STEADFAST companies

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March 12, 2014

Elizabeth M. Murphy
Secretary
Securities Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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OFFICE OF THE SECRETARY

Re: File No. SR-FINRA-2014-006

Dear Ms. Murphy:

Founded in 1994, Steadfast Companies is a multi-faceted real estate owner, operator and manager, headquartered in Irvine, California. Over two decades, we have sponsored numerous real estate programs with institutional partners, offered a successful private-placement debentures program and sponsored two publicly registered, non-traded REITs—Steadfast Income REIT (closed to new subscribers as of December 20, 2013) and Steadfast Apartment REIT, which became effective on December 30, 2013. Steadfast Income REIT raised over $ 730 million, and our current offering is registered for $1 billion.

Steadfast is committed to transparency in the non-traded REIT industry. Indeed, we were one of the first programs to conduct an intra-offering-period valuation, which served to better illuminate the performance of our growing portfolio. We therefore applaud the efforts of FINRA and the SEC to help investors understand REIT and DPP offerings, and we welcome the continued evolution of our sector.

While we support the intent of the proposed rule change set forth in File No. SR-FINRA-2014-006, Steadfast believes the current proposal does not achieve the goal of promoting investor awareness and understanding. Rather, during the early blind-pool phase, such a proposal falls short of providing any notable benefit to the investor, as a formulaic reduction of a post-investment share price achieves little more than an emotional reaction to a perceived sudden loss in value.

For the reasons set forth below, we feel the proposed changes will create investor confusion while unfairly prejudicing non-traded REITs/DPPs and their syndicating partners.

1. <u>Proposed Rule Does Not Promote Informed Investing</u>
Modifying a post-investment share price does not enhance pre-investment understanding. By the time a REIT or DPP investor receives his first account statement, it is too late to reverse the

transaction. Alternatively, augmented disclosures during the subscription process would result in better-informed decisions and much less confusion.

2. <u>Share Price Change is Potentially Misleading</u>
As proposed, the automatic price reduction under the rule would imply that the value of the investment opportunity—represented arbitrarily as an initial offering price—decreased materially in the brief period between the subscription date and the statement date. This of course is not the case, as new investors are subsequently paying the higher public offering price for the very same opportunity. The rule change therefore creates undue dissonance between the current market price and the restated share price.

3. <u>Share Price Calculation Methodology is Inherently Inaccurate</u>
Unlike a traded REIT or mutual fund, in the case of an illiquid blind-pool offering, the customer's "account statement" is not provided for the purpose of determining the investment's near-term resale value. Instead, the share price is merely a convention for establishing the basis for a yet-unrealized opportunity. Only when the portfolio has reached a "critical mass" is it possible to assess with any specificity the present value of the future benefit that a REIT or DPP provides. Until that time, automatically discounting an otherwise arbitrary share price represents a premature and inherently inaccurate attempt to quantify the current investment value.

4. <u>Rule Change is Harmful to Sponsors, Broker-Dealers and Investors</u>
This unprecedented rule change will have an inequitable "chilling effect" on non-traded REITs and DPPs, which play important roles in today's investment landscape: diversification, non-correlation, interest-rate hedging, higher risk-adjusted returns and tax management, among others. Ultimately, this over-reaching regulation will deter advisors from offering REITs and DPPs, which not only harms our industry but results in less options made available to the investing public (for whom non-traded REITs/DPPs are the only viable vehicle for obtaining exposure to many market sectors).

5. <u>Guide 5 is a Poor Basis for Determining Share Value</u>
The proposal seeks to reduce the stated share price based on line items delineated in the "Estimated Use of Proceeds" table in the prospectus. Use of this table in REIT prospectuses derives from SEC Guide 5, originally intended to establish uniformity of disclosures in registration statements for *limited partnership* offerings. Broadly-written Guide 5 certainly was not intended to be the basis for calculating a nascent REIT's share value in the absence of an appraisal.

6. <u>Distribution Coverage Accounting is Unworkable</u>
Deducting "excess" distributions above GAAP income from the share price is entirely unnecessary. Again, an investor can be made aware of a REIT's "coverage ratio" via statement disclosures without impairing the share price. In particular, this requirement would greatly exaggerate the

impact of excess distributions that occur early in the offering period (due to the fact that coverage-ratio sensitivity, relative to each dollar distributed, is exponentially higher when there is only a handful of initial investors).

7. **"Reliability" Standard is Vague as Drafted**

No later than the second anniversary of a program breaking escrow, the proposal requires sponsors to disclose a calculated per-share estimated value. Member firms are then asked to judge the "reliability" of each sponsor's estimated value. Unlike other established standards of care, we are unaware of any legal guidance for determining the reliability of a published valuation. Steadfast is concerned that firms could opt to omit REIT/DPP account values entirely, in fear of failing to comply with this undefined standard.

In summary, we respectfully request the SEC to withhold approval of FINRA's proposed rule changes under File No. SR-FINRA-2014-006. It is entirely possible to achieve adequate transparency and awareness by simply bolstering the disclosure requirements during a REIT/DPP solicitation. Moreover, a heightened share valuation standard (both in terms of frequency and quality) is reasonable, but should not be imposed until at least six months after the close of the initial offering period.

Regards,

Rodney F. Emery
CEO, Steadfast Companies