

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number 000-52606

KBS REAL ESTATE INVESTMENT TRUST, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of
Incorporation or Organization)

**800 Newport Center Drive, Suite 700
Newport Beach, California**

(Address of Principal Executive Offices)

20-2985918

(I.R.S. Employer
Identification No.)

92660

(Zip Code)

(949) 417-6500

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 8, 2016, there were 185,498,863 outstanding shares of common stock of KBS Real Estate Investment Trust, Inc.

KBS REAL ESTATE INVESTMENT TRUST, INC.

FORM 10-Q

June 30, 2016

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
KBS REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Real estate held for investment:		
Land	\$ 126,721	\$ 131,874
Buildings and improvements	462,653	484,773
Tenant origination and absorption costs	23,377	26,940
Total real estate held for investment, at cost and net of impairment charges	612,751	643,587
Less accumulated depreciation and amortization	(91,963)	(102,618)
Total real estate held for investment, net	520,788	540,969
Real estate held for sale, net	112,038	319,911
Total real estate, net	632,826	860,880
Real estate loans receivable, net	22,304	27,281
Total real estate and real estate-related investments, net	655,130	888,161
Cash and cash equivalents	181,025	46,605
Restricted cash	18,499	39,874
Rents and other receivables, net	26,319	26,510
Above-market leases, net	4,539	5,417
Assets related to real estate held for sale	6,409	27,245
Prepaid expenses and other assets, net	23,758	21,053
Total assets	\$ 915,679	\$ 1,054,865
Liabilities and equity		
Notes payable:		
Notes payable, net	\$ 217,723	\$ 244,420
Notes payable related to real estate held for sale, net	33,490	183,802
Total notes payable, net	251,213	428,222
Accounts payable and accrued liabilities	18,399	19,152
Due to affiliates	218	68
Below-market leases, net	12,427	15,485
Liabilities related to real estate held for sale	4,301	12,528
Other liabilities	40,049	49,747
Total liabilities	326,607	525,202
Commitments and contingencies (Note 12)		
Redeemable common stock	6,708	10,000
Stockholders' equity		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.01 par value; 1,000,000,000 shares authorized, 185,578,670 and 186,414,147 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	1,856	1,864
Additional paid-in capital	1,656,145	1,656,137
Cumulative distributions and net losses	(1,075,637)	(1,138,338)
Total stockholders' equity	582,364	519,663
Total liabilities and stockholders' equity	\$ 915,679	\$ 1,054,865

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Rental income	\$ 24,950	\$ 32,432	\$ 54,346	\$ 67,797
Tenant reimbursements	8,598	11,133	18,846	23,688
Interest income from real estate loans receivable	739	741	1,549	1,467
Parking revenues and other operating income	497	660	1,169	1,592
Total revenues	34,784	44,966	75,910	94,544
Expenses:				
Operating, maintenance, and management	14,711	17,843	30,565	39,833
Real estate taxes, property-related taxes, and insurance	4,634	5,865	10,096	12,646
Asset management fees to affiliate	2,097	2,346	4,446	4,766
Foreclosure fees and expenses	262	—	262	—
General and administrative expenses	2,890	6,047	6,262	8,277
Depreciation and amortization	10,046	14,205	21,044	29,810
Interest expense	2,651	8,084	7,880	16,816
Impairment charges on real estate	14,629	—	25,493	—
Total expenses	51,920	54,390	106,048	112,148
Other income and loss				
Gain on sales of real estate, net	97,349	35,093	120,935	49,059
Gain on sales of foreclosed real estate held for sale	—	—	—	2,509
Loss from extinguishment of debt	(19,317)	(6,385)	(19,320)	(6,376)
Other interest income	203	120	340	241
Other income	—	354	106	349
Total other income	78,235	29,182	102,061	45,782
Income from continuing operations	61,099	19,758	71,923	28,178
Discontinued operations:				
Gain on sales of real estate, net	—	—	—	124
Income (loss) from discontinued operations	83	(7)	78	38
Total income (loss) from discontinued operations	83	(7)	78	162
Net income	\$ 61,182	\$ 19,751	\$ 72,001	\$ 28,340
Basic and diluted income per common share:				
Continuing operations	\$ 0.33	\$ 0.11	\$ 0.39	\$ 0.15
Discontinued operations	—	—	—	—
Net income per common share	\$ 0.33	\$ 0.11	\$ 0.39	\$ 0.15
Weighted-average number of common shares outstanding, basic and diluted	185,908,553	187,389,195	186,104,088	187,552,869

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 1. Financial Statements (continued)
KBS REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Year Ended December 31, 2015 and the Six Months Ended June 30, 2016 (unaudited)

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Cumulative Distributions and Net Income (Loss)	Total Stockholders' Equity
	Shares	Amounts			
Balance, December 31, 2014	187,845,515	\$ 1,879	\$ 1,662,483	\$ (1,061,589)	\$ 602,773
Net loss	—	—	—	(11,387)	(11,387)
Redemptions of common stock	(1,431,368)	(15)	(6,346)	—	(6,361)
Distributions declared	—	—	—	(65,362)	(65,362)
Balance, December 31, 2015	186,414,147	\$ 1,864	\$ 1,656,137	\$ (1,138,338)	\$ 519,663
Net income	—	—	—	72,001	72,001
Redemptions of common stock	(835,477)	(8)	(3,284)	—	(3,292)
Transfers from redeemable common stock	—	—	3,292	—	3,292
Distributions declared	—	—	—	(9,300)	(9,300)
Balance, June 30, 2016	185,578,670	\$ 1,856	\$ 1,656,145	\$ (1,075,637)	\$ 582,364

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	\$ 72,001	\$ 28,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,044	29,810
Impairment charges on real estate	25,493	—
Loss due to property damages	1,033	—
Noncash interest income on real estate-related investments	(551)	(491)
Deferred rent	(331)	(935)
Bad debt expense	219	368
Amortization of deferred financing costs	182	1,259
Amortization of above- and below-market leases, net	(2,831)	(4,081)
Gain on sales of foreclosed real estate held for sale	—	(2,509)
Gain on sales of real estate, net	(120,935)	(49,183)
Loss on extinguishment of debt	19,320	6,376
Amortization of discounts and premiums on notes payable, net	211	867
Changes in operating assets and liabilities:		
Restricted cash for operational expenditures	10,026	8,030
Rents and other receivables	(1,220)	3,020
Prepaid expenses and other assets	(3,783)	(575)
Accounts payable and accrued liabilities	1,502	3,454
Due to affiliates	150	(12)
Other liabilities	(9,679)	(5,693)
Net cash provided by operating activities	<u>11,851</u>	<u>18,045</u>
Cash Flows from Investing Activities:		
Improvements to real estate	(16,521)	(19,024)
Proceeds from sales of real estate, net	337,007	204,943
Proceeds from sales of foreclosed real estate held for sale	—	14,155
Principal repayments on real estate loans receivable	48	78
Net change in restricted cash for capital expenditures	1,463	3,735
Net cash provided by investing activities	<u>321,997</u>	<u>203,887</u>
Cash Flows from Financing Activities:		
Principal payments on notes payable	(11,950)	(126,207)
Purchase of treasury securities in connection with defeasance of notes payable	(184,772)	—
Prepayment premium on the repayment of debt	—	(4,390)
Net change in restricted cash for debt service obligations	9,886	778
Payments to redeem common stock	(3,292)	(3,108)
Distributions paid to common stockholders	(9,300)	(14,071)
Net cash used in financing activities	<u>(199,428)</u>	<u>(146,998)</u>
Net increase in cash and cash equivalents	<u>134,420</u>	<u>74,934</u>
Cash and cash equivalents, beginning of period	46,605	58,675
Cash and cash equivalents, end of period	<u>\$ 181,025</u>	<u>\$ 133,609</u>

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

1. ORGANIZATION

KBS Real Estate Investment Trust, Inc. (the “Company”) was formed on June 13, 2005 as a Maryland corporation and has elected to be taxed as a real estate investment trust (“REIT”). Substantially all of the Company’s assets are held by, and the Company conducts substantially all of its operations through, KBS Limited Partnership, a Delaware limited partnership (the “Operating Partnership”), and its subsidiaries. The Company is the sole general partner of and directly owns a 99% partnership interest in the Operating Partnership. The Company’s wholly owned subsidiary, KBS REIT Holdings LLC, a Delaware limited liability company (“KBS REIT Holdings”), owns the remaining 1% partnership interest in the Operating Partnership and is its sole limited partner.

The Company invested in a diverse portfolio of real estate and real estate-related investments. As of June 30, 2016, the Company owned or, with respect to a limited number of properties, held a leasehold interest in, 232 real estate properties (of which 23 properties were held for sale, 22 of which were GKK Properties), including the GKK Properties (defined below). In addition, as of June 30, 2016, the Company owned three real estate loans receivable and a participation interest with respect to a real estate joint venture.

