

Item 1. Cover



PNC Realty Investors, Inc.  
Form ADV Part 2A  
Firm Brochure  
March 31, 2017

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This Brochure provides information about the qualifications and business practices of PNC Realty Investors, Inc (“PRI”). If you have any questions about the contents of this brochure, please contact us at 410-237-5683. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about PRI is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

PRI may refer to itself as a “registered investment adviser.” You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

## Item 2. Material Changes

This brochure dated March 15, 2017 (“Brochure”) reflects the following material changes since the firm’s last annual updating amendment dated March 31, 2016:

- Item 5 was amended to enhance the description of fees for which PRI may earn or be reimbursed.
- Item 8 was amended to enhance the description of the firm’s investment process and risks associated with firm’s investment strategy.

**Item 3.**

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## **Item 4. Advisory Business**

### The Company

PRI registered as an investment adviser with the SEC in 2006 as Mercantile Real Estate Advisors, Inc. The Firm changed its name to “PNC Realty Investors, Inc.” when it was acquired by The PNC Financial Services Group, Inc. (“PNC”) in March 2007. PRI is now a wholly owned subsidiary of PNC Holding, LLC, which in turn is owned by PNC.

### Investment Services

PRI primarily provides real estate investment advisory and management services to institutional clients regarding commercial real estate. Currently, PRI provides such services, as well as administrative support services, solely to PNC Bank, National Association (“PNC Bank” or “Trustee”), trustee to the AFL-CIO Building Investment Trust (the “BIT” or the “Trust”). The BIT is a bank collective trust, and as such, is exempt from securities registration under 3(c)(11) of the Investment Company Act of 1940, as amended. The BIT’s participants are limited to and comprised of certain tax qualified pension and retirement plans. The BIT invests equity in real estate investments either through joint ventures or wholly owned entities. Pursuant to an investment advisory agreement with PNC Bank, and subject to the policies and investment objectives of the BIT, PRI advises and assists the Trustee in connection with BIT investments in, and management of, commercial real estate developments and acquisitions located throughout the United States. More specifically, PRI is responsible for, among other things, identifying and sourcing prospective commercial real estate transactions, evaluating those transactions, performing due diligence of the transactions, recommending to PNC Bank potential investments for the BIT, and managing the existing investments and assets of the BIT. From time to time, PRI assists the Trustee by providing information for marketing materials used by the Trustee and its agents in marketing the BIT to potential and existing BIT investors. These services include, but are not limited to, providing information to respond to requests for proposals, providing portfolio information and performance results, and furnishing statistical and research data. PRI also assists the Trustee in (1) providing information to respond participants’ requests; (2) responding to questions from existing or potential BIT participants; (3) reporting to participants and their consultants; (4) preparing federal and state tax returns; and (5) performing other services as agreed by the parties from time to time. In addition, PRI currently provides to the Trustee non-discretionary investment advice regarding the investment of cash of the BIT in accounts and/or in short-term investment vehicles which may include money market funds and other short-term investment vehicles permissible under Trust documents. PRI uses its knowledge of real estate to build and manage a portfolio of diversified, well-leased and well-located assets.

Pursuant to the investment advisory agreement with PNC Bank, PRI has limited discretion in connection with investments of the BIT. PNC Bank at all times retains ultimate responsibility for the management and investments of the BIT. As of December 31, 2016, the net asset value of the BIT real estate assets under PRI’s management was approximately \$4.7 billion.

In the future PRI may provide similar services to other clients subject to any applicable policies and objectives for such clients. PRI may provide to new or existing clients services similar or additional to those discussed above.

## **Item 5. Fees & Compensation**

In its capacity as an investment adviser, PRI is entitled to fees that are determined by mutual agreement between the client and PRI. Pursuant to an investment advisory agreement with PNC Bank, PRI currently earns an annual fee of .60% (or .15% per quarter) which is paid quarterly in arrears. The fee is calculated based on the net asset value of the assets PRI manages on behalf of PNC Bank on the last day of each quarter. Fees may be prorated for any assets bought or sold during the quarter. The fee is paid by PNC Bank and is not paid from the assets of the BIT. Expenses incurred by PRI in performing certain services for PNC Bank in connection with the BIT are reimbursed from the assets of the BIT, as permitted under the trust agreement and documents governing the BIT. Such expenses may include:

- (i) Fees and expenses incurred in connection with the proposed or actual acquisition, disposition and ownership of Real Estate Investments, (as defined in Item 8 below);
- (ii) Costs related to the acquisition, maintenance, servicing or disposition of Real Estate Investments or other BIT assets; and
- (iii) Out of pocket expenses associated with the administration of the BIT, or the evaluation, inspection, acquisition, maintenance, servicing, operation or disposition of Real Estate Investments, including but not limited to travel expenses.

Neither PRI nor its employees accept compensation for the sale of securities or other investment products, including asset-based sales charges, 12b-1 or service fees from the sale of mutual funds.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

PRI does not charge performance-based advisory fees. Notwithstanding the foregoing, the annual fee earned by PRI for its investment management services is based off a percentage of the NAV of the fund, which in part is due to the performance and value of the underlying Real Estate Investments of the BIT.

