint venture dissolution, certain properties in the Grocery-Anchored Portfolio were distributed to us and Weingarten. Collectively, we refer to this transaction as the “Grocery-Anchored Portfolio Transaction.” In total, we have acquired interests in 64 properties since our inception and have sold our interests in 25 of those properties as of March 28, 2014.

We have raised capital for our real estate investments through public offerings of our common shares. In total, we have raised approximately \$2.7 billion through our public offerings since June 2004. We commenced a \$150.0 million offering of shares of our common stock under our dividend reinvestment plan on July 1, 2010, which closed on June 30, 2012, immediately prior to the commencement of our new \$300.0 million offering of shares of our common stock under our dividend reinvestment plan on July 1, 2012. We refer to both offerings of shares under our dividend reinvestment plan collectively as the “DRP Offering.” From inception of the DRP Offering through December 31, 2013, Hines REIT had received gross offering proceeds of \$161.0 million from the sale of 19.7 million shares through the DRP Offering. Based on market conditions and other considerations, we do not currently expect to commence any future offerings other than those related to shares issued under our dividend reinvestment plan. On January 1, 2014, Hines REIT received gross offering proceeds of \$5.8 million from the sale of 0.9 million shares through the DRP Offering.

We have no employees. Our business is managed by Hines Advisors Limited Partnership (the “Advisor”), an affiliate of Hines, under the terms and conditions of an advisory agreement between us and our Advisor. As compensation for these services, we pay our Advisor certain fees, including asset management, acquisition and debt financing fees and we reimburse certain of the Advisor’s expenses 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 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 3,350 employees have over 50 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. 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;
- to invest in a diversified portfolio of office properties;
- to pay regular cash dividends;
- to achieve appreciation of our assets over the long term; and
- to remain qualified as a real estate investment trust, or “REIT,” for federal income tax purposes.

Investment Policies

We have invested and may continue to invest primarily in institutional-quality office properties located throughout the United States. Our principal targeted assets are office properties with quality construction, desirable locations and quality tenants. These types of properties are generally located in central business districts

or suburban markets of major metropolitan cities. In addition, we have invested in other real estate investments including properties outside of the United States and non-office properties. We believe that a diversified portfolio of such properties can generate stable cash flow and capital appreciation potential if the office portfolio is well-selected and well-diversified in number and location of properties, and the office properties are consistently well-managed.

Financing Strategy and Policies

We have and may continue to use debt financing from time to time for property improvements, lease inducements, tenant improvements, redemptions and other working capital needs. Our portfolio was 42% leveraged as of December 31, 2013, with 86% of our debt in the form of fixed-rate mortgage loans (some of which are effectively fixed through the use of interest rate swaps). This leverage percentage is calculated using the estimated market value of our real estate investments (including our pro rata share of real estate assets and related debt owned through our investments in other entities such as the Core Fund).

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 quarterly 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”).

We declare distributions to our stockholders as of daily record dates and aggregate and pay such distributions quarterly. For the years ended December 31, 2013, 2012 and 2011, we declared distributions equal to, in the aggregate, \$0.33, \$0.51 and \$0.50 per share, respectively. Beginning July 1, 2010, the annual distribution rate was decreased from \$0.00165699 to \$0.00138082 per share, per day, which represented a change in the annualized distribution rate from 6% to 5% (based on our last primary offering price of \$10.08 per share). Beginning in April 2013, the annual distribution rate was decreased from \$0.00138082 per share, per day to \$0.00073973 per share, per day, which represented a change in the annualized distribution rate from 5% to 2.7% (based on our last primary offering price of \$10.08 per share). Our last public offering of primary shares ended in 2009. Please see “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” for information concerning the determination of our current estimated share value.

With respect to the \$0.00138082 per share, per day distributions declared for July 2011 through March 2013, \$0.00041425 of the per share, per day distributions were designated by us as special distributions, which represented a return of a portion of the stockholders’ invested capital and, as such, reduced their remaining investment in us. The special distributions were funded with a portion of the proceeds from sales of investment property. The above designation of a portion of the distributions as special distributions does not impact the tax treatment of the distributions to our stockholders. The remaining 70% of our distributions were paid from funds generated by our operations.

On March 25, 2013, we declared a distribution of approximately \$198.0 million, resulting in a distribution to stockholders of \$0.80 per share that was paid during the three months ended June 30, 2013 to all stockholders of record as of April 2, 2013. This distribution was designated by us as a special distribution, which was a return of a portion of the stockholders’ invested capital and, as such, reduced their remaining investment in us. This special distribution represented a portion of the proceeds from the sale of Williams Tower and other strategic asset sales and therefore was not subject to reinvestment pursuant to our dividend reinvestment plan and was paid in cash. In the aggregate, we have declared special distributions totaling \$1.01 per share.

In addition, for the period from July 1, 2011 through December 31, 2012, our Advisor waived a portion of its monthly cash asset management fee such that the fee was reduced from 0.0625% to 0.0417% (0.75% to 0.50% on an annual basis) of the net equity capital we have invested in real estate investments as of the end of each month. As a result of the waiver of these fees, cash flow from operations that would have been paid to the Advisor was available to pay distributions to stockholders. This fee waiver was not a deferral and accordingly, these fees will not be paid to the Advisor in cash at any time in the future. For the period from July 1, 2011 through December 31, 2012, this waiver totaled \$7.6 million.

Tax Status

We elected to be taxed as a REIT under Sections 856 through 860 of the Code, beginning with our taxable year ended December 31, 2004. In addition, the Core Fund has invested in properties through other entities that have elected to be taxed as REITs. Our management believes that we and the applicable entities in the Core Fund are organized and operate, and intend to continue operating, in such a manner as to qualify for treatment as REITs. Accordingly, no provision has been made for U.S. federal income taxes for the years ended December 31, 2013, 2012 and 2011 in the accompanying consolidated financial statements.

Competition

Numerous real estate companies, real estate investment trusts and U.S. institutional and foreign investors compete with us in obtaining creditworthy tenants to occupy our properties. Many of these entities have significant financial and other resources, including operating experience, allowing them to compete effectively with us. Principal factors of competition in our primary business of owning office properties are 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 quality office properties 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 3,350 employees located in over 100 cities across the United States and 17 foreign countries allows it to more effectively operate our real estate assets. However, competition may result in lower occupancy or rental rates or increase the level of inducements we offer to tenants.

Customers

We are dependent upon the ability of current tenants to pay their contractual rent amounts as the rents become due. No tenant represented more than 10% of our consolidated rental revenue for the years ended December 31, 2013, 2012 and 2011.

Available Information

Stockholders may obtain copies of our filings with the U.S. 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. 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, our results of operations and 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

There is currently no public market for our common shares, and we do not presently intend to list our common shares on a stock exchange. Therefore, it will likely be difficult for stockholders to sell their shares and, if they are able to sell their shares, they will likely sell them at a substantial discount. The estimated per-share value of our common shares has been established at an amount that is less than the price stockholders paid for their shares in our prior public offerings and may be further adjusted in the future.

There is no public market for our common shares, and we do not expect one to develop. We currently have no plans to list our shares on a national securities exchange or over-the-counter market, or to include our shares for quotation on any national securities market. Additionally, our charter contains restrictions on the ownership and transfer of our shares, and these restrictions may inhibit the ability of our stockholders to sell their shares. We have a share redemption program, but it is limited in terms of the amount of shares that may be redeemed. Our board of directors may further limit, suspend or terminate our share redemption program upon 30 days' written notice, in the form of a current report on Form 8-K filed with the U.S. Securities and Exchange Commission ("SEC") and made available on our website (www.hinessecurities.com). It may be difficult for stockholders to sell their shares promptly or at all. If stockholders 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 from our prior public offerings were reduced by funds used to pay certain up-front fees and expenses. Unless our aggregate investments increase in value to compensate for these up-front fees and expenses, which may not occur, it is unlikely that stockholders will be able to sell their shares, whether pursuant to our share redemption program or otherwise, without incurring a substantial loss. You may also experience substantial losses in connection with a liquidation event or if we dispose of our assets. We cannot assure stockholders that their shares will ever appreciate in value to equal the price they paid for their shares. Thus, stockholders should consider our common shares as illiquid and a long-term investment and should be prepared to hold their shares for an indefinite length of time. Further, declining real estate fundamentals have had a significant negative impact on values of commercial real estate investments. On November 25, 2013, the Company's board of directors established a new estimated per share net asset value ("NAV") of \$6.40 and a new per-share redemption price of \$5.45, which reflects a reduction from the prior estimated per share net asset value of \$6.75 and prior per-share redemption price of \$5.75 (both established in March 2013). The most recent estimated net asset value per share reflects a reduction from the offering price of primary shares in our most recent public offering (which closed in 2009) of \$10.08. For a discussion of the methodology pursuant to which our estimated per share net asset value was determined by our board of directors, please see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information" for more information.

The new estimated per share net asset value of \$6.40 has been calculated as of a moment in time. Although the value of our common shares will fluctuate over time as a result of, among other things, developments related to individual assets, changes in the real estate and capital markets, additional sales of assets, the distribution of sales proceeds to our stockholders and changes in corporate policies such as our dividend level relative to earnings, we do not undertake to update the estimated value per share on a regular basis. As a result, stockholders should not rely on the estimated value per share as being 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 reinvest distributions by participating in the dividend reinvestment plan and whether to request redemption pursuant to our share redemption program.

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 redeemed at a price that is equal to or less than the estimated value per share of our common stock, as determined by our board of directors. The estimated value per share was calculated as of a moment in time, and the value of our shares will fluctuate over time as a result of, among other things, the sale of real properties and distribution of the sale proceeds, developments related to individual assets and changes in the real estate and capital markets. In addition, we have and may continue to fund distributions to our stockholders with a portion of the proceeds from sales of our investment property. For these reasons, the estimated value per share 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, when we redeem shares of our common stock at a price that is equal to or less than the estimated value per share, the actual value of the shares that we redeem may be less, which would cause the redemption to be dilutive to our remaining stockholders.

The offering price of our shares under our dividend reinvestment plan may not accurately represent the current value of our assets at any particular time and the actual value of your investment may be substantially less than what you pay.

The offering price for shares of our common stock under our dividend reinvestment plan is based on the estimated value per share determined by our board of directors, as described below in “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information.” The estimated value per share was calculated as of a moment in time, and the value of our shares will fluctuate over time as a result of, among other things, developments related to individual assets and changes in the real estate and capital markets. Therefore, the actual value of your investment may be substantially less than what you pay for shares of our common stock. The offering price is not indicative of either the price at which our shares would trade if they were listed on an exchange or actively traded by brokers or of the proceeds that you would receive if we were liquidated or dissolved.

Because we are conducting an ongoing offering pursuant to the dividend reinvestment plan, we are providing information about our net tangible book value per share. As of December 31, 2013, our net tangible book value per share was \$4.89, which is less than the offering price for shares of our common stock in the dividend reinvestment plan. 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 three prior public offerings, such as selling commissions and marketing fees, all or a portion of which were re-allowed 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 sale of shares of our common stock and the selection, acquisition, management and sale of our investments.

Our share redemption program was suspended from November 2009 until March 2013, except with respect to requests made in connection with the death or disability of a stockholder. The suspension has been lifted, but our board of directors may suspend or terminate the program at any time, in its sole discretion. Stockholders’ ability to have their shares redeemed is subject to additional limitations 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. The funds available for redemption will generally be limited to the amount of proceeds received from our dividend reinvestment plan in the prior quarter. However, our board of directors may approve requests for redemptions in excess of this amount, as long as the total amount redeemed does not exceed the amount required to redeem 10% of our shares outstanding as of the same date in the prior calendar year. Cash used to fund redemptions may reduce our liquidity.

Stockholders should understand that our share redemption program contains significant restrictions. In addition, subject to the conditions and limitations described in the share redemption program, only shares that have been held by a stockholder for at least one year since the date of their acquisition, and were (i) purchased directly from us, (ii) received through a non-cash transaction, not in the secondary market and (iii) purchased from another stockholder prior to January 11, 2009 are eligible for redemption. Subject to the restrictions and limitations of our share redemption program, we expect to redeem shares to the extent our board of directors determines we have sufficient available cash to do so.

The funds available for redemption will generally be limited to the amount of proceeds received from the Company's dividend reinvestment plan in the prior quarter. However, the Company's board of directors may approve requests for redemptions in excess of this amount, as long as the total amount redeemed does not exceed the amount required to redeem 10% of our shares outstanding as of the same date in the prior calendar year. Cash used to fund redemptions reduces our liquidity available to fund our cash needs.

Our board of directors reserves the right to further amend, suspend or terminate the share redemption program at any time in its discretion upon 30 days' notice, in the form of a current report on Form 8-K filed with the SEC and made available on our website. Our board of directors may change the redemption price from time to time upon 30 days' notice based on our then-current estimated net asset value at the time of the adjustment and such other factors as it deems appropriate, including, but not limited to, the then-current offering price of our shares (if any), our then-current dividend reinvestment plan price and general market conditions. The methodology used in determining the redemption price is subject to a number of limitations and to a number of assumptions and estimates which may not be accurate or complete. The redemption price may not be indicative of the price our stockholders would receive if our shares were actively traded, if we were liquidated or if they otherwise sold their shares. Therefore, 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 at a price that reflects the then-current market value of the shares.

Due to the risks involved in the ownership of real estate, there is no guarantee of any return on an investment in our shares, and stockholders may lose some or all of their investment.

By owning our shares, stockholders are subjected to significant risks associated with owning and operating real estate. The performance of an investment in Hines REIT is 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, during various cycles, the commercial real estate market has experienced a substantial influx of capital from investors which, when combined with significant competition for real estate, may have resulted in inflated purchase prices for such assets. We and the Core Fund have purchased assets in such environments, and therefore, 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 attracted when we invested in such assets, 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 an investment in our shares may likewise decrease, and stockholders could lose some or all of their investment.

We may be adversely affected by trends in the office and real estate industry.

Some businesses are rapidly evolving to make employee telecommuting, flexible work schedules, open workplaces and teleconferencing increasingly common. These practices enable businesses to reduce their space requirements. A continuation of the movement towards these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations, each of which could have an adverse effect on our financial position, results of operations, cash flows and ability to make distributions to our shareholders.

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, the sponsor of Hines REIT, 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 REIT, Inc. and Hines Global REIT II, Inc. 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 no priority rights to specific investment opportunities identified 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 these other Hines real estate investment vehicles rely on Hines to present us with investment opportunities, these rights may reduce our investment opportunities. 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 vehicle affiliated with Hines, we may not have the control over such investment that we would otherwise have if we owned all of or otherwise controlled such assets.

Our right to participate in Hines' investment allocation process terminated when we fully invested the proceeds of our prior public offerings. Accordingly, 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, one or more of Hines' real estate investment vehicles has the right to accept such opportunities, and which investment opportunities we receive, if any, is otherwise subject to Hines' discretion, 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 identified 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 our stockholders' investment may be adversely impacted thereby.

We have invested a significant percentage of our total current investments in the Core Fund. Because of our current Core Fund investments, it is likely that Hines affiliates will retain significant control over certain investments even if our independent directors remove our Advisor.

While a majority of our independent directors may remove our Advisor upon 60 days' written notice, our independent directors cannot unilaterally remove the managing general partner of the Core Fund, which is also an affiliate of Hines. We have substantial investments in the Core Fund. Because of our current Core Fund investments and because our ability to remove the managing general partner of the Core Fund is limited, it is likely that an affiliate of Hines will maintain a substantial degree of control over certain investments despite the removal of our Advisor by our independent directors. In addition, our ability to redeem any investment we hold in the Core Fund is limited. Please see "— Business and Real Estate Risks — Our ability to redeem all or a portion of our investment in the Core Fund is subject to significant restrictions" for more information regarding our ability to redeem any investments in the Core Fund.

Many of the fees we pay 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, property manager and other affiliates of Hines 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 the Advisor and us, were not negotiated at arm's-length. Such agreements include the advisory agreement we entered into with the Advisor (the "Advisory Agreement") and the property management and leasing agreements we entered into with Hines. We cannot assure our stockholders that a third party unaffiliated with Hines would not be able and willing to provide such services to us at a lower price.

We will pay substantial compensation to Hines, the Advisor and their affiliates, which may be increased or decreased by our independent directors.

Subject to limitations in our charter, the fees, compensation, income, expense reimbursements, interests and other payments payable to Hines, the Advisor and their affiliates may increase or decrease if such increase or decrease is approved by our independent directors.

We may pay the Advisor a fee on any line of credit made available to us, whether or not we utilize all or any portion of such line of credit.

We may pay the Advisor a debt financing fee equal to 1.0% of the amount obtained under any property loan or made available under any other debt financing obtained by us. With respect to a line of credit obtained by us, we may pay the debt financing fee on the aggregate amount available to us under the line of credit, irrespective of whether any amounts are drawn down under such line of credit. Because of this, the Advisor will have a conflict in determining when to obtain a line of credit and the amount to be made available thereunder.

Hines REIT's interest in the Operating Partnership will be diluted by the Participation Interest in the Operating Partnership held by HALP Associates Limited Partnership and an interest in Hines REIT may be diluted if we issue additional shares.

Hines REIT owned a 93.8% general partner interest in the Operating Partnership as of December 31, 2013. Hines 2005 VS I LP, an affiliate of Hines, owned a 0.5% interest in the Operating Partnership as of December 31, 2013. In addition, another affiliate of Hines, HALP Associates Limited Partnership ("HALP") owned a 5.7% profits interest (the "Participation Interest") in the Operating Partnership as of December 31, 2013. The Participation Interest will increase to the extent leverage is used because the use of leverage will allow us to acquire more assets. Each increase in this interest will dilute our stockholders' indirect investment in the Operating Partnership and, accordingly, reduce the amount of distributions that would otherwise be payable to our stockholders in the future.

Additionally, stockholders do not have preemptive rights to acquire any shares issued by us in the future. Therefore, stockholders may experience dilution of their equity investment if we:

- sell shares in our public offerings, including those issued pursuant to the dividend reinvestment plan and shares issued to our officers and directors or employees of the Advisor and its affiliates under our Employee and Director Incentive Share Plan;
- sell or issue securities that are convertible into shares, such as interests in the Operating Partnership;
- issue shares in a private offering;
- issue common shares to the Advisor or affiliates in lieu of cash fees;
- issue common shares upon the exercise of options granted, if any, to our independent directors, or employees of the Company or the Advisor; or
- issue shares to sellers of properties acquired by us in connection with an exchange of partnership units from the Operating Partnership.

The redemption of interests in the Operating Partnership held by Hines and its affiliates (including the Participation Interest) as required in our Advisory Agreement may discourage a takeover attempt if our Advisory Agreement would be terminated in connection therewith.

In the event of a merger in which we are not the surviving entity, and pursuant to which our Advisory Agreement is terminated under certain circumstances, Hines and its affiliates may require the Operating Partnership to purchase all or a portion of the Participation Interest and interest in the Operating Partnership that they hold at any time thereafter for cash, or our shares, as determined by the seller. The Participation Interest increases on a monthly basis and, as the percentage interest in the Operating Partnership attributable to this interest increases, these rights may deter transactions that could result in a merger in which we are not the survivor. This deterrence 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 through a merger.

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

Under our Advisory Agreement, if we are not advised by an entity affiliated with Hines, Hines or its affiliates may cause the Operating Partnership to purchase some or all of the Participation Interest or OP Units then held by such entities. The purchase price will be based on the net asset value of the Operating Partnership and payable in cash, or our shares, as determined by the seller. If the termination of the Advisory Agreement would result in the Company not being advised by an affiliate of Hines, and if the amount necessary to purchase Hines' interest in the Operating Partnership is substantial, these rights could discourage or deter us from terminating the Advisory Agreement under circumstances in which we would otherwise do so.

We may issue preferred shares or separate classes or series of common shares, which issuance could adversely affect the holders of our common shares.

We may issue, without stockholder approval, preferred shares or a class or series of common shares with rights that could adversely affect our holders of the 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 class or series, and to fix the voting rights (subject to certain limitations), liquidation preferences, dividend rates, conversion rights, redemption rights and terms, including sinking fund provisions, and certain other rights and preferences with respect to such class or series of shares. If we ever create and issue preferred shares with a dividend preference over common shares, payment of any dividend 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, 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.

We are not registered as an investment company under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and therefore we will not be subject to the requirements imposed on an investment company by such Act. Similarly, the Core Fund is not registered as an investment company.

We are not, and the Core Fund is not, registered as an “investment company” under the Investment Company Act. Investment companies subject to this 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.

Many of these requirements are intended to provide benefits or protections to security holders of investment companies. Because we do not expect to be subject to these requirements, our stockholders will not be entitled to these benefits or protections.

In order to operate in a manner to avoid being required to register as an investment company, we may be unable to sell assets we would otherwise want to sell or we may need to sell assets we would otherwise wish to retain. In addition, we may also have to forgo opportunities to acquire interests in companies or entities that we would otherwise want to acquire. The operations of the Core Fund may likewise be limited in order for the Core Fund to avoid being required to register as an investment company.

If Hines REIT, the Operating Partnership or the Core Fund 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.

We do not expect to operate as an “investment company” under the Investment Company Act. However, the analysis relating to whether a company qualifies as an investment company can involve technical and complex rules and regulations. If we own assets that qualify as “investment securities” as such term is defined under this Act, and the value of such assets exceeds 40% of the value of our total assets, we could be deemed to be an investment company. It is possible that many of our interests in real estate may be held through other entities, and some or all of these interests in other entities could be deemed to be investment securities.

If we held investment securities and the value of these securities exceeded 40% of the value of our total assets, we may be required to register as an investment company. Investment companies are subject to a variety of substantial requirements that could significantly impact our operations. Please see “— We are not registered as an investment company under the Investment Company Act of 1940 and therefore we will not be subject to the requirements imposed on an investment company by such Act. Similarly, the Core Fund is not registered as an

investment company” above. The costs and expenses we would incur to register and operate as an investment company, as well as the limitations placed on our operations, could have a material adverse impact on our operations and the investment return on our shares.

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.

Our investment in the Core Fund is subject to the risks described in this risk factor, as the Core Fund will need to operate in a manner to avoid qualifying as an investment company as well. If the Core Fund is required to register as an investment company, the extra costs and expenses and limitations on operations resulting from such as described above could adversely impact the Core Fund’s operations, which would indirectly reduce the return on our shares and that registration also could adversely affect our status as an investment company.

If our assets are deemed to be plan assets under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) the Advisor and the fiduciaries of investing ERISA plans may be exposed to liabilities under Title I of ERISA and the 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. 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 a further investment in us through our dividend reinvestment plan, stockholders should consult with their legal and other advisors concerning the impact of ERISA and the Code on such stockholders’ investment and our performance.

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

If stockholders have invested the assets of an IRA, pension, profit sharing, 401(k), Keogh or other qualified retirement plan or plan to further invest through our dividend reinvestment 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.

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

Our charter provides that no holder of shares, other than Hines, affiliates of Hines or any other person to whom our board of directors grants an exemption, may directly or indirectly own more than 9.9% in value 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 outstanding shares, which offers may be attractive to our stockholders, and thus may limit the opportunity for stockholders to receive a premium for their shares that might otherwise exist if an investor attempted to assemble a block of common shares in excess of 9.9% in value 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 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 stock (an “interested stockholder”);
- any of our affiliates 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 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 9.9% or more of our common shares by a stockholder other than Hines or an affiliate of Hines, we opted out of the business combinations statute in our charter. 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.

Business and Real Estate Risks

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 real estate investments 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. An investment in the Company will be subject to greater risk to the extent that we lack a geographically diversified portfolio of properties. For example, based on our pro-rata share of the estimated aggregate value of the real estate investments in which we owned interests as of December 31, 2013, approximately 14% of our portfolio consists of properties located in Seattle, 14% of our portfolio consists of properties located in Dallas, 14% of our portfolio consists of properties located in Chicago, and 9% of our portfolio consists of properties located in San Francisco. Consequently, our financial condition and ability to make distributions could be materially and adversely affected by any significant adverse developments in those markets. Please see “Item 2. Properties — Market Concentration and — Industry 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 unfavorable developments in these 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 our pro rata share of space leased to tenants as of December 31, 2013, 18% of our space is leased to tenants in the legal industry and 13% is leased to tenants in the finance and insurance industries.

We may acquire additional properties in the future, which could subject us to risks associated with owning and managing new properties.

We may acquire interests in additional properties in the future with proceeds from the sale of assets or from other sources. The acquisition of properties, or interests in properties by us, directly or indirectly, will subject us to risks associated with owning and/or managing properties. Specific examples of risks that could relate to acquisitions include:

- risks that investments will fail to perform in accordance with our expectations because of conditions or liabilities it did not know about at the time of acquisition;
- risks that projections or estimates we made 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; and
- general investment risks associated with any real estate investment.

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.

During various cycles, the commercial real estate market has experienced a substantial influx of capital from investors. This substantial flow of capital, combined with significant competition for real estate, may have resulted in inflated purchase prices for such assets. We and the Core Fund purchased assets in such an environment, and to the extent either we purchase real estate in the future in such an environment, we are subject to the risks that the value of our assets may not appreciate or may decrease significantly below the amount it paid for such assets if, for example, 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, our ability to redeem our shares and our stockholders' overall return may be adversely impacted.

From time to time, distributions we paid to our stockholders were partially funded with advances, borrowings or waivers of fees from our Advisor. We may use similar advances, borrowings, deferrals or waivers of fees from our Advisor or affiliates, or other sources in the future to fund distributions to our stockholders. We cannot assure stockholders that in the future we will be able to achieve cash flows necessary to repay such advances or borrowings and pay distributions at our current per-share amounts, or to maintain distributions at any particular level, if at all.

We cannot assure stockholders that we will be able to continue paying distributions to our stockholders at our current per-share amounts, or that the distributions we pay will not decrease or be eliminated in the future. As a result of market conditions, Beginning July 1, 2010, the annual distribution rate was decreased from \$0.00165699 to \$0.00138082 per share, per day, which represented a change in the annualized distribution rate from 6% to 5% (based on our last primary offering price of \$10.08 per share). Beginning in April 2013, the annual distribution rate was decreased from \$0.00138082 per share, per day to \$0.00073973 per share, per day, which represented a change in the annualized distribution rate from 5% to 2.7% (based on our last primary offering price of \$10.08 per share). Our last public offering of primary shares ended in 2009. Please see "Item 5.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" for information concerning the determination of our current estimated per share net asset value.

In our initial quarters of operations, funds generated by our operations were insufficient to fund our distributions to stockholders and minority interests. As a result, our Advisor advanced funds to us to enable us to partially fund our distributions, and our Advisor deferred, and in some cases forgave, the reimbursement of such advances. In addition, for the period from July 1, 2011 through December 31, 2012, our Advisor agreed to waive a portion of its monthly cash asset management fee such that the fee was reduced from 0.0625% to 0.0417% (0.75% to 0.50% on an annual basis) of the net equity capital we had invested in real estate investments as of the end of each month. As a result of the waiver of these fees, cash flow from operations that would have been paid to the Advisor was available to pay distributions to stockholders. This fee waiver was not a deferral and accordingly, these fees will not be paid to the Advisor in cash at any time in the future. We did not receive any advances from our Advisor after June 30, 2006, and, other than with respect to amounts previously forgiven as of December 31, 2006, we had reimbursed our Advisor for these advances. Our Advisor is under no obligation to advance funds to us in the future or to defer or waive fees in order to support our distributions. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition, Liquidity and Capital Resources — Cash Flows from Financing Activities — Distributions."

If our Advisor or its affiliates do not determine to advance funds to cover our expenses or defer or waive fees in the future, our ability to pay distributions to our stockholders could be adversely affected, and we may be unable to pay distributions to our stockholders, or such distributions could decrease significantly. In addition, our Advisor, banks or other financing sources may make loans or advances to us in order to allow us to pay future distributions to our stockholders. The ultimate repayment of this liability 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 potentially adversely impact the value of our shares. In addition, our Advisor or affiliates could choose to receive shares of our common stock or interests in the operating partnership in lieu of cash fees to which they are entitled, and the issuance of such securities may dilute the interest of our stockholders.

If we sell a significant amount of our investments, it may adversely impact our ability to pay regular distributions to our stockholders.

As noted above, we have sold certain of our investments and have distributed a portion of the sales proceeds to our stockholders as a special distribution that represents a return of our stockholders' invested capital. If we dispose of additional investments and do not reinvest those proceeds in new investments, then such dispositions also will reduce the aggregate cash flow generated by our properties and may adversely impact our ability to maintain the payment of regular distributions to our stockholders. As noted above, the \$0.00073973 per share, per day distribution rate declared since April 2013 reflects a reduction from the \$0.00138082 per share, per day rate that was declared between July 1, 2010 and March 31, 2013.

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

In order to maintain our qualification 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 therefore; 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.

We are different in some respects from other programs sponsored by Hines, and therefore the past performance of such programs may not be indicative of our future results.

We are one of only three publicly-offered real estate investment programs sponsored by Hines and Hines' first REIT. Hines' previous programs and investments were conducted through privately-held entities not subject to either the up-front commissions, fees or expenses associated with our public offerings 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. A significant portion of Hines' other programs and investments also involve development projects. Although we are not prohibited from participating in development projects, we currently do not expect to participate in development activities.

The past performance of other programs sponsored by Hines 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. Stockholders should not rely on the past performance of other programs or investments sponsored by Hines to predict or as an indication of our future performance.

Our indirect investments were made consistently with the investment objectives and policies described in this report and are, therefore, subject to similar business and real estate risks. The Core Fund, which has investment objectives and policies similar to ours, is subject to many of the same business and real estate risks as we are.

For example, the Core Fund:

- will be affected by general economic and regulatory factors it cannot control or predict;
- depends on its tenants for its revenue and relies on certain significant tenants;

- may not have funding or capital resources for future tenant improvements;
- also operates in a competitive business with competitors who have significant financial resources and operational flexibility;
- will make illiquid investments and be subject to general economic and regulatory factors, including environmental laws, which it cannot control or predict;
- will be subject to property taxes and operating expenses that may increase;
- is subject to risks associated with terrorism, uninsured losses and high insurance costs;
- is also dependent upon Hines and its key employees for its success;
- is subject to risks as a result of joint ownership of real estate with Hines and other Hines programs or third parties; and
- uses borrowings and leverage which may result in foreclosures and unexpected debt-service requirements and indirectly negatively affect our ability to pay dividends to our stockholders.

To the extent the operations and ability of the Core Fund, or any other entity through which we indirectly invest in real estate, to make distributions is adversely affected by any of these risks, our operations and ability to pay distributions to our stockholders will be adversely affected.

Our ability to redeem all or a portion of our investment in the Core Fund is subject to significant restrictions.

The partnership agreement for the Core Fund provides that the Core Fund will dissolve on December 31, 2015, subject to the right of the managing general partner to extend the term for two one-year periods, subject to approval by us and by the limited partners. Our ability to redeem our investment in the Core Fund is limited and, as a result, we may not be able to redeem some or all of our interest in the Core Fund prior to the liquidation of the Core Fund. Please see the risk factor captioned “—If the Core Fund is forced to sell its assets in order to satisfy mandatory redemption requirements, our investments in the Core Fund may be materially adversely affected” below.