On September 1, 2011, the Company, through indirect wholly owned subsidiaries (collectively, “KBS”), entered into a Collateral Transfer and Settlement Agreement (the “Settlement Agreement”) with, among other parties, GKK Stars Acquisition LLC (“GKK Stars”), the wholly owned subsidiary of Gramercy Property Trust, Inc. (“Gramercy”) that indirectly owned the Gramercy real estate portfolio, to effect the orderly transfer of certain assets and liabilities of the Gramercy real estate portfolio to KBS in satisfaction of certain debt obligations under a mezzanine loan owed by wholly owned subsidiaries of Gramercy to KBS (the “GKK Mezzanine Loan”). The Settlement Agreement resulted in the transfer of the equity interests in certain subsidiaries of Gramercy (the “Equity Interests”) that indirectly owned or, with respect to a limited number of properties, held a leasehold interest in, 867 properties (the “GKK Properties”), consisting of 576 bank branch properties and 291 office buildings, operations centers and other properties. As of December 15, 2011, GKK Stars had transferred all of the Equity Interests to the Company, giving the Company title to or, with respect to a limited number of GKK Properties, a leasehold interest in, 867 GKK Properties as of that date.

Subject to certain restrictions and limitations, the business of the Company is managed by KBS Capital Advisors LLC (the “Advisor”), an affiliate of the Company, pursuant to an advisory agreement with the Company (the “Advisory Agreement”) in effect through November 8, 2016. The Advisory Agreement may be renewed for an unlimited number of one-year periods upon the mutual consent of the Advisor and the Company. Either party may terminate the Advisory Agreement upon 60 days written notice. The Advisor owns 20,000 shares of the Company’s common stock.

Upon commencing its initial public offering (the “Offering”), the Company retained KBS Capital Markets Group LLC (the “Dealer Manager”), an affiliate of the Advisor, to serve as the dealer manager of the Offering pursuant to a dealer manager agreement dated January 27, 2006 (the “Dealer Manager Agreement”). The Company ceased offering shares of common stock in its primary offering on May 30, 2008. The Company terminated its dividend reinvestment plan effective April 10, 2012.

The Company sold 171,109,494 shares of common stock in its primary offering for gross offering proceeds of \$1.7 billion. The Company sold 28,306,086 shares of common stock under its dividend reinvestment plan for gross offering proceeds of \$233.7 million. As of June 30, 2016, the Company had redeemed 13,856,909 of the shares sold in the Offering for \$95.1 million.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

Asset Management Services Agreement Related to the GKK Properties

On December 19, 2013, the Company, through an indirect wholly owned subsidiary (“KBS Acquisition Sub”), entered into an amended and restated asset management services agreement (the “Amended Services Agreement”) with GKK Realty Advisors LLC (the “Property Manager”), an affiliate of Gramercy, with respect to the GKK Properties. The effective date of the Amended Services Agreement was December 1, 2013. Pursuant to the Amended Services Agreement, the Property Manager agreed to provide, among other services: standard asset management services, assistance related to dispositions, accounting services and budgeting and business plans for the GKK Properties (the “Services”). The Property Manager is not affiliated with the Company or KBS Acquisition Sub. As compensation for the Services, the Company agreed to pay the Property Manager: (i) an annual fee of \$7.5 million plus all GKK Property-related expenses incurred by the Property Manager, (ii) subject to certain terms and conditions in the Amended Services Agreement, a profit participation interest based on a percentage (ranging from 10% to 30%) of the amount by which the gross fair market value or gross sales price of certain identified portfolios of GKK Properties exceeds the sum of (a) an agreed-upon baseline value for such GKK Property portfolios plus (b) new capital expended to increase the value of GKK Properties within the portfolios and expenditures made to pay for tenant improvements and leasing commissions related to these GKK Properties as of the measurement date, and (iii) a monthly construction oversight fee equal to a percentage of construction costs for certain construction projects at the GKK Properties overseen by the Property Manager.

On June 29, 2016, KBS Acquisition Sub entered into two agreements, a second amended and restated asset management services agreement (the “Second Amended Services Agreement”) and an accounting/construction services agreement (the “Accounting/Construction Services Agreement”), with the Property Manager. The effective date of both the Second Amended Services Agreement and the Accounting/Construction Services Agreement was June 1, 2016. Combined, the Services and the key terms and compensation for the Services under the Second Amended Services Agreement and the Accounting/Construction Services Agreement are the same as those of the prior Amended Services Agreement; the two agreements allocate the Services and the compensation between asset management services and accounting/construction services. The Second Amended Services Agreement and the Accounting/Construction Services Agreement supersede and replace all prior agreements related to the Services among the Company and its affiliates and the Property Manager and its affiliates. The Second Amended Services Agreement and the Accounting/Construction Services Agreement will terminate on December 31, 2016, with a one-year extension option at the Company’s option, subject to certain terms and conditions contained in the agreements. On June 29, 2016, the Property Manager assigned the Second Amended Services Agreement to an affiliate, GPT Realty Management LP, an entity controlled by Gramercy.

As of June 30, 2016, the Company accrued \$20.1 million of estimated profit participation interest related to the GKK Properties under the Second Amended Services Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company’s accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2015. For further information about the Company’s accounting policies, refer to the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2015 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information as contained within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) and the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The unaudited consolidated financial statements include the accounts of the Company, KBS REIT Holdings, the Operating Partnership and their direct and indirect wholly owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of the unaudited consolidated financial statements and condensed notes thereto in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and condensed notes. Actual results could materially differ from those estimates.

Reclassifications

Certain amounts in the Company’s prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods. During the six months ended June 30, 2016, the Company sold 133 properties (132 of which were GKK Properties). As of June 30, 2016, the Company had classified 23 properties as held for sale, 22 of which were GKK Properties. As a result, certain assets and liabilities were reclassified to held for sale on the consolidated balance sheets for all periods presented.

Per Share Data

Basic net income (loss) per share of common stock is calculated by dividing net income (loss) by the weighted-average number of shares of common stock issued and outstanding during such period. Diluted net income (loss) per share of common stock equals basic net income (loss) per share of common stock, as there were no potentially dilutive securities outstanding during the six months ended June 30, 2016 and 2015, respectively.

Distributions declared per share of common stock were \$0.025 and \$0.050 for the three and six months ended June 30, 2016, respectively, and \$0.025 and \$0.050 for the three and six months ended June 30, 2015, respectively. Distributions per share of common stock were based on a quarterly record date for each quarter ended June 30, 2016 and 2015, respectively.

Segments

The Company’s segments are based on the Company’s method of internal reporting, which classifies its operations by investment type: (i) real estate, (ii) real estate-related and (iii) commercial properties primarily leased to financial institutions received under the Settlement Agreement, the GKK Properties. For financial data by segment, see Note 11, “Segment Information.”

Square Footage, Occupancy and Other Measures

Any references to square footage, occupancy or annualized base rent are unaudited and outside the scope of the Company’s independent registered public accounting firm’s review of the Company’s financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

Recently Issued Accounting Standards Update

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU No. 2014-09”). ASU No. 2014-09 requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU No. 2014-09 supersedes the revenue requirements in *Revenue Recognition (Topic 605)* and most industry-specific guidance throughout the Industry Topics of the Codification. ASU No. 2014-09 does not apply to lease contracts within the scope of *Leases (Topic 840)*. ASU No. 2014-09 was to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU No. 2015-14”), which defers the effective date of ASU No. 2014-09 by one year. Early adoption is permitted but not before the original effective date. The Company is still evaluating the impact of adopting ASU No. 2014-09 on its financial statements, but does not expect the adoption of ASU No. 2014-09 to have a material impact on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (“ASU No. 2014-15”). The amendments in ASU No. 2014-15 require management to evaluate, for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or are available to be issued when applicable) and, if so, provide related disclosures. ASU No. 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect the adoption of ASU No. 2014-15 to have a significant impact on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU No. 2016-01”). The amendments in ASU No. 2016-01 address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU No. 2016-01 primarily affects accounting for equity investments and financial liabilities where the fair value option has been elected. ASU No. 2016-01 also requires entities to present financial assets and financial liabilities separately, grouped by measurement category and form of financial asset in the balance sheet or in the accompanying notes to the financial statements. ASU No. 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU No. 2016-01 to have a significant impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU No. 2016-02”). The amendments in ASU No. 2016-02 change the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of ASU No. 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting the new leases standard on its consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* (“ASU No. 2016-13”). ASU No. 2016-13 affects entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments in ASU No. 2016-13 require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. ASU No. 2016-13 also amends the impairment model for available-for-sale securities. An entity will recognize an allowance for credit losses on available-for-sale debt securities as a contra-account to the amortized cost basis rather than as a direct reduction of the amortized cost basis of the investment, as is currently required. ASU No. 2016-13 also requires new disclosures. For financial assets measured at amortized cost, an entity will be required to disclose information about how it developed its allowance for credit losses, including changes in the factors that influenced management’s estimate of expected credit losses and the reasons for those changes. For financing receivables and net investments in leases measured at amortized cost, an entity will be required to further disaggregate the information it currently discloses about the credit quality of these assets by year of the asset’s origination for as many as five annual periods. For available for sale securities, an entity will be required to provide a roll-forward of the allowance for credit losses and an aging analysis for securities that are past due. ASU No. 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is still evaluating the impact of adopting ASU No. 2016-13 on its financial statements, but does not expect the adoption of ASU No. 2016-13 to have a material impact on its financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 1. Financial Statements (continued)
KBS REAL ESTATE INVESTMENT TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

3. REAL ESTATE HELD FOR INVESTMENT

As of June 30, 2016, the Company's portfolio of real estate held for investment, including the GKK Properties, was composed of approximately 5.0 million rentable square feet and was 86% occupied. These properties are located in 26 states and include office properties, industrial properties, bank branch properties and a retail property. Included in the Company's portfolio of real estate held for investment was 2.4 million rentable square feet related to the GKK Properties held for investment, which were 83% occupied as of June 30, 2016.