## **Item 7. Types of Clients**

PRI provides investment advisory services solely to institutional clients and investors in connection with investments in commercial real estate throughout the United States. Currently, PRI provides investment advisory and management services solely to PNC Bank, a national banking association organized under the laws of the United States, in connection with the BIT, a bank collective trust. Participants in the BIT are comprised of qualified pension and retirement plans. The organizational documents of the BIT and future clients of PRI may require, upon initial investment, a minimum dollar amount that its investors have to contribute to invest in the Trust or Fund.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

### **Investment Strategies**

The purpose of the BIT is to invest in Real Estate Investments, meeting the BIT's investment criteria and objectives. "Real Estate Investments," as defined in the trust agreement, include but are not limited to the following types of investments and interests:

- (i) fee simple interests in, and options on, improved or unimproved real property, whether or not income producing;
- (ii) mortgages, deeds of trust and notes directly or indirectly secured by real property and/or interests in real estate;
- (iii) direct or indirect real estate mortgage and construction type loans, mezzanine financing and certificates representing interests in one or more such loans, including financing or loan transactions providing for the payment of interest based on gross or net cash flow from the project and proceeds from sale, refinancing or other disposition of the project;
- (iv) leases, ground leases, condominiums, cooperatives or other property or interests in real property;
- (v) direct or indirect interests in entities such as associations, corporations, partnerships, limited liability companies, joint ventures trusts, or real estate investment trusts, formed or established to invest in or hold title to real or personal property (collectively referred to herein as an "Entity");
- (vi) real property interests owned, developed or managed by any Entity;

- (vii) securities issued by entities whose primary purpose is the investment in, development or management of real property;
- (viii) shares of beneficial interest or other securities of real estate investment trusts; and
- (ix) any other type of investment or interest that may hereafter be developed that the Trustee determines, in its sole discretion, is in the nature of (or furthers the BIT's investment in) a Real Estate Investment described in subsections (i) through (viii) above, and which is permitted as an investment under ERISA and applicable law.

In selecting Real Estate Investments, the BIT's primary objective is to generate competitive risk-adjusted returns by investing in Real Estate Investments that have the potential to offer the BIT current cash return, long-term capital appreciation, or both.

## **Methods of Analysis**

### **Investment Analysis**

PRI performs a thorough underwriting and analysis in connection with each Real Estate Investment or development project. The analysis performed requires both quantitative and qualitative studies. The analysis may vary depending on the nature, type and stage of the investment.

Information used in the analysis of Real Estate Investments includes due diligence items generally reviewed in the industry as applicable to the type of property and project. Such items include the review of: (i) independent market studies, which include a review of market demand, surveys of the existing and to be built inventory, vacancy rates, rents and operating costs of similar properties in the market area; (ii) property management information, including applicable property management agreements, experience, and bonding information; (iii) information related to the project or property such as site inspections, plans, surveys, purchase documentation, tenant documentation, and applicable zoning requirements; (iv) construction budgets, contracts, and contractors, (v) appraisals of the value of the property; (vi) financial data such as interest rates, debt service coverage, cash; (vii) developer's credit history, financial condition, and experience; (viii) legal documentation; (ix) third party reports such as environmental site assessments, engineers' inspections and physical needs assessments; (x) architectural information; (xi) insurance requirements and coverage; (xii) guaranties; and (xiii) such other factors or studies which may become necessary in the course of the analysis. PRI will analyze and perform due diligence on potential and existing real estate transactions with the intent to protect against risks inherent in commercial real estate investment.

The analysis and advice provided by PRI also is subject to the applicable plan documents, investment policies, objectives and guidelines of its clients, and regulatory requirements, including the Employee Retirement Income Security Act of 1974, as amended.

Real Estate Investments for which PRI provides services include equity investments, debt investments and/or mortgage financing and other forms of direct or indirect real estate investment. Equity investments for which the services of PRI generally have been retained do not constitute securities under applicable law and/or constitute private placements that are exempt from securities registration. Future investments in real estate, however, may constitute securities, if permitted under applicable plan documents and law.

As for any advice rendered by PRI regarding the investment of cash in accounts or short-term investment vehicles, PRI will review and analyze, among other things, the fees, projected return and rates, and risks associated with any such investment. In its review and analysis, PRI may use materials and information provided by third parties, annual reports, prospectuses, filings, corporate ratings and other applicable information.

### **Investment Oversight**

PRI has established an investment committee reviews proposed investments of the BIT's funds and to assist the Trustee in the administration of the BIT and the management of BIT assets. The Investment Committee makes recommendations to the Trustee with regard to proposed investments and administration of the BIT.

PRI has also established the PRI Management, Operating and Risk Committee (the "PRI MOR Committee") to assist the PRI Board of Directors in overseeing the business strategy, operating plans and overall risk profile of PRI. The PRI MOR Committee ensures that PRI has sufficient policies and procedures in place to mitigate investment, regulatory and other risks so that PRI can effectively manage its business activities.

## **Risk of Loss**

Investing in Real Estate Investments involves risk of loss that clients should be prepared to bear. Risks associated with Real Estate Investments include, but are not limited those set forth below. Investors in the BIT should read the BIT's investment memorandum for greater description of the risks associated with investing in the BIT.