If the Core Fund is forced to sell its assets in order to satisfy mandatory redemption requirements, our investments in the Core Fund may be materially adversely affected.

The Core Fund co-owns several buildings together with certain independent pension plans and funds (the “Institutional Co-Investors”) that are advised by General Motors Investment Management Corporation Inc. (the “Institutional Co-Investor Advisor”). Each entity formed to hold these buildings is required to redeem the interests held by the Institutional Co-Investors in such entity at dates ranging from January 30, 2015 to May 1, 2019. Additionally, the Institutional Co-Investor Advisor is entitled to co-investment rights for real estate assets in which the Core Fund invests. For each asset in which Institutional Co-Investors acquire interests pursuant to the Institutional Co-Investor Advisor’s co-investment rights, the Core Fund will establish a three-year period (except for Hines NY Core Office Trust, which has a one-year period) ending no later than the twelfth anniversary of the date the asset is acquired during which the entity through which those Institutional Co-Investors co-invest in such asset will redeem such Institutional Co-Investors’ interests in such entity, unless the Institutional Co-Investors elect to extend such period. The Institutional Co-Investor Advisor also has certain buy/sell rights in entities in which the Institutional Co-Investors have co-invested with the Core Fund.

In addition, certain limited partnerships established by Ideenkapital Financial Engineering AG and affiliated entities under the laws of Germany own interests in Hines US Core Office Properties LP (“US Core Properties”), a subsidiary of the Core Fund through which it owns its current investments. Each such entity (“IK Fund”) has the right to require US Core Properties to redeem all or a portion of its interest in US Core Properties as of

certain dates ranging from December 31, 2014 through December 31, 2017. The Core Fund is obligated to provide US Core Properties with sufficient funds to fulfill US Core Properties' obligations in respect of the IK Fund redemption rights described above, to the extent sufficient funds are not otherwise available to US Core Properties.

We cannot assure our stockholders that the Core Fund will have capital available on favorable terms or at all to fund the redemption of such interests. If the Core Fund is forced to sell any of its assets in order to fund these redemptions, the disposition of such assets could materially adversely impact the Core Fund's operations and ability to make distributions to us and, consequently, our investment in the Core Fund.

We could be responsible for all liabilities of limited partnership joint ventures in which we invest as the general partner.

Our interest in the Core Fund is 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 Core Fund without having the same rights of management or control over the operation of the Core Fund as the managing general partner. Therefore, our liability may far exceed the amount or value of investment we initially made or then had in the Core Fund.

Our use of borrowings to partially fund 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 intend to rely in part on borrowings under any credit facilities and other external sources of financing to fund capital expenditures and other items. Accordingly, we are subject to the risk 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 agreement.

If we cannot meet our required debt obligations, the property or properties subject to indebtedness could be foreclosed upon by, or otherwise transferred to, our lender, with a consequent loss of income and asset value to the Company. 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. Further, certain of our debt financing agreements provide the lender with the right to have the properties serving as collateral appraised periodically in order to determine whether the outstanding principal balance exceeds the lender's appraised value of the collateral. If such an excess exists, we may be required to rebalance by making a partial payment or providing additional collateral to eliminate the excess. A refinancing or rebalancing 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 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.

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

Use of derivative instruments for hedging purposes may present significant risks, including the risk of loss of the amounts invested. Defaults by the other party to a hedging transaction can result in losses in the hedging transaction. Hedging activities also involve the risk of an imperfect correlation between the hedging instrument and the asset being hedged, which could result in losses both on the hedging transaction and on the instrument being hedged. Use of hedging activities generally may not prevent significant losses and could increase our losses. Further, hedging transactions may reduce cash available to pay distributions to our stockholders.

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, or FDIC, only insures amounts up to \$250,000 per depositor per insured bank. We currently 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 have deposited funds ultimately fails, we may lose any amount of our deposits over these amounts. 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 an investment in our shares.

Our success will be dependent on the performance of Hines as well as key employees of Hines.

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 and making investments with the proceeds of our public offerings and sales of other investments. 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. For example, Charles N. Hazen, our former Chief Executive Officer and President, resigned from these positions effective March 15, 2013. Sherri W. Schugart succeeded Mr. Hazen in these positions as of the same date. In connection with Ms. Schugart's new roles, Ms. Schugart resigned from her role as Chief Operating Officer and this role has remained vacant following her resignation. To the extent we are unable to retain and/or find qualified successors for key employees that depart the Company, our results of operations may be adversely impacted. Our officers and the management of the Advisor also serve in similar capacities for numerous other entities. If Hines (or any of its key employees) is distracted by these other activities or suffers from adverse financial or operational problems in connection with its 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. Please see "— Potential Conflicts of Interest Risks — Employees of the Advisor and Hines will face conflicts of interest relating to time management and allocation of resources and investment opportunities."

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 operate will compete with us in obtaining creditworthy tenants to occupy properties. 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 tenants for properties. 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 lower our occupancy rates and the rent we may charge tenants.

We depend on tenants for our revenue, and therefore our revenue is 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 substantially all of our income. 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 is indirectly dependent on the success of the

businesses operated by the tenants in our properties or in the properties securing mortgages we may own. Tenants may have the right to terminate their leases upon the occurrence of certain customary events of default and, in other circumstances, may not renew their leases or, because of market conditions, may be able to renew their leases on terms that are less favorable to us than the terms of the current leases. The weakening of the financial condition 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.

Some of our properties 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.

We may suffer adverse consequences if our revenues decline since our operating costs do not necessarily decline in proportion to our revenue.

We earn a significant portion of our income from renting our properties. Our operating costs, however, do not necessarily fluctuate in proportion to changes in our rental revenue. As a result, our costs will not necessarily decline even if our revenues do. Similarly, our operating costs could increase while our revenues stay flat or decline. In either such event, we may be forced to borrow to cover our costs, we may incur losses or we may not have cash available to service our debt and to pay distributions to our stockholders.

The bankruptcy or insolvency of a major tenant may adversely impact our operations and our ability to pay distributions.

The bankruptcy or insolvency of a significant tenant or a number of smaller tenants may have an adverse impact on our income and our ability to pay distributions. Generally, under 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.

Unfavorable changes in economic conditions have adversely impacted occupancy and rental rates and could adversely impact our results of operations and our ability to pay distributions to our stockholders.

Unfavorable economic conditions have adversely impacted office building occupancy and rental rates. Further declines in occupancy and rental rates in the markets in which we operate may have a material adverse impact on our cash flows, operating results and carrying value of investment property. We have experienced some of these adverse effects. The risks that may affect conditions in these markets include the following:

- changes in the national, regional and local economic climates;
- local conditions, such as an oversupply of office space or a reduction in demand for office space in the area;
- economic downturns which simultaneously affect more than one of our geographical markets; and
- increased operating costs, if these costs cannot be passed through to tenants.

National, regional and local economic climates have been adversely affected by the job losses and subsequent slow job growth experienced in the United States in recent years, which has adversely impacted market rents in the markets in which we operate. We could also face challenges related to adequately managing and maintaining our properties, should we experience increased operating costs. As a result, we have experienced and may continue to experience a loss of rental revenues, which may adversely affect our results of operations and our ability to satisfy our financial obligations and to pay distributions to our stockholders.

Our investments may be subject to additional impairment provisions based on market and economic conditions.

On a periodic basis, we assess whether there are any indicators that the value of our real estate properties and other investments may be impaired. These assessments have a direct impact on our earnings because recording an impairment provision results in an immediate negative non-cash adjustment to earnings. A property's value is impaired only if the estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. In our estimate of cash flows, we consider factors such as expected future operating income, trends and prospects, the effects of demand, competition and other factors. We are required to make subjective assessments as to whether there are impairments in the value of our real estate properties and other investments. Ongoing adverse market and economic conditions and market volatility continue to make it challenging to value properties and investments owned by us directly and indirectly. There may be uncertainty in the valuation, or in the stability of the value of a property, that could result in a substantial decrease in the value.

For example, during 2013 and 2012, we recorded impairment charges on four and three of our directly-owned investments, respectively. There can be no assurance that we will not record additional charges in the future related to the impairment of our assets. Any future impairment could have a material adverse effect on our results of operations in the period in which the charge is taken. Please see Note 13 of the Notes to the Consolidated Financial Statements in Item 8.

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

We 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 insurance, or to obtain such coverage at a reasonable cost in the future, and this risk may inhibit 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.

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 our stockholders' investment.

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

Terrorist attacks may negatively affect our operations and an investment in our shares. Such attacks or armed conflicts may directly impact the value of our properties through damage, destruction, loss or increased security costs. Hines has historically owned and managed office properties in major metropolitan or suburban areas. We have also invested in such properties. For example, the Core Fund owns interests in properties located in New York City and Washington, D.C. We and the Core Fund also own properties in the central business districts of other major metropolitan cities. Insurance risks associated with potential acts of terrorism against office and other properties in major metropolitan areas 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. 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. We intend to obtain terrorism insurance, but the terrorism insurance that we obtain may not be sufficient to cover loss for damages to our properties as a result of terrorist attacks. In addition, certain losses resulting from these types of events are uninsurable and others may not be covered by our terrorism insurance. Terrorism insurance may not be available at a reasonable price or at all.

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 of these events 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 payment of rent by tenants, which may be particularly vulnerable to uncertainty in the local economy. Adverse economic conditions could affect the ability of our tenants to pay rent, which could have a material adverse effect on our operating results and financial condition, as well as our ability to pay distributions to our stockholders.

Our operations will be directly affected by general economic and regulatory factors we cannot control or predict.

One of the risks of investing in real estate is the possibility that our properties could further decrease in value or will not generate income sufficient to meet operating expenses or will generate income and capital appreciation, if any, at rates lower than those anticipated or available through investments in comparable real estate or other investments. A significant number of the properties in which we own an interest are office buildings located in major metropolitan or suburban areas. These types of properties, and the tenants that lease space in such properties, may be impacted to a greater extent by a national economic slowdown or disruption when compared to other types of properties such as residential and retail properties. The following factors may affect income from such properties, our ability to sell properties and yields from investments in properties and are generally outside of our control:

- conditions in financial markets and general economic conditions;
- terrorist attacks and international instability;

- natural disasters and acts of God;
- the potential effects, if any, of climate change;
- over-building;
- adverse national, state or local changes in applicable tax, environmental or zoning laws; and
- a taking of any of our properties by eminent domain.

Continued disruptions in the global financial markets and uncertain economic conditions could adversely affect commercial real estate values and our ability to secure debt financing and service future debt obligations, which could adversely impact our results of operations and our ability to pay distributions to our stockholders.

Despite improved access to capital for some market participants, the capital and credit markets continue to be affected by the extreme volatility and disruption of recent years, and the health of the global capital markets remains a concern. The banking industry has been experiencing improved earnings, but the relatively low-growth economic environment has caused the markets to question whether financial institutions are truly appropriately capitalized. The downgrade of the U.S. government's credit rating in 2011 has increased these concerns, especially for the larger banks. Smaller financial institutions have continued to work with borrowers to amend and extend existing loans; however, as these loans reach maturity, there is the potential for future credit losses. The FDIC has characterized a substantial number of financial institutions as "troubled," and the threat of more bank closings continues to weigh on the financial markets. Liquidity in the global credit market has been reduced by market disruptions, and new lending is expected to remain subdued in the near term. We have relied in part on debt financing to finance our investments. Although we have been successful in our refinancings to date, as a result of the uncertainties in the credit market, we may not be able to refinance our existing indebtedness or obtain additional debt financing on attractive terms. If we are not able to refinance existing indebtedness on attractive terms at its maturity, we may be forced to dispose of some of our assets. Further disruptions in the financial markets and continued uncertain economic conditions could adversely affect the values of our investments and could make it more difficult to sell any of our investments at attractive prices if we determine to do so. These disruptions in the markets and corresponding economic uncertainty may adversely impact our results of operations and our ability to pay distributions to our stockholders and may result in a decrease in the value of our stockholders' investment.

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

Equity 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 property for the long term. When we sell any of our properties, 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 be required to expend funds to correct defects or to make improvements before a property can be sold. We may not have adequate funds available to correct such defects or to make such improvements. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Our inability to sell a property when we desire to do so may cause us to reduce our selling price for the property. Any delay in our receipt of proceeds, or diminishment of proceeds, from the sale of a property could adversely impact our ability to pay distributions to our stockholders. Further, we may not distribute any proceeds from the sale of properties to our stockholders. For example, we may use such proceeds to:

- repay debt;
- reinvest in additional real estate properties;
- 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;
- fund distributions;
- 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 need 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.

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.

While we have invested primarily in institutional-quality office properties, we also have made investments in properties historically used for industrial, manufacturing and commercial purposes. Some of 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, which may include mold, 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, including any changes to existing environmental laws to address climate change, 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 ownership of our properties in the United States. The cost of defending against claims of liability, of compliance with environmental regulatory requirements or of remediating any contaminated property could be substantial and require a material portion of our cash flow.

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

Our properties are 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.

Our costs associated with complying with the Americans with Disabilities Act (the “ADA”) may affect cash available for distributions.

Our properties are generally expected to be subject to the ADA. Under the ADA, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The ADA has separate compliance requirements for “public accommodations” and “commercial facilities” that generally require that buildings and services be made accessible and available to people with disabilities. The ADA’s requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We have attempted to acquire properties that comply with the ADA or place the burden on the seller or other third-party, such as a tenant, to ensure compliance with the ADA. However, we may not be able to allocate responsibilities in this manner. If we cannot, our funds used for ADA compliance may affect cash available for distributions and the amount of distributions to our stockholders.

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 are able to charge at such properties may decrease.

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

As with our office properties, we are subject to the risk that tenants of our retail properties 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.

Our investment policies may change without stockholder approval, which could not only alter the nature of an investment in our shares but also subject any such investment to new and additional risks.

Except as otherwise provided in our organizational documents, our investment policies, including our policies with respect to borrowings and dispositions, and the methods of implementing our investment objectives and policies may be altered by a majority of our directors, including a majority of our independent directors, without the approval of our stockholders. As a result, the nature of an investment in our shares could change indirectly without stockholder consent and become subject to risks not described in this report.

Potential Conflicts of Interest Risks

We may compete with other entities 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 own interests in real estate assets. Therefore, our properties compete for tenants with other properties owned and/or managed by Hines and its affiliates. 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 the 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 may 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 investment vehicles having investment objectives and legal and financial obligations similar to ours. Because Hines and its affiliates have interests in other 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 a conflict of interest when determining whether we should dispose of any property we own that is managed by Hines because Hines may lose fees associated with the management of the property and may earn fees associated with the disposition of the property.

Hines manages most of our properties. Because Hines receives significant fees for managing these properties, it may face a conflict of interest when determining whether we should sell properties under circumstances where Hines would no longer manage the property after the transaction. As a result of this conflict of interest, we may not dispose of properties when it would be in our best interests to do so.

Hines may face a conflict of interest when determining whether we should reinvest proceeds from sales or refinancings of our properties because Hines will continue to receive fees and may receive additional fees if the proceeds are reinvested.

Hines will receive compensation from us based on, among other things, the amount invested in properties and the revenues generated from those properties. In addition, Hines will receive acquisition fees in connection with investing in new properties. Therefore Hines may face a conflict of interest when determining whether to recommend to us that we reinvest proceeds from sales or refinancings, rather than distributing such proceeds to our stockholders, because if the proceeds are reinvested, Hines will continue to receive certain fees and may receive additional fees in connection with such reinvestment. Alternatively, if the proceeds of any sale or refinancing are distributed to our stockholders, Hines will no longer receive such fees.

We may face conflicts of interest if we sell our properties to affiliates.

We sold our interest in Distribution Park Rio to an affiliate of Hines in January 2013 and may, in the future, dispose of additional investments through a sale to Hines or its affiliates. Hines, its affiliates and employees (including our officers and directors) may make substantial profits in connection with such transactions. We must follow certain procedures when selling assets to Hines and its affiliates, including that the sale must be approved by a majority of our independent directors and that the sale price must be based on the fair market value of such property (as determined by an independent expert). We may owe fiduciary and/or other duties to the purchasing entity in these transactions and conflicts of interest between us and the purchasing entities could exist in such transactions. These conflicts could result in transactions that are less favorable to us than we would receive from a third party.

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 the Advisor manage our day-to-day operations and properties pursuant to property management agreements and an advisory agreement. These agreements were not negotiated at arm's length and certain fees payable by us under such agreements are paid regardless of our performance. Hines and its affiliates may be in a conflict of interest position as to matters relating to these agreements. Examples include the computation of fees and reimbursements under such agreements, the enforcement 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.

Certain of our officers and directors are also officers and directors of the Advisor and other entities controlled by Hines such as the managing general partner of the Core Fund, the Advisor of Hines Global REIT, Inc., the Advisor of Hines Global REIT II, Inc. or the Adviser to HMS Income Fund, Inc. Some of these entities may compete with us for 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 time and resources among us and other entities operated by Hines;
- the timing and terms of the investment in or sale of an asset;
- 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 and the bylaws to indemnify our officers and directors against certain liabilities incurred in connection with their services. We have also executed indemnification agreements with each officer and director and agreed to indemnify them for any such liabilities that they incur. These indemnification agreements, as well as the indemnification provisions in our charter and bylaws, 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.

Tax Risks

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.

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 redemption of partnership units in the Operating Partnership. However, if the Internal Revenue Service (the “IRS”) successfully determined 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. Please see “— If we fail to qualify as a REIT, our operations and ability to pay distributions to our stockholders would be adversely impacted” above. In addition, the imposition of a corporate tax on the Operating Partnership would reduce our 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, or 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 one of 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 finance the acquisition of 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.

Investors may realize taxable income without receiving cash distributions.

If stockholders participate in the dividend reinvestment plan and such stockholders are subject to U.S. federal income taxation, they will be required to take into account, in computing their taxable income, ordinary and capital gain distributions allocable to shares they own, even though they receive no cash because such distributions are reinvested.

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 a 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 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% 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, local or foreign income or other taxes as a REIT, 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 property 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 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. To the extent that we do not properly identify such transactions as hedges or we hedge with other types of financial instruments, or hedge 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 for purposes of the gross asset tests to which REITs are subject.

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.

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 hold interests in other REITs and in 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 that we distribute to our stockholders and the ownership of shares of our common stock. We may be required to forego

otherwise attractive opportunities 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% 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.

We may not be able to avoid paying corporate income tax on gains generated from the disposition of our assets by distributing such gains to our stockholders.

We might sell or otherwise dispose of our properties and distribute gains from the dispositions to our stockholders in a manner intended to generate a dividends paid deduction in order to minimize or avoid corporate income tax that we would otherwise pay on such retained gains. Special rules apply with respect to the dividends paid deduction for amounts distributed in liquidation of a REIT. The IRS might assert that stockholder distributions associated with the dispositions of our assets are liquidating distributions even if we have not formally adopted a plan of liquidation. If the IRS were successful, or if we otherwise fail to satisfy the rules applicable to liquidating distributions from REITs, we might not be entitled to a dividends paid deduction for such stockholder distributions and we would be subject to corporate income tax on such gains even if such gains were distributed to our stockholders.

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 our stockholders. 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2013, we owned direct and indirect investments in 43 properties. These properties consisted of 30 U.S. office properties, one industrial property in Dallas, Texas and a portfolio of 12 grocery-anchored shopping centers located in five states primarily in the southeastern United States. These properties contain, in the aggregate, 19.4 million square feet of leasable space, and we believe each property is suitable for its intended purpose. The following tables provide summary information regarding the properties in which we owned interests as of December 31, 2013.

Property	City	Date Acquired/ Acquisition Cost (in millions)	Leasable Square Feet	Percent Leased	Our Effective Ownership ⁽¹⁾
Directly-owned Properties					
321 North Clark	Chicago, Illinois	4/2006; \$247.3	889,744	85%	100%
Citymark	Dallas, Texas	8/2005; \$27.8	218,926	66%	100%
4050/4055 Corporate Drive . . .	Dallas, Texas	5/2008; \$42.8	643,429	85%	100%
JPMorgan Chase Tower	Dallas, Texas	11/2007; \$289.6	1,253,615	80%	100%
345 Inverness Drive	Denver, Colorado	12/2008; \$25.7	175,287	69%	100%
Arapahoe Business Park	Denver, Colorado	12/2008; \$40.8	309,450	89%	100%
2100 Powell	Emeryville, California	12/2006; \$144.9	345,892	75%	100%
2555 Grand	Kansas City, Missouri	2/2008; \$155.8	595,607	100%	100%
3 Huntington Quadrangle	Melville, New York	7/2007; \$87.0	407,912	95%	100%
Airport Corporate Center	Miami, Florida	1/2006; \$156.8	1,018,428	79%	100%
Minneapolis Office/Flex Portfolio ⁽²⁾	Minneapolis, Minnesota	9/2007; \$87.0	770,139	80%	100%
3400 Data Drive	Rancho Cordova, California	11/2006; \$32.8	149,703	100%	100%
Daytona Buildings	Redmond, Washington	12/2006; \$99.0	251,313	100%	100%
Laguna Buildings	Redmond, Washington	1/2007; \$118.0	460,661	97%	100%
1515 S Street	Sacramento, California	11/2005; \$66.6	399,636	99%	100%
1900 and 2000 Alameda	San Mateo, California	6/2005; \$59.8	254,145	95%	100%
Seattle Design Center	Seattle, Washington	6/2007; \$56.8	390,684	62%	100%
5th and Bell	Seattle, Washington	6/2007; \$72.2	197,135	49%	100%
Total for Directly-Owned Properties			8,731,706	84%	
Indirectly-owned Properties					
Core Fund Properties					
One Atlantic Center	Atlanta, Georgia	7/2006; \$305.0	1,100,312	80%	24%
The Carillon Building	Charlotte, North Carolina	7/2007; \$140.0	473,897	77%	24%
Charlotte Plaza	Charlotte, North Carolina	6/2007; \$175.5	628,948	92%	24%
One North Wacker	Chicago, Illinois	3/2008; \$540.0	1,373,754	95%	12%
333 West Wacker	Chicago, Illinois	4/2006; \$223.0	857,397	80%	19%
Renaissance Square	Phoenix, Arizona	12/2007; \$270.9	965,508	74%	24%
Riverfront Plaza	Richmond, Virginia	11/2006; \$277.5	951,616	81%	24%
Wells Fargo Center	Sacramento, California	5/2007; \$224.0	507,138	83%	19%
525 B Street	San Diego, California	8/2005; \$116.3	449,180	80%	24%
The KPMG Building	San Francisco, California	9/2004; \$148.0	379,328	97%	24%
101 Second Street ⁽³⁾	San Francisco, California	9/2004; \$157.0	388,370	89%	24%
720 Olive Way	Seattle, Washington	1/2006; \$83.7	300,710	85%	19%
Warner Center	Woodland Hills, California	10/2006; \$311.0	808,274	88%	19%
Total for Core Fund Properties			9,184,432	85%	

Property	City	Date Acquired/ Acquisition Cost (in millions)	Leasable Square Feet	Percent Leased	Our Effective Ownership ⁽¹⁾
Grocery-Anchored Portfolio ⁽⁵⁾					
Cherokee Plaza	Atlanta, Georgia	11/2008; ⁽⁴⁾	102,864	97%	70%
Bellaire Boulevard Center	Bellaire, Texas	11/2008; ⁽⁴⁾	35,081	100%	70%
Thompson Bridge Commons . .	Gainesville, Georgia	3/2009; \$15.3	92,587	97%	70%
Champions Village	Houston, Texas	11/2008; ⁽⁴⁾	392,967	93%	70%
King's Crossing	Kingwood, Texas	11/2008; ⁽⁴⁾	126,397	97%	70%
Sandy Plains Exchange	Marietta, Georgia	2/2009; \$12.4	72,784	93%	70%
Commons at Dexter Lakes	Memphis, Tennessee	11/2008; ⁽⁴⁾	228,796	88%	70%
Mendenhall Commons	Memphis, Tennessee	11/2008; ⁽⁴⁾	88,108	97%	70%
University Palms Shopping Center	Oviedo, Florida	11/2008; ⁽⁴⁾	99,172	100%	70%
Shoppes at Parkland	Parkland, Florida	3/2009; \$27.7	145,720	94%	70%
Oak Park Village	San Antonio, Texas	11/2008; ⁽⁴⁾	64,287	95%	70%
Heritage Station	Wake Forest, North Carolina	1/2009; \$10.8	68,641	96%	70%
Total for Grocery-Anchored Portfolio			<u>1,517,404</u>	<u>94%</u>	
Total for All Properties			<u><u>19,433,542</u></u>	<u>85%</u> ⁽⁶⁾	

- (1) This percentage shows the effective ownership of the Operating Partnership in the properties listed. On December 31, 2013, Hines REIT owned a 93.8% interest in the Operating Partnership as its sole general partner. Affiliates of Hines owned the remaining 6.2% interest in the Operating Partnership. In addition, we owned an approximate 28.8% non-managing general partner interest in the Core Fund as of December 31, 2013. The Core Fund does not own 100% of its properties; its ownership interest in its properties ranges from 42.2% to 82.8%.
- (2) In March 2014, we sold a building in the Minneapolis Office/Flex Portfolio and in January 2014 we entered into a contract to sell the remaining properties in the portfolio. We expect this transaction to close in the second quarter of 2014. The contract sales price of the entire portfolio, which we acquired in September 2007 for a net contract purchase price of \$87.0 million, is \$76.1 million.
- (3) In January 2014, the Core Fund sold 101 Second Street, which the Core Fund acquired in September 2004 for a contract purchase price of \$157.0 million, for a contract sales price of \$297.5 million.
- (4) These properties were originally purchased as part of a portfolio that included eight properties for a purchase price of \$205.1 million.
- (5) In January 2014, we completed the Grocery-Anchored Portfolio Transaction. The four Grocery-Anchored Portfolio properties distributed to Weingarten were Bellaire Boulevard Center, King's Crossing, Commons at Dexter Lakes and Mendenhall Commons. See Note 16 — Subsequent Events for additional information regarding the Grocery-Anchored Portfolio Transaction.
- (6) This amount represents the percentage leased assuming we own a 100% interest in each of these properties. The percentage leased based on our effective ownership interest in each property is 85%.

Lease Expirations

Directly-Owned Properties

The following table lists, on an aggregate basis, all of the scheduled lease expirations and related expiring base rents for each of the years ending December 31, 2014 through December 31, 2023 and thereafter for the 18 properties we owned directly as of December 31, 2013. The table 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	—	1,386,407	15.9%	\$ —	— %
2014	109	435,071	5.0%	\$ 5,901,872	4.6%
2015	99	802,438	9.2%	\$15,359,511	12.0%
2016	86	593,956	6.8%	\$12,788,038	10.0%
2017	66	894,407	10.2%	\$14,822,942	11.6%
2018	82	1,275,464	14.6%	\$13,295,571	10.4%
2019	26	570,915	6.5%	\$11,732,810	9.2%
2020	20	452,180	5.2%	\$ 7,937,516	6.2%
2021	13	388,949	4.5%	\$ 6,317,142	4.9%
2022	11	437,352	5.0%	\$ 8,623,054	6.7%
2023	9	365,573	4.2%	\$ 6,226,672	4.9%
Thereafter	18	1,128,994	12.9%	\$24,900,678	19.5%

Indirectly-Owned Properties

The following table lists all of the scheduled lease expirations and related expiring base rents for each of the years ending December 31, 2014 through December 31, 2023 and thereafter for the 25 properties in which we owned an indirect interest as of December 31, 2013, excluding 101 Second Street, which was deemed held for sale by the Core Fund as of December 31, 2013. The table shows the approximate leasable square feet represented by the applicable lease expirations represents a 100% interest in each of the properties:

Year	Number of Leases	Leasable Area		Annual Base Rental Income of Expiring Leases	Percent Total Annual Base Rental Income
		Approximate Square Feet	Percent of Total Leasable Area		
Vacant	—	1,458,546	14.1%	\$ —	— %
2014	96	815,277	7.9%	\$13,173,846	6.6%
2015	63	829,294	8.0%	\$19,407,920	9.7%
2016	63	685,867	6.7%	\$16,487,340	8.3%
2017	65	907,188	8.8%	\$24,413,204	12.2%
2018	35	671,979	6.5%	\$13,314,029	6.7%
2019	29	514,754	5.0%	\$11,933,225	6.0%
2020	20	379,081	3.7%	\$ 9,387,579	4.7%
2021	19	733,940	7.1%	\$18,986,302	9.5%
2022	14	672,374	6.5%	\$19,336,031	9.7%
2023	5	258,917	2.5%	\$ 7,215,590	3.6%
Thereafter	31	2,386,249	23.2%	\$46,157,158	23.0%

All Properties

The following table lists our pro-rata share of the scheduled lease expirations and related expiring base rents for each of the years ending December 31, 2014 through December 31, 2023 and thereafter for all of the properties in which we owned an interest as of December 31, 2013, excluding 101 Second Street, which was deemed held for sale by the Core Fund as of December 31, 2013. The table 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 ⁽¹⁾		
Vacant	—	1,773,062	14.7%	\$ —	— %
2014	205	731,553	6.1%	\$ 9,788,745	5.4%
2015	162	1,088,731	9.0%	\$20,971,433	11.5%
2016	149	859,163	7.1%	\$20,554,479	11.2%
2017	131	1,183,108	9.8%	\$21,409,045	11.7%
2018	117	1,680,086	13.9%	\$18,410,165	10.1%
2019	55	721,768	6.0%	\$15,521,350	8.5%
2020	40	529,620	4.4%	\$ 9,820,704	5.4%
2021	32	627,113	5.2%	\$10,651,609	5.8%
2022	25	588,665	4.9%	\$12,384,034	6.8%
2023	14	429,718	3.6%	\$ 7,751,853	4.2%
Thereafter	49	1,854,667	15.3%	\$35,659,562	19.4%

(1) These amounts represent our pro-rata share based on our effective ownership in each of the properties as of December 31, 2013.

Market Concentration

The following table provides a summary of the market concentration of our portfolio based on the estimated aggregate value of our real estate investments (including our pro rata share of real estate assets through our investments in other entities such as the Core Fund) of each of the properties in which we owned interests as of December 31, 2013, excluding 101 Second Street, which was deemed held for sale by the Core Fund as of December 31, 2013:

Market	Market Concentration: Directly-Owned Properties	Market Concentration: Indirectly-Owned Properties ⁽¹⁾	Market Concentration: All Properties
Seattle, Washington	18%	3%	14%
Dallas, Texas	21%	— %	14%
Chicago, Illinois	14%	20%	14%
San Francisco, California . .	11%	11%	9%
Miami, Florida	7%	*	7%
Kansas City, Missouri	9%	— %	6%
Sacramento, California	6%	6%	6%
Atlanta, Georgia	— %	14%	4%
New York, New York	4%	— %	3%
Minneapolis, Minnesota . . .	5%	— %	3%
Houston, Texas	— %	4%	3%
Charlotte, North Carolina . .	— %	10%	3%
Denver, Colorado	5%	— %	3%
Richmond, Virginia	— %	8%	3%
Phoenix, Arizona	— %	7%	3%
Los Angeles, California . . .	— %	8%	2%
Memphis, Tennessee	— %	1%	1%
San Diego, California	— %	5%	1%
Orlando, Florida	— %	*	*
Raleigh, North Carolina . . .	— %	*	*
San Antonio, Texas	— %	*	*

* Represents less than 1%.