The following table summarizes the Company's investments in real estate as of June 30, 2016 and December 31, 2015 (in thousands):

	Land	Buildings and Improvements	Tenant Origination and Absorption Costs	Total Real Estate Held for Investment
<i>As of June 30, 2016:</i>				
Office	\$ 55,335	\$ 289,769	\$ 525	\$ 345,629
Industrial	10,975	56,897	1,835	69,707
Retail ⁽¹⁾	1,607	2,967	805	5,379
GKK Properties	58,804	113,020	20,212	192,036
Real estate held for investment, at cost and net of impairment charges	126,721	462,653	23,377	612,751
Accumulated depreciation/amortization	—	(79,003)	(12,960)	(91,963)
Real estate held for investment, net	\$ 126,721	\$ 383,650	\$ 10,417	\$ 520,788
<i>As of December 31, 2015:</i>				
Office	\$ 56,745	\$ 294,979	\$ 525	\$ 352,249
Industrial	10,974	56,451	1,835	69,260
GKK Properties	64,155	133,343	24,580	222,078
Real estate held for investment, at cost and net of impairment charges	131,874	484,773	26,940	643,587
Accumulated depreciation/amortization	—	(87,547)	(15,071)	(102,618)
Real estate held for investment, net	\$ 131,874	\$ 397,226	\$ 11,869	\$ 540,969

⁽¹⁾ On May 13, 2016, the Company received a deed-in-lieu of foreclosure in satisfaction of all amounts due to it under its investment in the Lawrence Village Plaza Loan Origination and received title to the collateral that secured the loan. See Note 5, "Real Estate Loans Receivable."

Operating Leases

The Company's real estate assets are leased to tenants under operating leases for which the terms and expirations vary. As of June 30, 2016, the Company's leases, including those related to the GKK Properties held for investment and excluding options to extend, had remaining terms of up to 14.0 years with a weighted-average remaining term of 4.1 years. As of June 30, 2016, leases related to the GKK Properties, excluding options to extend, had remaining terms of up to 9.6 years with a weighted-average remaining term of 3.3 years. Some of the Company's leases have provisions to extend the term of the leases, options for early termination for all or a part of the leased premises after paying a specified penalty, rights of first refusal to purchase the property at competitive market rates, and other terms and conditions as negotiated. The Company retains substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. Generally, upon the execution of a lease, the Company requires a security deposit from the tenant in the form of a cash deposit and/or a letter of credit. The amount required as a security deposit varies depending upon the terms of the respective lease and the creditworthiness of the tenant, but generally is not a significant amount. Therefore, exposure to credit risk exists to the extent that a receivable from a tenant exceeds the amount of its security deposit. Security deposits received in cash related to tenant leases are included in other liabilities in the accompanying consolidated balance sheets and totaled \$3.0 million and \$3.2 million as of June 30, 2016 and December 31, 2015, respectively.

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During the six months ended June 30, 2016 and 2015, the Company recognized deferred rent from tenants of \$0.3 million and \$0.9 million, respectively. These amounts for the six months ended June 30, 2016 and 2015 were net of \$0.7 million and \$0.7 million of lease incentive amortization, respectively. As of June 30, 2016 and December 31, 2015, the cumulative deferred rent balance was \$21.0 million and \$19.9 million, respectively, and is included in rents and other receivables on the accompanying balance sheets. The cumulative deferred rent balance included \$5.1 million and \$4.8 million of unamortized lease incentives as of June 30, 2016 and December 31, 2015, respectively. The Company records property operating expense reimbursements due from tenants for common area maintenance, real estate taxes and other recoverable costs in the period the related expenses are incurred.

The future minimum rental income from the Company's properties under non-cancelable operating leases, including leases subject to shedding rights and excluding options to extend, as of June 30, 2016 for the years ending December 31 is as follows (in thousands):

July 1, 2016 through December 31, 2016	\$	36,291
2017		70,179
2018		60,162
2019		52,780
2020		43,930
Thereafter		124,873
	<u>\$</u>	<u>388,215</u>

As of June 30, 2016, the Company's highest tenant industry concentration (greater than 10% of annualized base rent) was as follows:

Industry	Number of Tenants	Annualized Base Rent ⁽¹⁾ (in thousands)	Percentage of Annualized Base Rent
Finance	48	\$ 26,041	34.4%

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of June 30, 2016, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

As of June 30, 2016, no other tenant industries accounted for more than 10% of the Company's annualized base rent. The Company currently has over 200 tenants over a diverse range of industries and geographical regions. As of June 30, 2016 and December 31, 2015, the Company had a bad debt expense reserve of \$0.6 million and \$0.5 million, respectively. The Company's bad debt expense reserve as of June 30, 2016 and December 31, 2015 included \$0.5 million and \$0.4 million related to the GKK Properties, respectively. During the six months ended June 30, 2016 and 2015, the Company recorded bad debt expense related to its tenant receivables of \$0.2 million and \$0.4 million, respectively.

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As of June 30, 2016, the Company had a concentration of credit risk related to leases with the following tenant that represented more than 10% of the Company's annualized base rent:

Tenant	Property	Tenant Industry	Rentable Square Feet	% of Portfolio Rentable Square Feet	Annualized Base Rent Statistics			Lease Expirations
					Annualized Base Rent ⁽¹⁾ (in thousands)	% of Portfolio Annualized Base Rent	Annualized Base Rent per Square Foot	
Bank of America, N.A.	Various	Finance	1,002,669	23.5%	\$ 9,536	12.6%	\$ 9.51	⁽²⁾

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of June 30, 2016, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

⁽²⁾ As of June 30, 2016, lease expiration dates ranged from 2019 through 2023 with a weighted-average remaining term of 4.5 years.

No other tenant represented more than 10% of the Company's annualized base rent.

Geographic Concentration Risk

As of June 30, 2016, the Company's net investments in real estate in Virginia represented 12.9% of the Company's total assets. As a result, the geographic concentration of the Company's portfolio makes it particularly susceptible to adverse economic developments in Virginia's real estate market. Any adverse economic or real estate developments in this market, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics and other factors, or any decrease in demand for office or bank branch space resulting from the local business climate, could adversely affect the Company's operating results.

Impairment of Real Estate

During the three months ended June 30, 2016, the Company recorded non-cash impairment charges of \$14.6 million, of which \$14.2 million relates to 30 properties classified as real estate held for investment (including 27 GKK Properties), to write-down the carrying values of these real estate investments to their estimated fair values and \$0.4 million with respect to two GKK Properties that were held for sale to write-down the carrying values of these real estate investments to their estimated sales price less estimated costs to sell. During the six months ended June 30, 2016, the Company recorded non-cash impairment charges of \$25.5 million, of which \$24.8 million related to 44 properties classified as real estate held for investment (including 41 GKK Properties), to write-down the carrying values of these real estate investments to their estimated fair values and \$0.7 million with respect to five GKK Properties that were held for sale or sold to write-down the carrying values of these real estate investments to their estimated sales price less estimated costs to sell. See Note 6, "Real Estate Held for Sale and Discontinued Operations," for information regarding impairments of assets related to real estate held for sale or sold. The facts and circumstances leading to the impairments on the Company's real estate held for investment are as follows:

City Gate Plaza

The Company recognized an impairment charge during the six months ended June 30, 2016 of \$3.3 million to reduce the carrying value of the Company's investment in City Gate Plaza, an office property located in Sacramento, California, to its estimated fair value. The Company revised its cash flow projections to account for higher projected leasing costs to stabilize the property. The continued lack of demand in the Sacramento office rental market also resulted in higher capitalization rates.

University Park Buildings

The Company recognized an impairment charge during the six months ended June 30, 2016 of \$3.2 million to reduce the carrying value of the Company's investment in the University Park Buildings, an office property located in Sacramento, California, to its estimated fair value. The Company revised its cash flow projections primarily to account for higher projected capital costs for general building upgrades and to address certain maintenance issues. The continued lack of demand in the Sacramento office rental market also resulted in higher capitalization rates.

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ADP Plaza

The Company recognized an impairment charge during the six months ended June 30, 2016 of \$1.7 million to reduce the carrying value of the Company's investment in ADP Plaza, an office property located in Portland, Oregon, to its estimated fair value. The Company revised its cash flow projections due to an increase in projected vacancy as a tenant occupying 48.6% of the building's rentable square feet notified the Company that it will exercise its contraction option as early as January 2017, resulting in a decrease in projected cash flows.