### **A. General Risks of Real Estate Investments**

The Real Estate Investments that the BIT acquires will be subject to risks customarily associated with the ownership of income-producing real estate in the case of Equity Investments and will be subject to risks customarily associated with the risks of mortgage lending secured by income-producing real estate in the case of Mortgage Investments. In addition, Real Estate Investments tend to be illiquid and are affected by changing economic, demographic, financial, investment and legal conditions, as well as other factors. Real estate values also are affected by numerous factors, including:

- governmental regulations and changes in tax laws;
- operating costs and inflation;
- the continuing desirability of the location and attractiveness of the projects;
- changes in interest rates or the availability of long-term mortgage funds;



- the ability of the owner to provide for adequate maintenance and insurance of its properties; and
- potential liabilities under environmental and other laws.

As a result of such factors, the value of the BIT's Real Estate Investments can be expected to fluctuate. Certain factors affecting Real Estate Investments are discussed below.

#### **B. Prolonged Economic Slowdown Could Impair the Performance of Assets**

The BIT believes the risks associated with its investments will be more acute during periods of economic slowdown or recession, such as the dislocation and weakness in the capital and credit markets, especially if such periods are accompanied by declining real estate values. Concerns about the mortgage market and a declining real estate market, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit, can contribute to increased volatility and diminished expectations for the economy and markets. The mortgage market may be severely affected by changes in the lending landscape and there is no assurance that these conditions would stabilize or that they would not worsen. Furthermore, a prolonged economic slowdown could result in decreased demand for commercial real estate, impairing property owners' ability to repay their loans. To the extent that the BIT has any Mortgage Investments, if borrowers default, the BIT may incur losses on its investments if the value of any collateral underlying Mortgage Investments is insufficient to cover the full amount of such investment, and the funds from such foreclosure may take a significant amount of time to realize. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect the BIT's net interest income from Mortgage Investments in its portfolio, as well as the ability to acquire and sell any Mortgage Investments. Any deterioration of the real estate market could result in a decline in the market value of the BIT's investments or cause it to experience losses related to its assets, which could adversely affect its results of operations, the availability and cost of credit and its ability to make distributions upon receipt of redemption requests.

The BIT is subject to the risk that upon expiration of leases for space located at any property that it owns, that the space may not be relet or, if relet, the terms of the renewal or reletting (including the cost of required renovations or concessions to tenants) may be less favorable than the expiring lease terms. Any of these situations may result in extended periods where there is a significant decline in revenues or no revenues generated by a property. If the BIT is unable to relet or renew leases for all or substantially all of the space at any such properties, if the rental rates upon such renewal or reletting are significantly lower than expected, or if reserves for these purposes prove inadequate, the BIT's results of operations will be negatively impacted and the BIT may be unable to meet redemption requests.

In addition, during periods of increased adverse market volatility, the BIT could be exposed to the risk that in the future, the availability under certain of its potential funding sources may decline and/or it may have to post margin collateral, which may have a material adverse impact on the BIT's available liquidity. As a result, the BIT's contingent liquidity reserves may not be sufficient in the event of a material adverse change in the credit markets and related market price market volatility. Additionally, demands on liquidity may

result in de-leveraging of the BIT portfolio, which could adversely impact the BIT's results of operations and funds available to meet redemption requests.

### **C. Equity Investments**

The Equity Investments of the BIT are subject to the normal risks incident to the ownership and operation of commercial and mixed use real estate. These include the risks normally associated with changes in general or local market conditions, competition for tenants, changes in market rental rates, inability to collect rent due to bankruptcy or insolvency of tenants or otherwise, and the need to periodically renovate, repair and re-lease space and to pay the costs thereof. There is no assurance that any project in which the BIT holds an Equity Investment will be able to achieve and maintain sufficient cash flow to pay all operating expenses, maintenance and repair costs, and debt service, if applicable, on a timely basis. The successful operation of an income-producing real estate project is dependent upon, among other things, economic conditions generally, and, in the area of the project,

- the degree to which the project competes with other projects in the area,
- timely collection of rent and other charges payable by tenants,
- timely renewal or replacement of existing tenants and leases,
- operating costs,
- increases in rents and charges to cover increases in operating expenses (including taxes, utility rates and maintenance costs) and the costs of required repairs resulting from reasonable wear and tear and casualties,
- the impact of applicable federal, state and local laws, and
- the performance of the management agent.