(1) These amounts represent the properties in which we owned an indirect interest through our investments in the Core Fund and the Grocery-Anchored Portfolio as of December 31, 2013. These amounts assume we own a 100% interest in each of the properties.

Industry Concentration

The following table provides a summary of the industry concentration of the tenants of the properties in which we owned interests based on our pro-rata share (unless otherwise noted) of their leased square footage as of December 31, 2013, excluding 101 Second Street, which was deemed held for sale by the Core Fund as of December 31, 2013:

Industry	Industry Concentration: Directly-Owned Properties	Industry Concentration: Indirectly-Owned Properties ⁽¹⁾	Industry Concentration: All Properties
Legal	16%	32%	18%
Finance and Insurance	12%	21%	13%
Manufacturing	11%	*	9%
Grocery-Anchored Retail	— %	14%	8%
Information and Technology	10%	3%	8%
Professional Services	8%	6%	7%
Health Care	7%	*	6%
Government	6%	6%	6%
Wholesale Trade	5%	*	4%
Arts, Entertainment and Recreation . . .	4%	— %	3%
Retail	4%	*	3%
Other Services	4%	*	3%
Accounting	2%	7%	3%
Transportation and Warehousing	3%	*	2%
Education Services	2%	3%	2%
Construction	3%	*	2%
Real Estate	2%	2%	2%
Administrative and Support Services . .	1%	1%	1%
Other	*	2%	*

* Represents less than 1%.

(1) These amounts represent the properties in which we owned an indirect interest through our investments in the Core Fund and the Grocery-Anchored Portfolio as of December 31, 2013. These amounts represent a 100% interest in each of the properties.

Item 3. Legal Proceedings

From time to time in the ordinary course of business, the Company or its subsidiaries may become subject to legal proceedings, claims or disputes. As of March 28, 2014, neither the Company nor any of its subsidiaries was 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, 2013, we had 229.2 million common shares that were outstanding, held by a total of approximately 55,400 stockholders. The number of stockholders is based on the records of our registrar and transfer agent. There currently is no established public trading market for our common shares and we do not expect one to develop. On November 25, 2013, our board of directors established a new estimated per share value of our common stock of \$6.40 and a new per-share redemption price of our common stock \$5.45, which reflects a reduction from the offering price of primary shares in our most recent public offering (which closed in December 2009) of \$10.08.

In order for Financial Industry Regulatory Authority ("FINRA") members and their associated persons to participate in the offering and sale of our common shares, we are required pursuant to FINRA Rule 5110(f)(2)(M) to disclose in each annual report distributed to our stockholders a per share estimated value of the common shares, the method by which it was developed and the date of the data used to develop the estimated value. In addition, our Advisor has agreed 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 common shares. For these purposes, the estimated value of the shares is deemed to be \$6.40 per share as of December 31, 2013. Our new estimated per share net asset value ("NAV") was determined utilizing the guidelines established by the Investment Program Association Practice Guideline 2013-01 – "Valuation of Publicly Registered, Non-Listed REITs" issued April 29, 2013. Our deemed estimated per share value 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 estimated value, or the method used to establish such value, complies with the ERISA or IRS requirements.

Methodology

We engaged Cushman & Wakefield, Inc. ("Cushman") and CBRE Group, Inc. ("CBRE"), independent third-party real estate advisory and consulting services firms, to provide, or cause their subsidiaries to provide, appraised values of our real estate investments as of September 30, 2013. These appraisals were performed in accordance with the Appraisal Foundation's Uniform Standards of Professional Appraisal Practice. Cushman and CBRE have extensive experience in conducting appraisals and valuations on real properties and each of the appraisals was prepared by personnel who are members of the Appraisal Institute and have the Member of the Appraisal Institute designation. Additionally, we engaged Jones Lang LaSalle Incorporated ("JLL"), an independent third-party real estate advisory and consulting services firm, to provide values of our debt obligations as of September 30, 2013.

As shown in the table below, our board of directors determined the estimated per share NAV by (i) utilizing the appraised values of our real estate property investments and adding our other assets comprised of cash, restricted cash, tenant and other receivables, distribution receivable and other assets less other liabilities which includes accounts payable and accrued expenses, due to affiliates, other liabilities and distributions payable, (ii) subtracting the values of our debt obligations, as well as amounts related to noncontrolling interests, and (iii) dividing the total by 229 million common shares outstanding, resulting in an estimated per share NAV of \$6.40. As described above, the appraised values of our real estate property investments and the values of our debt obligations were determined as of September 30, 2013. The values of the other tangible assets and liabilities described above were determined based on their cost as of September 30, 2013 and included certain pro forma adjustments primarily related to: (i) the issuance of additional shares of our common stock through our dividend reinvestment plan on October 1, 2013, (ii) shares redeemed pursuant to our share redemption plan on October 1, 2013, and (iii) the anticipated effect of the Grocery-Anchored Portfolio Transaction. Other than those

adjustments described above, we did not make additional adjustments related to our actual or anticipated operations for the period from October 1, 2013 through December 31, 2013. Additionally, the calculation of the estimated per share NAV excluded certain items on our unaudited balance sheet that were determined to have no future value or economic impact on the valuation. Examples of such items include receivables related to straight-line rental revenue. Other items were excluded because they were already considered elsewhere in the valuation. Examples of such items include intangible lease assets and liabilities related to our real estate property investments and costs incurred for capital expenditures that were considered in the appraised values of our real estate property investments and the fair values of interest rate swaps, as they were considered in the valuation of our debt.

The aggregate appraised value of our real estate property investments was \$2,093.7 million, including amounts attributable to unconsolidated subsidiaries, which represents a 20% decrease compared to the net purchase price plus any capital expenditures of the real estate property investments incurred from inception through September 30, 2013 of \$2,606.0 million.

The table below sets forth the calculation of our estimated NAV and estimated per share NAV:

	<u>Estimated Value (in thousands)</u>	<u>Per Share</u>
Real estate investments, including unconsolidated subsidiaries	\$2,093,700	\$ 9.14
Cash and other assets, net of other liabilities	259,804	1.13
Debt obligations	(795,434)	(3.47)
Noncontrolling interests	(92,238)	(0.40)
Estimated value / value per share	<u><u>\$1,465,832</u></u>	<u><u>\$ 6.40</u></u>

Real estate investments, including unconsolidated subsidiaries - The appraisal values provided by Cushman and CBRE, or their subsidiaries, were primarily determined using methodologies that are commonly used in the commercial real estate industry (including discounted cash flow analysis and reviews of current, historical and projected capitalization rates for properties comparable to those owned by the Company) and assume a 9 to 13-year holding period. Other key assumptions that were used in the discounted cash flow analysis are set forth in the following table:

	<u>Range</u>	<u>Weighted Average</u>
Exit capitalization rate	5.5% – 9.0%	6.9%
Discount rate/internal rate of return	6.0% – 10.0%	7.8%

Cash and other assets, net of other liabilities - Cash and other assets and liabilities were valued based on the amounts recorded for reporting purposes less estimated reserves for doubtful accounts.

Debt obligations - We engaged JLL to provide values of our debt obligations as of September 30, 2013. Such values were based on estimates of current interest rates and leverage levels for similar obligations and then marked to market.

Noncontrolling interests - The value of interests owned by affiliates of Hines was determined based on their interest in each of the items described above. As of September 30, 2013, Hines 2005 VS I LP, an affiliate of Hines, owned a 0.5% interest in the Operating Partnership. Additionally, as of September 30, 2013, HALP Associates Limited Partnership, another affiliate of Hines, owned a 5.5% profits interest (the “Participation Interest”) in the Operating Partnership and we owned the remaining 94.0% interest in the Operating Partnership as of September 30, 2013.

Liquidity discount - No liquidity discounts or discounts relating to the fact that we are externally managed were applied to the estimated per-share valuation and no attempt was made to value us as an enterprise.

The primary drivers of the change in the estimated per share value from \$6.75 in March 2013 to \$6.40 in November 2013 are as follows:

- \$0.18 per share net increase in the aggregate value of our real estate investments since our prior valuation in November 2012, which represents a 1.1% net increase in value;
- \$0.36 per share reduction resulting from capital expenditures made since our prior valuation in November 2012 primarily related to leasing capital at our properties;
- \$0.13 per share reduction resulting from costs paid in relation to loan defeasance, swap breakage on the prepayment of debt, financing fees and expenses incurred and changes in the estimated fair value of our debt since our prior valuation in November 2012; and
- \$0.06 per share reduction related to an increase in the value of the noncontrolling interests since our prior valuation in November 2012, which is primarily attributable to Hines' continued reinvestment of asset management fees in us through the Participation Interest.

Based on the information above, and in consultation with our advisor, the Advisor, our board of directors unanimously agreed upon an estimated per share value of \$6.40, which is consistent with the Advisor's recommendation.

Limitations of the Estimated Per Share Value

As with any valuation methodology, the methodology used to determine the estimated per share NAV 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 per share NAV that could be significantly different from the estimated per share NAV determined by our board of directors. 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 1.8%. 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 2.2%.

The estimated per share NAV determined by our board of directors does not represent the fair value of our assets less liabilities in accordance with U.S. generally accepted accounting principles ("GAAP"), and such estimated per share NAV is not a representation, warranty or guarantee that (i) a stockholder would be able to realize the estimated share value if such stockholder attempts to sell his or her shares; (ii) a stockholder would ultimately realize distributions per share equal to the estimated per share NAV upon our liquidation or sale; (iii) shares of our common stock would trade at the estimated per share NAV on a national securities exchange; (iv) a third party would offer the estimated per share NAV in an arm's-length transaction to purchase all or substantially all of our shares of common stock; or (v) the methodologies used to estimate the value per share would be acceptable to FINRA. In addition, we can make no claim as to whether the estimated value will or will not satisfy the applicable annual valuation requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Internal Revenue Code of 1986, as amended (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 our shares.

Further, the estimated per share NAV was calculated as of a moment in time, and, although the value of our common shares will fluctuate over time as a result of, among other things, developments related to individual assets, changes in the real estate and capital markets, sales of assets, the distribution of sales proceeds to our stockholders and changes in corporate policies such as our distribution level relative to earnings, we do not undertake to update the estimated per share NAV on a regular basis. As a result, stockholders should not rely on

the estimated per share NAV as being 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 reinvest distributions by participating in the dividend reinvestment plan and whether to request redemption under our share redemption program.

Shares were offered pursuant to our dividend reinvestment plan at a fixed price of \$6.40 per share as of December 31, 2013. The offering price of our shares under our dividend reinvestment plan may not be indicative of the price our stockholders would receive if they sold our shares outside of our share redemption program, if our shares were actively traded or in the case of a liquidation. Because there is no public market for our shares, any sale of our shares would likely be at a substantial discount. Please see “Item 1A. Risk Factors — Investment Risks — *There is currently no public market for our common shares, and we do not presently intend to list the shares on a stock exchange. Therefore, it will likely be difficult for stockholders to sell their shares and, if they are able to sell their shares, they will likely sell them at a substantial discount. The estimated per-share value of our common shares has been established at an amount that is less than the price stockholders paid for their shares in our prior public offerings and may be further adjusted in the future.*”

Distributions

In order to meet the requirements for being treated as a REIT under the Code and to pay regular cash distributions to our stockholders, which is one of our investment objectives, we have declared and expect to continue to declare distributions to stockholders (as authorized by our board of directors) as of daily record dates and aggregate and pay such distributions quarterly. We intend to continue this distribution policy for so long as our board of directors continues to deem this policy to be in our best interests. Beginning July 1, 2010, the annual distribution rate was decreased from \$0.00165699 to \$0.00138082 per share, per day.

With the authorization of our board of directors, we declared distributions in the amount of \$0.00138082 per share, per day through March 31, 2013. With respect to the \$0.00138082 per share, per day distributions declared for July 2011 through March 2013, \$0.00041425 of the per share, per day distributions were designated by us as special distributions which represented a return of a portion of the stockholders’ invested capital and, as such, reduced their remaining investment in us. The special distributions were funded with a portion of the proceeds from sales of investment property. The above designation of a portion of the distributions as special distributions does not impact the tax treatment of the distributions to our stockholders.

On March 25, 2013, we declared a distribution of approximately \$198.0 million, resulting in a distribution to stockholders of \$0.80 per share that was paid during the three months ended June 30, 2013 to all stockholders of record as of April 2, 2013. This distribution was designated by us as a special distribution, which was a return of a portion of the stockholders’ invested capital and, as such, reduced their remaining investment in us. This special distribution represented a portion of the proceeds from the sale of Williams Tower and other strategic asset sales and therefore was not subject to reinvestment pursuant to our dividend reinvestment plan and was paid in cash. In the aggregate, we have declared special distributions totaling \$1.01 per share.

Further, with the authorization of our board of directors, we declared distributions for April 2013 through March 2014. These distributions were or will be calculated based on stockholders of record each day during this period in an amount equal to \$0.00073973 per share, per day and will be paid on the first day of the month following the fiscal quarter to which they relate in cash, or reinvested in stock for those participating in our dividend reinvestment plan. This rate per share, per day, reflects a reduction from the \$0.00138082 per share, per day rate that was declared previously, as described above.

In addition, for the period from July 1, 2011 through December 31, 2012, our Advisor agreed to waive a portion of its monthly cash asset management fee such that the fee was reduced from 0.0625% to 0.0417% (0.75% to 0.50% on an annual basis) of the net equity capital we had invested in real estate investments as of the end of each month. As a result of the waiver of these fees, cash flow from operations that would have been paid

to the Advisor was available to pay distributions to stockholders. This fee waiver is not a deferral and accordingly, these fees will not be paid to the Advisor in cash at any time in the future. For the period from July 1, 2011 through December 31, 2012, this waiver totaled \$7.6 million.

The table below outlines our total distributions declared to stockholders and noncontrolling interests for each of the quarters during the years ended December 31, 2013 and 2012, including the breakout between the distributions paid in cash and those reinvested pursuant to our dividend reinvestment plan (all amounts are in thousands).

<u>Distributions for the Quarters Ended</u>	<u>Stockholders</u>			<u>Noncontrolling Interests</u>
	<u>Cash Distributions</u>	<u>Distributions Reinvested</u>	<u>Total Declared</u>	<u>Total Declared</u>
2013				
December 31, 2013	\$ 9,786	\$ 5,811	\$ 15,597	\$ 75
September 30, 2013	9,769	5,902	15,671	75
June 30, 2013	9,829	5,913	15,742	960
March 31, 2013	214,893	11,175	226,068 ⁽¹⁾	138
Total	\$244,277	\$28,801	\$273,078	\$1,248
2012				
December 31, 2012	\$ 17,801	\$11,631	\$ 29,432 ⁽¹⁾	\$ 140
September 30, 2012	17,513	11,780	29,293 ⁽¹⁾	141
June 30, 2012	17,054	11,783	28,837 ⁽¹⁾	139
March 31, 2012	16,813	11,888	28,701 ⁽¹⁾	139
Total	\$ 69,181	\$47,082	\$116,263	\$ 559

- (1) As stated above, a portion of these distributions were funded using proceeds from sales of investment property, which represents a return of a portion of the stockholders' invested capital. For the years ended December 31, 2013 and December 31, 2012, respectively, \$206.7 million and \$35.0 million of the distributions declared to our stockholders were paid using such sales proceeds.

For the years ended December 31, 2013 and 2012, we funded cash distributions with cash flows from operating activities (8% and 21%, respectively), distributions received from our unconsolidated investments (20% and 20%, respectively) and proceeds from the sales of our real estate investments (72% and 59%, respectively).

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 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 year ended December 31, 2013, 81.3% of the distribution paid were taxable as capital gain dividends and approximately 18.7% were treated as a return of capital for federal income tax purposes. For the year ended December 31, 2012, less than 1% of the distributions paid were taxable as capital gain dividends and approximately 99.4% were treated as a return of capital for federal income tax purposes. The increase in the taxability of the dividend is primarily due to large gains from asset sales in 2013. The amount of distributions paid and taxable portion in each period are not indicative or predictive of amounts anticipated in future periods.

Recent Sales of Unregistered Securities

On September 18, 2013, August 29, 2012 and August 25, 2011, 1,000 restricted common shares were granted to each of our independent directors, Messrs. Thomas A. Hassard (who resigned on December 9, 2013), Lee A. Lahourcade, Stanley D. Levy and Paul B. Murphy Jr. Such shares were granted, as part of their annual compensation for service on our board of directors, without registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon the exemption from registration contained in Section 4(a)(2) of the Securities Act for transactions not involving any public offering.

Share Redemption Program

Our shares of common stock are currently not listed on a national securities exchange and we do not intend to list our shares. In order to provide our stockholders with some liquidity, we instituted a share redemption program at inception. However, on November 30, 2009, our board of directors determined that it was in our best interest to suspend our share redemption program until further notice, except with respect to redemption requests made in connection with the death or disability (as defined in the Code) of a stockholder. On March 25, 2013, our board of directors amended and restated our share redemption program and reinstated the program effective for share redemption requests received on or after April 1, 2013, subject to the conditions and limitations described in the amended and restated share redemption program. The complete text of the amended and restated share redemption program is as follows:

Prior to the time, if any, that our shares are listed on a national securities exchange and subject to the conditions and limitations described in this share redemption program, any shares that have been held by the stockholder for at least one year since the date of their acquisition, and were (i) purchased from us (ii) received through a non-cash transaction, not in the secondary market or (iii) purchased from another stockholder prior to January 11, 2009, may be presented in whole or in part to us for redemption. In connection with such requests, we may, in our discretion, waive the one-year holding period requirement as well as certain other limitations in the circumstances described below. We will not pay our Advisor or its affiliates any fees to complete any transactions under our share redemption program.

To the extent our board of directors determines that it has sufficient available cash flow for redemptions, we intend to accept redemption requests for cash on a quarterly basis; however, our board of directors may determine from time to time to adjust the timing of redemptions upon 30 days’ notice, which will be provided in the form of a Current Report on Form 8-K filed with the SEC and made available on our website (www.hinessecurities.com). The funds available for redemption will generally be limited to the amount of proceeds received from our dividend reinvestment plan in the prior quarter. However, our board of directors may approve requests for redemptions in excess of this amount, as long as the total amount redeemed does not exceed the amount required to redeem 10% of our shares outstanding as of the same date in the prior calendar year. In the event of a redemption request in connection with the death or disability (as defined in the Code) of a stockholder, we may waive the one-year holding period requirement as well as the annual limitation on the number of shares that will be redeemed as summarized above. In addition, in the event a stockholder is having all his shares redeemed, the one-year holding requirement will be waived for shares purchased under our dividend reinvestment plan. The board of directors determined to waive the limitation on the share redemption plan and fully honor all eligible requests received for the quarters ended June 30, 2013, September 30, 2013 and December 31, 2013 totaling in the aggregate \$51.2 million, which was in excess of the \$23.0 million received from the dividend reinvestment plan in the prior quarters.

Our board of directors may terminate, suspend or amend our share redemption program and discontinue redemptions at any time without stockholder approval upon 30 days’ written notice if our board of directors believes such action is in our best interest, or if our board of directors determines that the funds otherwise available to fund our share redemption program are needed for other purposes. The written notice will take the form of a Current Report on Form 8-K filed with the SEC and made available on our website.

Any shares that were redeemed in April 2013 pursuant to eligible redemption requests in connection with the death or disability of a stockholder that were received prior to April 1, 2013 were redeemed at a redemption price of \$7.61 per share established in November 2012. Beginning with share redemption requests made during the second and third quarters of 2013, our share redemption price was \$5.75 per share, which was 85% of our revised estimated per share NAV of \$6.75. The redemption price was determined by our board of directors in its sole discretion. As a result of this new estimated per share NAV of \$6.40 established in November 2013, beginning with any eligible redemption requests made during the fourth quarter of 2013, which were aggregated and redeemed on January 1, 2014, ordinary share redemption requests under our share redemption program were and will be redeemed at a price of \$5.45 per share, which is approximately 85% of our new estimated per share NAV of \$6.40. Any shares that are redeemed pursuant to eligible redemption requests in connection with the death or disability of a stockholder will be redeemed at the new estimated per share NAV of \$6.40.

Our board of directors may adjust the per-share redemption price from time to time based on our then-current estimated per share value at the time of the adjustment and such other factors as it deems appropriate, including, but not limited to, the then-current offering price of our shares (if any), our then-current dividend reinvestment plan price and general market conditions. At any time during which we are engaged in an offering of shares, the per-share price for shares purchased under our redemption program will always be equal to or lower than the applicable per-share offering price. Real estate asset and notes payable values fluctuate, which in the future may result in an increase or decrease in our net asset value. Thus, future adjustments to our per share net asset value could result in a higher or lower redemption price. The members of our board of directors must, in accordance with their fiduciary duties, act in a manner they believe is in the best interests of our stockholders when making any decision to adjust the redemption price offered under our share redemption program. Our board of directors will announce any price adjustment and the time period of its effectiveness upon 30 days' notice, which will be provided in the form of a Current Report on Form 8-K filed with the SEC and made available on our website.

All redemption requests must be made in writing and received by us at least five business days prior to the end of the quarter. Stockholders may also withdraw their request to have their shares redeemed. Withdrawal requests must also be made in writing and received by us at least five business days prior to the end of the quarter. If the number of shares subject to redemption requests exceeds the limitations described above, or our board of directors determines that available cash flow is insufficient to meet such requests, we will first redeem in full the shares for which redemption was requested in connection with the death or disability of a stockholder and thereafter the remaining redemption requests will be reduced on a pro rata basis and the unfulfilled portion of any redemption request will be held and considered for redemption until the next quarter unless the redemption request is withdrawn by the stockholder. Such pending requests will generally be honored on a pro rata basis with any new redemption requests received in the applicable quarter, after all redemption requests in connection with the death or disability of a stockholder have been honored in their entirety. We cannot guarantee that we will accommodate all requests made in any quarter. If we cannot accommodate all requests in a given quarter, stockholders may withdraw their redemption request.

Commitments by us to repurchase shares will be communicated either telephonically or in writing to each stockholder who submitted a redemption request at or promptly (no more than five business days) after the fifth business day following the end of each quarter. We will redeem the shares subject to these commitments, and pay the redemption price associated therewith, within three business days following the delivery of such commitments. Stockholders will not relinquish their shares until we redeem them.

Cash used to fund redemptions reduces our liquidity available to fund its cash needs. Shares redeemed under our share redemption program will be cancelled and will have the status of authorized but unissued shares. We will not resell such shares to the public unless such sales are first registered with the SEC under the Securities Act of 1933, as amended, and under appropriate state securities laws or are exempt under such laws. We will terminate our share redemption program in the event that our shares ever become listed on a national securities exchange or in the event a secondary market for our common shares develops.

Issuer Redemptions of Equity Securities

All eligible requests for redemptions were redeemed using proceeds from sales of our assets and our dividend reinvestment plan. The following table lists shares we redeemed under our share redemption plan during the quarter ended December 31, 2013, including the average price paid per share.

Period ⁽¹⁾	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 ⁽²⁾
October 1, 2013 to October 31, 2013	1,970,623	\$5.90	1,970,623	874,402
November 1, 2013 to November 30, 2013	—	N/A	—	874,402
December 1, 2013 to December 31, 2013	—	N/A	—	874,402
Total	<u>1,970,623</u>		<u>1,970,623</u>	

(1) All shares were redeemed on October 1, 2013.

(2) This amount represents the number of shares available for redemption on January 1, 2014. The funds available for redemption are generally limited to the amount of proceeds received from our dividend reinvestment plan. However, our board of directors may approve requests for redemptions in excess of this amount, as long as the total amount redeemed does not exceed the amount required to redeem 10% of our shares outstanding as of the same date in the prior calendar year. In the event of a redemption request in connection with the death or disability of a stockholder, we may waive the annual limitation on the number of shares that will be redeemed.

Item 6. Selected Financial Data

The following selected consolidated financial data are 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:

	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
Operating Data:					
Revenues	\$ 168,108	\$ 172,317	\$ 182,011	\$ 195,173	\$ 221,983
Depreciation and amortization	\$ 51,262	\$ 55,042	\$ 64,519	\$ 70,881	\$ 79,958
Asset management and acquisition fees	\$ 27,970	\$ 29,651	\$ 16,173	\$ 30,544	\$ 27,984
General and administrative expenses	\$ 7,281	\$ 6,874	\$ 6,740	\$ 6,925	\$ 6,108
Income (loss) from continuing operations before benefit (provision) for income taxes, gain on sale of unconsolidated joint venture and equity in earnings (losses) of unconsolidated entities, net	\$ (53,945)	\$ (99,601)	\$ (68,395)	\$ (71,819)	\$ 5,717
Benefit (provision) for income taxes	\$ (274)	\$ (257)	\$ (265)	\$ (312)	\$ (317)
Equity in earnings (losses) of unconsolidated entities, net	\$ 82,468	\$ 9,460	\$ (5,138)	\$ 5,513	\$ (8,777)
Income (loss) from continuing operations attributable to common stockholders	\$ 60,227	\$ (90,238)	\$ (73,942)	\$ (70,051)	\$ (7,127)
Income (loss) from discontinued operations, net of taxes	\$ 304,978	\$ 14,650	\$ 117,712	\$ 31,235	\$ 9,439
Net (income) loss attributable to noncontrolling interests	\$ (1,248)	\$ (559)	\$ (5,014)	\$ (4,524)	\$ (4,065)
Net income (loss) attributable to common stockholders	\$ 348,066	\$ (76,307)	\$ 38,900	\$ (39,907)	\$ 2,620
Basic and diluted income (loss) from continuing operations attributable to common stockholders per common share	\$ 0.26	\$ (0.39)	\$ (0.33)	\$ (0.32)	\$ (0.03)
Distributions declared per common share . .	\$ 0.33	\$ 0.51	\$ 0.50	\$ 0.55	\$ 0.62
Weighted average common shares outstanding - basic and diluted	231,551	230,049	225,442	220,896	207,807
Balance Sheet Data:					
Total investment property	\$1,256,579	\$1,863,434	\$1,950,126	\$2,213,212	\$2,355,872
Investment in unconsolidated entities	\$ 393,695	\$ 329,418	\$ 348,986	\$ 373,798	\$ 379,057
Assets held for sale	\$ —	\$ —	\$ —	\$ —	\$ 42,499
Total assets	\$2,182,723	\$2,767,209	\$2,912,012	\$3,150,016	\$3,339,780
Long-term obligations ⁽¹⁾	\$ 954,743	\$1,517,179	\$1,525,083	\$1,680,178	\$1,712,722

(1) Long-term obligations includes interest rate swap contracts, participation interest liability and notes payable.

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

Hines Real Estate Investment Trust, Inc. ("Hines REIT" and, together with its consolidated subsidiaries, "we", "us" or the "Company") and its subsidiary, Hines REIT Properties, L.P. (the "Operating Partnership") were formed in August 2003 for the purpose of investing in and owning interests in real estate. We have invested in real estate to satisfy our primary investment objectives including preserving invested capital, paying regular cash distributions and achieving modest capital appreciation of our assets over the long term. We have made investments directly through entities wholly owned by the Operating Partnership or indirectly through other entities such as through our investment in the Core Fund. As of December 31, 2013, we had direct and indirect interests in 43 properties. These properties consist of 30 office properties located throughout the United States, one industrial property in Dallas, Texas and a portfolio of 12 grocery-anchored shopping centers located in five states primarily in the Southeastern United States (the "Grocery-Anchored Portfolio"). See "Recent Developments and Subsequent Events" regarding the Grocery-Anchored Portfolio Transaction. In total, we acquired interests in 64 properties since our inception and have sold our interests in 25 of those properties as of March 28, 2014.

In order to provide capital for these investments, we raised approximately \$2.7 billion through public offerings of our common stock, including shares of our common stock offered pursuant to its dividend reinvestment plan, since we commenced our initial public offering in June 2004. In consideration of market conditions and other factors, our board of directors determined to cease sales of our shares to new investors pursuant to our third public offering as of January 1, 2010. However, we have continued to sell shares under our dividend reinvestment plan. Based on market conditions and other considerations, we do not currently expect to commence any future offerings other than those related to shares issued under our dividend reinvestment plan.

In January 2013, we sold our 50% interest in Distribution Park Rio, our indirectly-owned industrial property in Rio de Janeiro, Brazil, which we acquired in June 2007 for an initial investment of \$28.9 million, to an entity partially owned by an affiliate of Hines. We received net proceeds of \$43.3 million from this sale. In addition, in March 2013, we sold Williams Tower for a net contract sales price of \$412.0 million, which we acquired in May 2008 for a net contract purchase price of \$271.5 million. Also, in July 2013, we sold the Raytheon/DIRECTV buildings and One Wilshire for a net contract sales price of \$550.0 million. We originally acquired the Raytheon/DIRECTV buildings and One Wilshire in March 2008 and August 2007, respectively, for a net contract purchase price of \$407.0 million.

We received proceeds of \$919.5 million before retiring \$414.9 million in mortgage loans in relation to these asset sales and paying \$9.8 million in prepayment penalties on the settlement of the mortgage loans. Due to the strategic asset sale of Williams Tower during the first quarter of 2013 as well as the sales of assets in 2010 and 2011, we declared a special distribution of \$198.0 million, resulting in a distribution to stockholders of \$0.80 per share, which was paid during the three months ended June 30, 2013 to all stockholders of record as of April 2, 2013.

Since the conclusion of our third public offering, we have concentrated our efforts on actively managing our assets and exploring a variety of strategic opportunities focused on enhancing the composition of our portfolio and its total return potential for our stockholders. In doing this, we have elected to make strategic dispositions, as discussed above, which have provided us with additional liquidity. With the proceeds we have received from

these dispositions and that we may receive from potential future dispositions, we may choose to make additional strategic acquisitions, such as the purchase of the Howard Hughes Center, which we acquired in January 2014, or we may choose to reserve for future capital expenditure and leasing capital needs, reduce our leverage in the portfolio, make additional special distributions or use the proceeds for other purposes. With the acquisition of the Howard Hughes Center and the effect of the Grocery-Anchored Portfolio Transaction, our portfolio is now geographically located 48% in the West, 19% in the Midwest, 8% in the East and 25% in the South.

Additionally, on March 25, 2013, our board of directors amended and restated our share redemption program and reinstated the program effective for share redemption requests received on or after April 1, 2013, subject to the conditions and limitations described in the amended and restated share redemption program. In connection with the reopening of our share redemption program, we have redeemed \$43.8 million in shares and have \$12.9 million in accounts payable and accrued expenses as of December 31, 2013 related to shares tendered for redemption and approved by the board of directors, but which were redeemed on January 1, 2014.

Our portfolio was 85% and 88% leased as of December 31, 2013 and December 31, 2012, respectively. The reduction in our percentage leased is due to the sale of our highly-leased assets in 2013. Our management closely monitors the portfolio's lease expirations for each of the years ended December 31, 2014 through December 31, 2018, are expected to approximate 6.1%, 9.0%, 7.1%, 9.8% and 13.9%, respectively, of leasable square feet. We believe this level of expirations is manageable, and we will remain focused on filling tenant vacancies with high-quality tenants in each of the markets in which we operate. Although we continue to lease our properties to a diverse tenant base over a variety of industries, our portfolio is approximately 18% leased to approximately 129 companies in the legal industry and approximately 13% leased to approximately 164 companies in the financial and insurance industries.