GKK Properties

Citizens Bank Portfolio

The Company recognized an impairment charge during the six months ended June 30, 2016 of \$9.5 million relating to 21 properties in the Citizens Bank Portfolio due to a decrease in cash flow projections primarily due to an increase in projected vacancy, thus decreasing the projected cash flows the properties would generate.

Pitney Bowes - Bank of America Portfolio

The Company recognized an impairment charge during the six months ended June 30, 2016 of \$1.7 million relating to 8 properties in the Pitney Bowes - Bank of America Portfolio due to a decrease in cash flow projections primarily due to an increase in projected vacancy, thus decreasing the projected cash flows the properties would generate.

Other Properties

The Company recognized an impairment charge during the six months ended June 30, 2016 of \$5.4 million relating to 12 other GKK Properties classified as held for investment. No impairment charge related to any individual property was greater than \$800,000. These impairments generally resulted from changes in lease projections, including longer estimated lease-up periods and lower projected rental rates, thus decreasing the projected cash flows the properties would generate.

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4. TENANT ORIGATION AND ABSORPTION COSTS, ABOVE-MARKET LEASE ASSETS AND BELOW-MARKET LEASE LIABILITIES

As of June 30, 2016 and December 31, 2015, the Company's tenant origination and absorption costs, above-market lease assets, and below-market lease liabilities (excluding fully amortized assets and liabilities and accumulated amortization) were as follows (in thousands):

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Cost, net of impairments	\$ 23,377	\$ 26,940	\$ 13,680	\$ 13,624	\$ (44,033)	\$ (44,033)
Accumulated amortization	(12,959)	(15,071)	(9,141)	(8,207)	31,606	28,548
Net amount	<u>\$ 10,418</u>	<u>\$ 11,869</u>	<u>\$ 4,539</u>	<u>\$ 5,417</u>	<u>\$ (12,427)</u>	<u>\$ (15,485)</u>

Increases (decreases) in net income as a result of amortization of the Company's tenant origination and absorption costs, above-market lease assets and below-market lease liabilities for the three and six months ended June 30, 2016 and 2015 were as follows (in thousands):

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	For the Three Months Ended June 30,		For the Three Months Ended June 30,		For the Three Months Ended June 30,	
	2016	2015	2016	2015	2016	2015
Amortization	\$ (1,288)	\$ (2,581)	\$ (476)	\$ (1,303)	\$ 1,995	\$ 3,594

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	For the Six Months Ended June 30,		For the Six Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015	2016	2015
Amortization	\$ (2,830)	\$ (5,405)	\$ (1,304)	\$ (2,158)	\$ 4,135	\$ 6,239

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5. REAL ESTATE LOANS RECEIVABLE

As of June 30, 2016 and December 31, 2015, the Company, through indirect wholly owned subsidiaries, had invested in or originated real estate loans receivable as follows (dollars in thousands):

Loan Name Location of Related Property or Collateral	Date Acquired/ Originated	Property Type	Loan Type	Outstanding Principal Balance as of June 30, 2016 ⁽¹⁾	Book Value as of June 30, 2016 ⁽²⁾	Book Value as of December 31, 2015 ⁽²⁾	Contractual Interest Rate ⁽³⁾	Annualized Effective Interest Rate ⁽³⁾	Maturity Date
Sandmar Mezzanine Loan Southeast U.S. ⁽⁴⁾	01/09/2007	Retail	Mezzanine	\$ 5,074	\$ 5,096	\$ 5,096	5.4%	—%	01/01/2017
Lawrence Village Plaza Loan Origination New Castle, Pennsylvania ⁽⁵⁾	08/06/2007	Retail	Mortgage	—	—	6,903	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾
San Diego Office Portfolio B-Note San Diego, California ⁽⁶⁾	10/26/2007	Office	B-Note	20,000	18,726	18,277	5.8%	11.2%	10/11/2017
4929 Wilshire B-Note Los Angeles, California	11/19/2007	Office	B-Note	3,807	3,578	3,503	6.1%	12.4%	07/11/2017
				\$ 28,881	\$ 27,400	\$ 33,779			
Reserve for Loan Losses ⁽⁷⁾				—	(5,096)	(6,498)			
				\$ 28,881	\$ 22,304	\$ 27,281			

⁽¹⁾ Outstanding principal balance as of June 30, 2016 represents original principal balance outstanding under the loan, increased for any subsequent fundings and reduced for any principal paydowns.

⁽²⁾ Book value represents outstanding principal balance, adjusted for unamortized acquisition discounts, origination fees and direct origination and acquisition costs. Loan balances are presented gross of any asset-specific reserves.

⁽³⁾ Contractual interest rate is the stated interest rate on the face of the loan. Annualized effective interest rate is calculated as the actual interest income recognized in 2016, using the interest method, annualized and divided by the average amortized cost basis of the investment during 2016. The contractual interest rates and annualized effective interest rates presented are as of June 30, 2016.

⁽⁴⁾ The Company had recorded an asset-specific loan loss reserve against this investment as of June 30, 2016. See “—Reserve for Loan Losses.”

⁽⁵⁾ On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. On May 13, 2016, the Company received a deed-in-lieu of foreclosure in satisfaction of all amounts due to it under its investment in the Lawrence Village Plaza Loan Origination and received title to the collateral that secured the loan.

⁽⁶⁾ The borrower under this note is a wholly owned subsidiary of the Irvine Company. Donald Bren, who is the brother of Peter Bren (one of the Company’s executive officers and sponsors), is the chairman of the Irvine Company. During the six months ended June 30, 2016, the Company recognized \$1.0 million of interest income related to its investment in this loan.

⁽⁷⁾ See “—Reserve for Loan Losses.”

As of June 30, 2016 and December 31, 2015, interest receivable from real estate loans receivable was \$0.1 million and \$0.1 million, respectively, and is included in rents and other receivables.

The following summarizes the activity related to real estate loans receivable for the six months ended June 30, 2016 (in thousands):

Real estate loans receivable, net - December 31, 2015	\$ 27,281
Principal repayments received on real estate loans receivable	(48)
Accretion of discounts on purchased real estate loans receivable	568
Amortization of origination fees and costs on purchased and originated real estate loans receivable	(17)
Deed-in-lieu foreclosure of real estate loan receivable	(5,480)
Real estate loans receivable, net - June 30, 2016	\$ 22,304

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For the three and six months ended June 30, 2016 and 2015, interest income from real estate loans receivable consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Contractual interest income	\$ 459	\$ 491	\$ 998	\$ 976
Interest accretion	288	258	568	506
Amortization of origination fees and costs	(8)	(8)	(17)	(15)
Interest income from real estate loans receivable	<u>\$ 739</u>	<u>\$ 741</u>	<u>\$ 1,549</u>	<u>\$ 1,467</u>

The Company generally recognizes income on impaired loans on either a cash basis, where interest income is only recorded when received in cash, or on a cost-recovery basis, where all cash receipts are applied against the carrying value of the loan. The Company will resume the accrual of interest if it determines the collection of interest according to the contractual terms of the loan is probable. The Company considers the collectibility of the loan's principal balance in determining whether to recognize income on impaired loans on a cash basis or a cost-recovery basis. As of June 30, 2016, the borrower under the Sandmar Mezzanine Loan was delinquent. Beginning in July 2014, interest income received on the Sandmar Mezzanine Loan was recorded on a cost-recovery basis. As of September 30, 2015, the book value, which is net of the loan loss reserve for the Sandmar Mezzanine Loan, was \$0. Subsequent to September 30, 2015, the Company began recognizing cash receipts related to the Sandmar Mezzanine Loan as interest income. During the six months ended June 30, 2016 and 2015, the Company recognized interest income of \$94,000 and \$0 related to the Sandmar Mezzanine Loan, respectively. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment and the Company began recognizing interest income on a cash basis. On May 13, 2016, the Company received a deed-in-lieu of foreclosure in satisfaction of all amounts due to it under its investment in the Lawrence Village Plaza Loan Origination and received title to the collateral that secured the loan. During the six months ended June 30, 2016 and 2015, the Company recognized interest income of \$0.2 million and \$0.3 million on the Lawrence Village Plaza Loan Origination, respectively.

Reserve for Loan Losses

As of June 30, 2016, the total reserve for loan losses consisted of \$5.1 million of asset-specific reserves related to the Sandmar Mezzanine Loan, which had an amortized cost basis of \$5.1 million.

The Company did not record additional loan loss reserves during the six months ended June 30, 2016.