Many of the costs associated with the ownership of an equity interest in real estate, real estate taxes and assessments, maintenance expenses and certain operating costs, are relatively fixed and payable whether or not cash flow from such real estate is sufficient for such payments. In addition, many of such costs are beyond the control of the owner or management agent of the property and may increase over time, whether or not rents and other charges payable by tenants may be increased. There may also be shortages of or delays in obtaining the supplies and materials needed to operate a project, such as heating fuels, gasoline, electrical power or other supplies and materials. In addition to the general types of risks identified above, certain types of income-producing projects may be subject to specific risks. For example, shopping center properties may be affected by factors influencing the retail industry, such as the trend towards consolidation in the industry and the increasing popularity of on-line shopping, as well as "superstores" and "off-price" retailing. The success of a particular shopping center project may be affected by changes in the drawing power of an anchor tenant, the loss of an anchor tenant, the financial distress or bankruptcy of an anchor tenant, and changes in consumer demand as a result of demographic changes or changes in consumer preferences. Some of these same risks apply to commercial office buildings where one or a few large tenants occupy a significant portion of the leased space. Industrial properties may be affected by other factors, such as changes in the demand for industrial space relating to the rise or decline in particular industry segments such as manufacturing or the characteristics of the particular project. A

project that met the needs of its original tenant or tenants may be difficult to re-lease to another tenant or tenants or may become functionally obsolete relative to newer properties.

#### **D. Trust as Limited Partner**

In cases in which the BIT is or becomes a limited partner in a limited partnership, the exercise by the BIT of management rights not consistent with limited partner status could result in the BIT being deemed a general partner for liability purposes. When possible, the BIT will attempt to utilize investment structures that do not expose it to this problem.

#### **E. Changes in Laws**

Changes in applicable federal, state and local laws may result in requirements or restrictions affecting a particular property that adversely affect its operation, occupancy levels or operating costs. For example, changes in environmental or other laws may impose or increase restrictions on the use or operation of a project, may increase certain expenses of the project or may necessitate potentially expensive changes in the physical configuration of the property, such as those changes that may be required to cause a property to comply with the Americans with Disabilities Act, and similar future legislation. Changes in federal tax laws, moreover, may make investment in real estate less attractive economically and thereby adversely affect real estate values.

#### **F. Potential Liability Relating to Environmental Matters**

Under various federal, state and local laws, ordinances and regulations, an owner or operator (and in some circumstances, a mortgagee) of real property may become liable for the costs of removal or remediation of certain hazardous or toxic substances on, in or under such property. Such liability may be imposed without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The costs of any required remediation or removal of such substances may be substantial and the owner's liability therefore as to any property is generally not limited under such laws, ordinances and regulations and could exceed the value of the property and/or the aggregate assets of the owner. In addition, the presence of, or the failure to properly remediate, such substance, may adversely affect the value of the property, give rise to a lien on the property to ensure the payment of the cost of clean-up or result in liability to governmental authorities or other third parties for such costs, or adversely affect the owner's ability to sell the affected real estate or to borrow using such real estate as collateral. As part of the BIT's internal policies, the Trustee generally requires a satisfactory Phase I environmental assessment and, if necessary, a Phase II environmental assessment or evidence of full remediation of any toxic substance from an engineering firm acceptable to the Trustee for all Real Estate Investments. Notwithstanding such commercially reasonable efforts, there can be no guarantee that every hazardous or toxic substance will be discovered or fully remediated.

#### **G. Risks of Litigation**

A real estate project may be vulnerable to potential litigation arising from public or private disputes about the construction or operation of properties. Such disputes and/or litigation may arise during construction or in the course of operations as to construction problems or delays, violations of federal, state or local ordinances, property tax valuations and

assessments, rent or profit controls, the terms of lease agreements with tenants or any other contract or agreement affecting the properties.

#### **H. Possible Risks Associated with Climate Change**

The BIT cannot predict with certainty whether climate change is occurring and, if so, at what rate. However, the effects of climate change could have a material adverse effect on the BIT's properties, operations and business. For example, many of the properties in which the BIT has an ownership interest are located in cities along the East and West coasts. To the extent climate change causes changes in weather patterns, the markets in which the BIT holds interests in properties could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining demand for office, commercial and residential space in the BIT's buildings or the BIT's inability to operate the buildings at all. Climate change also may have indirect effects on the BIT's business by increasing the cost of (or making unavailable) property insurance on acceptable terms, increasing the cost of energy and increasing the cost of snow removal or other maintenance at the BIT's properties. Moreover, compliance with new laws or regulations related to climate change, including compliance with "green" building codes, may require property owners to make improvements to existing properties or increase taxes and fees assessed on properties. There can be no assurance that climate change will not have a material adverse effect on the BIT's properties, operations or business or that any losses resulting from climate change events will be covered by insurance.

#### **I. Impact of Land Use, Zoning, Wetlands and Other Controls**

Governmental authorities at federal, state and local levels are actively involved in the promulgation and enforcement of regulations relating to land-use and zoning restrictions, fresh and saltwater wetlands and protection of endangered species and other matters. Regulations may be promulgated which would have the effect of restricting or curtailing the development of properties or the usage of properties. The institution of such regulations could have the effect of increasing the expenses and lowering the income or rate of return, as well as adversely affecting the value of any property affected thereby.