In November 2013, we established an estimated value per share of \$6.40, which was a reduction from our previously established values per share of \$6.75 in March 2013 and \$7.61 established in November 2012. While we experienced a 1.1% net increase in values across our real estate investments, the increase in capital expenditures made since our prior valuation in November 2012 related to leasing capital at our properties and the increase in costs paid in relation to loan defeasance, swap breakage on the prepayment of debt and financing fees further reduced our estimated value per share. Please see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" for a description of how our board of directors determined the estimated per share value in November 2013.

We pay distributions to our stockholders on a quarterly basis. With the authorization of our board of directors, we declared distributions in the amount of \$0.00138082 per share, per day from July 2010 through March 2013. With respect to the \$0.00138082 per share, per day distributions declared for July 2011 through March 2013, \$0.00041425 of the per share, per day distributions were designated by the Company as special distributions which represented a return of a portion of the stockholders' invested capital and, as such, reduced their remaining investment in the Company. The special distributions were funded with a portion of the proceeds from sales of investment property.

On March 25, 2013, we declared a special distribution of approximately \$198.0 million, resulting in a distribution to stockholders of \$0.80 per share that was paid during the three months ended June 30, 2013 to all stockholders of record as of April 2, 2013, which is reflected in the table below. This distribution was designated by us as a special distribution, which was a return of a portion of the stockholders' invested capital and, as such, reduced their remaining investment in Hines REIT. The special distribution represents a portion of the proceeds from the sale of Williams Tower and other strategic asset sales. The special distribution was not subject to reinvestment pursuant to our dividend reinvestment plan and was paid in cash. In the aggregate, we have declared special distributions totaling \$1.01 per share.

Further, with the authorization of our board of directors, we declared distributions for April 2013 through March 2014. These distributions were or will be calculated based on stockholders of record each day during this

period in an amount equal to \$0.00073973 per share, per day and will be paid on the first day of the month following the fiscal quarter to which they relate in cash, or reinvested in stock for those participating in our dividend reinvestment plan. This rate per share, per day, reflects a reduction from the \$0.00138082 per share, per day rate that was declared previously, as described above.

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. Each of our critical accounting policies involves the use of estimates that require management to make judgments that are subjective in nature. Management relies on its experience, collects historical and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. 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.

Basis of Presentation

Our consolidated financial statements included in this annual report include the accounts of Hines REIT and the Operating Partnership (over which Hines REIT exercises financial and operating control) and the Operating Partnership's wholly-owned subsidiaries as well as the related amounts of noncontrolling interests. All intercompany balances and transactions have been eliminated in consolidation.

We evaluate the need to consolidate investments based on standards set forth by GAAP. Our joint ventures are evaluated based upon GAAP to determine whether or not the investment qualifies as a variable interest entity ("VIE"). If the investment qualifies as a VIE, an analysis is then performed to determine if we are the primary beneficiary of the VIE by reviewing a combination of qualitative and quantitative measures including analyzing the expected investment portfolio using various assumptions to estimate the net income from the underlying assets. The projected cash flows are then analyzed to determine whether or not we are the primary beneficiary by analyzing if we have both the power to direct the entity's significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. In addition to this analysis, we also consider the rights and decision making abilities of each holder of variable interest entity. We will consolidate joint ventures 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 significant control over major operating decisions, such as approval of budgets, selection of property managers, asset management, investment activity and changes in financing.

Our investments in partially owned real estate joint ventures and partnerships are reviewed for impairment periodically if events or circumstances change indicating that the carrying amount of its investments may not be recoverable. In such an instance, we will record an impairment charge if we determine that a decline in the value of an investment below its fair value is other than temporary. Our analysis will be dependent on a number of factors, including the performance of each investment, current market conditions, and our intent and ability to hold the investment to full recovery. Based on our analysis of the facts and circumstances at each reporting period, no impairment was recorded related to our investments in the Core Fund and the Grocery-Anchored Portfolio for the years ended December 31, 2013, 2012, and 2011. Further, no impairment was recorded related to our investment in Distribution Park Rio for the years ended December 31, 2012 and 2011. We sold our investment in Distribution Park Rio in January 2013. However, if market conditions deteriorate in the future and result in lower valuations or reduced cash flows of our investments, impairment charges may be recorded in future periods.

Investment Property and Lease Intangibles

Real estate assets that we own directly are stated at cost 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 our 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 we believe 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, 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, no later than 12 months from 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 we 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, we evaluate 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 estimated 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 were initially recorded at their estimated fair value as of the assumption date, and the difference between such estimated fair value and the note's outstanding principal balance is amortized to interest expense over the life of the mortgage note payable.

Real estate assets are reviewed for impairment 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 of each property on an undiscounted basis to the carrying amount of such property. Such carrying amount would be adjusted, if necessary, to estimated fair values to reflect impairment in the value of the asset.

During the year ended December 31, 2013, we determined that four of our directly-owned investment properties located in El Segundo, California, Miami, Florida, Minneapolis, Minnesota and Dallas, Texas were impaired, since the projected undiscounted cash flows for these properties were less than their carrying

values. As a result, an impairment loss of \$33.9 million (which excludes \$4.0 million that is recorded in discontinued operations) was recorded to write down the carrying value of these assets to their fair values for the year ended December 31, 2013. During the year ended December 31, 2012, we determined that three of our directly-owned investment properties located in Minneapolis, Minnesota, Melville, New York and Seattle, Washington were impaired, since the projected undiscounted cash flows for these properties were less than their carrying values. As a result, an impairment loss was recorded related to those certain properties of \$53.5 million to write down the carrying value of these assets to their fair value for the year ended December 31, 2012. During the year ended December 31, 2011, no impairment loss were recorded for our directly-owned investment properties. If market conditions deteriorate or if management's plans for certain properties change, additional impairment charges could be required in the future.

During the year ended December 31, 2013, no impairment losses were recorded related to our indirectly-owned properties. During the year ended December 31, 2012, impairment losses of \$90.1 million were recorded related to seven of our indirectly-owned properties, five of which were located in the suburban area outside of Sacramento, California and two of which were located in Charlotte, North Carolina. Additionally, during the year ended December 31, 2011, impairment losses of \$101.1 million were recorded related to five of our indirectly-owned properties located in the suburban area of Sacramento, California. Four of the five indirectly-owned properties in the suburban area of Sacramento, California were sold in December 2012 and the fifth property was returned to the lender in January 2013. See Note 5 — Investments in Unconsolidated Entities for additional information.

Deferred Leasing Costs

Direct leasing costs, primarily consisting of third-party leasing commissions and tenant inducements, 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.

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: 1) whether the lease stipulates how and on what a tenant improvement allowance may be spent; 2) whether the tenant or landlord retains legal title to the improvements; 3) the uniqueness of the improvements; 4) the expected economic life of the tenant improvements relative to the term of the lease; and 5) 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. 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.

Treatment of Management Compensation, Expense Reimbursements and Operating Partnership Participation Interest

We outsource management of our operations to the Advisor and certain other affiliates of Hines. Fees related to these services are accounted for based on the nature of the service and the relevant accounting literature. Fees for services performed that represent period costs are expensed as incurred. Such fees include acquisition fees and asset management fees paid to the Advisor and property management fees paid to Hines. In addition to cash payments for acquisition fees and asset management fees paid to the Advisor, an affiliate of the Advisor has received a profits interest ("the Participation Interest") in the Operating Partnership related to these services. Pursuant to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (the "Partnership Agreement"), the holder of the Participation Interest has the right to request the repurchase of the Participation Interest from us at any time, subject to a one-year holding period. We determine if the Participation Interest will be converted into cash or common shares except in the event that the Advisor is terminated by us. In the event that we terminate the Advisor, the holder of the Participation Interest may determine to have the Participation Interest repurchased in cash or common shares. Currently, it is our expectation that the Participation Interest will ultimately be settled in cash. Accordingly, the Participation Interest obligation has been classified as a liability in the accompanying consolidated balance sheets based on the estimated settlement value of this ownership interest plus any unpaid distributions, instead of equity, since it is probable that its ultimate settlement will be in the form of cash. The determination of the adjustment for the Participation Interest is subject to significant judgment.

The conversion and redemption features of the participation interest are accounted for in accordance with GAAP. Redemptions of the Participation Interest for cash will be accounted for as a reduction to the liability discussed above to the extent of such liability. Conversions into common shares of the Company will be recorded as an increase to the outstanding common shares and additional paid-in capital accounts and a corresponding reduction in the liability discussed above. Redemptions and conversions of the Participation Interest will result in a corresponding reduction in the ownership percentage of the Operating Partnership attributable to the Participation Interest and will have no impact on the calculation of subsequent increases in the Participation Interest.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued guidance on disclosures about offsetting assets and liabilities. This guidance results in enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. The adoption of this guidance was effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The adoption of this guidance did not have a material effect on our financial statements.

In October 2012, FASB clarified and relocated guidance in the Accounting Standards Codification ("ASC" or the "Codification"), corrected unintended application of guidance and made minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Amendments made to the Codification without transition guidance are effective upon issuance and amendments subject to transition guidance were effective for fiscal periods beginning after December 15, 2012. This guidance did not have a material impact on our financial statements.

In February 2013, FASB issued guidance to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The adoption of this guidance was effective for interim and annual periods beginning after December 15, 2012. The adoption of this guidance did not have a material effect on our financial statements.

In February 2013, FASB issued amendments to provide guidance on the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not believe the adoption of this guidance will have a material impact on our financial statements.

In March 2013, FASB issued guidance on releasing cumulative translation adjustments when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. In addition, these amendments provide guidance on the release of cumulative translation adjustments in partial sales of equity method investments. The guidance is effective on a prospective basis for fiscal years and interim reporting periods within those years beginning after December 15, 2013. We do not believe the adoption of this guidance will have a material impact on our financial statements.

In July 2013, FASB issued amendments to the Codification to provide guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. We do not believe the adoption of this guidance will have a material impact on our financial statements.

Financial Condition, Liquidity and Capital Resources

General

Our principal cash requirements are for property-level operating expenses, capital improvements and leasing costs, debt service, corporate-level general and administrative expenses, distributions and redemptions. We have four primary sources of capital for meeting our cash requirements:

- proceeds from our dividend reinvestment plan;
- debt financings, including secured or unsecured facilities;
- proceeds from the sale of our properties; and
- cash flow generated by our real estate investments and operations.

We are focused on maintaining a strong cash position and managing our capital needs. Historically, our liquidity needs were primarily met through cash flow generated by our properties and distributions from unconsolidated entities. However, due to our ability to execute on several strategic asset sales, an increasing portion of our liquidity needs were met and will continue to be met through the sale of our investment properties. If we continue to sell significant assets and do not reinvest the proceeds in additional investments, it will reduce the cash flow generated by our properties and may adversely impact our ability to pay regular distributions to our stockholders at the current distribution rate. Below is a list of properties sold by us and the Core Fund during 2013:

Hines REIT Asset Sales

- *One Wilshire / Raytheon/DIRECTV buildings* - In July 2013, we sold the Raytheon/DIRECTV buildings and One Wilshire for a contract sales price of \$550.0 million, from which we received net proceeds of \$266.5 million. The Raytheon and DIRECTV buildings comprise a two-building office complex in the South Bay submarket in El Segundo, California, and One Wilshire is an office building and retail space with a subterranean parking garage located in Los Angeles, California.

- *Williams Tower* - In March 2013, we sold Williams Tower, an office building and adjacent garage located in the Galleria/West Loop submarket of Houston, Texas, from which we received net proceeds of \$228.4 million.
- *Distribution Park Rio* - In January 2013, we sold our 50% interest in Distribution Park Rio, our indirectly-owned industrial property in Rio de Janeiro, Brazil, to an affiliate of Hines, from which we received net proceeds of \$43.3 million.

Core Fund Asset Sales

- *New York Trust Assets* - In June 2013, the Core Fund received net proceeds of \$894.6 million from the sale of 425 Lexington, 499 Park Avenue and 1200 19th Street (collectively, the “New York Trust Assets”). Both 425 Lexington and 499 Park Avenue are located in midtown Manhattan, New York and 1200 19th Street is located in the Golden Triangle in Washington, D.C.’s central business district. At the date of disposition, we owned an 11% effective interest in the New York Trust Assets. The Core Fund paid us a distribution in the amount of \$81.3 million in August 2013, a majority of which was related to the sale of the New York Trust Assets.

As discussed further below, as a result of strategic asset sales and the increase in additional liquidity, our board of directors reinstated the share redemption program in April 2013, declared a special distribution of approximately \$198.0 million, or \$0.80 per share, as a return of capital to stockholders and, in January 2014, we acquired the Howard Hughes Center, a portfolio of five Class A office buildings and an athletic club located in Los Angeles, California for a contract purchase price of \$506.0 million, exclusive of transaction costs and working capital reserves.

Mortgage Financing

During the years ended December 31, 2013, 2012 and 2011, we were proactive in managing our debt portfolio by repaying or refinancing our outstanding borrowings as they became due or when properties were sold. Our portfolio was 42% leveraged as of December 31, 2013, with 86% of our debt in the form of fixed-rate mortgage loans (some of which are effectively fixed through the use of interest rate swaps). By comparison, our portfolio was 49% leveraged as of December 31, 2012. This leverage percentage is calculated using the estimated market value of our real estate investments (including our pro-rata share of real estate assets and related debt owned through our investments in other entities such as the Core Fund), cash and cash equivalents and restricted cash on hand as of that date. See “Cash Flows from Financing Activities — Debt Financing” for additional information regarding our financing activity during the years ended December 31, 2013, 2012 and 2011.

As of January 15, 2014, our portfolio was 48% leveraged as a result of our outstanding borrowings made to acquire the Howard Hughes Center. See “Recent Developments and Subsequent Events” for additional information regarding these borrowings and our acquisition of the Howard Hughes Center. We expect to replace the outstanding borrowings made in connection with the Howard Hughes Center acquisition with a permanent revolving credit facility although there can be no assurances that we will obtain such a facility.

Cash Flows from Operating Activities

Our direct investments in real estate assets generate cash flow in the form of rental revenues, which is reduced by debt service, direct leasing costs and property-level operating expenses. 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 have incurred corporate-level debt service, general and administrative expenses, asset management and acquisition fees.

Cash flows from operating activities decreased by \$2.7 million in 2013 compared to 2012 primarily due to increased deferred leasing costs paid out in the current period offset by \$43.2 million in distributions received from the Core Fund that was recorded in operating cash flows up to the amount of our equity in earnings in the Core Fund since inception.

Cash flows from operating activities increased by \$15.5 million in 2012 compared to 2011 primarily due to decreased deferred leasing costs paid out during 2012.

Other items that also negatively impacted our operating cash flows were the sale of Atrium on Bay in 2011, the sales of Williams Tower, One Wilshire and the Raytheon/DIRECTV buildings in 2013 and adverse effects of the economic recession on commercial real estate fundamentals and the corresponding reduction in our operating results. To the extent we continue to sell properties, our operating cash flow may decrease.

Cash Flows from Investing Activities

Net cash provided by investing activities was \$875.0 million, \$15.0 million and \$129.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. During the years ended December 31, 2013 and 2011, cash flows from investing activities were primarily generated through sales of our properties and there were no sales of our directly-owned properties during 2012. We have described certain other transactions below which may be helpful in understanding changes in our investing cash flows during the years ended December 31, 2013, 2012 and 2011.

Sales of Investment Property

The following list summarizes our sales of investment properties for the years ended December 31, 2013, 2012 and 2011:

- In July 2013, we received proceeds of \$526.1 million from the sale of One Wilshire and the Raytheon/DirectTV buildings before retiring \$249.8 million in related mortgage loans and \$9.8 million in prepayment penalties on the settlement of the mortgage loans.
- In March 2013, we received proceeds of \$393.4 million from the sale of Williams Tower before retiring a related \$165.0 million mortgage loan.
- In January 2013, we received net proceeds of \$43.3 million from the sale of our 50% interest in Distribution Park Rio.
- In June 2011, we received proceeds of \$128.7 million from the sale of Atrium on Bay, net of transaction costs, assumption of related mortgage debt by the purchaser and local taxes. Additionally, we received proceeds of \$11.5 million in 2012 primarily related to the settlement of tax receivables established at the closing of the sale of Atrium on Bay.

Other Investing Cash Flows

The following list summarizes our investing cash flows for the years ended December 31, 2013, 2012 and 2011:

2013

- We contributed \$104.1 million to our joint venture with Weingarten, which was used to repay a \$100.0 million note payable held by the joint venture pursuant to the terms of the agreement to dissolve our joint venture with Weingarten, to retire a loan on one of its properties without a prepayment penalty and to relieve a preferred equity position held by a third-party.
- We paid \$30.0 million related to a deposit on a pending real estate investment that closed in January 2014. See “Recent Developments and Subsequent Events” for additional information regarding our acquisition of the Howard Hughes Center.

- We received distributions from the Core Fund totaling \$94.1 million, of which \$50.9 million was included in cash flows from investing activities as they exceeded our equity in earnings of the joint venture.
- We had cash outflows related to investments in property of \$8.6 million, primarily as a result of capital expenditures at our properties.
- We experienced a decrease in restricted cash of \$1.1 million largely due to the reduction of the mortgage escrow balance that was previously required on the Raytheon/DIRECTV buildings that were sold in 2013.

2012

- We received distributions from the Core Fund totaling \$17.3 million, which were included in cash flows from investing activities as they exceeded our equity in earnings of the joint venture. Beginning with the first quarter of 2009, the Core Fund decreased its distribution to us to pay down debt and improve its liquidity position. However, with strategic asset sales and mortgage refinancing, the Core Fund has improved its liquidity position, which enabled the Core Fund to increase its quarterly distribution to us beginning in the first quarter of 2012.
- We had cash outflows related to investments in property of \$10.2 million, primarily as a result of capital expenditures at our properties.
- In October 2012, we were notified that HSH Nordbank AG, New York Branch (“HSH Nordbank”) had completed its appraisals of the properties serving as collateral under our secured credit facility and provided additional collateral in the amount of \$9.9 million to rebalance the portfolio, which is classified as restricted cash in the consolidated balance sheet.

2011

- In May 2011, we replaced the HSH Nordbank collateral deposit with a letter of credit from the Bank of Montreal. As collateral for the letter of credit, the Company posted a cash deposit of \$107.0 million with the Bank of Montreal, which is classified as restricted cash in the consolidated balance sheet.
- We had cash outflows related to investments in property of \$8.5 million, primarily as a result of capital expenditures at our properties.
- We received distributions from the Core Fund totaling \$3.5 million, which were included in cash flows from investing activities as they exceeded our equity in earnings of the joint venture.

Cash Flows from Financing Activities

Redemptions

During the years ended December 31, 2013, 2012 and 2011, we funded redemptions of \$43.8 million, \$12.6 million and \$11.7 million, respectively, pursuant to the terms of our share redemption program. On March 25, 2013, our board of directors amended and restated our share redemption program to reinstate the program, effective for share redemption requests received on or after April 1, 2013, subject to the conditions and limitations described in the amended and restated share redemption program. Generally, funds available for redemption are limited to the amount of proceeds received from our dividend reinvestment plan in the prior quarter. However, our board of directors has the discretion to redeem shares in excess of this amount if it determines there are sufficient available funds and it is appropriate to do so as long as the total amount redeemed does not exceed the amount required to redeem 10% of our shares outstanding as of the same date in the prior calendar year. Our board of directors determined to waive this limitation on the share redemption plan and fully honor all eligible requests received for the quarters ended June 30, 2013, September 30, 2013 and December 31,

2013, which were in excess of the \$23.0 million received in the aggregate from the dividend reinvestment plan in the prior quarters. Please see Part II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Share Redemption Program.

Distributions

With the authorization of our board of directors, we declared distributions in the amount of \$0.00138082 per share, per day through March 2013. With respect to the \$0.00138082 per share, per day distributions declared for July 2010 through March 2013, \$0.00041425 of the per share, per day distributions were designated by us as special distributions which represented a return of a portion of the stockholders' invested capital and, as such, reduced their remaining investment in us. The special distributions were funded with a portion of the proceeds from sales of investment property. The above designation of a portion of the distributions as special distributions does not impact the tax treatment of the distributions to our stockholders.

On March 25, 2013, we declared a distribution of approximately \$198.0 million, resulting in a distribution to stockholders of \$0.80 per share that was paid during the three months ended June 30, 2013 to all stockholders of record as of April 2, 2013, which is reflected in the table below. This distribution was designated by us as a special distribution, which was a return of a portion of the stockholders' invested capital and, as such, reduced their remaining investment in Hines REIT. The special distribution represents a portion of the proceeds from the sale of Williams Tower and other strategic asset sales. The special distribution was not subject to reinvestment pursuant to our dividend reinvestment plan and was paid in cash. In the aggregate, we have declared special distributions totaling \$1.01 per share.

Further, with the authorization of our board of directors, we declared distributions for April 2013 through March 2014. These distributions were or will be calculated based on stockholders of record each day during this period in an amount equal to \$0.00073973 per share, per day and will be paid on the first day of the month following the fiscal quarter to which they relate in cash, or reinvested in stock for those participating in our dividend reinvestment plan. This rate per share, per day, reflects a reduction from the \$0.00138082 per share, per day rate that was declared previously, as described above.

The table below outlines our total distributions declared to stockholders and noncontrolling interests for each of the years ended December 31, 2013, 2012 and 2011, including the breakout between the distribution paid in cash and those reinvested pursuant to our dividend reinvestment plan (all amounts are in thousands).

Years Ended	Stockholders			Noncontrolling Interests
	Cash Distributions	Distributions Reinvested	Total Declared ⁽¹⁾	Total Declared ⁽¹⁾
December 31, 2013	\$244,277	\$28,801	\$273,078 ⁽²⁾	\$1,248
December 31, 2012	\$ 69,181	\$47,082	\$116,263	\$ 559
December 31, 2011	\$ 64,734	\$48,890	\$113,624	\$5,014

- (1) As stated above, a portion of the total distributions declared were designated by us as special distributions and funded using proceeds from sales of investment property, which represents a return of a portion of the stockholders and noncontrolling interests' invested capital. For the year ended December 31, 2013, \$206.7 million of our distributions declared were designated as special distributions, \$198.0 million of which related to the one-time \$0.80 per share special distribution described above. For the years ended December 31, 2012 and 2011, \$35.0 million and \$18.1 million of the total distributions declared to our stockholders and non-controlling interests were paid using such sales proceeds.
- (2) Excluded from this table are ordinary distributions declared with respect to the Participation Interest (as discussed further in Note 9 — Related Party Transactions). Included in the \$273.1 million amount declared above is the \$10.0 million special distribution declared in March 2013 to the Participation Interest.

For the years ended December 31, 2013, 2012 and 2011, we funded cash distributions with cash flows from operating activities (8%, 21% and 7%, respectively), distributions received from our unconsolidated investments (20%, 20% and 8%, respectively) and proceeds from the sales of our real estate investments (72%, 59% and 85%, respectively).

Debt Financings

We use debt financing from time to time for property improvements, tenant improvements, leasing commissions and other working capital needs. Most of our debt is in the form of secured mortgage loans, which we entered into at the time each real estate asset was acquired. As of December 31, 2013, our debt financing had a weighted average interest rate of 5.0% (including the effect of interest rate swaps) compared to a weighted average interest rate of 5.6% (including the effect of interest rate swaps) as of both December 31, 2012 and 2011. Additionally, as of December 31, 2013 our portfolio was approximately 42% leveraged compared with 49% and 55% leveraged, at December 31, 2012 and 2011, respectively. This leverage percentage is calculated using the estimated market value of our real estate investments (including our pro rata share of real estate assets through our investments in other entities such as the Core Fund), cash and cash equivalents and restricted cash on hand as of that date.

The following list summarizes our debt financings for the years ended December 31, 2013, 2012 and 2011:

2013

- We made payments of \$436.5 million related to our loans secured by One Wilshire, JPMorgan Chase Tower, Minneapolis Office/Flex Portfolio, 2555 Grand and Seattle Design Center.
- We received proceeds of \$360.0 million related to the refinancing of the One Wilshire and JPMorgan Chase Tower secured mortgages and an \$86.0 million bridge loan (the “JPMorgan Chase Bridge Loan”) from JPMorgan Chase Bank, N.A. (“JPMorgan Chase”).
- As a result of the prepayment of debt at the Seattle Design Center, we paid a prepayment penalty of \$5.4 million.
- We made payments of \$414.9 million related to our loans secured by Williams Tower, One Wilshire and the Raytheon/DIRECTV buildings upon the sale of these assets.
- As a result of the prepayment of debt on One Wilshire and the Raytheon/DIRECTV buildings, we paid prepayment penalties of \$9.8 million.
- We made payments of \$86.0 million related to borrowings under the JPMorgan Chase Bridge Loan. The JPMorgan Chase Bridge Loan expired in October 2013 and we did not renew it upon its expiration. See “Recent Developments and Subsequent Events” for additional information regarding our new Acquisition Credit Agreement with JPMorgan Chase.
- We made payments of \$32.0 million related to borrowings under our revolving credit facility with KeyBank. Our revolving credit facility with KeyBank expired in February 2013 and we elected not to renew or replace the facility.
- We made payments of \$3.9 million for financing costs related to our loans.

2012

- We made payments of \$45.0 million related to our loan secured by Minneapolis Office/Flex Portfolio funded partially using borrowings of \$32.0 million pursuant to our revolving credit facility.

2011

- We received debt proceeds of \$43.0 million and made payments of \$43.0 million related to borrowings under our revolving credit facility.

- We received debt proceeds of \$120.0 million and made payments of \$109.8 million related to our mortgage refinancings on Airport Corporate Center and 1515 S. Street.

See “Mortgage Financing” above for further discussion on our mortgage financing.

Year ended December 31, 2013 compared to the year ended December 31, 2012

Results of Operations

Our operations resulted in net income of \$349.3 million for the year ended December 31, 2013 as compared to net loss of \$75.7 million for the year ended December 31, 2012. The primary reason for this variance was due to the following:

- We recognized an aggregate gain of \$310.4 million from the sales of Williams Tower, One Wilshire and the Raytheon/DIRECTV buildings;
- Our equity in earnings increased compared to 2012 due to the sale of the New York Trust Assets whereby we recognized a gain of \$79.0 million;
- We recognized a gain on derivative instruments of \$33.6 million compared to a gain of \$8.7 million in 2012;
- We incurred a loss of \$9.8 million on debt defeasance charges related to the sale of the Raytheon/DIRECTV buildings;
- We incurred a loss of \$5.4 million related to the swap breakage costs on the prepayment of debt; and
- We had a decrease in depreciation and amortization expense due to fully amortized in-place lease intangibles.

Below is additional information regarding our results of operations for 2013 and 2012.

Results for our Directly-Owned Properties

As of December 31, 2013, we owned 18 properties directly that were 84% leased as of each of December 31, 2013 and 2012. The average effective annual rent per square foot (defined as the gross rent amounts after the effect of tenant concessions including any free rent divided by the total number of square feet) for the same store properties is approximately \$18.19 per square foot as of December 31, 2013 as compared to \$18.68 per square foot as of December 31, 2012.

The following table presents the same store property-level revenues and expenses for the year ended December 31, 2013, as compared to the same period in 2012. See “Discontinued Operations” below for additional information regarding our property dispositions. All amounts are in thousands, except for percentages:

	Years Ended December 31,		Change	
	2013	2012	\$	%
Property revenues in excess of expenses of same store properties				
Property revenues	\$168,108	\$172,317	\$ (4,209)	(2.4)%
Less: property expenses ⁽¹⁾	82,843	80,297	2,546	3.2%
Total property revenues in excess of expenses of same store properties	\$ 85,265	\$ 92,020	\$ (6,755)	(7.3)%
Other				
Depreciation and amortization	\$ 51,262	\$ 55,042	\$ (3,780)	(6.9)%
Impairment losses	\$ 33,878	\$ 53,483	\$(19,605)	(36.7)%
Interest expense	\$ 47,453	\$ 55,987	\$ (8,534)	(15.2)%
Interest and other income, net	\$ 779	\$ 736	\$ 43	5.8%
Income tax expense	\$ 274	\$ 257	\$ 17	6.6%

(1) Property expenses include property operating expenses, real property taxes and property management fees.

- The decrease in property revenues is primarily due to the expiration of a lease with a major tenant at 2100 Powell and 5th and Bell. As of December 31, 2013, 2100 Powell was 75% leased compared to 100% leased prior to the expiration of the lease with its major tenant and 5th and Bell was 49% leased as of December 31, 2013, compared to 99% leased prior to the expiration of the lease with its major tenant.
- During 2012 and 2013, we remained committed to leasing up our properties, and as a result incurred deferred lease costs, which are amortized over the life of the lease as a reduction to rental revenue. In 2013, this amortization was significantly higher than in 2012 due to significant lease costs at 321 North Clark and Three Huntington Quadrangle, which also resulted in a reduction of property revenues.
- The increase in property expenses is primarily due to increased property taxes in the current year at our directly-owned properties in Chicago, Illinois.
- Depreciation and amortization decreased due to fully amortized in-place lease intangibles.
- Interest expense decreased as a result of lower interest rates obtained through the above-mentioned debt refinancings and retirement of loans.
- During 2013, we determined that four of our directly-owned investment properties located in El Segundo, California, Miami, Florida, Minneapolis, Minnesota and Dallas, Texas were impaired, as a result of the net book value being less than the projected cash flows of these properties. Accordingly, we recorded an impairment charge of \$33.9 million (which excludes \$4.0 million that is recorded in discontinued operations) to write the carrying value of these assets down to fair value.
- During 2012, we determined that three of our directly-owned investment properties located in Minneapolis, Minnesota, Melville, New York and Seattle, Washington, respectively, were impaired, as a result of the net book value being less than the projected cash flows of these properties. Accordingly, we recorded an impairment charge of \$53.5 million to write the carrying value of these assets down to fair value.

Additionally, we are continually evaluating each of our investments to determine the ideal time to sell assets in order to achieve attractive total returns and provide additional liquidity to the Company. As a result of future potential disposals and other factors, our results of operations for the year ended December 31, 2013 could differ from our results of operations in future periods.

Discontinued Operations

In July 2013, we sold the Raytheon/DIRECTV buildings and One Wilshire, which the Company acquired in March 2008 and August 2007, respectively, for a net contract purchase price of \$407.0 million. The Raytheon and DIRECTV buildings comprise a two-building office complex in the South Bay submarket in El Segundo, California, and One Wilshire is an office building with retail space and a subterranean parking garage located in Los Angeles, California. The net contract sales price was \$550.0 million.

In March 2013, we sold Williams Tower, an office building with an adjacent parking garage located in the Galleria/West Loop submarket of Houston, Texas, which it acquired in May 2008 for a net contract purchase price of \$271.5 million. The net contract sales price was \$412.0 million.

In June 2011, we sold Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada, which we acquired in February 2007. The contract sales price for Atrium on Bay was \$344.8 million CAD (\$353 million USD, based on the exchange rate in effect on the date of sale). We acquired Atrium on Bay in February 2007 for 250.0 million CAD (\$215.5 million USD, based on the exchange rate in effect on the date of acquisition).