6. REAL ESTATE HELD FOR SALE AND DISCONTINUED OPERATIONS

In accordance with ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU No. 2014-08"), operating results of properties that are classified as held for sale in the ordinary course of business on or subsequent to January 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations. Operating results of properties that were classified as held for sale in financial statements issued for the reporting periods prior to January 1, 2014 will remain in discontinued operations on the Company's consolidated statement of operations. Prior to the adoption of ASU No. 2014-08, the operating results of properties held for sale or to be disposed of and the aggregate net gains recognized upon their disposition were presented as discontinued operations in the accompanying consolidated statements of operations for all periods presented. During the year ended December 31, 2015, the Company disposed of 34 properties (of which 31 were GKK Properties) and terminated its leasehold interest in three GKK Properties. As of December 31, 2015, the Company had classified eight properties as held for sale (all of which were GKK Properties). During the six months ended June 30, 2016, the Company disposed of 133 properties (132 of which were GKK Properties). As of June 30, 2016, the Company had classified 23 properties as held for sale, 22 of which were GKK Properties.

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The following summary presents the major components of assets and liabilities related to real estate held for sale as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Assets related to real estate held for sale		
Total real estate, at cost and net of impairment charges	\$ 129,637	\$ 380,376
Accumulated depreciation and amortization	(17,599)	(60,465)
Real estate held for sale, net	112,038	319,911
Other assets	6,409	27,245
Total assets related to real estate held for sale	\$ 118,447	\$ 347,156
Liabilities related to real estate held for sale		
Notes payable, net	33,490	183,802
Other liabilities	4,301	12,528
Total liabilities related to real estate held for sale	\$ 37,791	\$ 196,330

During the six months ended June 30, 2016, the Company sold one historical real estate property and 132 GKK Properties, which properties were not classified as held for sale in financial statements issued for the reporting periods prior to January 1, 2014. During the year ended December 31, 2015, the Company sold three historical real estate properties and 30 GKK Properties, which properties were not classified as held for sale in financial statements issued for the reporting periods prior to January 1, 2014. As of June 30, 2016, the Company had classified 23 properties as held for sale, 22 of which were GKK Properties. In accordance with ASU No. 2014-08, the operations of these properties are included in continuing operations on the Company's consolidated statements of operations. The following table summarizes certain revenues and expenses related to all of these properties, which were included in continuing operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Rental income	\$ 5,100	\$ 13,059	\$ 14,780	\$ 29,161
Tenant reimbursements and other operating income	4,525	7,308	10,668	16,233
Total revenues	9,625	20,367	25,448	45,394
Expenses				
Operating, maintenance, and management	3,300	6,603	7,990	16,691
Real estate taxes and insurance	1,758	2,971	4,333	6,913
Asset management fees to affiliate	318	373	659	838
General and administrative expenses	2	4	55	—
Depreciation and amortization	2,070	6,408	5,280	14,332
Interest expense	377	4,343	2,958	9,667
Impairment of real estate	430	—	701	—
Total expenses	8,255	20,702	21,976	48,441

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Discontinued Operations

The following table summarizes operating income from discontinued operations for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total revenues and other income	\$ 6	\$ —	\$ 6	\$ 45
Total expenses	(77)	7	(72)	7
Income (loss) from discontinued operations before gain on sales of real estate, net, and impairment charge	83	(7)	78	38
Gain on sales of real estate, net	—	—	—	124
Income (loss) from discontinued operations	<u>\$ 83</u>	<u>\$ (7)</u>	<u>\$ 78</u>	<u>\$ 162</u>

Foreclosed Real Estate Held for Sale

During the six months ended June 30, 2015, the Company sold the remaining two condominium units of the Tribeca Building and recognized a gain on sale of \$2.5 million (which gain on sale has been reduced by disposition fees to the Advisor of \$0.2 million related to these two units) and recorded expenses of \$0.3 million related to foreclosed real estate held for sale.

Disposition of the FSI 6000 Properties

On April 11, 2016, the Company sold 61 bank branch properties, containing an aggregate of 245,843 rentable square feet (the “FSI 6000 Properties”), to a buyer unaffiliated with the Company or the Advisor (the “FSI 6000 Buyer”), for an aggregate sales price, net of closing credits, of \$139.6 million (which includes a payment of \$6.6 million by the FSI 6000 Buyer to the Company to compensate the Company for costs and expenses the Company incurred in connection with the defeasance of the FSI 6000 Mortgage Loans, as defined below), excluding closing costs.

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7. NOTES PAYABLE

As of June 30, 2016 and December 31, 2015, the Company's notes payable, including notes payable related to real estate held for sale, consisted of the following (dollars in thousands):

Loan Type	Book Value as of June 30, 2016	Book Value as of December 31, 2015	Contractual Interest Rate as of June 30, 2016 ⁽¹⁾	Effective Interest Rate as of June 30, 2016 ⁽¹⁾	Payment Type	Maturity Date ⁽²⁾
<i>Notes Payable</i>						
Plaza in Clayton Mortgage Loan	\$ 62,200	\$ 62,200	5.9%	5.9%	Interest Only	10/06/2016
Portfolio Loan	153,499	164,131	One-month LIBOR + 1.80%	2.3%	Interest Only	01/01/2017
	215,699	226,331				
<i>GKK Properties Notes Payable</i>						
Bank of America - BBD2 Mortgage Loan ⁽³⁾	—	65,712	(3)	(3)	(3)	(3)
Pitney Bowes - Bank of America Mortgage Loan	36,160	36,160	5.3%	5.3%	Principal & Interest	10/10/2022
FSI 6000D Mortgage Loan ⁽⁴⁾	—	28,934	(4)	(4)	(4)	(4)
FSI 6000B Mortgage Loan ⁽⁴⁾	—	27,763	(4)	(4)	(4)	(4)
FSI 6000A Mortgage Loan ⁽⁴⁾	—	24,271	(4)	(4)	(4)	(4)
FSI 6000C Mortgage Loan ⁽⁴⁾	—	21,967	(4)	(4)	(4)	(4)
	36,160	204,807				
Total notes payable principal outstanding	251,859	431,138				
Discount on notes payable, net ⁽⁵⁾	(504)	(2,487)				
Deferred financing costs, net	(142)	(429)				
Total notes payable, net	\$ 251,213	\$ 428,222				

⁽¹⁾ Contractual interest rate represents the interest rate in effect under the loan as of June 30, 2016. Effective interest rate is calculated as the actual interest rate in effect as of June 30, 2016 (consisting of the contractual interest rate), using interest rate indices as of June 30, 2016, where applicable.

⁽²⁾ Represents the initial maturity date or the maturity date as extended as of June 30, 2016; subject to certain conditions, the maturity dates of certain loans may be extended beyond the maturity date shown.

⁽³⁾ On April 15, 2016, the Company, through an indirect wholly owned subsidiary, entered into a defeasance agreement with the lenders under the Bank of America - BBD2 Mortgage Loan. See "Significant Financing Transactions - Defeasance of the Bank of America - BBD2 Mortgage Loan" below.

⁽⁴⁾ On April 11, 2016, the Company, through indirect wholly owned subsidiaries, entered into a defeasance agreement with each of the lenders under these loans. See "Significant Financing Transactions - Defeasance of the FSI 6000 Mortgage Loans" below.

⁽⁵⁾ Represents the unamortized discounts and premiums on notes payable due to the above- and below-market interest rates when the loans were assumed. The discounts and premiums are amortized over the remaining life of the respective loan.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

As of June 30, 2016 and December 31, 2015, the Company's deferred financing costs were \$0.1 million and \$0.4 million, respectively, net of amortization. During the three and six months ended June 30, 2016, the Company incurred interest expense of \$2.7 million and \$7.9 million, respectively. During the three and six months ended June 30, 2015, the Company incurred interest expense of \$8.1 million and \$16.8 million, respectively. Included in interest expense were: (i) the amortization of deferred financing costs of \$0.1 million and \$0.2 million for the three and six months ended June 30, 2016 and \$0.8 million and \$1.3 million for the three and six months ended June 30, 2015, respectively, and (ii) the amortization of discounts and premiums on notes payable, which increased interest expense by \$23,000 and \$0.2 million for the three and six months ended June 30, 2016 and \$0.4 million and \$0.9 million for the three and six months ended June 30, 2015, respectively. As of June 30, 2016 and December 31, 2015, \$2.0 million and \$1.7 million of interest was payable, respectively.

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of June 30, 2016 (in thousands):

July 1, 2016 through December 31, 2016	\$	64,408
2017		155,832
2018		2,459
2019		2,592
2020		2,728
Thereafter		23,840
	<u>\$</u>	<u>251,859</u>

The following summarizes the activity related to notes payable for the six months ended June 30, 2016 (in thousands):

Total notes payable, net - December 31, 2015	\$	428,222
Principal repayments		(11,950)
Defeasance of notes payable		(167,328)
Write-off of discount on notes payable related to sale		1,771
Write-off of deferred financing costs		105
Amortization of discounts and premiums on notes payable, net		211
Amortization of deferred financing costs		182
Total notes payable, net - June 30, 2016	<u>\$</u>	<u>251,213</u>

Significant Financing Transactions
Defeasance of the FSI 6000 Mortgage Loans

On April 11, 2016, in connection with the disposition of the FSI 6000 Properties, the Company entered into a defeasance agreement with each of the lenders under the FSI 6000A Mortgage Loan, FSI 6000B Mortgage Loan, FSI 6000C Mortgage Loan and FSI 6000D Mortgage Loan (collectively, the "FSI 6000 Mortgage Loans") to defease the entire aggregate outstanding principal balance of \$102.3 million under the FSI 6000 Mortgage Loans, releasing the FSI 6000 Properties, which had secured the FSI 6000 Mortgage Loans. The defeasance costs and write-off of an unamortized discount resulted in an aggregate loss on extinguishment of debt of approximately \$6.6 million.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

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Defeasance of the Bank of America - BBD2 Mortgage Loan

On April 15, 2016, the Company, through an indirect wholly owned subsidiary, entered into a defeasance agreement with the lender under the Bank of America - BBD2 Mortgage Loan to defease the remaining outstanding principal balance of \$65.1 million, releasing all the properties that secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-off of an unamortized discount and unamortized deferred financing costs resulted in a loss on extinguishment of debt of approximately \$12.7 million.