#### **J. Risks of Borrowings in Connection with Investments**

The BIT may acquire Equity Investments in projects subject to mortgages and may mortgage or pledge BIT assets or otherwise borrow money to fund commitments or as part of the structuring of specific transactions, particularly in larger projects in which the BIT's ultimate position will be an equity interest. Other borrowing arrangements may involve the mortgaging or pledging of groups of assets to secure revolving credit lines or other borrowings. While this actually will increase the funds available for investment by the BIT, it may also increase the risk of potential loss. In the event of a default on a mortgage or other secured borrowing, the lender could foreclose on the mortgaged or pledged assets and the BIT could lose its investment. However, to the extent it is able to borrow on a non-recourse basis, the BIT would not be liable for any deficiency between the proceeds of foreclosure and the amount of the debt, except to the extent of limited "carve-outs" typically included in non-recourse provisions. To the extent a borrowing is at a high "loan-to-value" ratio, these risks would be increased.

## **K. Real Estate Development and Construction; Impact on Equity Investments and Mortgage Investments**

The BIT has invested a portion of its assets in Real Estate Investments that will involve the selective development and construction of various kinds of income-producing properties. A Real Estate Investment in a project during its development and construction phases generally involves significant risks in addition to those involved in a Real Estate Investment in an established property. These transactions may involve special risks, including that

- the developer may have economic or business interests or goals which are inconsistent with those of the BIT,
- the developer may act in a manner which is contrary to the instructions or requests of the BIT or contrary to the BIT's policies or objectives with respect to its Real Estate Investments, and
- the developer might prove unable to complete the project as planned or on schedule and within its budget.

Among other things, actions by a developer/partner might have the result of subjecting the BIT to liabilities in excess of those contemplated by the terms of a typical loan or equity transaction. The construction period of a project presents both the owners of Equity Investments in the project and the holders of mortgage debt secured by the project with unique risks for a variety of reasons. For example, it is sometimes difficult to accurately estimate prior to the commencement of construction the total costs of construction and related carrying costs which will be required in order to complete a project and to pay operating expenses, leasing costs and debt service until the project reaches sustaining occupancy. In addition, the construction period is subject to unforeseeable delays and difficulties that may adversely affect the project and the related construction loan. The total development costs of a project and its scheduled completion date are subject to change as construction and operation of a project progress. During all stages of development and construction, a project owner is subject to extensive environmental, building, zoning and other regulations administered by various federal, state, county and local authorities. Such regulatory requirements (and any changes in such requirements during construction) may result in increased costs, delays in construction and/or an inability to complete a project on schedule and in accordance with development and construction plans. Costs and the time needed to complete construction may also exceed projections as a result of a variety of other factors. These factors include, without limitation, shortages in or the unavailability, when needed, of materials, labor and/or services, increases in the costs of materials, labor and/or services, construction or labor disputes, delays in construction caused by adverse weather, casualty and other factors, poor management, delays and unanticipated costs and difficulties in obtaining lease-up of a project and other unforeseen occurrences. Such cost overruns and delays may adversely affect the project owner's ability to complete the construction of a project, as well as the economic viability of a project and its ability to generate sufficient revenue to repay any construction or mortgage loan. There is no assurance that a project owner will have the resources available to fund the total construction and marketing costs of a project or be able to secure equity or secondary or alternative financing to fund cost overruns or unanticipated costs. In the event that

construction loan proceeds, if applicable, or other funds available to a project owner are insufficient to pay all such costs, the project may not reach completion, satisfy any requirements for permanent financing and/or reach sustaining occupancy. There is no assurance that a project owner will be able to complete the construction or lease-up of a project on schedule and in accordance with development plans. Delays may result from a variety of causes, including, without limitation, the factors discussed above, despite the owner's contractual obligations as to completion and lease-up. Any failure to complete the construction or lease-up of a project on schedule and in accordance with development plans may result in loss of rental income, loss of construction financing, foreclosure of a construction loan and/or the loss of permanent financing for the project, as applicable. Finally, market conditions also may change between the time at which construction commences and the completion of a project, rendering the project economically unfeasible or anticipated rents unattainable. In the event that any of the foregoing or other difficulties occur during the construction period of a project as to which the BIT holds an Equity Investment, the BIT may bear any resulting losses in whole or in part.

#### **L. Risks of Joint Venture, Partnership and Participation Relationships**

The BIT may acquire interests in or from an Entity, such as a joint venture, partnership or LLC, for the purpose of investing in Equity Investments and may acquire or hold Mortgage Investments in the form of participation interests in mortgage loans. The investment by the BIT in such a manner may subject the BIT to risks not otherwise present, including the possibility that the other participant or participants in the investment will have economic interests different than the BIT and the possibility that the other participant or participants might have a controlling interest and be in a position to take actions contrary to the instructions of the BIT and/or contrary to the interests of the BIT. There is also the potential for an impasse on decisions if none of the joint participants in the investment has a controlling interest and the potential risk that while the BIT may seek to acquire the interest of another participant in the investment, in the event of a sale, it may not have the resources to do so.