The results of operations of Atrium on Bay, Williams Tower, One Wilshire and the Raytheon/DIRECTV buildings and the gain realized on these properties for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
	<u>(In thousands)</u>	
Revenues:		
Rental revenue	\$ 32,141	\$ 86,256
Other revenue	7,096	13,258
Total revenues	<u>39,237</u>	<u>99,514</u>
Expenses:		
Property operating expenses	9,689	26,191
Real property taxes	4,383	11,289
Property management fees	905	2,538
Depreciation and amortization	8,308	24,679
Impairment losses	4,006 ⁽¹⁾	—
Total expenses	<u>27,291</u>	<u>64,697</u>
Income (loss) from discontinued operations before interest income (expense), taxes, gain (loss) on settlement of debt and gain (loss) on sale of discontinued operations	<u>11,946</u>	<u>34,817</u>
Interest expense	(6,868)	(22,034)
Interest income	26	35
Benefit (provision) for income taxes	(673)	(232)
Gain (loss) on settlement of debt	<u>(9,839)</u>	<u>—</u>
Income (loss) from discontinued operations before gain (loss) on sale of discontinued operations	<u>(5,408)</u>	<u>12,586</u>
Gain (loss) on sale of discontinued operations	<u>310,386</u>	<u>2,064 ⁽²⁾</u>
Income (loss) from discontinued operations	<u><u>\$304,978</u></u>	<u><u>\$ 14,650</u></u>

- (1) The contract sales price for the Raytheon/DIRECTV buildings was less than their carrying values and, as a result, an impairment loss was recorded for the year ended December 31, 2013 related to these discontinued operations.

- (2) The additional gain on sale of discontinued operations recorded in 2012 is primarily related to the settlement of reserves that were established during the closing of the sale of Atrium on Bay.

Results for our Indirectly-Owned Properties

Our Interest in the Core Fund

As of December 31, 2013, we owned a 28.8% non-managing general partner interest in the Core Fund, which held interests in 13 properties that were 85% leased. As of December 31, 2012, we owned a 27.1% non-managing general partner interest in the Core Fund, which held interests in 17 properties that were 88% leased. Our equity in earnings related to our investment in the Core Fund for the year ended December 31, 2013 was \$80.4 million compared to equity in earnings of \$7.1 million for the year ended December 31, 2012. The change in our equity in earnings (losses) for the year ended December 31, 2013 primarily resulted from the following:

- In June 2013, the Core Fund sold the New York Trust Assets. The Core Fund acquired the New York Trust Assets in August 2003 for a contract purchase price \$581.1 million. The contract sales price was \$1,311.0 million. As a result of the sale of the New York Trust Assets, the Core Fund recognized a gain on sale of \$291.6 million. We recognized a gain of \$79.0 million in relation to this sale which is included in equity in earnings (losses) of unconsolidated entities, net, in the consolidated statements of operations for the year ended December 31, 2013.

Our Interest in the Grocery-Anchored Portfolio

As of December 31, 2013, we owned a 70% non-managing interest in the Grocery-Anchored Portfolio, a portfolio of 12 grocery-anchored shopping centers located in five states primarily in the southeastern United States. Our equity in earnings related to our investment in the Grocery-Anchored Portfolio for the years ended December 31, 2013 and 2012 was insignificant. In January 2014, we completed the Grocery-Anchored Portfolio Transaction. See “Recent Developments and Subsequent Events” for additional information regarding the Grocery-Anchored Portfolio Transaction.

Our Interest in Distribution Park Rio

We owned a 50% non-managing interest in Distribution Park Rio, an industrial property located in Rio de Janeiro, Brazil as of December 31, 2012. Our equity in earnings related to our investment in Distribution Park Rio for the year ended December 31, 2012 was \$2.3 million. During the year ended December 31, 2013, we sold our 50% indirect interest in Distribution Park Rio and recognized a gain of \$16.1 million as a result of the sale. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Executive Summary” for further information.

Corporate Level Activities

Corporate-level activities include results related to derivative instruments, asset management fees, general and administrative expenses as well as other expenses which are not directly related to our property operations.

Derivative Instruments

We have entered into several interest rate swap transactions with HSH Nordbank as economic hedges against the variability of future interest rates on our variable interest rate borrowings. We have not designated any of these contracts as cash flow or fair value hedges for accounting purposes. The interest rate swaps have been recorded at their estimated fair value in the accompanying consolidated balance sheets as of December 31, 2013 and 2012. The gains (losses) on derivative instruments recorded during the years ended December 31, 2013 and 2012 is the result of changes in the fair value of interest rate swaps during each period.

We recorded a gain on derivative instruments of \$33.6 million for the year ended December 31, 2013 compared to gain of \$8.7 million for the year ended December 31, 2012. The increase in gains is due to changes in the values of our interest rate swaps. We expect to hold the underlying investments to their maturities; therefore, the amount currently reflected is not necessarily indicative of the ultimate cash that will be paid out at the maturity date of our interest rate swaps. Additionally, we terminated a portion of the swap agreement with HSH Nordbank as a result of the prepayment of debt at Seattle Design Center and incurred a \$5.4 million breakage fee.

Other Corporate-level Activities

The table below provides detail relating to our asset management and general and administrative expenses for the years ended December 31, 2013 and 2012. All amounts are in thousands, except percentages:

	Years Ended December 31,		Change	
	2013	2012	\$	%
Asset Management Fees	\$27,970	\$29,651	\$(1,681)	(5.7)%
General and Administrative Expenses	7,281	6,874	407	5.9%

We record a liability related to the Participation Interest component of the asset management fees, which is based on the estimated settlement value in the accompanying consolidated balance sheets and remeasured at fair value at each balance sheet date plus any unpaid distributions. The fair value of the Operating Partnership interest underlying the Participation Interest liability is determined based on the estimated NAV in place under our share redemption program as of each balance sheet date. Adjustments required to remeasure this liability at fair value are included in asset management fees in the accompanying consolidated statement of operations. We were required to revalue our Participation Interest liability as a result of the new estimated net asset value per share price determined in November 2013 which decreased our asset management fee by \$4.8 million during the year ended December 31, 2013.

Further, for the period from July 1, 2011 through December 31, 2012, our Advisor agreed to waive a portion of its monthly cash asset management fee, such that the fee was reduced from 0.0625% to 0.0417% (0.75% to 0.50% on an annual basis) of the net equity capital we had invested in real estate investments as of the end of each month. This waiver expired on December 31, 2012, and, as a result, the full amount of the fee was incurred beginning in January 2013 which offset the decrease to the asset management fees discussed above.

General and administrative expenses include legal and accounting fees, insurance costs, costs and expenses associated with our board of directors and other administrative expenses.

Year ended December 31, 2012 compared to the year ended December 31, 2011

Results for our Directly-Owned Properties

We owned 21 properties directly that were 87% leased as of December 31, 2012 compared to 21 properties that were 86% leased as of December 31, 2011. The average effective annual rent per square foot (defined as the gross rent amounts after the effect of tenant concessions including any free rent divided by the total number of square feet) for the same store properties is approximately \$21.90 per square foot as of December 31, 2012 as compared to \$22.49 per square foot as of December 31, 2011. The following table presents the same store property-level revenues and expenses for the year ended December 31, 2012, as compared to the same period in 2011. The following analysis excludes the activity of Atrium on Bay, Williams Tower, One Wilshire and the Raytheon/DIRECTV buildings for both periods because it was sold during 2011. All amounts are in thousands, except for percentages:

	Years Ended December 31,		Change	
	2012	2011	\$	%
Property revenues in excess of expenses of same store properties				
Property revenues	\$172,317	\$182,011	\$ (9,694)	(5.3)%
Less: property expenses ⁽¹⁾	<u>80,297</u>	<u>79,722</u>	<u>575</u>	<u>0.7%</u>
Total property revenues in excess of expenses of same store properties	\$ 92,020	\$102,289	\$(10,269)	(10.0)%
Other				
Depreciation and amortization	\$ 55,042	\$ 64,519	\$ (9,477)	(14.7)%
Impairment losses	\$ 53,483	\$ —	\$ 53,483	— %
Interest expense	\$ 55,987	\$ 59,169	\$ (3,182)	(5.4)%
Interest and other income, net	\$ 736	\$ 507	\$ 229	45.2%
Income tax expense	\$ 257	\$ 265	\$ (8)	(3.0)%

(1) Property expenses include property operating expenses, real property taxes and property management fees.

The decrease in property revenues is primarily due to the decrease in lease termination payments received during 2012 as compared to 2011.

Property expenses increased during the year ended December 31, 2012 as compared to the same period in 2011 primarily due to property tax refunds that reduced property tax expense in 2011. The remaining increase in expenses for the year ended December 31, 2012 is due to inflationary increases in property operating expenses.

Depreciation and amortization decreased during the year ended December 31, 2012 as compared to the same period in 2011 due to fully amortized in-place lease intangibles. Interest expense decreased during the year ended December 31, 2012 as compared to the same period in 2011 as a result of lower interest rates obtained through the above-mentioned financing in 2011.

During the year ended December 31, 2012, we determined that three of our directly-owned investment properties located in Minneapolis, Minnesota, Melville, New York and Seattle, Washington, respectively, were impaired, as a result of the net book value being less than the projected cash flows of these properties. Accordingly, we recorded an impairment charge of \$53.5 million to write the carrying value of these assets down to fair value. There was no impairment loss for our directly-owned properties recorded in 2011.

Additionally, we are continually evaluating each of our investments to determine the ideal time to sell assets in order to achieve attractive total returns and provide additional liquidity to the Company.

Discontinued Operations

On June 1, 2011, we sold Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada, which we acquired in February 2007. The contract sales price for Atrium on Bay was \$344.8 million CAD (\$353 million USD, based on the exchange rate in effect on the date of sale). We acquired Atrium on Bay in February 2007 for 250.0 million CAD (\$215.5 million USD, based on the exchange rate in effect on the date of acquisition).

The results of operations of Atrium on Bay, Williams Tower, One Wilshire and the Raytheon/DIRECTV buildings and the gain realized on this property for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
	<u>(In thousands)</u>	
Revenues:		
Rental revenue	\$ 86,256	\$100,513
Other revenue	<u>13,258</u>	<u>15,470</u>
Total revenues	99,514	115,983
Expenses:		
Property operating expenses	26,191	29,779
Real property taxes	11,289	14,438
Property management fees	2,538	2,947
Depreciation and amortization	24,679	31,769
Impairment losses	<u>—</u>	<u>—</u>
Total expenses	<u>64,697</u>	<u>78,933</u>
Income from discontinued operations before interest income, taxes and gain on sale	<u>34,817</u>	<u>37,050</u>
Interest expense	(22,034)	(26,465)
Interest income	35	40
Benefit (provision) for income taxes	(232)	(154)
Gain (loss) on settlement of debt	<u>—</u>	<u>—</u>
Income from discontinued operations	12,586	10,471
Gain on sale of discontinued operations	2,064 ⁽¹⁾	107,241
Income from discontinued operations	<u><u>\$ 14,650</u></u>	<u><u>\$117,712</u></u>

- (1) The additional gain on sale of discontinued operations recorded in 2012 is primarily related to the settlement of reserves that were established during the closing of the sale of Atrium on Bay.

Results for our Indirectly-Owned Properties

Our Interest in the Core Fund

As of December 31, 2012, we owned a 27.1% non-managing general partner interest in the Core Fund, which held interests in 17 properties that were 88% leased. As of December 31, 2011, we owned a 27.5% non-managing general partner interest in the Core Fund, which held interests in 23 properties that were 87% leased. Our equity in earnings related to our investment in the Core Fund for the year ended December 31, 2012 was \$7.1 million compared to equity in losses of \$7.5 million for the year ended December 31, 2011. The change in our equity in earnings (losses) for the year ended December 31, 2012 primarily resulted from the following:

- In December 2012, the Core Fund sold the Roseville Disposition Group, a portfolio of four properties located in Roseville, California which it acquired in May 2007 for a contract purchase price of \$200.7 million. The contract sales price was \$73.0 million. Additionally, the Core Fund recorded impairment losses of \$17.2 million and \$101.1 million related to the Roseville Disposition Group and Douglas Corporate Center (also located in Roseville, California), during the years ended December 31, 2012 and December 31, 2011, respectively. These impairments resulted in a decrease in our equity in earnings (losses) attributable to our investment in the Core Fund of \$3.1 million and \$18.0 million for the years ended December 31, 2012 and 2011, respectively.
- During the year ended December 31, 2012, the Core Fund recorded an impairment charge of \$72.9 million related two of its properties located in Charlotte, North Carolina: Charlotte Plaza and Carillon. These impairments resulted in a decrease in our equity in earnings (losses) attributable to our investment in the Core Fund of \$16.4 million for the year ended December 31, 2012.
- In August 2012, the Core Fund sold One Shell Plaza and Two Shell Plaza (collectively, “Shell Plaza”), two office properties located in downtown Houston, Texas which it acquired in May 2004 for a contract purchase price of \$351.8 million. The contract sales price was \$550.0 million. As a result of the sale, the Core Fund recognized a \$248.4 million gain on the sale of Shell Plaza. We recognized a gain of \$27.9 million in relation to this sale, which is included in equity in earnings (losses) of unconsolidated entities, net, in the consolidated statements of operations for the year ended December 31, 2012.
- In 2012, a subsidiary of the Core Fund executed two discounted pay-off agreements with lenders concerning the debt secured by One Renaissance Square and Two Renaissance Square, office buildings located in Phoenix, Arizona, to release the Core Fund from all outstanding debt and obligations, including the outstanding principal balances of \$188.8 million, at a discounted amount of \$168.3 million. These discounted pay-off transactions resulted in an increase in the Company’s equity in earnings (losses) attributable to our investment in the Core Fund of \$4.1 million for the year ended December 31, 2012.
- On August 26, 2011, the Core Fund sold Three First National Plaza, an office building located in Chicago, Illinois, which it acquired in March 2005 for a contract purchase price of \$245.3 million. The contract sales price was \$344.0 million. As a result of the sale, the Core Fund recognized a gain on sale of \$114.1 million. We recognized a gain of \$20.5 million in relation to this sale, which is included in equity in earnings (losses) of unconsolidated entities, net, in the consolidated statements of operations.

Other items of significance regarding our investment in the Core Fund, but that did not have a direct effect on our equity in earnings in the Core Fund are as follows:

- On December 9, 2011, the Core Fund sold a 49% interest in One North Wacker, an office building located in Chicago, Illinois, which it acquired in March 2008 for a contract purchase price of \$540.0 million. The contract sales price for a 49% interest in One North Wacker was \$298.9 million. The Core Fund did not recognize a gain or loss on the sale due to the carrying amount of the noncontrolling interest being adjusted to reflect the change in ownership of One North Wacker.

Our Interest in the Grocery-Anchored Portfolio

As of December 31, 2012, we owned a 70% non-managing interest in the Grocery-Anchored Portfolio, a portfolio of 12 grocery-anchored shopping centers located in five states primarily in the southeastern United States. Our equity in earnings related to our investment in the Grocery-Anchored Portfolio for the years ended December 31, 2012 and 2011 were insignificant.

Our Interest in Distribution Park Rio

We owned a 50% non-managing interest in Distribution Park Rio, an industrial property located in Rio de Janeiro, Brazil. Our equity in earnings related to our investment in Distribution Park Rio for the years ended December 31, 2012 and 2011 was \$2.3 million and \$2.4 million, respectively. Subsequent to December 31, 2012, we sold our 50% indirect interest in Distribution Park Rio. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Executive Summary for further information.

Corporate Level Activities

Corporate-level activities include results related to derivative instruments, asset management fees, general and administrative expenses as well as other expenses which are not directly related to our property operations.

Derivative Instruments

We have entered into several interest rate swap transactions with HSH Nordbank as economic hedges against the variability of future interest rates on our variable interest rate borrowings. We have not designated any of these contracts as cash flow or fair value hedges for accounting purposes. The interest rate swaps have been recorded at their estimated fair value in the accompanying consolidated balance sheets as of December 31, 2012 and 2011. The gains (losses) on derivative instruments recorded during the years ended December 31, 2012 and 2011 is the result of changes in the fair value of interest rate swaps during each period.

We recorded a gain on derivative instruments of \$8.7 million for the year ended December 31, 2012 compared to losses of \$24.6 million for the year ended December 31, 2011. The increase in gains is due to changes in the values of our interest rate swaps. We expect to hold the underlying investments to their maturities; therefore, the amount currently reflected is not necessarily indicative of the ultimate cash that will be paid out at the maturity date of our interest rate swaps.

Other Corporate-level Activities

The table below provides detail relating to our asset management and general and administrative expenses for the years ended December 31, 2012 and 2011. All amounts are in thousands, except percentages:

	Years Ended December 31,		Change	
	2012	2011	\$	%
Asset Management Fees	\$29,651	\$16,173	\$13,478	83.3%
General and Administrative Expenses	6,874	6,740	134	2.0%

The primary cause of the increase in asset management fees in 2012 is due to our requirement to revalue the Participation Interest liability. We record a liability related to the Participation Interest component of the asset management fees, which is based on the estimated settlement value in the accompanying consolidated balance sheets and remeasured at fair value at each balance sheet date plus any unpaid distributions. The fair value of the Operating Partnership interest underlying the Participation Interest liability is determined based on the redemption price in place under the Company's share redemption program as of each balance sheet date. Adjustments required to remeasure this liability at fair value are included in asset management fees in the accompanying consolidated statement of operations.

As described previously in this report, on May 24, 2011, the board of directors established an estimated value per share and per share redemption price of \$7.78, which reflects a reduction from the prior redemption price of \$9.15. Accordingly, the fair value of the Participation Interest liability as of June 30, 2011 was reduced by \$12.2 million, resulting in a reduction of the asset management fee expense for the year ended December 31, 2011. Further, as described previously in this report, on November 29, 2012, the board of directors established a new estimated value per share and per share redemption price of \$7.61, which reflects a reduction from the previous \$7.78 share price. Accordingly, the fair value of the Participation Interest liability was reduced by \$2.0 million in December 2012.

General and administrative expenses include legal and accounting fees, insurance costs, costs and expenses associated with our board of directors and other administrative expenses.

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 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 modified funds from operations (“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, gains or losses related to fair value adjustments for derivatives not qualifying for hedge accounting, and gains or losses related to early extinguishment of hedges or debt. Some of these adjustments are necessary to address changes in the accounting and reporting rules under GAAP for real estate subsequent to the establishment of NAREIT’s definition of FFO. 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.

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 expenses. Under GAAP, acquisition 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 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 expenses and other costs related to such property. In addition, if we acquire a property, 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 the 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 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.

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.

Management uses MFFO to evaluate the financial performance of our investment portfolio, including the impact of potential future investments. In addition, our board of directors uses MFFO to evaluate and establish our distribution policy and the sustainability thereof.

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:

- We use interest rate swap contracts as economic hedges against the variability of interest rates on variable rate loans. Although we expect to hold these instruments to maturity, if we were to settle these instruments currently, it would have an impact on our operating performance. Additionally, these derivative instruments are measured at fair value on a quarterly basis in accordance with GAAP. MFFO excludes gains (losses) related to changes in these estimated values of our derivative instruments because such adjustments may not be reflective of ongoing operations and may reflect unrealized impacts on our operating performance.
- MFFO excludes acquisition expenses. Although these amounts reduce net income, we are currently funding such costs with sales proceeds and acquisition-related indebtedness and do not consider these fees and expenses in the evaluation of our operating performance and determining MFFO.
- MFFO excludes impairment charges related to long-lived assets that have been written down to current market valuations. Although these losses are included in the calculation of net income (loss), we have excluded them from MFFO because we believe doing so more appropriately presents the operating performance of our real estate investments on a comparative basis.

- 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 table below summarizes FFO and MFFO for the years ended December 31, 2013, 2012 and 2011 and a reconciliation of such non-GAAP financial performance measures to our net income (loss) for the years then ended (in thousands).

	Years Ended December 31,		
	2013	2012	2011
Net income (loss)	\$ 349,314	\$ (75,748)	\$ 43,914
Depreciation and amortization ⁽¹⁾	59,570	79,720	96,289
Gain on sale of investment property and unconsolidated joint venture ⁽²⁾	(316,634)	(2,064)	(107,241)
Impairment on real estate investments ⁽³⁾	37,883	53,483	—
Adjustments to equity in earnings (losses) from unconsolidated entities, net ⁽⁴⁾	(54,572)	22,548	52,172
Adjustments for noncontrolling interests ⁽⁵⁾	(390)	1,305	(3,550)
Funds from operations	75,171	79,244	81,584
(Gain) loss on derivative instruments ⁽⁶⁾	(33,559)	(8,680)	24,590
Other components of revenues and expenses ⁽⁷⁾	16,388	4,866	(2,430)
Acquisition expenses ⁽⁸⁾	330	—	—
Adjustments to equity in earnings (losses) from unconsolidated entities, net ⁽⁴⁾	(3,883)	(4,589)	(18,619)
Adjustments for noncontrolling interests ⁽⁵⁾	1,170	422	(203)
Modified Funds From Operations	<u>\$ 55,617</u>	<u>\$ 71,263</u>	<u>\$ 84,922</u>
Basic and Diluted Income (Loss) Per Common Share	\$ 1.50	\$ (0.33)	\$ 0.17
Funds From Operations Per Common Share	\$ 0.32	\$ 0.34	\$ 0.36
Modified Funds From Operations Per Common Share	\$ 0.24	\$ 0.31	\$ 0.38
Weighted Average Shares Outstanding	231,551	230,049	225,442

- (1) Represents the depreciation and amortization of various 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. This amount includes \$8.3 million, \$24.7 million and \$31.8 million of depreciation and amortization related to discontinued operations for the years ended December 31, 2013, 2012 and 2011, respectively.
- (2) Represents the gain on disposition of certain real estate investments. Although this gain is included in the calculation of net income (loss), we have excluded it from FFO because we believe doing so more appropriately presents the operating performance of our real estate investments on a comparative basis.
- (3) Represents impairment charges recorded during 2013 in accordance with GAAP. Although such impairment charges on operating real estate investments are included in the calculation of net income (loss), we have excluded them from FFO because we believe doing so more appropriately presents the operating

performance of our real estate investments on a comparative basis. This amount includes \$4.0 million of impairment losses related to discontinued operations for the year ended December 31, 2013. See “Results of Operations — Results of Directly-Owned Properties” for additional information regarding our impairment charges.

- (4) Includes adjustments to equity in earnings (losses) of unconsolidated entities, net, similar to those described in Notes 1, 2, 3, 6 and 7 for our unconsolidated entities, which are necessary to convert our share of income (loss) from unconsolidated entities to FFO and MFFO.
- (5) Includes income attributable to noncontrolling interests and all adjustments to eliminate the noncontrolling interests’ share of the adjustments to convert our net income (loss) to FFO and MFFO.
- (6) Represents components of net income (loss) related to the estimated changes in the values of our interest rate swap derivatives. We have excluded these changes in value from our evaluation of our operating performance and MFFO because we expect to hold the underlying instruments to their maturity and accordingly the interim gains or losses will remain unrealized.
- (7) 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, 2013, 2012 and 2011 (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Straight-line rent adjustment (a)	\$ (3,873)	\$ (5,009)	\$ (7,244)
Amortization of lease incentives (b)	16,661	15,432	12,493
Amortization of out-of-market leases (b)	(2,524)	(6,426)	(8,524)
Settlement of derivative instrument (c)	5,374	—	—
Other	750	869	845
	<u>\$16,388</u>	<u>\$ 4,866</u>	<u>\$ (2,430)</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 the operating performance of the Company and in determining MFFO because we believe that the rent that is billable during the current period is a more relevant measure of the Company’s operating performance for such period.
- (b) Represents the amortization of lease incentives and out-of-market leases. As stated in Note 1 above, 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 amortization may be of limited relevance in evaluating current operating performance and, as such, these items are excluded from our determination of MFFO.
- (c) Represents the breakage fee incurred at one of our real estate investments due to the termination of a swap agreement. Although this loss is included in the calculation of net income (loss), we have excluded it from MFFO because we believe doing so more appropriately presents the operating performance of our real estate investments on a comparative basis.
- (8) Represents acquisition expenses that are expensed in our consolidated statements of operations. We fund such costs with sales proceeds and 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:

- Pursuant to the terms of the Grocery-Anchored Portfolio joint venture agreement, for the years ended December 31, 2013, 2012 and 2011, we received distributions of approximately \$0.1 million, \$2.6 million and \$2.9 million in excess of our pro-rata share of the joint venture’s MFFO, respectively.

- Amortization of deferred financing costs was \$3.5 million, \$1.6 million and \$4.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, and was deducted in determining MFFO.
- A portion of our asset management fees are paid in equity through the Participation Interest. For the years ended December 31, 2013, 2012 and 2011, these amounts were \$13.7 million, \$19.4 million and \$3.6 million, respectively.
- During the years ended December 31, 2013, 2012 and 2011, we sold our directly-owned interests in the following properties: (i) Williams Tower in March 2013, (ii) Atrium on Bay in June 2011, and (iii) Raytheon/DIRECTV buildings and One Wilshire in July 2013 and our indirectly-owned interest in Distribution Park Rio in January 2013. For additional information regarding our sales of investment property see “Financial Condition, Liquidity and Capital Resources — Cash Flows from Investing Activities — Sales of Investment Property.”
- During the years ended December 31, 2013, 2012 and 2011, the Core Fund sold its interests in the following properties: (i) New York Trust Assets in June 2013, (ii) Roseville Corporate Center in December 2012, (iii) Shell Plaza in August 2012, (iv) a 49% interest in One North Wacker in December 2011, and (v) Three First National Plaza in August 2011. For additional information regarding the sale of the Core Fund’s properties see “Year ended December 31, 2013 compared to the year ended December 31, 2012 — Results of Our Indirectly-Owned Properties — Our Interest in the Core Fund” and “Year ended December 31, 2012 compared to the year ended December 31, 2011 — Results of Our Indirectly-Owned Properties — Our Interest in the Core Fund.”

Related-Party Transactions and Agreements

We have entered into agreements with the Advisor and Hines or its affiliates, whereby we pay certain fees and reimbursements to these entities, including acquisition fees, selling commissions, dealer manager fees, asset and property management fees, leasing fees, construction management fees, debt financing fees, re-development construction management fees, reimbursement of organizational and offering expenses, and reimbursement of certain operating costs, as described previously. These arrangements are described in more detail in Note 9 — Related Party Transactions to our consolidated financial statements.

Off-Balance Sheet Arrangements

As of December 31, 2013 and December 31, 2012, 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, 2013. Specifically included are our obligations under long-term debt agreements (in thousands):

Contractual Obligation	Payments due by Period				
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Notes payable ⁽¹⁾	\$48,636	\$494,757	\$323,662	\$86,547	\$953,602
Total contractual obligations ⁽²⁾	\$48,636	\$494,757	\$323,662	\$86,547	\$953,602

- (1) Notes payable includes principal and interest payments on mortgage loans outstanding as of December 31, 2013. Interest payments due to HSH Nordbank were determined using effective interest rates which were fixed as a result of interest rate swaps. Under the terms of each swap transaction, we have agreed to make monthly payments at fixed rates of interest and will receive monthly payments from HSH Nordbank based on 1-month LIBOR.

- (2) Excluded from the table above is the settlement of the \$91.4 million liability related to the Participation Interest. Although we expect to settle this liability in the future, we are not currently able to estimate the date on which the settlement will occur. See Note 9 — Related Party Transactions to our consolidated financial statements for additional information.

Recent Developments and Subsequent Events

Grocery-Anchored Portfolio Transaction

In January 2014, we dissolved our joint venture with Weingarten. As a result of the joint venture dissolution, eight of the Grocery-Anchored Portfolio properties were distributed to us and the remaining four Grocery-Anchored Portfolio properties were distributed to Weingarten and an additional \$0.4 million in cash was paid to us by Weingarten. We have not concluded our accounting for this acquisition, but we anticipate that we will no longer account for our investment in the Grocery-Anchored Portfolio as an equity method investment in 2014 and will consolidate the eight properties beginning with the first quarter of 2014. We anticipate that we will recognize a gain from the remeasurement of our investment in the joint venture to its fair value at the acquisition date. We expect that the contract purchase price of these eight properties, which was \$178.2 million, will primarily be allocated to building, land and intangible assets and liabilities.

Howard Hughes Center

In January 2014, we acquired the Howard Hughes Center, a portfolio of five Class A office buildings and an athletic club located in Los Angeles, California. The Howard Hughes Center consists of 1,318,682 square feet of rentable area and is 88% leased. The contract purchase price for the Howard Hughes Center was \$506.0 million, exclusive of transaction costs and working capital reserves. Although we have not concluded on our accounting for this acquisition, we expect that the purchase price of this property will primarily be allocated to building, land and intangible assets and liabilities.

In connection with this acquisition, we were obligated to pay approximately \$5.0 million of acquisition fees to our Advisor, half of which was payable in cash and half of which was payable as an increase to the Participation Interest. Our Advisor and HALP, the holder of the Participation Interest, respectively, agreed to waive \$1.5 million of the cash acquisition fee and all of the \$2.5 million acquisition fee payable as an increase to the Participation Interest.

Loan Activity

In January 2014, a subsidiary of the Operating Partnership entered into an Acquisition Credit Agreement (the “Acquisition Credit Agreement”) with JPMorgan Chase to establish a \$425.0 million unsecured term loan facility (the “Facility”). In connection with the acquisition of the Howard Hughes Center in January 2014, we borrowed the full capacity under the Facility. The Facility has a maturity date of May 15, 2014 with two 30-day extension options. The interest rate as of the date of the initial funding of the loan was 1.76%. Additionally, in connection with the financing, our Advisor agreed to waive the entire \$4.3 million debt financing fee that otherwise would be payable to our Advisor. In February 2014, we paid down \$45.0 million on the Facility.

Minneapolis Office/Flex Portfolio

In March 2014, we sold a building in the Minneapolis Office/Flex Portfolio and in January 2014 we entered into a contract to sell the remaining properties in the portfolio. We expect this transaction to close in the second quarter of 2014. The contract sales price of the entire portfolio, which we acquired in September 2007 for a net contract purchase price of \$87.0 million, is \$76.1 million. The Minneapolis Office/Flex Portfolio is a portfolio of nine office/flex buildings located in the southwest and midway submarkets of Minneapolis, Minnesota. We did not consider this portfolio as held for sale as of December 31, 2013 due to the following: (i) the signing of the purchase and sale agreement (“PSA”) with respect to the sale of the portfolio did not occur until January 2014,

(ii) it is common within the real estate industry for there to be continuous negotiations between the buyer and seller from the initial letter of intent through the contractual closing date, which often result in amendments to the terms of the PSA, and (iii) given the complexities of the due diligence process, it would be unlikely to find another buyer and close on the sale within twelve months should the buyer decide not to purchase the portfolio.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates and equity prices. Interest rate risk is the primary risk in pursuing our business plan.