Debt Covenants

The documents evidencing the Company's outstanding debt obligations typically require that specified loan-to-value and debt service coverage ratios be maintained with respect to the financed properties. A breach of the financial covenants in these documents may result in the lender imposing additional restrictions on the Company's operations, such as restrictions on the Company's ability to incur additional debt, or may allow the lender to impose "cash traps" with respect to cash flow from the property securing the loan. In addition, such a breach may constitute an event of default and the lender could require the Company to repay the debt immediately. If the Company fails to make such repayment in a timely manner, the lender may be entitled to take possession of any property securing the loan. As of June 30, 2016, the Company was in compliance with these debt covenants.

8. FAIR VALUE DISCLOSURES

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other non-financial and financial assets at fair value on a non-recurring basis (e.g., carrying value of impaired real estate loans receivable and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

The fair value for certain financial instruments is derived using a combination of market quotes, pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available and for which markets contain orderly transactions will generally have a higher degree of price transparency than financial instruments for which markets are inactive or consist of non-orderly trades. The Company evaluates several factors when determining if a market is inactive or when market transactions are not orderly. The following is a summary of the methods and assumptions used by management in estimating the fair value of each class of assets and liabilities for which it is practicable to estimate the fair value:

Cash and cash equivalents, restricted cash, rent and other receivables, and accounts payable and accrued liabilities: These balances approximate their fair values due to the short maturities of these items.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 1. Financial Statements (continued)
KBS REAL ESTATE INVESTMENT TRUST, INC.
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Real estate loans receivable: These instruments are presented in the accompanying consolidated balance sheets at their amortized cost net of recorded loan loss reserves and not at fair value. The fair values of real estate loans receivable were estimated using an internal valuation model that considered the expected cash flows for the loans, underlying collateral values (for collateral-dependent loans) and estimated yield requirements of institutional investors for loans with similar characteristics, including remaining loan term, loan-to-value, type of collateral and other credit enhancements. The Company classifies these inputs as Level 3 inputs.

Notes payable: The fair values of the Company's notes payable are estimated using a discounted cash flow analysis based on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio, type of collateral and other credit enhancements. Additionally, when determining the fair value of a liability in circumstances in which a quoted price in an active market for an identical liability is not available, the Company measures fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. The Company classifies these inputs as Level 3 inputs.

The following were the face values, carrying amounts and fair values of the Company's real estate loans receivable and notes payable as of June 30, 2016 and December 31, 2015, which carrying amounts generally do not approximate the fair values (in thousands):

	June 30, 2016			December 31, 2015		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial assets:						
Real estate loans receivable ⁽¹⁾	\$ 28,881	\$ 22,304	\$ 20,586	\$ 35,811	\$ 27,281	\$ 25,218
Financial liabilities:						
Notes payable	\$ 251,859	\$ 251,213	\$ 258,908	\$ 431,138	\$ 428,222	\$ 448,351

⁽¹⁾ Carrying amount of real estate loans receivable includes loan loss reserves.

Disclosure of the fair values of financial instruments is based on pertinent information available to the Company as of the period end and requires a significant amount of judgment. Low levels of transaction volume for certain financial instruments have made the estimation of fair values difficult and, therefore, both the actual results and the Company's estimate of value at a future date could be materially different.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(unaudited)

Assets Recorded at Fair Value

During the six months ended June 30, 2016, the Company measured the following assets at fair value on a nonrecurring basis (in thousands):

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Nonrecurring Basis ⁽¹⁾ :				
Impaired real estate held for investment	\$ 84,088	\$ —	\$ —	\$ 84,088
Impaired real estate held for sale	1,354	—	—	1,354
Impaired real estate sold	8,771	—	—	8,771

⁽¹⁾ Amounts represent the aggregate fair value for real estate assets impacted by impairment charges during the six months ended June 30, 2016, as of the date that the fair value measurements were made. The carrying value for these real estate assets may have subsequently increased or decreased from the fair value reflected due to activity that has occurred since the measurement date.

As of June 30, 2016, certain of the Company's real estate properties held for investment were measured at estimated fair value as these properties were impaired and the carrying values of these properties were adjusted to estimated fair values. The Company estimated the fair value for the impaired real estate properties held for investment by performing a 10-year discounted cash flow analysis. The range of the terminal capitalization rates used to estimate the fair values for these properties was 7.00% to 10.75%. See Note 3, "Real Estate Held for Investment — Impairment of Real Estate," for information regarding impairments related to real estate held for investment. As of June 30, 2016, certain of the Company's real estate properties held for sale and sold were measured at estimated fair value as these properties were impaired and the carrying values of these properties were adjusted to estimated fair value. The Company estimated the fair value for these impaired real estate properties held for sale and sold based on an estimated sales price, less estimated costs to sell.

9. RELATED PARTY TRANSACTIONS

The Company has entered into an Advisory Agreement with the Advisor, which entitles the Advisor to specified fees for the management and disposition of investments, among other services, as well as to reimbursement for certain costs incurred by the Advisor in providing services to the Company. In addition, the Advisor is entitled to certain other fees, including an incentive fee upon achieving certain performance goals, as detailed in the Advisory Agreement. The Company has also entered into a fee reimbursement agreement (the "AIP Reimbursement Agreement") with the Dealer Manager pursuant to which the Company agreed to reimburse the Dealer Manager for certain fees and expenses it incurs for administering the Company's participation in the DTCC Alternative Investment Product Platform with respect to certain accounts of the Company's investors serviced through the platform. The Advisor also serves, and the Dealer Manager also serves or served, as the advisor and dealer manager, respectively, for KBS Real Estate Investment Trust II, Inc., KBS Real Estate Investment Trust III, Inc., KBS Strategic Opportunity REIT, Inc., KBS Legacy Partners Apartment REIT, Inc., KBS Strategic Opportunity REIT II, Inc. and KBS Growth & Income REIT, Inc.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

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On January 6, 2014, the Company, together with KBS Real Estate Investment Trust II, Inc., KBS Real Estate Investment Trust III, Inc., KBS Strategic Opportunity REIT, Inc., KBS Legacy Partners Apartment REIT, Inc., KBS Strategic Opportunity REIT II, Inc., the Dealer Manager, the Advisor and other KBS-affiliated entities, entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage are shared. The cost of these lower tiers is allocated by the Advisor and its insurance broker among each of the various entities covered by the program, and is billed directly to each entity. The allocation of these shared coverage costs is proportionate to the pricing by the insurance marketplace for the first tiers of directors and officers liability coverage purchased individually by each REIT. The Advisor's and the Dealer Manager's portion of the shared lower tiers' cost is proportionate to the respective entities' prior cost for the errors and omissions insurance. In June 2015, KBS Growth & Income REIT, Inc. was added to the insurance program at terms similar to those described above.

During the six months ended June 30, 2016 and 2015, no other business transactions occurred between the Company and the other KBS-sponsored programs. On May 18, 2012, KBS Strategic Opportunity REIT, Inc. made an \$8.0 million investment in a joint venture in which the Company indirectly owns a participation interest through another joint venture investment.

Pursuant to the terms of the Advisory Agreement and the AIP Reimbursement Agreement, summarized below are the related-party costs incurred by the Company for the three and six months ended June 30, 2016 and 2015, respectively, and any related amounts payable as of June 30, 2016 and December 31, 2015 (in thousands):

	Incurred				Payable	
	Three Months Ended June 30,		Six Months Ended June 30,		June 30,	December 31,
	2016	2015	2016	2015	2016	2015
Expensed						
Asset management fees ⁽¹⁾	\$ 2,097	\$ 2,346	\$ 4,446	\$ 4,766	\$ —	\$ —
Reimbursement of operating expenses ⁽²⁾	101	52	165	99	61	68
Disposition fees ⁽³⁾	3,062	1,068	3,480	2,253	157	—
	<u>\$ 5,260</u>	<u>\$ 3,466</u>	<u>\$ 8,091</u>	<u>\$ 7,118</u>	<u>\$ 218</u>	<u>\$ 68</u>

⁽¹⁾ See "Asset Management Fee for GKK Properties" below.