#### **M. Mortgage Investments**

The BIT's Mortgage Investments are subject to the risks customarily associated with investments in mortgages, which include the risk that borrowers may not be able to make debt service or principal payments when due, that the value of mortgaged property may be less than the amount owed, and that interest rates payable on the mortgages may be lower than the BIT's cost of funds. If the BIT invests in mortgages and if any of the above occurs, operating cash flow, and the BIT's ability to make distributions to Unitholders, could be adversely affected. Interest charged by the BIT on its mortgage loans, including the additional interest features on Participating Mortgages related to performance of the projects, may be limited by the usury and other laws in certain states. Penalties may be imposed under such laws and such laws may render the obligations to pay interest under such mortgage loans unenforceable in some circumstances. Uncertainties may exist in determining whether loan commitment or other fees payable by the borrower and additional interest, for example, constitute "interest" under state law. Some states impose prohibitions or limitations on remedies available to the mortgagee in attempting to recover the debt from the mortgagor. The effect of these prohibitions and limits is to compel a

mortgagee to rely upon the value of the mortgaged property to repay the debt. Such prohibitions and limits may prevent or impede the BIT as mortgagee from obtaining personal money judgments against defaulting mortgagors. Other borrowers' rights legislation may have the effect of adversely affecting the BIT's ability to foreclose promptly upon and take title to its security for the debt.

#### **N. Participating and Convertible Mortgages**

The payment of additional interest on a Participating Mortgage will be dependent on the economic performance of the underlying project and will be subject to the general risks inherent in investing in real property. As a result, the economic performance of an investment in a Participating Mortgage will be determined by a number of factors affecting the underlying project, including variations in occupancy levels, defaults by tenants in the payment of rents, increases in project operating expenses, competition with other projects, general and local economic conditions, zoning laws, rent control laws and other government regulations, the quality of the management of the project and acts of God, such as earthquakes and floods. At present, it is not possible to predict the economic performance of the Participating Mortgages in which the BIT has invested or intends to invest. Additionally, it is possible that as a result of additional interest payments that are calculated on the basis of factors relating to the operation of a project or proceeds from a sale, refinancing or other disposition, a court in a bankruptcy or similar situation may treat the BIT as a partner or joint venturer with the borrower and the BIT would, accordingly, lose the priority its Mortgage would otherwise have given it in such situations. Similarly, the Internal Revenue Service may treat the BIT as a partner or joint venturer of the borrower, and not as a secured lender, and treat the distributions not as interest payments but, instead, as partnership income possibly subject to Unrelated Business Income Tax ("UBIT"). Similar issues may arise with respect to Convertible Mortgages. A court could view the transaction as an equity arrangement from the outset, thus affecting the rights of the BIT as a secured creditor, or the enforceability of the convertible feature could be challenged as a device intended to defeat the mortgagor's right to redeem the collateral, the so-called "clogging of the equity" issue.

#### **O. Fluctuation in Market Interest Rates**

If market interest rates rise after the BIT makes an investment in a Mortgage or a Participating Mortgage, the market value of the loan will likely fall to the level at which the yield on the loan approximates the market interest rate for similar obligations. Such fluctuation is likely to cause a decline in the NAV of the BIT. Unitholders who withdraw following such declines may realize a loss of principal upon their withdrawal. Unitholders who invest subsequent to such declines may be able to invest in the BIT's assets at lower cost per Unit. The BIT is permitted to sell Participating Mortgages, Mortgages and Equity Investments at any time, including a time when the sale will result in a loss to the BIT. The BIT does not intend to sell Participating Mortgages, Mortgages and Equity Investments at a loss, but may do so if it believes the sale to be in the best interests of the BIT. As a corollary, significant declines in market interest rates may encourage prepayments that could adversely impact anticipated yields. The BIT attempts to structure transactions so that prepayments must be accompanied by premium payments designed to offset this risk, but such provisions are not always available.

#### **P. Interest Limitations**

State usury laws establish restrictions, in certain circumstances, on the maximum rate of interest that may be charged and impose penalties on the making of usurious loans, including monetary penalties, forfeiture of interest and unenforceability of the debt. There is a risk that, although the BIT does not intend to make Construction Loans, Participating Mortgages, and Mortgages at interest rates in excess of those permitted by applicable law, interest on Construction Loans, Participating Mortgages, and Mortgages could be found to exceed legal limits as a result of uncertainties in determining the maximum legal rate of interest in certain jurisdictions, especially with respect to additional interest on Participating Mortgages.

#### **Q. Uninsured Losses**

The Trustee will arrange for or require comprehensive liability and property insurance which is customarily obtained on properties of the type in which the BIT holds Equity Investments or Mortgage Investments and it is intended that “Special Insurance” will be obtained for such properties where the Trustee deems it advisable. For properties located in California, for example, the Trustee requires earthquake insurance equal to at least the probable maximum loss in a maximum credible earthquake as determined by an earthquake engineering firm or other assurances it deems satisfactory to adequately cover the risk. However, the possibility exists that “Special Insurance” (*i.e.*, coverage against earthquakes, hurricanes, wars, terrorism, other natural disasters and acts of God) may be unavailable in the future, may be available only at prices which the Trustee deems prohibitive or may be subject to extremely high deductibles. Should an uninsured or underinsured event occur with respect to a property as to which the BIT holds an Equity Investment or a Mortgage Investment, the BIT could suffer a loss of the capital invested and any income and profits which might be anticipated from that investment.