As of December 31, 2013, we had \$489.0 million of debt outstanding under our HSH credit facility, which is a variable-rate pooled mortgage facility. However, as a result of the interest rate swap agreements entered into with HSH Nordbank, these borrowings effectively bear interest at fixed rates ranging from 5.25% to 6.03%. As of December 31, 2013, we had \$156.8 million in variable rate debt that was not hedged with an interest rate swap. If interest rates were to increase by 1%, we would incur an additional \$1.6 million in interest expense. Please see “Financial Condition, Liquidity and Capital Resources — Cash Flows from Financing Activities — Debt Financings” for more information concerning our outstanding debt.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hines Real Estate Investment Trust, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of Hines Real Estate Investment Trust, Inc. and subsidiaries (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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 Real Estate Investment Trust, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Houston, Texas
March 28, 2014

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	(in thousands, except per share amounts)	
ASSETS		
Investment property, net	\$1,256,579	\$1,863,434
Investments in unconsolidated entities	393,695	329,418
Cash and cash equivalents	133,472	72,230
Restricted cash	119,786	120,886
Distributions receivable	3,888	6,165
Tenant and other receivables, net	44,953	61,373
Intangible lease assets, net	69,911	127,589
Deferred leasing costs, net	125,195	178,116
Deferred financing costs, net	3,272	4,877
Other assets	31,972	3,121
TOTAL ASSETS	<u><u>\$2,182,723</u></u>	<u><u>\$2,767,209</u></u>
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 67,007	\$ 104,665
Due to affiliates	3,686	7,158
Intangible lease liabilities, net	9,846	38,551
Other liabilities	11,128	16,262
Interest rate swap contracts	67,652	101,211
Participation interest liability	91,376	92,404
Distributions payable	15,672	29,573
Notes payable	795,715	1,323,564
Total liabilities	1,062,082	1,713,388
Commitments and contingencies (Note 12)	—	—
Equity:		
Stockholders' equity:		
Preferred shares, \$.001 par value; 500,000 preferred shares authorized, none issued or outstanding as of December 31, 2013 and 2012	—	—
Common shares, \$.001 par value; 1,500,000 common shares authorized, 229,174 and 231,680 common shares issued and outstanding as of December 31, 2013 and 2012, respectively	229	232
Additional paid-in capital	1,150,909	1,433,567
Accumulated deficit	(29,951)	(378,017)
Accumulated other comprehensive income (loss)	(546)	(1,961)
Total stockholders' equity	1,120,641	1,053,821
Noncontrolling interests	—	—
Total equity	<u>1,120,641</u>	<u>1,053,821</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$2,182,723</u></u>	<u><u>\$2,767,209</u></u>

See notes to the consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(In thousands, except per share amounts)		
Revenues:			
Rental revenue	\$158,819	\$163,125	\$173,033
Other revenue	9,289	9,192	8,978
Total revenues	<u>168,108</u>	<u>172,317</u>	<u>182,011</u>
Expenses:			
Property operating expenses	54,429	54,186	54,456
Real property taxes	24,282	22,246	21,378
Property management fees	4,132	3,865	3,888
Depreciation and amortization	51,262	55,042	64,519
Acquisition related expenses	330	—	—
Asset management fees	27,970	29,651	16,173
General and administrative	7,281	6,874	6,740
Impairment losses	33,878	53,483	—
Total expenses	<u>203,564</u>	<u>225,347</u>	<u>167,154</u>
Income (loss) from continuing operations before other income (expenses), benefit (provision) for income taxes, gain on sale of unconsolidated joint venture and equity in earnings (losses) of unconsolidated entities, net	(35,456)	(53,030)	14,857
Other income (expenses):			
Gain (loss) on derivative instruments, net	33,559	8,680	(24,590)
Gain (loss) on settlement of derivative instruments	(5,374)	—	—
Interest expense	(47,453)	(55,987)	(59,169)
Interest income	779	736	507
Income (loss) from continuing operations before benefit (provision) for income taxes, gain on sale of unconsolidated joint venture and equity in earnings (losses) of unconsolidated entities, net	(53,945)	(99,601)	(68,395)
Benefit (provision) for income taxes	(274)	(257)	(265)
Gain (loss) on sale of unconsolidated joint venture	16,087	—	—
Equity in earnings (losses) of unconsolidated entities, net	82,468	9,460	(5,138)
Income (loss) from continuing operations	44,336	(90,398)	(73,798)
Income (loss) from discontinued operations, net of taxes	304,978	14,650	117,712
Net income (loss)	349,314	(75,748)	43,914
Less: Net (income) loss attributable to noncontrolling interests	(1,248)	(559)	(5,014)
Net income (loss) attributable to common stockholders	<u>\$348,066</u>	<u>\$ (76,307)</u>	<u>\$ 38,900</u>
Basic and diluted income (loss) per common share	<u>\$ 1.50</u>	<u>\$ (0.33)</u>	<u>\$ 0.17</u>
Weighted average number of common shares outstanding	<u>231,551</u>	<u>230,049</u>	<u>225,442</u>
Net comprehensive income (loss):			
Net income (loss)	\$349,314	\$ (75,748)	\$ 43,914
Other comprehensive income (loss):			
Foreign currency translation adjustment	1,415	(2,042)	(11,962)
Net comprehensive income (loss)	350,729	(77,790)	31,952
Net comprehensive (income) loss attributable to noncontrolling interests	(1,248)	(559)	(5,014)
Net comprehensive income (loss) attributable to common stockholders	<u>\$349,481</u>	<u>\$ (78,349)</u>	<u>\$ 26,938</u>

See notes to the consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2013, 2012 and 2011
(In thousands)

	Hines Real Estate Investment Trust, Inc.						
	Common Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests
BALANCE							
January 1, 2011	222,795	\$223	\$1,590,488	\$(340,610)	\$12,043	\$1,262,144	\$ —
Issuance of common shares	5,772	6	49,630	—	—	49,636	—
Redemption of common shares	(1,387)	(1)	(11,310)	—	—	(11,311)	—
Distributions declared	—	—	(113,624)	—	—	(113,624)	(5,014)
Other offering costs, net	—	—	(73)	—	—	(73)	—
Net income (loss)	—	—	—	38,900	—	38,900	5,014
Foreign currency translation adjustment	—	—	—	—	(3,071)	(3,071)	—
Reclassification of foreign currency translation adjustment to earnings . . .	—	—	—	—	(8,891)	(8,891)	—
BALANCE							
December 31, 2011	227,180	\$228	\$1,515,111	\$(301,710)	\$ 81	\$1,213,710	\$ —
Issuance of common shares	6,119	6	47,594	—	—	47,600	—
Redemption of common shares	(1,619)	(2)	(12,633)	—	—	(12,635)	—
Distributions declared	—	—	(116,263)	—	—	(116,263)	(559)
Other offering costs, net	—	—	(242)	—	—	(242)	—
Net income (loss)	—	—	—	(76,307)	—	(76,307)	559
Foreign currency translation adjustment	—	—	—	—	(2,042)	(2,042)	—
BALANCE,							
December 31, 2012	231,680	\$232	\$1,433,567	\$(378,017)	\$ (1,961)	\$1,053,821	\$ —
Issuance of common shares	4,752	4	34,644	—	—	34,648	—
Redemption of common shares	(7,258)	(7)	(54,152)	—	—	(54,159)	—
Distributions declared	—	—	(263,106)	—	—	(263,106)	(1,248)
Other offering costs, net	—	—	(44)	—	—	(44)	—
Net income (loss)	—	—	—	348,066	—	348,066	1,248
Foreign currency translation adjustment	—	—	—	—	469	469	—
Reclassification of foreign currency translation adjustment to earnings . . .	—	—	—	—	946	946	—
BALANCE,							
December 31, 2013	<u>229,174</u>	<u>\$229</u>	<u>\$1,150,909</u>	<u>\$ (29,951)</u>	<u>\$ (546)</u>	<u>\$1,120,641</u>	<u>\$ —</u>

See notes to the consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
		(In thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 349,314	\$ (75,748)	\$ 43,914
Adjustments to reconcile net income (loss) to cash from operating activities:			
Depreciation and amortization	76,222	90,853	104,137
(Gain) loss on sale of discontinued operations	(310,386)	(2,064)	(107,241)
(Gain) loss on settlement of debt on sale of discontinued operations	9,839	—	—
Impairment losses	37,884	53,483	—
(Gain) loss on sale of unconsolidated joint venture	(16,087)	—	—
Equity in (earnings) losses of unconsolidated entities, net	(82,468)	(9,460)	5,138
Distributions received from unconsolidated entities	45,281	2,401	2,779
Other losses, net	27	31	31
(Gain) loss on derivative instruments, net	(33,559)	(8,680)	24,590
(Gain) loss on settlement of derivative instruments	5,374	—	—
Net change in operating accounts	(60,034)	(26,673)	(64,735)
Net cash from operating activities	<u>21,407</u>	<u>24,143</u>	<u>8,613</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in unconsolidated entities	(104,059)	—	—
Distributions received from unconsolidated entities in excess of equity in earnings	53,711	23,733	9,970
Investments in property	(8,647)	(10,248)	(8,535)
Proceeds from sale of real estate investments	962,885	11,521	128,709
Change in restricted cash	1,100	(9,971)	(107,064)
Change in cash collateral on notes payable	—	—	106,248
Deposits on investment property	(30,000)	—	—
Net cash from investing activities	<u>874,990</u>	<u>15,035</u>	<u>129,328</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in security deposits	572	476	423
Redemption of common shares	(43,820)	(12,594)	(11,692)
Payments of offering costs	(36)	(258)	(63)
Distributions paid to stockholders and noncontrolling interests	(243,634)	(68,681)	(68,244)
Proceeds from notes payable	446,000	32,000	163,000
Payments on notes payable	(974,936)	(47,339)	(154,155)
Payments on settlement of debt and derivative instruments	(15,213)	—	—
Additions to deferred financing costs	(3,896)	(1,014)	(1,387)
Net cash from financing activities	<u>(834,963)</u>	<u>(97,410)</u>	<u>(72,118)</u>
Effect of exchange rate changes on cash	(192)	17	30
Net change in cash and cash equivalents	61,242	(58,215)	65,853
Cash and cash equivalents, beginning of year	<u>72,230</u>	<u>130,445</u>	<u>64,592</u>
Cash and cash equivalents, end of year	<u>\$ 133,472</u>	<u>\$ 72,230</u>	<u>\$ 130,445</u>

See notes to the consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Hines Real Estate Investment Trust, Inc., a Maryland corporation (“Hines REIT” and, together with its consolidated subsidiaries, the “Company”), was formed on August 5, 2003 under the General Corporation Law of the state of Maryland for the purpose of engaging in the business of investing in and owning interests in real estate. Beginning with its taxable year ended December 31, 2004, the Company 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 Company is structured as an umbrella partnership REIT under which substantially all of the Company’s current and future business is and will be conducted through its majority-owned subsidiary, Hines REIT Properties, L.P. (the “Operating Partnership”). Hines REIT is the sole general partner of the Operating Partnership. Subject to certain restrictions and limitations, the business of the Company is managed by Hines Advisors Limited Partnership (the “Advisor”), an affiliate of Hines Interests Limited Partnership (“Hines”), pursuant to the advisory agreement between the Company and the Advisor.

Public Offering

Hines REIT commenced its initial public offering in June 2004 and has raised approximately \$2.7 billion through three public offerings, including shares of its common stock offered pursuant to its dividend reinvestment plan, since inception. The Company commenced a \$150.0 million offering of shares of its common stock under its dividend reinvestment plan on July 1, 2010, which closed on June 30, 2012, immediately prior to the commencement of the Company’s new \$300.0 million offering of shares of its common stock under its dividend reinvestment plan on July 1, 2012. The Company refers to both offerings of shares under its dividend reinvestment plan collectively as the “DRP Offering.” From inception of the DRP Offering through December 31, 2013, Hines REIT received gross offering proceeds of \$161.0 million from the sale of 19.7 million shares through the DRP Offering. Based on market conditions and other considerations, the Company does not currently expect to commence any future offerings other than those related to shares issued under its dividend reinvestment plan. On January 1, 2014, Hines REIT received gross offering proceeds of \$5.8 million from the sale of 0.9 million shares through the DRP Offering.

Hines REIT contributes all net proceeds from its public offerings to the Operating Partnership in exchange for partnership units in the Operating Partnership. As of December 31, 2013 and December 31, 2012, Hines REIT owned a 93.8% and 94.7%, respectively, general partner interest in the Operating Partnership. Hines 2005 VS I LP, an affiliate of Hines, owned a 0.5% interest in the Operating Partnership as of both December 31, 2013 and December 31, 2012. In addition, another affiliate of Hines, HALP Associates Limited Partnership (“HALP”) owned a 5.7% and 4.8% profits interest (the “Participation Interest”) in the Operating Partnership as of December 31, 2013 and December 31, 2012, respectively. See Note 9 — Related Party Transactions for additional information regarding the Participation Interest.

Investment Property

As of December 31, 2013, the Company owned direct and indirect investments in 43 properties. These properties consisted of 30 U.S. office properties, one industrial property in Dallas, Texas and 12 grocery-anchored shopping centers located in five states primarily in the southeastern United States (the “Grocery-Anchored Portfolio”).

The Company has made investments directly through entities wholly-owned by the Operating Partnership, or indirectly through other entities, such as through its investment in Hines US Core Office Fund LP (the “Core Fund”) in which it owned a 28.8% and 27.1% non-managing general partner interest as of December 31, 2013 and December 31, 2012, respectively. The Company also owned a 70% interest in the Grocery-Anchored Portfolio indirectly through a joint venture with Weingarten Realty Investors (“Weingarten”) as of both

December 31, 2013 and December 31, 2012. The Company accounts for each of these investments using the equity method of accounting. See Note 16 — Subsequent Events regarding the dissolution of the Company's joint venture with Weingarten. As a result of the joint venture dissolution, certain properties in the Grocery-Anchored Portfolio were distributed to the Company and to Weingarten. Collectively, the Company refers to this transaction as the "Grocery-Anchored Portfolio Transaction."

In January 2013, the Company sold its 50% interest in Distribution Park Rio, an industrial property in Rio de Janeiro, Brazil to an affiliate of Hines. As of December 31, 2012, the Company had a 50% interest in Distribution Park Rio, which was also accounted for as an equity method investment until it was sold in 2013. See Note 5 — Investments in Unconsolidated Entities for additional information regarding the Company's investments in unconsolidated entities.

2. Summary of Significant Accounting Policies

Use of Estimates

Our 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 included in this annual report include the accounts of Hines REIT, the Operating Partnership and the Operating Partnership's wholly-owned subsidiaries as well as the related amounts of noncontrolling interest. All intercompany balances and transactions have been eliminated in consolidation.

The Company evaluates the need to consolidate joint ventures in accordance with GAAP. In accordance with GAAP, the Company will consolidate joint ventures that are determined to be variable interest entities for which it is the primary beneficiary. Partially owned real estate joint ventures and partnerships over which the Company has a controlling financial interest are consolidated in its financial statements. In determining if the Company has a controlling financial interest, it considers factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights. Management continually analyzes and assesses reconsideration events, including changes in these factors, to determine if the consolidation treatment remains appropriate. Partially owned real estate joint ventures and partnerships where it does not have a controlling financial interest, but has the ability to exercise significant influence, are accounted for using the equity method.

The Company's investments in partially-owned real estate joint ventures and partnerships are reviewed for impairment periodically. The Company will record an impairment charge if it determines that a decline in the fair value of an investment below its carrying value is other than temporary. The Company's analysis will be dependent on a number of factors, including the performance of each investment, current market conditions, and its intent and ability to hold the investment to full recovery. Based on the Company's analysis of the facts and circumstances at each reporting period, no impairment was recorded related to its investments in the Core Fund and the Grocery-Anchored Portfolio for the years ended December 31, 2013, 2012, and 2011. Further, no impairment was recorded related to the Company's investment in Distribution Park Rio for the years ended December 31, 2012 and 2011. The Company sold its investment in Distribution Park Rio in January 2013 and

recognized a gain of \$16.1 million as a result of the sale. However, if market conditions deteriorate in the future and result in lower valuations or reduced cash flows of the Company's investments, impairment charges may be recorded in future periods.

International Operations

In addition to its properties in the United States, the Company has owned investments in Canada and Brazil. The Company's foreign subsidiaries translated their financial statements into U.S. dollars for reporting purposes. Assets and liabilities were translated at the exchange rate in effect as of the balance sheet date. Income statement amounts were translated using the average exchange rate for the period and significant nonrecurring transactions using the rate on the transaction date. Gains and losses resulting from translation were included in accumulated other comprehensive income as a separate component of stockholders' equity. The Company disposed of its investment in Distribution Park Rio in January 2013 as well as its investment in Toronto, Ontario in June 2011. Upon disposal of these properties, the Company realized a gain or loss related to the currency translation adjustment which was included in the gain on disposal in its consolidated statement of operations. During the year ended December 31, 2013, the Company realized a loss of \$0.9 million related to a currency translation adjustment as a result of the disposal of its indirectly-owned property in Brazil. During the year ended December 31, 2011, the Company realized gains of \$8.9 million related to a currency translation adjustment as a result of the disposal of its directly-owned property in Canada. Accumulated other comprehensive income as of December 31, 2013 is related to remaining non-operating net assets of the disposed directly-owned properties in Brazil and Canada.

Investment Property and Lease Intangibles

Real estate assets that the Company owns directly are stated at cost 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, 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, no later than 12 months from 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 estimated 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 were initially recorded at their estimated fair value as of the assumption date, and the difference between such estimated fair value and the note's outstanding principal balance is amortized to interest expense over the life of the mortgage note payable.

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 cash flows of each property on an undiscounted basis to the carrying amount of such property. If undiscounted cash flows are less than the carrying amount, such carrying amount would be adjusted, if necessary, to estimated fair value to reflect impairment in the value of the asset. See Note 13 — Fair Value Disclosures for additional information regarding our policy for determining fair values of our investment property.

During the year ended December 31, 2013, the Company determined that four of its directly-owned investment properties located in El Segundo, California, Miami, Florida, Minneapolis, Minnesota and Dallas, Texas were impaired, since the projected undiscounted cash flows for these properties were less than their carrying values. As a result, an impairment loss of \$33.9 million (which excludes \$4.0 million that is recorded in discontinued operations) was recorded to write down their carrying values to their fair value for the year ended December 31, 2013. During the year ended December 31, 2012, the Company determined that three of its directly-owned investment properties located in Minneapolis, Minnesota, Melville, New York and Seattle, Washington were impaired, since the projected undiscounted cash flows for these properties were less than their carrying values. As a result, an impairment loss was recorded related to those certain properties of \$53.5 million to write down the carrying value of these assets to their fair value for the year ended December 31, 2012. During the year ended December 31, 2011, no impairment losses were recorded for the Company's directly-owned investment properties. If market conditions deteriorate or if management's plans for certain properties change, additional impairment charges could be required in the future. See Note 13 — Fair Value Disclosures — Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis — Impairment of Investment Property for additional information.

During the year ended December 31, 2013, no impairment loss was recorded related to the Company's indirectly-owned properties. During the year ended December 31, 2012, impairment losses of \$90.1 million were recorded related to seven of the Company's indirectly-owned properties, five of which were located in the suburban area outside of Sacramento, California and two of which were located in Charlotte, North Carolina. Additionally, during the year ended December 31, 2011, impairment losses of \$101.1 million were recorded related to five of the Company's indirectly-owned properties located in the suburban area outside of Sacramento, California. Four of the five properties located in the suburban area outside of Sacramento, California were sold in December 2012 and the fifth property was returned to the lender in January 2013. See Note 5 — Investments in Unconsolidated Entities for additional information.

Cash and Cash Equivalents

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

Restricted Cash

As of December 31, 2013 and December 31, 2012, the Company had restricted cash of \$119.8 million and \$120.9 million, respectively. In May 2011, the Company replaced the HSH Nordbank Collateral deposit with a letter of credit from the Bank of Montreal. As collateral for the letter of credit, the Company posted a cash deposit of \$107.0 million with the Bank of Montreal, which is classified as restricted cash in the consolidated balance sheets. HSH Nordbank has the right to have the properties serving as collateral under the HSH Nordbank credit facility appraised every two years. Subject to this requirement, in October 2012, HSH Nordbank notified the Company that the outstanding principal amounts under the facility exceeded 55% of the appraised values of the properties and therefore the Company would be required to provide additional collateral in the amount of \$9.9 million to rebalance the portfolio. The Company obtained a letter of credit from the Bank of Montreal in October 2012 in order to meet the additional collateral required by HSH Nordbank. As collateral for the letter of credit, the Company posted an additional \$9.9 million cash deposit with the Bank of Montreal.

The remaining balance in restricted cash for each period is related to escrow accounts required by certain of the Company's mortgage agreements.

Concentration of Credit Risk

As of December 31, 2013 and 2012, the Company had cash and cash equivalents and restricted cash 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 or restricted cash. The Federal Deposit Insurance Corporation generally only insures limited amounts per depositor per insured bank.

As of December 31, 2013, the Company had a \$117.2 million deposit held by the Bank of Montreal as collateral for the properties under the Company's pooled mortgage facility. Management regularly monitors the financial stability of this financial institution in an effort to manage its exposure to any significant risk related to its deposit.

Tenant and Other Receivables

Receivable balances outstanding 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 in the consolidated balance sheets, net of allowance for doubtful accounts of \$4.6 million and \$6.1 million at December 31, 2013 and December 31, 2012, respectively.

Deferred Leasing Costs

Deferred leasing costs primarily consist of direct leasing costs such as third-party leasing commissions and tenant inducements. Deferred leasing costs are capitalized and amortized over the life of the related lease. Tenant inducement amortization is recorded as a reduction to rental revenue and the amortization of other direct leasing costs is recorded as a component of amortization expense.

Tenant inducement amortization was \$16.7 million, \$15.4 million and \$12.5 million for the years ended December 31, 2013, 2012 and 2011, respectively, and was recorded as an offset to rental revenue. In addition, the Company recorded \$6.2 million, \$6.6 million and \$5.7 million as amortization expense related to other direct leasing costs for the years ended December 31, 2013, 2012 and 2011, respectively.

Deferred Financing Costs

Deferred financing costs as of December 31, 2013 and 2012 consist of direct costs incurred in obtaining debt financing (see Note 6 — Debt Financing), including the financing fees paid to our Advisor (see Note 9 —

Related Party Transactions). 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, 2013, 2012 and 2011, \$3.5 million, \$1.6 million and \$4.0 million, respectively, of deferred financing costs were amortized into interest expense in the accompanying consolidated statements of operations.

Other Assets

Other assets included the following (in thousands):

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Deposit on investment property (see Note 16 — Subsequent Events)	\$30,000	\$ —
Prepaid insurance	686	972
Prepaid/deferred taxes	517	1,269
Other	769	880
Total	<u>\$31,972</u>	<u>\$3,121</u>

Revenue Recognition

Rental payments are generally paid by the tenants prior to the beginning of each month. As of December 31, 2013 and December 31, 2012, respectively, the Company recorded liabilities of \$6.2 million and \$11.1 million related to prepaid rental payments which were included in other liabilities in the accompanying consolidated balance sheets. The Company recognizes rental revenue on a straight-line basis over the life of the lease including rent holidays, if any. Straight-line rent receivable was \$40.9 million and \$56.2 million as of December 31, 2013 and December 31, 2012, respectively. Straight-line rent receivable consisted 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 and tenant reimbursements. 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

Hines REIT has elected to be treated as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). In addition, as of December 31, 2013 and 2012 the Company owned an investment in the Core Fund, which has invested in properties through other entities that have elected to be taxed as REITs.

Hines REIT's management believes that the Company and the applicable entities in the Core Fund are organized and operate in such a manner as to qualify for treatment as REITs and intend to operate in the foreseeable future in such a manner so that they will remain qualified as REITs for federal income tax purposes. Accordingly, no provision has been made for U.S. federal income taxes in the accompanying consolidated financial statements. In 2013, 2012 and 2011, income tax expense recorded by the Company was primarily comprised of a provision for the Texas margin tax. The Company does not believe it has any uncertain tax positions or unrecognized tax benefits requiring disclosure.

Included in the gain on sale of real estate in Note 4 — Discontinued Operations for the year ended December 31, 2011 is approximately \$7.6 million in Canadian income tax expense related to the sale of Atrium on Bay in June 2011.

Redemption of Common Stock

In March 2013, the Company's board of directors amended and restated the Company's share redemption program to reinstate the program effective for share redemption requests received on or after April 1, 2013 at \$5.75 per share, subject to the conditions and limitations described in the amended and restated share redemption program. Prior to its reinstatement, the share redemption program had been suspended by the board of directors since November 30, 2009, except with respect to redemption requests made in connection with the death or disability (as defined in the Code) of a stockholder. Generally, funds available for redemption are limited to the amount of proceeds received from the Company's dividend reinvestment plan in the prior quarter. However, the board of directors has the discretion to redeem shares in excess of this amount if it determines there are sufficient available funds and it is appropriate to do so as long as the total amount redeemed does not exceed the amount required to redeem 10% of the Company's shares outstanding as of the same date in the prior calendar year. The board of directors determined to waive the limitation on the share redemption plan and fully honor all eligible requests received for the quarters ended June 30, 2013, September 30, 2013 and December 31, 2013 totaling \$51.2 million, which was in excess of the \$23.0 million received from the dividend reinvestment plan in the prior quarters. The Company has recorded liabilities of \$12.9 million and \$2.6 million in accounts payable and accrued expenses in the accompanying consolidated balance sheets as of December 31, 2013 and December 31, 2012, respectively, related to shares tendered for redemption and approved by the board of directors, but which were not redeemed until the subsequent month. Such amounts have been included in redemption of common shares in the accompanying consolidated statements of equity based on a redemption price of \$5.45 per share for ordinary share redemption requests and \$6.40 per share for death and disability redemption requests, which prices were determined in connection with the board of directors' determination of a new net asset value per share in November 2013.

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.

Reclassifications

The Company sold Williams Tower, One Wilshire and the Raytheon/DIRECTV buildings during 2013 and Atrium on Bay during 2011. The Company reclassified the results of operations for these properties into discontinued operations in the consolidated statements of operations for all periods presented. See Note 4 — Discontinued Operations for additional information.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued guidance on disclosures about offsetting assets and liabilities. This guidance results in enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. The adoption of this guidance was effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The adoption of this guidance did not have a material effect on the Company's financial statements.

In October 2012, FASB clarified and relocated guidance in the Accounting Standards Codification (“ASC” or the “Codification”), corrected unintended application of guidance and made minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Amendments made to the Codification without transition guidance are effective upon issuance and amendments subject to transition guidance were effective for fiscal periods beginning after December 15, 2012. This guidance did not have a material impact on the Company’s financial statements.

In February 2013, FASB issued guidance to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The adoption of this guidance was effective for interim and annual periods beginning after December 15, 2012. This guidance did not have a material effect on the Company’s financial statements.

In February 2013, FASB issued amendments to provide guidance on the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not believe the adoption of this guidance will have a material impact on the Company’s financial statements.

In March 2013, FASB issued guidance on releasing cumulative translation adjustments when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. In addition, these amendments provide guidance on the release of cumulative translation adjustments in partial sales of equity method investments. The guidance is effective on a prospective basis for fiscal years and interim reporting periods within those years beginning after December 15, 2013. The Company does not believe the adoption of this guidance will have a material impact on the Company’s financial statements.

In July 2013, FASB issued amendments to the Codification to provide guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. The Company does not believe the adoption of this guidance will have a material impact on the Company’s financial statements.

3. Real Estate Investments

Investment property consisted of the following (in thousands):

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Buildings and improvements	\$1,185,833	\$1,729,132
Less: accumulated depreciation	(178,720)	(233,908)
Buildings and improvements, net	1,007,113	1,495,224
Land	249,466	368,210
Investment property, net	<u>\$1,256,579</u>	<u>\$1,863,434</u>

Lease Intangibles

As of December 31, 2013, the cost basis and accumulated amortization related to lease intangibles was as follows (in thousands):

	Lease Intangibles		
	<u>In-Place Leases</u>	<u>Out-of-Market Lease Assets</u>	<u>Out-of-Market Lease Liabilities</u>
Cost	\$ 163,661	\$ 38,721	\$ 41,824
Less: accumulated amortization	(110,412)	(22,059)	(31,978)
Net	<u>\$ 53,249</u>	<u>\$ 16,662</u>	<u>\$ 9,846</u>

As of December 31, 2012, the cost basis and accumulated amortization related to lease intangibles was as follows (in thousands):

	Lease Intangibles		
	<u>In-Place Leases</u>	<u>Out-of-Market Lease Assets</u>	<u>Out-of-Market Lease Liabilities</u>
Cost	\$ 270,631	\$ 47,669	\$ 96,495
Less: accumulated amortization	(164,632)	(26,079)	(57,944)
Net	<u>\$ 105,999</u>	<u>\$ 21,590</u>	<u>\$ 38,551</u>

Amortization expense was \$15.0 million, \$28.1 million and \$42.9 million for in-place leases for the years ended December 31, 2013, 2012 and 2011, respectively. Amortization of out-of-market leases, net, was an increase to rental revenue of \$2.5 million, \$6.4 million and \$8.5 million, respectively, for the years ended December 31, 2013, 2012 and 2011.

As of December 31, 2013, anticipated amortization of in-place leases and out-of-market leases, net, including out-of-market ground leases, for each of the years ended December 31, 2014 through December 31, 2018 were as follows (in thousands):

	<u>In-Place Leases</u>	<u>Out-of-Market Leases, Net</u>
2014	\$10,268	\$ (600)
2015	9,393	(59)
2016	7,233	719
2017	5,438	1,639
2018	4,285	1,210

Leases

In connection with its directly-owned properties, the Company has entered into non-cancelable lease agreements with tenants for space. As of December 31, 2013, the approximate fixed future minimum rentals for each of the years ending December 31, 2014 through 2018 and thereafter were as follows (in thousands):

	<u>Fixed Future Minimum Rentals</u>
2014	\$128,422
2015	124,669
2016	110,232
2017	92,641
2018	77,108
Thereafter	<u>272,701</u>
Total	<u>\$805,773</u>

During the years ended December 31, 2013, 2012 and 2011, the Company did not earn more than 10% of its revenue from any individual tenant.

See Note 16 — Subsequent Events for details regarding the acquisition of the Howard Hughes Center that was acquired subsequent to December 31, 2013.

4. Discontinued Operations

In July 2013, the Company sold the Raytheon/DIRECTV buildings and One Wilshire, which the Company acquired in March 2008 and August 2007, respectively, for a net contract purchase price of \$407.0 million. The Raytheon and DIRECTV buildings comprise a two-building office complex in the South Bay submarket in El Segundo, California, and One Wilshire is an office building with retail space and a subterranean parking garage located in Los Angeles, California. The net contract sales price was \$550.0 million.

In March 2013, the Company sold Williams Tower, an office building with an adjacent parking garage located in the Galleria/West Loop submarket of Houston, Texas, which it acquired in May 2008 for a net contract purchase price of \$271.5 million. The net contract sales price was \$412.0 million.

In June 2011, the Company sold Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada, which the Company acquired in February 2007. The net contract sales price for Atrium on Bay was 344.8 million CAD (\$353 million USD, based on the exchange rate in effect on the date of sale).