⁽²⁾ Reimbursable operating expenses primarily consists of internal audit personnel costs, accounting software and cybersecurity related expenses incurred by the Advisor under the Advisory Agreement. The Company reimburses the Advisor for the Company's allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company. These amounts totaled \$78,000 and \$50,000 for the three months ended June 30, 2016 and 2015, respectively, and \$142,000 and \$95,000 for the six months ended June 30, 2016 and 2015, respectively. These were the only type of employee costs reimbursed under the Advisory Agreement for the six months ended June 30, 2016 and 2015. The Company will not reimburse for employee costs in connection with services for which the Advisor earns disposition fees (other than reimbursement of travel and communication expenses) or for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers. In addition to the amounts above, the Company reimburses the Advisor for certain of the Company's direct costs incurred from third parties that were initially paid by the Advisor on behalf of the Company.

⁽³⁾ Disposition fees with respect to real estate sold are included in the gain (loss) on sales of real estate in the accompanying consolidated statements of operations.

During the three and six months ended June 30, 2016, the Advisor reimbursed the Company \$36,000 for property insurance rebate and \$69,000 for legal and professional fees.

Asset Management Fee for GKK Properties

Among the fees payable to the Advisor is an asset management fee. With respect to investments in real estate, the Company pays the Advisor a monthly asset management fee equal to one-twelfth of 0.75% of the amount actually paid or allocated to acquire the investment, plus the cost of any subsequent development, construction or improvements to the property. This amount includes any portion of the investment that was debt financed and is inclusive of acquisition fees and expenses related thereto. In the case of investments made through joint ventures, the asset management fee is determined based on the Company's proportionate share of the underlying investment.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

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With respect to investments in loans and any investments other than real estate, the Company pays our advisor a monthly asset management fee calculated, each month, as one-twelfth of 0.75% of the lesser of (i) the amount actually paid or allocated to acquire or fund the loan or other investment (which amount includes any portion of the investment that was debt financed and is inclusive of acquisition or origination fees and expenses related thereto) and (ii) the outstanding principal amount of such loan or other investment, plus the acquisition or origination fees and expenses related to the acquisition or funding of such investment, as of the time of calculation.

With respect to an investment that has suffered an impairment in value, reduction in cash flow or other negative circumstances, such investment may either be excluded from the calculation of the asset management fee described above or included in such calculation at a reduced value that is recommended by the Advisor and Company's management and then approved by a majority of its independent directors, and this change in the fee shall be applicable to an investment upon the earlier to occur of the date on which (i) such investment is sold, (ii) such investment is surrendered to a person other than the company, its direct or indirect wholly owned subsidiary or a joint venture or partnership in which it has an interest, (iii) the Advisor determines that it will no longer pursue collection or other remedies related to such investment, or (iv) the Advisor recommends a revised fee arrangement with respect to such investment. As of June 30, 2016, the Company excluded its interest in an unconsolidated joint venture from the calculation of asset management fees. Through March 31, 2016, the Company calculated the asset management fee for the GKK Properties based on the original cost of its investment in the GKK Mezzanine Loan, rather than on the gross value of the GKK Properties it owns or in which it holds a leasehold interest. Beginning April 2016, the gross value of the GKK Properties fell below the original cost of the Company's investment in the GKK Mezzanine Loan and for the period from April 1, 2016 through June 30, 2016, it calculated the asset management fee for these properties based on the gross value of the GKK Properties. As of June 30, 2016, the Company had not determined to calculate the asset management fee at an adjusted value for any other investments or to exclude any other investments from the calculation of the asset management fee.

Modification of Disposition Fee Related to GKK Properties

In accordance with the Advisory Agreement, for substantial assistance in connection with the sale of properties, loans or other investments as determined by the conflicts committee of the Company's board of directors, the Company pays the Advisor or its affiliates a disposition fee of 1% of the contract sales price of the properties, loans or other investments sold. However, in no event may the total commissions (including such disposition fees) paid to the Advisor, its affiliates and unaffiliated third parties exceed 6% of the contract sales price of the property, loan or other investment sold or exceed a competitive real estate commission.

Notwithstanding the foregoing, in January 2015, the disposition fee related to the sales of GKK Properties was modified to provide that the conflicts committee will determine in its sole discretion the amount of the disposition fee related to the sale of GKK Properties upon the terms set forth below, which disposition fee may be an amount not to exceed 1% of the contract sales price, which maximum amount is consistent with the fixed percentage applicable to the sales of other properties, loans and other investments.

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With respect to sales of the GKK Properties, and provided that the conflicts committee determines that the Advisor has provided a substantial amount of services in connection with the sale of each GKK Property for which the payment of a disposition fee is requested by the Advisor, then:

- (a) With respect to portfolio or single asset sales of GKK Properties designated by the conflicts committee in its sole discretion at or about the time of the sale, the Company will pay the Advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other limitations and conditions set forth in the Advisory Agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable upon the respective closing; and
- (b) With respect to sales of all other GKK Properties for which a disposition fee has not yet been paid, if, upon the sale of the final GKK Property, the conflicts committee determines in its sole discretion that the Company has recovered its entire investment related to the GKK Mezzanine Loan and the GKK Properties subsequent to the Settlement Agreement, after taking into consideration the net cash flow received by the Company from the investment, whether in the form of (i) net proceeds from the sales or other dispositions or transfers of the GKK Properties, (ii) the net cash flow related to the GKK Mezzanine Loan, (iii) the net cash flow related to the GKK Properties subsequent to the Settlement Agreement and/or (iv) other proceeds related to the assets and liabilities received under the Settlement Agreement, then the Company will pay the Advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other conditions set forth in the Advisory Agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable promptly upon such determination by the conflicts committee.

As of June 30, 2016, the Company had sold 160 GKK Properties for an aggregate contract sales price of \$214.1 million for which the Company had not paid or accrued a disposition fee. If the conflicts committee determines the Company has recovered its entire investment related to the GKK Mezzanine Loan and the GKK Properties upon the sale of the final GKK Property, the conflicts committee may authorize the Company to pay the Advisor a disposition fee of up to 1% of the aggregate contract sales price of these GKK Properties sold as of June 30, 2016, which amount would be determined by the conflicts committee in its sole discretion.

On August 9, 2016, the Company and the Advisor entered into an amendment (“Amendment No. 1”) to the Advisory Agreement between the parties to amend certain terms related to the disposition fee payable to the Advisor by the Company. See Note 13, “Subsequent Events - Advisory Agreement Amendment” for more information.

10. SUPPLEMENTAL CASH FLOW AND SIGNIFICANT NONCASH TRANSACTION DISCLOSURES

Supplemental cash flow and significant noncash transaction disclosures were as follows (in thousands):

	For the Six Months Ended June 30,	
	2016	2015
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 7,195	\$ 13,671
Supplemental Disclosure of Significant Noncash Transactions:		
Treasury securities transferred in connection with defeasance of notes payable	\$ (184,256)	\$ —
Defeasance of notes payable	\$ 167,328	\$ —
Investment in a real estate property through deed-in-lieu of foreclosure	\$ 5,480	\$ —
Increase in lease commissions payable	\$ 340	\$ —
Increase in lease incentives payable	\$ 164	\$ 423

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

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(unaudited)

11. SEGMENT INFORMATION

The Company presently operates in three business segments based on its investment types: real estate, real estate-related and commercial properties primarily leased to financial institutions received under the Settlement Agreement, or the GKK Properties. Under the real estate segment, the Company has invested primarily in office and industrial properties located throughout the United States. The real estate segment excludes all real estate properties that were classified as discontinued operations. Under the real estate-related segment, the Company has invested in or originated mortgage loans, mezzanine loans and other real estate-related assets, including real estate securities. The GKK Properties segment consists of primarily office properties, bank branch properties, operations centers and other properties located in 26 states but excludes GKK Properties that were classified as discontinued operations. All revenues earned from the Company's three reporting segments were from external customers and there were no intersegment sales or transfers. The Company does not allocate corporate-level accounts to its reporting segments. Corporate-level accounts include corporate general and administrative expenses, asset management fees, non-operating interest income and other corporate-level expenses. The accounting policies of the reporting segments are consistent with those described in Note 2, "Summary of Significant Accounting Policies."

The Company evaluates the performance of its segments based upon net operating income from continuing operations ("NOI"), which is a non-GAAP supplemental financial measure. The Company defines NOI for its real estate segment and the GKK Properties segment as operating revenues (rental income, tenant reimbursements and other operating income) less property and related expenses (property operating expenses, real estate taxes, insurance and provision for bad debt) less interest expense. The Company defines NOI for its real estate-related segment as interest income and income from its unconsolidated joint venture investment less loan servicing costs (if applicable) and interest expense (if applicable). NOI excludes certain items that are not considered to be controllable in connection with the management of an asset such as non-property income and expenses, depreciation and amortization, asset management fees and corporate general and administrative expenses. The Company uses NOI to evaluate the operating performance of the Company's real estate investments, real estate-related investments and the GKK Properties and to make decisions about resource allocations. The Company believes that net income is the GAAP measure that is most directly comparable to NOI; however, NOI should not be considered as an alternative to net income as the primary indicator of operating performance as it excludes the items described above. Additionally, NOI as defined above may not be comparable to other REITs or companies as their definitions of NOI may differ from the Company's definition. During the year ended December 31, 2014, the Company revised its definition of NOI to exclude asset management fees, which the Company does not consider to be controllable in connection with the management of each property or real estate-related asset and is viewed by the chief operating decision makers as a corporate-level administrative expense. NOI for all prior periods presented has been adjusted to conform to the current period definition.