#### **R. Risks of Bankruptcy**

Certain of the BIT’s investments may be in the form of investments in or with other Entities, such as a joint venture, partnership or LLC, holding title to a real estate project, in the case of Equity Investments, or may be held of record or serviced by other entities in the case of Mortgage Investments. There may be additional risks in the event of the bankruptcy or insolvency of any of such Entities or in the event of claims by their creditors, which would not be present in the event that the BIT alone held title to the real property in which it holds its Equity Investments and held and/or serviced its Mortgage Investments directly. For example, such entities may, from time to time, receive on behalf of the BIT revenue from real estate projects, including cash flow and insurance, sale and other proceeds, mortgage loan payments, including principal and interest, prepayments and prepayment premiums, and insurance or other proceeds. In the event of the bankruptcy or other insolvency of an entity in possession of amounts due to or belonging to the BIT, such entity’s creditors could seek to attach such assets in satisfaction of their claims, which could delay or prevent remittances to the BIT.



## **S. Risks of Leverage**

The BIT has the power to mortgage or pledge BIT assets or otherwise borrow money. Accordingly, there may be substantial obligations due monthly for debt service in addition to operating costs. The principal risk arising from the use of leverage is the possibility that because of changing economic conditions, rents, income, or cash flow, BIT assets might decrease while interest rates payable by the BIT on borrowings might not decrease, and the BIT might be either unable to refinance at lower rates or be subject to substantial costs in doing so. If revenues are insufficient to pay operating costs and debt service on such borrowings, the assets mortgaged or pledged to secure such borrowings could be foreclosed upon and the BIT could lose its entire investment in such assets.

## **T. Cyber Security Risk**

With the increased use of and reliance on technologies and the dependence on computer systems to perform necessary business functions, the Trustee and other parties providing services to the BIT (“Service Providers”), may be prone to operational and information security risks resulting from cyber-attacks. In general, cyber-attacks result from deliberate attacks but unintentional events may have effects similar to those caused by cyber-attacks. Cyber-attacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information and causing operational disruption. Successful cyber-attacks against, or security breakdowns of, the BIT or its Trustee, and/or Service Providers may adversely impact the BIT and its Unitholders. For instance, cyber-attacks may interfere with the processing of Unitholder transactions, impact the BIT's ability to calculate its NAV, cause the release of private Unitholder information or confidential Fund information, cause reputational damage and subject the Trustee to regulatory fines, penalties or financial losses, reimbursement or other compensation costs and/or additional compliance costs. While the Trustee and its affiliates, as well as Service Providers, may have established business continuity plans and systems designed to guard against such cyber-attacks or adverse effects of such attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified, in large part because different unknown threats may emerge in the future.

## **Item 9. Disciplinary History**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of the Firm's management in this item. PRI has no legal or disciplinary events to report.<sup>1</sup>

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<sup>1</sup> We note that registered advisers are required to report all disciplinary events regardless of whether they are material in Part 1A of Form ADV. PRI has no disciplinary events of any kind to report.

## Item 10. Other Financial Industry Activities & Affiliations

### Broker-Dealer Registrations

PRI is not registered nor does it have an application pending to register as a broker-dealer.

### Affiliations

PRI is affiliated with a number of other investment advisers and registered broker-dealers through PNC:

#### *PNC Investments LLC*

PNC Investments LLC (“PNC Investments”), a wholly owned subsidiary of PNC Bank, is a registered broker-dealer and investment adviser which provides full service brokerage and wraps fee programs to its clients.

#### *PNC Capital Advisors, LLC*

PNC Capital Advisors, LLC (“PNC Capital”), a wholly owned subsidiary of PNC Bank, provides discretionary investment advisory services to registered investment companies, institutional accounts, and personal investment management accounts.

#### *PNC Capital Markets, LLC*

PNC Capital Markets, LLC, an indirect, wholly owned subsidiary of PNC, offers loan syndication, public finance underwriting and advisory services, securities underwriting and trading, private placements, asset securitizations and merger and acquisition advisory services.

#### *Harris Williams LLC*

Harris Williams LLC, a subsidiary of PNC, is an acquisitions advisory firms focused exclusively on the middle market.

#### *BlackRock Inc.*

BlackRock Inc. (“BlackRock”) offers investment management, risk management and advisory services for institutional and retail clients worldwide, managing assets through a variety of equity, fixed income, balanced, cash management, and alternative investment products. As of December 31, 2016, PNC, together with its subsidiaries, owned approximately 22.0% of the total capital stock of BlackRock, Inc. (“BlackRock”) and approximately 21.3% of BlackRock’s voting common stock. BlackRock is a global leader in investment management, risk management and advisory services for institutional and retail clients. BlackRock offers a range of products that include separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®. BlackRock’s subsidiaries which are registered broker-dealers or registered investment advisers include: BlackRock Investments, LLC, BlackRock Execution Services, BlackRock Advisors LLC, BlackRock Capital Management, Inc., BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock International Limited,

BlackRock Investment Management LLC, BlackRock (Singapore) Limited, BlackRock Asset Management North Asia Limited, BlackRock Asset Management Schweiz, AG, BlackRock Realty Advisors, Inc. and FutureAdvisor which operates an Internet-based investment advisory firm.

*PNC Insurance Services LLC*

PNC Insurance Services LLC, a wholly owned subsidiary of PNC Bank and a licensed insurance agency, provides a variety of insurance products and advice.