The operating results of these properties have been reclassified and reported as discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011 as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(In thousands)		
Revenues:			
Rental revenue	\$ 32,141	\$ 86,256	\$100,513
Other revenue	7,096	13,258	15,470
Total revenues	<u>39,237</u>	<u>99,514</u>	<u>115,983</u>
Expenses:			
Property operating expenses	9,689	26,191	29,779
Real property taxes	4,383	11,289	14,438
Property management fees	905	2,538	2,947
Depreciation and amortization	8,308	24,679	31,769
Impairment losses	4,006 ⁽¹⁾	—	—
Total expenses	<u>27,291</u>	<u>64,697</u>	<u>78,933</u>
Income (loss) from discontinued operations before interest income (expense), benefit (provision) for income taxes, gain (loss) on settlement of debt and gain (loss) on sale of discontinued operations	<u>11,946</u>	<u>34,817</u>	<u>37,050</u>
Interest expense	(6,868)	(22,034)	(26,465)
Interest income	26	35	40
Benefit (provision) for income taxes	(673)	(232)	(154)
Gain (loss) on settlement of debt	<u>(9,839)</u>	<u>—</u>	<u>—</u>
Income (loss) from discontinued operations before gain (loss) on sale of discontinued operations	<u>(5,408)</u>	<u>12,586</u>	<u>10,471</u>
Gain (loss) on sale of discontinued operations	<u>310,386</u>	<u>2,064 ⁽²⁾</u>	<u>107,241</u>
Income (loss) from discontinued operations	<u><u>\$304,978</u></u>	<u><u>\$ 14,650</u></u>	<u><u>\$117,712</u></u>

- (1) The contract sales price for the Raytheon/DIRECTV buildings was less than their carrying values and, as a result, an impairment loss was recorded for the year ended December 31, 2013 related to these discontinued operations.
- (2) The additional gain on sale of discontinued operations recorded in 2012 is primarily related to the settlement of reserves that were established during the closing of the sale of Atrium on Bay.

The tables below show income (loss) and earnings (loss) per share attributable to common stockholders allocated between continuing operations and discontinued operations:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>(In thousands, except per share amounts)</u>		
Income (loss) from continuing operations attributable to common stockholders	\$ 60,227	\$(90,238)	\$(73,942)
Income (loss) from discontinued operations attributable to common stockholders	<u>287,839</u>	<u>13,931</u>	<u>112,842</u>
Net income (loss) attributable to common stockholders	<u>\$348,066</u>	<u>\$(76,307)</u>	<u>\$ 38,900</u>
Basic and diluted earnings (loss) per share attributable to common stockholders			
Income (loss) from continuing operations	\$ 0.26	\$ (0.39)	\$ (0.33)
Income (loss) from discontinued operations	\$ 1.24	\$ 0.06	\$ 0.50

5. Investments in Unconsolidated Entities

As discussed in Note 1 — Organization, the Company owns indirect investments in 25 properties through its interests in the Core Fund and the Grocery-Anchored Portfolio. During January 2013, the Company sold its 50% interest in Distribution Park Rio through the buy/sell provision in the joint venture agreement to an entity partially owned by an affiliate of Hines. Net proceeds to the Company from this transaction were \$43.3 million.

The table below presents the activity of the Company's unconsolidated entities as of and for the periods presented (in thousands):

	<u>For the Years Ended December 31, 2013</u>	<u>2012</u>	<u>2011</u>
Beginning balance	\$329,418	\$348,986	\$373,798
Contributions	104,059	—	—
Distributions declared	(96,713)	(26,697)	(16,117)
Equity in earnings (losses)	82,468	9,460	(5,138)
Effect of exchange rate	—	(2,331)	(3,557)
Effect of sale of unconsolidated joint venture	<u>(25,537)</u>	<u>—</u>	<u>—</u>
Ending balance	<u>\$393,695</u>	<u>\$329,418</u>	<u>\$348,986</u>

Combined condensed financial information of these investments is summarized as follows (in thousands):

Combined Condensed Consolidated Balance Sheets

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	(In thousands)	
ASSETS		
Cash	\$ 117,863	\$ 190,406
Investment property, net	2,202,309	2,860,619
Other assets	598,199	634,910
Total Assets	<u>\$2,918,371</u>	<u>\$3,685,935</u>
LIABILITIES AND EQUITY		
Debt	\$1,338,294	\$1,934,336
Other liabilities	264,202	268,631
Redeemable noncontrolling interests	268,871	378,419
Equity	<u>1,047,004</u>	<u>1,104,549</u>
Total Liabilities and Equity	<u>\$2,918,371</u>	<u>\$3,685,935</u>

In 2013, the Core Fund sold three properties and classified one property as held for sale. In 2012, the Core Fund sold six properties. In 2011, the Core Fund sold one property. The Core Fund reclassified the results of operations for these properties into discontinued operations for all periods presented, which is reflected in the table below.

Combined Condensed Consolidated Statements of Operations

	<u>For the Years Ended December 31, 2013</u>	<u>2012</u>	<u>2011</u>
	(In thousands)		
Total revenues and gains	\$ 284,048	\$ 308,636	\$304,494
Total expenses	295,051	382,232	342,333
Income (loss) from continuing operations	(11,003)	(73,596)	(37,839)
Income (loss) from discontinued operations	751,220	243,264	19,938
Net income (loss)	740,217	169,668	(17,901)
Less (income) loss allocated to noncontrolling interests	(436,783)	(134,715)	(1,750)
Net income (loss) attributable to parent	<u>\$ 303,434</u>	<u>\$ 34,953</u>	<u>\$ (19,651)</u>

The following discusses items of significance for the periods presented for our equity method investments:

In January 2014, the Core Fund sold 101 Second Street, an office property located in San Francisco, California which it acquired in September 2004 for a contract purchase price of \$157.0 million. The contract sales price was \$297.5 million. 101 Second Street was deemed held for sale as of December 31, 2013 and was reclassified into assets and liabilities held for sale, which are included in other assets and other liabilities above and income from discontinued operations for all periods presented.

In June 2013, the Core Fund sold 425 Lexington Avenue, 499 Park Avenue and 1200 19th Street (collectively, the "New York Trust Assets"). Both 425 Lexington and 499 Park Avenue are located in midtown Manhattan, New York and 1200 19th Street is located in the Golden Triangle in Washington, D.C.'s central

business district. The Core Fund acquired the New York Trust Assets in August 2003 for a contract purchase price \$581.1 million. The contract sales price was \$1,311.0 million. As a result of the sale of the New York Trust Assets, the Core Fund recognized a gain on sale of \$291.6 million. The results of operations for the New York Trust Assets were reclassified into discontinued operations for the periods presented in the table above as a result of this transaction. The Core Fund paid a distribution to the Company in the amount of \$81.3 million in August 2013, a majority of which was related to the sale of the New York Trust Assets.

In December 2012, the Core Fund sold Johnson Ranch Corporate Centre, Roseville Corporate Center, Summit at Douglas Ridge and Olympus Corporate Centre (collectively, the “Roseville Disposition Group”), a portfolio of four properties located in Roseville, California which it acquired in May 2007 for a contract purchase price of \$200.7 million. The contract sales price was \$73.0 million. Additionally, the Core Fund recorded impairment losses of \$17.2 million and \$101.1 million related to the Roseville Disposition Group and Douglas Corporate Center (also located in Roseville, California), during the years ended December 31, 2012 and December 31, 2011, respectively. Further, due to the deterioration in the financial condition of Douglas Corporate Center, the Core Fund elected to not make debt service payments on the secured, nonrecourse mortgage loan at the property. This resulted in a default, and effective January 2, 2013, a foreclosure on the property by the lender in which the Core Fund relinquished all rights and title to the property and was relieved of the entire value of the mortgage loan.

Also, during the year ended December 31, 2012, the Core Fund recorded an impairment loss of \$72.9 million on two additional properties, Charlotte Plaza and Carillon, both located in Charlotte, North Carolina. The total impairment loss recognized by the Core Fund during the year ended December 31, 2012 was \$90.1 million.

In August 2012, the Core Fund sold One Shell Plaza and Two Shell Plaza (collectively, “Shell Plaza”) two office properties located in downtown Houston, Texas which it acquired in May 2004 for a contract purchase price of \$351.8 million. The contract sales price was \$550.0 million.

In 2012, a subsidiary of the Core Fund executed discounted pay-off agreements with lenders concerning the debt secured by One Renaissance Square and Two Renaissance Square, office buildings located in Phoenix, Arizona, to release the Core Fund from all outstanding debt and obligations, including the outstanding principal balances of \$188.8 million, at a discounted amount of \$168.3 million. As a result of the debt extinguishment, the Core Fund recognized a gain on debt extinguishment of \$18.3 million, net of service costs and fees.

In December 2011, the Core Fund sold a 49% noncontrolling limited partner interest in the subsidiary that owns One North Wacker, an office building located in Chicago, Illinois, which it acquired in March 2008 for a contract purchase price of \$540.0 million. The contract sales price for the 49% noncontrolling interest in One North Wacker was \$298.9 million. Due to the Core Fund retaining its controlling interest in the asset, this transaction was accounted for as an equity transaction, and therefore, no gain was recognized on the sale.

In August 2011, the Core Fund sold Three First National Plaza, an office building located in Chicago, Illinois, which it acquired in March 2005 for a contract purchase price of \$245.3 million. The contract sales price was \$344.0 million. As a result of this sale, the Core Fund reclassified the results of operations for this property into discontinued operations for the year ended December 31, 2011, as reflected in the table above.

Grocery-Anchored Portfolio

In November 2008, the Company acquired a 70% interest in a joint venture with a subsidiary of Weingarten. Concurrently, the joint venture entered into an agreement to acquire a portfolio of 12 grocery-anchored retail centers owned by Weingarten for \$271.4 million. Weingarten manages this portfolio for the joint venture, though the Company’s approval is required for any significant actions of the joint venture. See Note 16 — Subsequent Events regarding the Grocery-Anchored Portfolio Transaction.

As of December 31, 2013 and 2012, the Company's investment in the Grocery-Anchored Portfolio was determined to be a variable interest entity ("VIE") due to certain payment guarantees that result in the protection of the Company's equity from expected losses. Further, the JV partner has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and, as a result, the Company has determined it is not the primary beneficiary of this VIE. The Company's maximum loss exposure is expected to change in future periods as a result of income earned, distributions received and contributions made. In April 2013, the Company contributed \$10.2 million to the joint venture in order for the joint venture to retire a loan at one of its properties without a prepayment penalty. In September 2013, the Company contributed \$23.7 million to relieve a preferred equity position held by a third-party in the joint venture. Also, in October 2013, the Company contributed \$70.2 million to the joint venture in order for the joint venture to retire its \$100.0 million secured loan without a prepayment penalty. Other than the initial capital contribution provided by the Company at the inception of the joint venture and the contributions mentioned above, the Company has not provided any additional subordinated financial support.

The table below includes the Company's maximum loss exposure related to this investment as of December 31, 2013 and 2012, which is equal to the carrying value of its investment in the joint venture reflected in the balance sheet line item "Investments in unconsolidated entities" for each year. Amounts are in thousands:

<u>Years Ended</u>	<u>Investment in Grocery-Anchored Portfolio ⁽¹⁾</u>	<u>Maximum Risk of Loss</u>
December 31, 2013	\$156,584	\$156,584
December 31, 2012	\$ 53,793	\$ 53,793

- (1) Represents the carrying amount of the investment in the Grocery-Anchored Portfolio, which includes the net effect of contributions made, distributions received and the Company's share of equity in earnings (losses).

6. Debt Financing

As of December 31, 2013 and 2012, the Company had \$796.9 million and \$1,325.8 million of debt outstanding, respectively, with a weighted average years to maturity of 3.3 years and 2.5 years, respectively, and a weighted average interest rate of 5.0% and 5.6%, respectively. The following table includes all of the Company's outstanding notes payable balances as of December 31, 2013 and December 31, 2012 (in thousands, except interest rates):

Description	Maturity Date	Interest Rate Description	Interest Rate	Principal Outstanding at December 31, 2013	Principal Outstanding at December 31, 2012
SECURED MORTGAGE DEBT					
One Wilshire ⁽¹⁾	N/A	N/A	N/A	\$ —	\$ 159,500
2555 Grand ⁽²⁾	N/A	N/A	N/A	—	86,000
Williams Tower ⁽³⁾	N/A	N/A	N/A	—	165,000
Arapahoe Business Park I	6/11/2015	Fixed	5.33%	9,272	9,418
Arapahoe Business Park II	11/11/2015	Fixed	5.53%	9,744	9,910
1515 S. Street	9/1/2016	Fixed	4.25%	38,741	39,737
Raytheon/DIRECTV Buildings ⁽⁴⁾	N/A	N/A	N/A	—	50,334
345 Inverness Drive	12/11/2016	Fixed	5.85%	14,701	14,920
Airport Corporate Center	9/1/2021	Fixed	5.14%	78,628	79,000
HSH POOLED MORTGAGE FACILITY					
Citymark, 321 North Clark, 1900 and 2000 Alameda	8/1/2016	Fixed via swap	5.86%	185,000	185,000
3400 Data Drive, 2100 Powell	1/23/2017	Fixed via swap	5.25%	98,000	98,000
Daytona and Laguna Buildings	5/2/2017	Fixed via swap	5.36%	119,000	119,000
3 Huntington Quadrangle	7/19/2017	Fixed via swap	5.98%	48,000	48,000
5th and Bell ⁽⁵⁾	8/14/2017	Fixed via swap	6.03%	39,000	70,000
MET LIFE SECURED MORTGAGE FACILITY					
JPMorgan Chase Tower ⁽⁶⁾	2/1/2016	Variable	2.67%	156,798	160,000
OTHER NOTES PAYABLE					
KeyBank Revolving Credit Facility ⁽⁷⁾	N/A	N/A	N/A	—	32,000
JP Morgan Chase Bridge Loan ⁽²⁾	N/A	N/A	N/A	—	—
TOTAL PRINCIPAL OUTSTANDING				796,884	1,325,819
Unamortized Discount ⁽⁸⁾				(1,169)	(2,255)
NOTES PAYABLE				<u>\$795,715</u>	<u>\$1,323,564</u>

- (1) In January 2013, a subsidiary of the Operating Partnership executed a new loan agreement with the Bank of China for a \$200.0 million secured mortgage loan and repaid the original loan. In connection with the sale of One Wilshire, the Company retired the outstanding principal balance of the secured mortgage loan in July 2013 with a prepayment penalty of \$2.0 million.
- (2) In April 2013, the Company paid down its mortgage secured by 2555 Grand using a bridge loan (the "JPMorgan Chase Bridge Loan") with JPMorgan Chase Bank, N.A. ("JPMorgan Chase"). The JPMorgan Chase Bridge Loan was a six-month term loan with a maximum commitment of \$86.0 million. In August 2013, the Company paid down the JPMorgan Chase Bridge Loan and elected not to renew the facility.
- (3) In connection with the sale of Williams Tower, the Company retired the outstanding principal balance of the secured mortgage loan in March 2013.

- (4) In connection with the sale of the Raytheon/DIRECTV buildings, the Company retired the outstanding principal balance of the secured mortgage loan in July 2013 and paid \$7.8 million related to the defeasance of the loan pursuant to the terms of the underlying loan document.
- (5) In August 2013, the Company prepaid \$31.0 million, the outstanding debt balance related to Seattle Design Center, and incurred a breakage fee of \$5.4 million to terminate the related swap agreement with HSH Nordbank AG, New York Branch (“HSH Nordbank”).
- (6) In January 2013, the Company entered into an amended and restated promissory note for the \$160.0 million outstanding principal balance related to JPMorgan Chase Tower.
- (7) In January 2013, the Company paid down its outstanding balance on its revolving line of credit prior to its maturity and did not renew it upon its expiration.
- (8) The Company assumed notes payable in connection with various acquisitions, which were recorded at their estimated fair value as of the date of acquisition. The difference between the fair value at acquisition and the principal outstanding is amortized over the term of the related note.

HSH Pooled Mortgage Facility

In August 2006 (as amended in January 2007), certain of the Company’s subsidiaries entered into a credit agreement with HSH Nordbank providing for a secured credit facility in the maximum principal amount of \$520.0 million (the “HSH Credit Facility”), subject to certain borrowing limitations. The total borrowing capacity under the HSH Credit Facility was based upon a percentage of the appraised values of the properties that the Company selected to serve as collateral under this facility, subject to certain debt service coverage limitations. Amounts drawn under the HSH Credit Facility bear interest at variable interest rates based on one-month LIBOR plus an applicable margin.

The Company purchased interest rate protection in the form of interest rate swap agreements prior to borrowing any amounts under the HSH Credit Facility to secure it against fluctuations of LIBOR. Loans under the HSH Credit Facility may be prepaid in whole or in part, subject to the payment of certain prepayment fees and breakage costs. As of December 31, 2013, the Company had \$489.0 million outstanding under the HSH Credit Facility which is a reduction from the \$520.0 million maximum principal amount, due to the prepayment of the \$31.0 million principal balance related to Seattle Design Center, and the Company has no remaining borrowing capacity under this facility.

The Operating Partnership provides customary non-recourse carve-out guarantees under the HSH Credit Facility and limited guarantees with respect to the payment and performance of (i) certain tenant improvement and leasing commission obligations in the event the properties securing the loan fail to meet a combined occupancy requirement of at or above 85% and (ii) certain major capital repairs with respect to the properties securing the loans. As of December 31, 2013, certain properties failed to meet this occupancy requirement. See Note 12 — Commitments and Contingencies for additional details of the potential guaranty obligation.

The HSH Credit Facility provides that an event of default will exist if a change in majority ownership or control occurs for the Advisor or Hines, or if the Advisor no longer provides advisory services or manages the day-to-day operations of Hines REIT. The HSH Credit Facility also contains other customary events of default, some with corresponding cure periods, including, without limitation, payment defaults, cross-defaults to other agreements evidencing indebtedness and bankruptcy-related defaults, and customary covenants, including limitations on the incurrence of debt and granting of liens and the maintenance of certain financial ratios. The Company is not aware of any instances of noncompliance relating to covenants of the HSH Credit Facility as of December 31, 2013.

Additionally, HSH Nordbank has the right to have the properties serving as collateral under this facility appraised every two years. Should the aggregate outstanding principal amounts under this facility exceed 55% of the lender’s appraised values, the Company must rebalance through making partial payment or providing additional collateral to eliminate such excess. In May 2011, the Company replaced the HSH Nordbank Collateral

deposit with a letter of credit from the Bank of Montreal. As collateral for the letter of credit, the Company posted a cash deposit of \$107.0 million with the Bank of Montreal, which is classified as restricted cash in the consolidated balance sheets. In October 2012, HSH Nordbank notified the Company that the outstanding principal amounts under the facility exceeded 55% of the appraised values of the properties and therefore the Company was required to provide additional collateral in the amount of \$9.9 million to rebalance the portfolio which is classified as restricted cash in the consolidated balance sheets. The Company obtained a letter of credit from the Bank of Montreal in October 2012 in order to meet the additional collateral required by HSH Nordbank. If real estate values decline, the Company could be required to pay additional amounts to rebalance the collateral for the properties under this credit facility.

Additional Debt Secured by Investment Property

From time to time, the Company obtains mortgage financing for its properties outside of the credit facilities described above. Other than the exceptions described in the notes to the table above, these mortgages contain fixed rates of interest and are secured by the property to which they relate. These mortgage agreements contain customary events of default, with corresponding grace periods, including payment defaults, cross-defaults to other agreements and bankruptcy-related defaults, and customary covenants, including limitations on liens and indebtedness and maintenance of certain financial ratios. In addition, the Company has executed customary recourse carve-out guarantees of certain obligations under its mortgage agreements and the other loan documents. The Company is not aware of any instances of noncompliance of covenants related to these agreements as of December 31, 2013.

The following table summarizes required principal payments on the Company's outstanding notes payable for each of the years ended December 31, 2014 through December 31, 2018 and for the period thereafter (in thousands):

	Principal Payments due by Year					
	2014	2015	2016	2017	2018	Thereafter
Notes Payable	\$2,659	\$21,226	\$393,915	\$305,343	\$1,413	\$72,328

See Note 16 — Subsequent Events for details regarding the acquisition credit agreement that we entered into in connection with the acquisition of the Howard Hughes Center subsequent to December 31, 2013.

7. Derivative Instruments

The Company has several interest rate swap transactions with HSH Nordbank. These swap transactions were entered into as economic hedges against the variability of future interest rates on the Company's variable interest rate borrowings with HSH Nordbank. The Company has not designated any of its derivative instruments as hedging instruments for accounting purposes. The interest rate swaps have been recorded at their estimated fair value in the accompanying balance sheets and changes in the fair value were recorded in gain (loss) on derivative instruments, net in the Company's consolidated statements of operations (see Note 13 — Fair Value Disclosures for additional information).

The tables below provide additional information regarding each of the Company's outstanding interest rate swaps (all amounts are in thousands except for interest rates):

<u>Effective Date</u>	<u>Expiration Date</u>	<u>Notional Amount</u>	<u>Interest Rate Received</u>	<u>Interest Rate Paid</u>
August 1, 2006	August 1, 2016	\$185,000	LIBOR	5.4575%
January 12, 2007	January 12, 2017	\$ 98,000	LIBOR	4.8505%
May 1, 2007	May 1, 2017	\$119,000	LIBOR	4.9550%
July 17, 2007	July 17, 2017	\$ 48,000	LIBOR	5.5800%
July 27, 2007	July 24, 2017	\$ 39,000 ⁽¹⁾	LIBOR	5.5800%

- (1) In connection with the prepayment of Seattle Design Center's outstanding debt balance, which is discussed further in Note 6 — Debt Financing, the Company terminated a portion of this swap agreement and incurred a \$5.4 million breakage fee.

The Company has not entered into any master netting arrangements with its third-party counterparties and does not offset on its consolidated balance sheets the fair value amounts recorded for derivative instruments. The table below presents the fair value of the Company's derivative instruments included in "Liabilities — Interest Rate Swap Contracts" on the Company's consolidated balance sheets, as of December 31, 2013 and December 31, 2012:

	<u>Liability Derivatives</u> <u>Fair value as of December 31,</u>	
	<u>2013</u>	<u>2012</u>
Derivatives not designated as hedging instruments for accounting purposes:		
Interest rate swap contracts	\$67,652	\$101,211
Total derivatives	<u>\$67,652</u>	<u>\$101,211</u>

The table below presents the effects of the changes in fair value of the Company's derivative instruments in the Company's consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011:

	<u>For the Years Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gain (loss) on interest rate swaps	\$33,559	\$8,680	\$(24,590)
Total	<u>\$33,559</u>	<u>\$8,680</u>	<u>\$(24,590)</u>

8. Distributions

With the authorization of its board of directors, the Company declared distributions in the amount of \$0.00138082 per share, per day distributions declared for July 2010 through March 2013, and \$0.00041425 of such per share, per day distributions declared for the period July 2011 through March 2013 were designated by the Company as special distributions which represent a return of a portion of the stockholders' invested capital and, as such, reduced their remaining investment in the Company. The special distributions were funded with a portion of the proceeds from sales of investment property. The above designation of a portion of the distributions as special distributions does not impact the tax treatment of the distributions to the Company's stockholders.

On March 25, 2013, the Company declared a distribution of approximately \$198.0 million, resulting in a distribution to stockholders of \$0.80 per share that was paid during the three months ended June 30, 2013 to all stockholders of record as of April 2, 2013, which is reflected in the table below. This distribution was designated by the Company as a special distribution, which was a return of a portion of the stockholders' invested capital

and, as such, reduced their remaining investment in the Company. The special distribution represents a portion of the proceeds from the sale of Williams Tower and other strategic asset sales. The special distribution was not subject to reinvestment pursuant to the Company's dividend reinvestment plan and was paid in cash. In the aggregate, the Company has declared special distributions in total of \$1.01 per share.

Further, with the authorization of its board of directors, the Company declared distributions for April 2013 through March 2014. These distributions were or will be calculated based on stockholders of record each day during this period in an amount equal to \$0.00073973 per share, per day and will be paid on the first day of the month following the fiscal quarter to which they relate in cash, or reinvested in stock for those participating in the Company's dividend reinvestment plan. This rate per share, per day, reflects a reduction from the \$0.00138082 per share, per day rate that was declared previously, as described above.

The table below outlines the Company's total distributions declared to stockholders and noncontrolling interests for the years ended December 31, 2013, 2012 and 2011, respectively, including the breakout between the distributions paid in cash and those reinvested pursuant to the Company's dividend reinvestment plan (all amounts are in thousands).

Years Ended	Stockholders			Noncontrolling Interests
	Cash Distributions	Distributions Reinvested	Total Declared ⁽¹⁾	Total Declared ⁽¹⁾
December 31, 2013	\$244,277	\$28,801	\$273,078 ⁽²⁾	\$1,248
December 31, 2012	\$ 69,181	\$47,082	\$116,263	\$ 559
December 31, 2011	\$ 64,734	\$48,890	\$113,624	\$5,014

- (1) As stated above, a portion of the total distributions declared were designated by the Company as special distributions and funded using proceeds from sales of investment properties, which represented a return of a portion of the stockholders, and noncontrolling interests' invested capital. For the year ended December 31, 2013, \$206.7 million of the Company's distributions declared were designated as special distributions, \$198.0 million of which related to the one-time \$0.80 per share special distribution described above. For the years ended December 31, 2012 and 2011, \$35.0 million and \$18.1 million of the total distributions declared to the Company's stockholders and non-controlling interests were paid using such sales proceeds.
- (2) Excluded from this table are ordinary distributions declared with respect to the Participation Interest (as discussed further in Note 9 — Related Party Transactions). Included in the \$273.1 million amount declared above is the \$10.0 million special distribution declared in March 2013 to the Participation Interest.

9. Related Party Transactions

The table below outlines fees incurred and expense reimbursements payable to Hines and the Advisor for each of the years ended December 31, 2013, 2012 and 2011 and amounts outstanding as of December 31, 2013 and 2012. A description of each of the fees included in the table follows (all amounts are in thousands):

	Incurred for the Years Ended December 31,			Unpaid as of December 31,	
	2013	2012	2011	2013	2012
Type and Recipient					
Participation Interest in the Operating Partnership					
– HALP Associates Limited Partnership ⁽¹⁾	\$13,674	\$19,435	\$ 3,635	<u>\$91,376</u>	<u>\$92,404</u>
Due to Affiliates					
Asset Management Fee – the Advisor	\$14,296	\$10,216	\$12,538	1,185	2,597
Debt Financing Fee – the Advisor	\$ 3,600	\$ —	\$ 410	—	—
Other – The Advisor	\$ 4,260	\$ 4,357	\$ 4,004	767	677
Property Management Fee – Hines	\$ 5,037	\$ 6,399	\$ 6,819	(16)	13
Leasing Fee – Hines	\$ 1,740	\$ 4,797	\$ 3,097	1,535	2,992
Tenant Construction Management Fees – Hines . . .	\$ 190	\$ 32	\$ 29	1	2
Expense Reimbursements – Hines (with respect to management and operation of the Company’s properties)	\$14,012	\$16,227	\$16,432	214	877
Due to Affiliates				<u>\$ 3,686</u>	<u>\$ 7,158</u>

- (1) The Company records a liability related to the Participation Interest based on its estimated settlement value in the accompanying consolidated balance sheets. This liability is remeasured at fair value based on the related redemption price in place as of each balance sheet plus any unpaid distributions. As described previously in Note 8 — Distributions, the Company declared an \$0.80 special distribution (or \$10.0 million, in total, to the Participation Interest) to all stockholders of the Company in March 2013, which represented a reduction in the Participation Interest liability to reflect a return of capital for the period ending March 31, 2013.

Advisory Agreement

Pursuant to the Advisory Agreement, which, if not renewed, expires on December 31, 2014, the Company is required to pay the following fees and expense reimbursements:

Asset Management Fees — The Company pays asset management fees to the Advisor for services related to managing, operating, directing and supervising the operations and administration of the Company and its assets. Prior to July 1, 2011, the asset management fees were earned by the Advisor monthly in an amount equal to 0.0625% of the net equity capital the Company has invested in real estate investments as of the end of each month. For the period July 1, 2011 through December 31, 2012, our Advisor agreed to waive a portion of its monthly cash asset management fee such that the fee was reduced from 0.0625% to 0.0417% (0.75% to 0.50% on an annual basis) of the net equity capital we have invested in real estate investments as of the end of each month. This waiver is not a deferral and accordingly, these fees will not be paid to the Advisor in cash at any time in the future. Asset management fees are expensed in the consolidated statements of operations and unpaid amounts are included in due to affiliates in the consolidated balance sheets.

Debt Financing Fee — The Company pays financing fees to the Advisor for services related to identifying and evaluating potential financing and refinancing sources, negotiating and executing financing agreements and monitoring the debt facilities. These fees are equal to 1.0% of the amount (i) obtained under any property loan or (ii) made available to the Company under any other debt financing. As the Company incurs the financing fees payable to the Advisor, these fees will be deferred and amortized into interest expense using a straight-line

method, which approximates the effective interest method, over the life of the related debt. In the case of a debt modification, the Company will expense the financing fees payable to the Advisor as incurred.

Reimbursement by the Advisor to the Company — The Advisor must reimburse the Company quarterly for any amounts by which operating expenses exceed, in any four consecutive fiscal quarters, the greater of (i) 2.0% of the Company's average invested assets, which consists of the average book value of its real estate properties, both equity interests in and loans secured by real estate, before reserves for depreciation or bad debts or other similar non-cash reserves, or (ii) 25.0% of its net income (as defined by the Company's Amended and Restated Articles of Incorporation), excluding the gain on sale of any of the Company's assets, unless Hines REIT's independent directors determine that such excess was justified. Operating expenses generally include all expenses paid or incurred by the Company as determined by generally accepted accounting principles, except certain expenses identified in Hines REIT's Amended and Restated Articles of Incorporation. For the years ended December 31, 2013, 2012 and 2011, the Company did not exceed this limitation.

Property Management and Leasing Agreements

The Company has entered into property management and leasing agreements with Hines to manage the leasing and operations of properties in which it directly invests. As compensation for its services, Hines receives the following:

- A property management fee equal to the lesser of 2.5% of the annual gross revenues received from the properties or the amount of property management fees recoverable from tenants of the property under the leases. Property management fees are expensed in the consolidated statements of operations and unpaid amounts are included in due to affiliates in the consolidated balance sheets.
- A leasing fee of 1.5% of gross revenues payable over the term of each executed lease including any lease renewal, extension, expansion or similar event and certain construction management and re-development construction management fees, in the event Hines renders such services. Leasing fees are recorded in deferred lease costs and are amortized over the life of the lease to which they relate. Unpaid amounts are included in due to affiliates in the consolidated balance sheets.
- The Company is generally 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 are the cost of personnel and overhead expenses related to such personnel who are 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's duties under the agreement. However, the reimbursable cost of these off-site personnel and overhead expenses will be limited to the lesser of the amount that is recovered from the tenants under their leases and/or a limit calculated based on the rentable square feet covered by the agreement. These costs, net of payments, resulted in liabilities which have been included in due to affiliates in the consolidated balance sheets.