PRI believes that these affiliations do not cause any material conflicts of interest in connection with the services PRI performs. PRI, PNC Bank and PNC will manage any conflicts in accordance with applicable law and through internal policies and procedures.

PRI and PNC Bank

Both PRI and PNC Bank, the trustee for the BIT, indirectly are owned by PNC. In addition, some employees and officers of PRI may also be employees of PNC Bank. Affiliates of PNC Bank may be associated with other entities, such as partnerships, LLC's, mortgage pools or other investment entities that may directly or indirectly compete with the BIT.

From time to time, the Bank may engage in other business matters or render services to other business ventures for its own account or for the account of others whose interests may be adverse to the BIT.

In its capacity as Trustee for the BIT, PNC Bank is responsible for all aspects of the management and administration of the BIT. While PNC has delegated certain investment management services and discretion to PRI pursuant to mutual agreement, PNC Bank retains full responsibility for the investment and management of the BIT. PNC Bank can limit at any time the discretion and services of PRI.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

PRI has adopted policies and procedures including, but not limited to, a Policy for Investment Advisory and Asset Management Services, a Personal Trading and Investing Code of Ethics (the "Code"), in order to avoid conflicts of interest. The Code is designed to prevent PRI personnel from personally benefiting from existing investments managed by PRI or investments that are under consideration by, or which have been made by, PRI. For instance, PRI policies preclude any of its staff from investing in deals currently under consideration or recently invested in, without prior approval by senior management which would only be permitted for rare exceptions permitted under PRI policies and subject to applicable law. A copy of PRI's Code will be provided to any client or prospective client upon request.

PRI employees are also subject to applicable policies of PNC, including but not limited to the PNC Employee Conduct Policies which covers matters including compliance with law, conflicts of interest, insider trading, outside activities and safeguarding confidential information.

## **Item 12. Brokerage Practices**

At this time PRI generally provides investment advisory or management services regarding commercial real estate transactions that generally are not securities or are securities exempt from securities registration.

PRI does not recommend brokers or dealers, or have control over commissions paid, in the context of traded securities. However, PRI may recommend to its clients, or retain on behalf of clients, certain licensed, real estate brokers at fees negotiated by PRI, for leasing, sales, purchases and similar activities. In addition, on limited occasions, PRI has recommended certain licensed brokers in connection with the sale of a note.

PRI does not directly or indirectly earn any fee in connection with the selection of any broker on a client's behalf.

## **Item 13. Review of Accounts**

PRI and its staff review the investments held in the BIT on an ongoing basis. The process generally includes a review of specific investments held, the asset mix of the portfolio, the availability of cash for investment, the performance of the portfolio, and major market and economic developments and their effect on the portfolio. The Portfolio Manager, investment officers and their research teams meet weekly or as necessary to discuss market developments, economic outlooks, and review individual investments.

The existing client's portfolio of assets is reviewed quarterly by the applicable investment committees of PRI and the Trustee to review and determine, among other things: (1) the performance of the portfolio as compared to applicable benchmarks; (2) how well the portfolio meets the investment objectives of the BIT; (3) whether the portfolio's investments are appropriate in the context of the investment and strategic policies and objectives; and (4) whether each portfolio is in compliance with established investment restrictions and guidelines and the trust agreement. The PRI Investment Committee meets at least monthly and more frequently as necessary.

## **Item 14. Client Referrals and Other Compensation**

PRI does not receive an economic benefit from anyone other than its client, PNC Bank, for providing investment advice, administrative or management services. PRI may enter into written agreements with affiliated and third party solicitors to refer potential clients to the Firm.

## **Item 15. Custody**

PRI currently does not provide custodial services to its client; however, the Firm is deemed to have “custody” of the Funds within the meaning of SEC Rule 206(4)-2 under the Advisers Act as PNC Bank (a related person of the Firm) holds client funds and securities.

The participants in the BIT are not the Firm’s clients, however each participant in the BIT receives audited financial statements of the BIT, prepared in accordance with generally accepted accounting principles, typically within 120 days following the BIT’s fiscal year end). Participants should review these audited financial statements carefully. If you have invested in a Fund and have not received audited financial statements timely, please contact PNC Reality Investors immediately at: One East Pratt Street, Baltimore Maryland 21202, Attn: Compliance, Telephone: 216-222-4884.

## **Item 16. Investment Discretion**

PRI has been delegated certain discretion over the investments in the BIT. Such discretion has been set forth in, and limited by, the provisions of the investment advisory agreement between PRI and PNC Bank.

## **Item 17. Voting Client Securities**

The Firm’s clients do not invest in or hold equity securities, therefore clients will not receive proxies and the Firm does not have authority to vote client securities.

## **Item 18. Financial Information**

In certain circumstances, registered investment advisers are required in this Item 18 to provide to its clients certain financial information or disclosures about their financial condition. PRI does not currently fall within those circumstances. Notwithstanding the foregoing, PRI has no financial commitment that impairs its ability to meet contractual and

fiduciary commitments to clients, and has never been the subject of a bankruptcy proceeding.