The Participation Interest

Pursuant to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (the "Partnership Agreement"), HALP owns a profits interest in the Operating Partnership. The number of units underlying the Participation Interest increases on a monthly basis in relation to the portion of any asset management fees or acquisition fees that is paid through equity units rather than cash. The profits interest in the Operating Partnership attributable to the Participation Interest was 5.7% and 4.8% as of December 31, 2013 and December 31, 2012, respectively. The Participation Interest entitles HALP to receive distributions from the Operating Partnership based upon its percentage interest in the Operating Partnership at the time of distribution. The holder of the Participation Interest has the right to request the repurchase of the Participation Interest from the Company at any time, subject to a one-year holding period. The Company determines if the Participation Interest will be converted into cash or common shares except in the event that the Advisor is terminated by the

Company. In the event that the Company terminates the Advisor, the holder of the Participation Interest may determine to have the Participation Interest repurchased in cash or common shares. Currently, it is the Company's expectation that the Participation Interest will ultimately be settled in cash. Accordingly, the Participation Interest obligation has been classified as a liability in the accompanying consolidated balance sheets based on the estimated settlement value of this ownership interest plus any unpaid distributions, instead of equity, since it is probable that its ultimate settlement will be in the form of cash.

The conversion and redemption features of the participation interest are accounted for in accordance with GAAP. Redemptions of the Participation Interest for cash will be accounted for as a reduction to the liability discussed above to the extent of such liability. Conversions into common shares of the Company will be recorded as an increase to the outstanding common shares and additional paid-in capital accounts and a corresponding reduction in the liability discussed above. Redemptions and conversions of the Participation Interest will result in a corresponding reduction in the ownership percentage of the Operating Partnership attributable to the Participation Interest and will have no impact on the calculation of subsequent increases in the Participation Interest.

10. Changes in Assets and Liabilities

The effect of the changes in asset and liability accounts on cash flows from operating activities for the years ended December 31, 2013, 2012 and 2011 is as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Change in other assets	\$ 1,097	\$ 220	\$ (544)
Change in tenant and other receivables	(1,510)	(2,779)	(7,761)
Change in deferred leasing costs	(39,980)	(70,757)	(51,679)
Change in accounts payable and accrued expenses	(14,144)	30,401	(7,947)
Change in participation interest liability	(1,028)	14,222	3,635
Change in other liabilities	(990)	667	(102)
Change in due to affiliates	(3,479)	1,353	(337)
Changes in assets and liabilities	<u>\$(60,034)</u>	<u>\$(26,673)</u>	<u>\$(64,735)</u>

11. Supplemental Cash Flow Disclosures

Supplemental cash flow disclosures for the years ended December 31, 2013, 2012 and 2011 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<i>Supplemental Disclosure of Cash Flow Information</i>			
Cash paid for interest	\$50,609	\$75,838	\$ 81,191
Cash paid for income taxes	\$ 553	\$ 539	\$ 1,203
<i>Supplemental Schedule of Non-Cash Activities</i>			
Distributions declared and unpaid	\$15,672	\$29,573	\$ 30,215
Distributions reinvested	\$34,621	\$47,568	\$ 49,603
Shared tendered for redemption	\$12,927	\$ 2,588	\$ 2,548
Loan transferred upon disposition of investment property	\$ —	\$ —	\$199,278

12. Commitments and Contingencies

The credit agreement for the HSH pooled mortgage facility requires that the properties financed by this facility maintain a combined occupancy at or above 85%. As of December 31, 2013, certain properties caused the

Company to fail to meet this occupancy requirement. As a result, the facility's limited payment guaranty to which the Company is a party has been triggered, requiring the Company to commit to fund a property leasing guaranty in an amount that would be required to increase the occupancy of all individual borrowings base assets to 90%. As of December 31, 2013, the Company believes the amount of this potential guaranty obligation is \$18.2 million. This guaranty will be discharged once the portfolio of properties financed by this facility achieves a combined occupancy greater than or equal to 85% or once all outstanding payments of interest and principal are paid in full. No liability was recorded in relation to this guaranty, as the Company believes the probability of the Company being required to perform under this guaranty is remote.

The Company is 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. Fair Value Disclosures

In general, 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company records liabilities related to the fair values of its interest rate swap contracts. The valuation of these instruments is determined based on assumptions that management believes market participants would use in pricing, using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of our interest rate contracts have been determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

Although the Company has determined the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparty, HSH Nordbank. In adjusting the fair values of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds and guarantees. However, as of December 31, 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuations of its derivatives. As a result, the Company has determined its derivative valuations are classified in Level 2 of the fair value hierarchy.

The following fair value hierarchy table sets forth the Company's interest rate swaps which are measured at fair value on a recurring basis, which equals book value, by level within the fair value hierarchy as of December 31, 2013 and December 31, 2012 (in thousands). The Company's derivative financial instruments are recorded in interest rate swap contracts in the accompanying consolidated balance sheets. The Company has not designated any of its derivative instruments as hedging instruments for accounting purposes.

Description	Fair Value	Basis of Fair Value Measurements		
		Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013	\$ 67,652	\$—	\$ 67,652	\$—
December 31, 2012	\$101,211	\$—	\$101,211	\$—

Financial Instruments Fair Value Disclosures

As of December 31, 2013, management estimated that the fair value of notes payable, which had a carrying value of \$795.7 million, was \$794.1 million. As of December 31, 2012, management estimated that the fair value of notes payable, which had a carrying value of \$1.3 billion, was \$1.3 billion. The discount rates used approximate current lending rates for loans or groups of loans with similar maturities and credit quality, assumes the debt is outstanding through maturity and considers the debt's collateral (if applicable). Management has utilized market information as available or present value techniques to estimate the amounts required to be disclosed. The Company has determined 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, as of December 31, 2013, the Company has assessed the significance of the impact of the credit quality adjustments on the overall valuations of its fair market value of notes payable and has determined that they are not significant. As a result, the Company has determined these financial instruments utilize Level 2 inputs. Since such amounts are estimates that are based on limited available market information for similar transactions, there can be no assurance that the disclosed values could be realized.

Other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, restricted cash, distributions receivable, 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 and Level 2 inputs are utilized to estimate the fair value of these financial instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain long-lived assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments (i.e., impairments) in certain circumstances. The fair value methodologies used to measure long-lived assets are described in Note 2 — Summary of Significant Accounting Policies — Impairment of Investment Property. The inputs associated with the valuation of long-lived assets are generally included in Level 2 or Level 3 of the fair value hierarchy, as discussed below.

Impairment of Investment Property

Investment properties are reviewed for impairment at each reporting period if events or changes in circumstances indicate that the carrying amount may not be recoverable. During 2013, the Company determined that its directly-owned investment, Airport Corporate Center and 4050/4055 Corporate Drive, were impaired due to a shortened expected hold period. Further, the Company determined that its directly-owned investment, the Minneapolis Office/Flex portfolio was impaired due to a shortened expected hold period and a reduction in market conditions. As a result of these changes in assumptions, the projected undiscounted cash flows were reduced for these investments.

Additionally, during the year ended December 31, 2012, the Company determined that its directly-owned investments, Seattle Design Center and Three Huntington Quadrangle, were impaired due to a shortened expected hold period, which reduced the projected undiscounted cash flows for these investments. Also, during the year ended December 31, 2012, the Company determined that its directly-owned investment, a building in its Minneapolis Office/Flex portfolio, was impaired due to a change in leasing assumptions and appraised values.

These changes in assumptions resulted in the net book value of the assets exceeding the projected undiscounted cash flows for these investments. As a result, these assets were written down to fair value. The following table summarizes activity for the Company's assets measured at fair value, on a non-recurring basis, for the years ended December 31, 2013, 2012 and 2011 (in thousands).

During the year ended	Description	Basis of Fair Value Measurements				
		Fair Value of Assets	Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Loss
	Investment					
December 31, 2013	property	\$170,466	\$ —	\$ —	\$170,466	\$33,878
	Investment					
December 31, 2012	property	\$ 85,184	\$ —	\$ —	\$ 85,184	\$53,483
December 31, 2011	N/A	\$ —	\$ —	\$ —	\$ —	\$ —

The Company's estimated fair value of investment properties was based on a comparison of recent market activity and discounted cash flow models, which include estimates of property-specific inflows and outflows over a specific holding period. Significant unobservable quantitative inputs used in determining the fair value of each investment property for the period ended December 31, 2013 include: a discount rate ranging from 5% to 9%; a capitalization rate ranging from 6.5% to 9.5%; stabilized occupancy rates ranging from 82% through 95%; and current market rental rates ranging from \$3.40 per square foot to \$12.50 per square foot. These inputs are based on the location, type and nature of each property, current and anticipated market conditions, and management's knowledge and expertise in real estate.

The Company's estimated fair value of the investment properties in Minneapolis, Minnesota, Melville, New York and Seattle, Washington as of December 31, 2012 was based on a comparison of recent market activity and discounted cash flow models, which include estimates of property specific inflows and outflows over a specific holding period. Significant unobservable quantitative inputs used in determining the fair value of each investment include: discount rates ranging from 8% through 13%, a capitalization rate of 8.5%, stabilized occupancy rates ranging from 82% through 93% and current market rental rates ranging from \$11.20 per square foot to \$21.50 per square foot. These inputs are based on the location, type and nature of each property, current and anticipated market conditions and management's knowledge and expertise in real estate.

14. Reportable Segments

The Company's investments in real estate are geographically diversified and management evaluates the operating performance of each at an individual property level. The Company has determined it has three reportable segments: 1) office properties, 2) a domestic industrial property and 3) domestic retail properties. The office properties segment consists of 17 office properties that the Company owns directly as well as 13 office properties that are owned indirectly through the Company's investment in the Core Fund. The domestic industrial property segment consists of one directly-owned industrial property located in Dallas, Texas. The domestic retail segment consists of 12 grocery-anchored shopping centers that are owned indirectly through the Company's investment in a joint venture with Weingarten. See Note 16 — Subsequent Events regarding the Grocery-Anchored Portfolio Transaction. In 2012, the Company considered its investment in Distribution Park Rio as a separate international industrial property segment, however, in January 2013, the Company sold its indirect investment in Distribution Park Rio.

The Company's indirect investments are accounted for using the equity method of accounting. As such, the activities of these investments are reflected in investments in unconsolidated entities in the consolidated balance sheets and equity in earnings (losses) of unconsolidated entities, net in the consolidated statements of operations.

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 or 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,		
	2013	2012	2011
Total property revenue			
Office properties	\$164,995	\$ 169,251	\$ 176,406
Domestic industrial properties	3,113	3,066	5,605
Total segment property revenues	<u>\$168,108</u>	<u>\$ 172,317</u>	<u>\$ 182,011</u>
Property revenues in excess of expenses ⁽¹⁾			
Office properties segment	\$ 83,184	\$ 90,044	\$ 97,616
Domestic industrial properties segment	2,081	1,976	4,673
Total segment property revenues in excess of expenses	<u>\$ 85,265</u>	<u>\$ 92,020</u>	<u>\$ 102,289</u>
Equity in earnings (losses) of unconsolidated entities			
Equity in earnings (losses) of domestic office properties	\$ 80,375	\$ 7,058	\$ (7,529)
Equity in earnings of domestic retail properties	48	100	(9)
Equity in earnings of international industrial properties	2,045	2,302	2,400
Equity in earnings (losses) of unconsolidated entities, net	<u>\$ 82,468</u>	<u>\$ 9,460</u>	<u>\$ (5,138)</u>
		December 31,	December 31,
		2013	2012
Total assets			
Office properties		\$1,489,901	\$2,243,240
Domestic industrial properties		36,504	39,214
Investment in unconsolidated entities -			
Office properties		237,110	250,138
Domestic retail properties		156,585	53,793
International industrial properties		—	25,487
Corporate-level accounts ⁽²⁾		262,623	155,337
Total assets		<u>\$2,182,723</u>	<u>\$2,767,209</u>

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

(2) This amount primarily consists of cash and cash equivalents at the corporate level, including proceeds from the sale of the Company's directly and indirectly-owned investments, proceeds from the Core Fund distribution the Company received in August 2013 as well as the cash collateral deposit related to the letter of credit with the Bank of Montreal. In addition, in 2013, this amount includes the \$30.0 million deposit recorded in other assets on the consolidated balance sheet related to the acquisition of the Howard Hughes Center in January 2014.

	Years Ended December 31,		
	2013	2012	2011
Reconciliation to net income (loss)			
Total segment property revenues in excess of expenses	\$ 85,265	\$ 92,020	\$102,289
Depreciation and amortization	(51,262)	(55,042)	(64,519)
Asset management fees	(27,970)	(29,651)	(16,173)
Acquisition related expenses	(330)	—	—
General and administrative	(7,281)	(6,874)	(6,740)
Impairment losses	(33,878)	(53,483)	—
Gain (loss) on derivative instruments, net	33,559	8,680	(24,590)
Gain (loss) on settlement of derivative instruments	(5,374)	—	—
Interest expense	(47,453)	(55,987)	(59,169)
Interest income	779	736	507
Benefit (provision) for income taxes	(274)	(257)	(265)
Gain (loss) on sale of unconsolidated joint venture	16,087	—	—
Equity in earnings (losses) of unconsolidated entities, net	82,468	9,460	(5,138)
Income from discontinued operations, net of taxes	304,978	14,650	117,712
Net income (loss)	<u>\$349,314</u>	<u>\$(75,748)</u>	<u>\$ 43,914</u>

15. Quarterly Financial Data (unaudited)

The following table presents selected unaudited quarterly financial data for each quarter during the year ended December 31, 2013 (in thousands, except per share information):

	For the Quarters Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues	\$ 42,346	\$42,224	\$ 41,660	\$41,878
Equity in earnings (losses) of unconsolidated entities, net	\$ 2,595	\$78,829	\$ 23	\$ 1,021
Income (loss) from discontinued operations, net of taxes	\$148,588	\$ 983	\$154,488	\$ 919
Net income (loss) attributable to common stockholders	\$157,681	\$77,677	\$115,611	\$(2,903)
Income (loss) per common share, basic and diluted	\$ 0.68	\$ 0.33	\$ 0.50	\$ (0.01)

The following table presents selected unaudited quarterly financial data for each quarter during the year ended December 31, 2012 (in thousands, except per share information):

	For the Quarters Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Revenues	\$44,300	\$ 43,284	\$43,026	\$ 41,707
Equity in earnings (losses) of unconsolidated entities, net	\$ (1,147)	\$ 1,041	\$27,573	\$(18,007)
Income (loss) from discontinued operations, net of taxes	\$ 4,872	\$ 3,409	\$ 3,011	\$ 3,358
Net income (loss) attributable to common stockholders	\$ (5,561)	\$(58,802)	\$16,287	\$(28,231)
Income (loss) per common share, basic and diluted	\$ (0.02)	\$ (0.26)	\$ 0.07	\$ (0.12)

16. Subsequent Events

Grocery-Anchored Portfolio Transaction

In January 2014, the Company dissolved its joint venture with Weingarten. As a result of the joint venture dissolution, eight of the Grocery-Anchored Portfolio properties were distributed to the Company and the remaining four Grocery-Anchored Portfolio properties were distributed to Weingarten and an additional \$0.4 million in cash was paid to the Company by Weingarten. The Company has not concluded its accounting for this acquisition, but it anticipates that it will no longer account for its investment in the Grocery-Anchored Portfolio as an equity method investment in 2014 and will consolidate the eight properties beginning with the first quarter of 2014. The Company anticipates that it will recognize a gain from the remeasurement of its investment in the joint venture to its fair value at the acquisition date. The Company expects that the contract purchase price of these eight properties, which was \$178.2 million, will primarily be allocated to building, land and intangible assets and liabilities.

Howard Hughes Center

In January 2014, the Company acquired the Howard Hughes Center, a portfolio of five Class A office buildings and an athletic club located in Los Angeles, California. The Howard Hughes Center consists of 1,318,682 square feet of rentable area and is 88% leased. The contract purchase price for the Howard Hughes Center was \$506.0 million, exclusive of transaction costs and working capital reserves. Although the Company has not concluded on its accounting for this acquisition, the Company expects that the purchase price of this property will primarily be allocated to building, land and intangible assets and liabilities.

In connection with this acquisition, the Company was obligated to pay approximately \$5.0 million of acquisition fees to the Advisor, half of which was payable in cash and half of which was payable as an increase to the Participation Interest. The Advisor and HALP, the holder of the Participation Interest, respectively, agreed to waive \$1.5 million of the cash acquisition fee and all of the \$2.5 million acquisition fee payable as an increase to the Participation Interest.

Loan Activity

In January 2014, a subsidiary of the Operating Partnership entered into an Acquisition Credit Agreement (the "Acquisition Credit Agreement") with JPMorgan Chase to establish a \$425.0 million unsecured term loan facility (the "Facility"). In connection with the acquisition of the Howard Hughes Center in January 2014, the Company borrowed the full capacity under the Facility. The Facility has a maturity date of May 15, 2014 with two 30-day extension options. The interest rate as of the date of the initial funding of the loan was 1.76%.

Additionally, in connection with the financing, the Advisor agreed to waive the entire \$4.3 million debt financing fee that otherwise would be payable to the Advisor. In February 2014, the Company paid down \$45.0 million of the Facility.

Minneapolis Office/Flex Portfolio

In March 2014, the Company sold a building in the Minneapolis Office/Flex Portfolio and in January 2014 the Company entered into a contract to sell the remaining properties in the portfolio. The Company expects this transaction to close in the second quarter of 2014. The contract sales price of the entire portfolio, which the Company acquired in September 2007 for a net contract purchase price of \$87.0 million, is \$76.1 million. The Minneapolis Office/Flex Portfolio is a portfolio of nine office/flex buildings located in the southwest and midway submarkets of Minneapolis, Minnesota. The Company did not consider this portfolio as held for sale as of December 31, 2013 due to the following: (i) the signing of the purchase and sale agreement (“PSA”) with respect to the sale of the portfolio did not occur until January 2014, (ii) it is common within the real estate industry for there to be continuous negotiations between the buyer and seller from the initial letter of intent through the contractual closing date, which often result in amendments to the terms of the PSA, and (iii) given the complexities of the due diligence process, it would be unlikely to find another buyer and close on the sale within twelve months should the buyer decide not to purchase the portfolio.

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, 2013, 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:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) 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
- (iii) 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, 2013 was based on the framework for effective internal control over financial reporting described in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, as of December 31, 2013, 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 the Company's independent registered public accounting firm regarding control over financial reporting. Management's report was not subject to attestation by the company's independent registered public accounting firm pursuant to Section 989G of the Dodd-Frank Wall Street and Consumer Protection Act, which exempts non-accelerated filers from the auditor attestation requirement of section 404 (b) of the Sarbanes-Oxley Act.

March 28, 2014

Change in Internal Controls

No changes have occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2013 that has materially affected, or is 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 April 30, 2014.

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 April 30, 2014.

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 April 30, 2014.

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 April 30, 2014.

Item 14. *Principal Accountant 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 April 30, 2014.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

Hines Real Estate Investment Trust, Inc.

Consolidated Financial Statements — as of December 31, 2013 and 2012 and for Each of the Three Years in the Year Ended December 31, 2013

Report of Independent Registered Public Accounting Firm	75
Audited Consolidated Financial Statements	
Consolidated Balance Sheets	76
Consolidated Statements of Operations and Comprehensive Income (Loss)	77
Consolidated Statements of Equity	78
Consolidated Statements of Cash Flows	79
Notes to Consolidated Financial Statements	80

Hines US Core Office Fund LP

Consolidated Financial Statements — as of December 31, 2013 and 2012 and for Each of the Three Years in the Year Ended December 31, 2013

Independent Auditor's Report	*
Audited Consolidated Financial Statements	
Consolidated Balance Sheets	*
Consolidated Statements of Operations	*
Consolidated Statements of Equity	*
Consolidated Statements of Cash Flows	*
Notes to Consolidated Financial Statements	*

(2) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts is set forth beginning on page 114 hereof.

Schedule III — Real Estate Assets and Accumulated Depreciation is set forth beginning on page 115 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.

* These financial statements were included in the Company's Annual Report on Form 10-K filed with the SEC on March 28, 2014.

(b) Exhibits

Reference is made to the Index beginning on page 118 for a list of all exhibits filed as a part of this report.

* * * * *

Hines Real Estate Investment Trust, Inc.
Schedule II — Valuation and Qualifying Accounts

Description	Balance at the Beginning of the Period	Charged to Costs and Expenses	Deductions (a)	Balance at the End of the Period
		(amounts in thousands)		
Allowance for Doubtful Accounts as of December 31, 2013	\$6,091	\$1,128	\$(2,583)	\$4,636
Allowance for Doubtful Accounts as of December 31, 2012	\$7,029	3,357	(4,295)	\$6,091
Allowance for Doubtful Accounts as of December 31, 2011	\$4,005	3,814	(790)	\$7,029

(a) Write-offs of accounts receivable previously reserved.

Hines Real Estate Investment Trust, Inc.
Schedule III — Real Estate Assets and Accumulated Depreciation
December 31, 2013

Description (a)	Location	Initial Cost			Costs Capitalized to Subsequent Acquisition		Gross Amount at Which Carried at 12/31/2013			Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (c)
		Encumbrances	Land	Buildings and Improve-ments	Total	Land	Buildings and Improve-ments	Total (b)					
									(In thousands)				
1900 and 2000													
Alameda	San Mateo, California	\$ 33,065	\$ 18,522	\$ 22,495	\$ 41,017	\$ 4,347	\$ 18,523	\$ 26,841	\$ 45,364	\$ (5,815)	1971, 1983	June-05	10 to 40 years
Citymark	Dallas, Texas	15,303	6,796	3,442	10,238	2,911	6,796	6,353	13,149	(1,156)	1987	August-05	10 to 40 years
1515 S Street	Sacramento, California	38,741	13,099	54,017	67,116	2,831	13,099	56,848	69,947	(11,334)	1987	November-05	10 to 40 years
Airport Corporate Center													
321 North Clark	Miami, Florida	78,628	34,061 (e)	62,515 (e)	96,576	5,547	34,060	68,063	102,123	(1,704)	1982-1996 (d)	January-06	10 to 40 years
3400 Data Drive	Chicago, Illinois	136,632	27,896	159,763	187,659	1,779	27,896	161,542	189,438	(31,246)	1987	April-06	10 to 40 years
Rancho Cordova, California													
2100 Powell	Emeryville, California	18,079	4,514	21,083	25,597	739	4,516	21,820	26,336	(3,964)	1990	November-06	10 to 40 years
Daytona Buildings	Redmond, Washington	79,921	31,258	93,316	124,574	449	31,258	93,765	125,023	(16,542)	2001	December-06	10 to 40 years
Laguna Buildings	Redmond, Washington	53,458	19,197	63,613	82,810	420	19,197	64,033	83,230	(11,231)	2002	December-06	10 to 40 years
Seattle Design Center	Seattle, Washington	65,542	28,619	76,180	104,799	460	28,617	76,642	105,259	(13,444)	1987	January-07	10 to 40 years
5th and Bell	Seattle, Washington	—	8,670	15,844	24,514	697	8,672	16,539	25,211	(979)	1973, 1983 (f)	June-07	10 to 40 years
3 Huntington	Seattle, Washington	39,000	3,533	58,628	62,161	98	3,531	58,728	62,259	(9,586)	2002	June-07	10 to 40 years
Quadrangle	Melville, New York	48,000	10,383	33,017	43,400	2,225	10,402	35,223	45,625	(1,742)	1971	July-07	10 to 40 years
Minneapolis Office/Flex Portfolio													
JPMorgan Chase Tower	Minneapolis, Minnesota	—	21,604 (e)	35,598 (e)	57,202	3,979	21,235	39,946	61,181	(6,481)	1986-1999 (e)	September-07	10 to 40 years
2555 Grand	Dallas, Texas	156,798	9,285	253,293	262,578	5,530	9,285	258,823	268,108	(39,166)	1987	November-07	10 to 40 years
4050/4055 Corporate Drive	Kansas City, Missouri	—	1,194	123,816	125,010	295	1,194	124,111	125,305	(18,143)	2003	February-08	10 to 40 years
345 Inverness Drive	Dallas, Texas	—	5,737 (e)	27,827 (e)	33,564	804	5,737	28,631	34,368	(94)	1996, 1997	May-08	10 to 40 years
Arapahoe Business Park	Denver, Colorado	14,067	1,985	17,798	19,783	573	1,985	18,371	20,356	(2,337)	2002	December-08	10 to 40 years
	Denver, Colorado	18,481	3,463	29,350	32,813	204	3,463	29,554	33,017	(3,756)	1997-2001	December-08	10 to 40 years
Total		\$795,715	\$249,816	\$1,151,595	\$1,401,411	\$33,888	\$249,466	\$1,185,833	\$1,435,299	\$(178,720)			

(a) Assets consist of institutional-quality office properties and industrial/distribution facilities.

(b) The aggregate cost for federal income tax purposes is \$1.6 billion as of December 31, 2013.

(c) Real estate assets are depreciated or amortized using the straight-lined 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. Major replacements that extend the useful life of the assets are capitalized and maintenance and repair costs are expensed as incurred.

(d) Airport Corporate Center consists of 11 buildings constructed between 1982 and 1996 and a 5.46-acre land development site.

(e) The decrease is a result of an impairment charge recorded in 2013.

(f) Seattle Design Center consists of a two-story office building constructed in 1973 and a five-story office building with an underground garage constructed in 1983.

(g) The Minneapolis Office/Flex Portfolio consists of nine buildings constructed between 1986 and 1999.

The changes in total real estate assets for the years ended December 31 (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross real estate assets			
Balance, beginning of period	\$2,097,342	\$2,152,780	\$2,389,475
Additions during the period:			
Effect of foreign currency exchange rates	—	—	5,529
Other	7,377	11,785	9,529
Deductions during the period:			
Cost of real estate sold	(598,113)	—	(251,261)
Fully-depreciated assets	(377)	(431)	(492)
Impairment losses	(70,930)	(66,792)	—
Balance, end of period	<u>\$1,435,299</u>	<u>\$2,097,342</u>	<u>\$2,152,780</u>
Accumulated Depreciation			
Balance, beginning of period	\$ (233,908)	\$ (202,654)	\$ (176,263)
Depreciation	(38,440)	(44,994)	(47,644)
Impairment losses	34,648	13,309	—
Retirements or sales of assets	58,980	431	21,253
Balance, end of period	<u>\$ (178,720)</u>	<u>\$ (233,908)</u>	<u>\$ (202,654)</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 Report to be signed on its behalf by the undersigned, thereunto duly authorized representative.

HINES REAL ESTATE INVESTMENT TRUST, INC.
(registrant)

March 28, 2014

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 28, 2014.

Signature	Title	Date
<u>/s/ Jeffrey C. Hines</u> Jeffrey C. Hines	Chairman of the Board of Directors	March 28, 2014
<u>/s/ Sherri W. Schugart</u> Sherri W. Schugart	President and Chief Executive Officer (Principal Executive Officer)	March 28, 2014
<u>/s/ Ryan T. Sims</u> Ryan T. Sims	Chief Financial Officer and Secretary (Principal Financial Officer and Secretary)	March 28, 2014
<u>/s/ J. Shea Morgenroth</u> J. Shea Morgenroth	Chief Accounting Officer and Treasurer (Principal Accounting Officer and Treasurer)	March 28, 2014
<u>/s/ Charles M. Baughn</u> Charles M. Baughn	Director	March 28, 2014
<u>/s/ Lee A. Lahourcade</u> Lee A. Lahourcade	Director	March 28, 2014
<u>/s/ Stanley D. Levy</u> Stanley D. Levy	Director	March 28, 2014
<u>/s/ Paul B. Murphy Jr.</u> Paul B. Murphy Jr.	Director	March 28, 2014

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Second Amended and Restated Articles of Incorporation of Hines Real Estate Investment Trust, Inc. (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K filed July 13, 2007 and incorporated herein by reference).
3.2	Second Amended and Restated Bylaws of Hines Real Estate Investment Trust, Inc. (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K filed August 3, 2006 and incorporated herein by reference).
10.1	Advisory Agreement among Hines REIT Properties, L.P., Hines Advisors Limited Partnership and Hines Real Estate Investment Trust, Inc., dated July 1, 2010 as renewed for additional one-year terms effective through December 31, 2013 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K on July 8, 2010 and incorporated by reference herein).
10.2	Loan Modification Agreement, dated January 30, 2013, by and between Metropolitan Life Insurance Company, a New York corporation, Hines REIT 2200 Ross Avenue LP, a Delaware limited partnership, Hines REIT 2007 Facility Holdings LLC, a Delaware limited liability company, Hines Real Estate Investment Trust, Inc., a Maryland corporation, and Hines REIT 2200 Ross Avenue GP LLC, a Delaware limited liability company (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K on February 5, 2013 and incorporated by reference herein).
10.3	Loan Agreement, dated January 31, 2013, between Bank of China, Los Angeles Branch and Hines REIT One Wilshire LP (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K on February 5, 2013 and incorporated by reference herein).
10.4	Acquisition Credit Agreement, dated as of January 15, 2014, among Hines REIT Properties, L.P. and JP Morgan Chase Bank, National Association (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K on January 22, 2014 and incorporated by reference herein).
10.5*	Howard Hughes Center Purchase Agreement, dated December 4, 2013, among TRIZEC 6060 HHC, LLC, TRIZEC 6080 HHC, LLC, TRIZEC 6100 HHC, LLC, TRIZEC NORTHPOINT TOWER, LLC, TRIZEC WEST LA TOWER, LLC, and TRIZEC HHC SPECTRUM, LLC (collectively, "the Sellers").
10.6*	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Hines REIT Properties, L.P.
21.1*	List of Subsidiaries of Hines Real Estate Investment Trust, Inc.
23.1*	Consent of Independent Registered Public Accounting Firm of Hines Real Estate Investment Trust, Inc. and subsidiaries, Deloitte & Touche LLP.
23.2*	Consent of Independent Auditors of Hines US Core Office Fund LP and subsidiaries, Deloitte & Touche LLP.
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 and shall not be deemed to be "filed."
99.1*	Consent of Independent Valuer, Cushman & Wakefield, Inc.
99.2*	Consent of Independent Valuer, CBRE Group, Inc.
99.3*	Consent of Independent Valuer, Jones Lang LaSalle.

Exhibit No.	Description
101*	The following materials from Hines REIT, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 28, 2014, are formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Consolidated Statements of Equity, (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



WARNER CENTER,
LOS ANGELES, CALIFORNIA

CORPORATE AND SHAREHOLDER INFORMATION

Corporate Headquarters

Hines Real Estate
Investment Trust, Inc.
2800 Post Oak Blvd.
Suite 5000
Houston, TX 77056
888.220.6121
www.hinessecurities.com

Annual Meeting

Hines REIT's Annual Meeting of
Shareholders will be held at 9:00 a.m.
on Wednesday, September 17, 2014,
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

Locke Lord Bissell & Liddell LLP

Form 10-K

Hines REIT'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 REIT
Investor Relations, at the address to the right.
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, 2013, as required by
Section 302 of the Sarbanes-Oxley Act.

Questions about Hines REIT or your account should be directed to:

Hines REIT
Investor Relations
2800 Post Oak Blvd.
Suite 4700
Houston, TX 77056
888.220.6121

Hines

Hines Real Estate Investment Trust, Inc.
2800 Post Oak Blvd.
Suite 5000
Houston, Texas 77056
888.220.6121
hinessecurities.com



00116727