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Item 1. Financial Statements (continued)
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The following tables summarize total revenues, interest expense and NOI for each reportable segment for the three and six months ended June 30, 2016 and 2015, and total assets and total liabilities for each reportable segment as of June 30, 2016 and December 31, 2015 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Real estate segment ⁽¹⁾	\$ 16,481	\$ 16,488	\$ 33,671	\$ 34,329
Real estate-related segment	739	741	1,549	1,467
GKK Properties segment ⁽¹⁾	17,564	27,737	40,690	58,748
Total revenues	<u>\$ 34,784</u>	<u>\$ 44,966</u>	<u>\$ 75,910</u>	<u>\$ 94,544</u>
Interest expense:				
Real estate segment ⁽¹⁾	\$ 1,922	\$ 2,036	\$ 3,860	\$ 4,244
GKK Properties segment ⁽¹⁾	729	6,048	4,020	12,572
Total interest expense	<u>\$ 2,651</u>	<u>\$ 8,084</u>	<u>\$ 7,880</u>	<u>\$ 16,816</u>
NOI:				
Real estate segment ⁽¹⁾	\$ 7,152	\$ 6,660	\$ 14,888	\$ 13,055
Real estate-related segment	738	741	1,548	1,466
GKK Properties segment ⁽¹⁾	4,898	5,773	10,933	10,728
Total NOI	<u>\$ 12,788</u>	<u>\$ 13,174</u>	<u>\$ 27,369</u>	<u>\$ 25,249</u>
	As of June 30,	As of December 31,		
	2016	2015		
Assets:				
Real estate segment	\$ 407,124	\$ 406,690		
Real estate-related segment	23,962	27,899		
GKK Properties segment	226,455	261,950		
Total segment assets	657,541	696,539		
Real estate held for sale	118,447	347,156		
Corporate-level ⁽²⁾	139,691	11,170		
Total assets	<u>\$ 915,679</u>	<u>\$ 1,054,865</u>		
Liabilities:				
Real estate segment	\$ 198,544	\$ 199,729		
Real estate-related segment	5	3		
GKK Properties segment	88,415	127,836		
Total segment liabilities	286,964	327,568		
Real estate held for sale	37,791	196,330		
Corporate-level ⁽³⁾	1,852	1,304		
Total liabilities	<u>\$ 326,607</u>	<u>\$ 525,202</u>		

⁽¹⁾ Amounts include certain properties in continuing operations that were sold or held for sale as of June 30, 2016. See Note 6, "Real Estate Held for Sale and Discontinued Operations" for more information.

⁽²⁾ Total corporate-level assets consisted primarily of cash and cash equivalents of approximately \$139.1 million and \$10.6 million as of June 30, 2016 and December 31, 2015, respectively.

⁽³⁾ As of June 30, 2016 and December 31, 2015, corporate-level liabilities consisted primarily of accounts payable and accrued liabilities for general and administrative expenses.

PART I. FINANCIAL INFORMATION (CONTINUED)
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KBS REAL ESTATE INVESTMENT TRUST, INC.
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(unaudited)

The following table reconciles the Company's net income to its NOI for the three and six months ended June 30, 2016 and 2015 (amounts in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 61,182	\$ 19,751	\$ 72,001	\$ 28,340
Gain on sales of real estate	(97,349)	(35,093)	(120,935)	(49,059)
Loss from extinguishment of debt	19,317	6,385	19,320	6,376
Gain on sale of foreclosed real estate held for sale	—	—	—	(2,509)
Other income and interest income	(203)	(474)	(446)	(590)
Asset management fees to affiliate	2,097	2,346	4,446	4,766
Foreclosure fees and expenses	262	—	262	—
General and administrative expenses	2,890	6,047	6,262	8,277
Depreciation and amortization	10,046	14,205	21,044	29,810
Impairment charges on real estate	14,629	—	25,493	—
Total (income) loss from discontinued operations	(83)	7	(78)	(162)
NOI ⁽¹⁾	\$ 12,788	\$ 13,174	\$ 27,369	\$ 25,249

⁽¹⁾ Amounts include certain properties in continuing operations that were sold or held for sale as of June 30, 2016. See Note 6, "Real Estate Held for Sale and Discontinued Operations" for more information.

12. COMMITMENTS AND CONTINGENCIES
Lease Obligations

Pursuant to the Settlement Agreement, the Company indirectly received leasehold interests in certain commercial properties, pursuant to leases between the owner of the property, as landlord, and the Company, as tenant. The ground leases have expiration dates from 2017 through 2042 and the building leases have expiration dates from 2016 through 2085. These lease obligations generally contain rent increases and renewal options. In certain instances, the rent owed by the Company to the owner of the property under the lease is greater than the revenue received by the Company from the tenants occupying the property.

Future minimum lease payments owed by the Company under non-cancelable operating building and ground leases as of June 30, 2016 were as follows (in thousands):

July 1, 2016 through December 31, 2016	\$ 8,318
2017	12,724
2018	2,560
2019	1,864
2020	1,289
Thereafter	30,182
	<u>\$ 56,937</u>

If the Company were to dispose of an asset that is subject to a ground lease, the Company may incur additional losses to settle obligations related to the ground lease.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

Economic Dependency

The Company is dependent on the Advisor for certain services that are essential to the Company, including the management of the Company's real estate and real estate-related investment portfolio; the disposition of real estate and real estate-related investments; and other general and administrative responsibilities. In the event that the Advisor is unable to provide any of these services, the Company will be required to obtain such services from other sources. The Company is also dependent on GPT Realty Management LP and the Property Manager for the Services under the Second Amended Services Agreement and the Accounting/Construction Services Agreement, including the operations, leasing and eventual dispositions of the GKK Properties.

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. Although there can be no assurance, the Company is not aware of any environmental liability that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company's properties, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to the properties could result in future environmental liabilities.

Under the Settlement Agreement, the Company indirectly took title to or, with respect to a limited number of the GKK Properties, indirectly took a leasehold interest in, the GKK Properties on an "as is" basis. As such, the Company was not able to inspect the GKK Properties or conduct standard due diligence on certain of the GKK Properties before the transfers of the properties. Additionally, the Company did not receive representations, warranties and indemnities relating to the GKK Properties from Gramercy and/or its affiliates. Thus, the value of the GKK Properties may decline if the Company subsequently discovers environmental problems with the GKK Properties.

Legal Matters

From time to time, the Company is party to legal proceedings that arise in the ordinary course of its business. Management is not aware of any legal proceedings the outcome of which is probable or reasonably possible to have a material adverse effect on the Company's results of operations or financial condition, which would require accrual or disclosure of the contingency and possible range of loss. Additionally, the Company has not recorded any loss contingencies related to legal proceedings in which the potential loss is deemed to be remote.

13. SUBSEQUENT EVENTS

The Company evaluates subsequent events up until the date the consolidated financial statements are issued.

Distribution Declared

On August 9, 2016, the Company's board of directors declared a distribution in the amount of \$0.025 per share of common stock to stockholders of record as of the close of business on September 22, 2016. The Company expects to pay this distribution on or about September 29, 2016.

Disposition of Woodfield Preserve Office Center

On November 13, 2007, the Company, through an indirect wholly owned subsidiary, purchased two six-story office buildings containing an aggregate of 647,216 rentable square feet on approximately 24 acres of land in Schaumburg, Illinois ("Woodfield Preserve Office Center"). On July 14, 2016, the Company sold Woodfield Preserve Office Center, which had a net book value of \$71.5 million as of the date of sale, for \$73.4 million. The purchaser is not affiliated with the Company or the Advisor. In connection with the disposition of Woodfield Preserve Office Center, the Company repaid \$37.1 million of the outstanding principal balance due under the Portfolio Loan, which was partially secured by Woodfield Preserve Office Center.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

(unaudited)

Advisory Agreement Amendment

On August 9, 2016, the Company and the Advisor entered into Amendment No. 1 to the Advisory Agreement between the parties to amend certain terms related to the disposition fee payable to the Advisor by the Company.

Prior to Amendment No. 1, with respect to sales of GKK Properties, the Advisory Agreement provided:

With respect to sales of the GKK Properties, and provided that the conflicts committee determines that the Advisor has provided a substantial amount of services in connection with the sale of each GKK Property for which the payment of a disposition fee is requested by the Advisor, then:

- (a) With respect to portfolio or single asset sales of GKK Properties designated by the conflicts committee in its sole discretion at or about the time of the sale, the Company will pay the Advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other limitations and conditions set forth in the Advisory Agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable upon the respective closing; and
- (b) With respect to sales of all other GKK Properties for which a disposition fee has not yet been paid, if, upon the sale of the final GKK Property, the conflicts committee determines in its sole discretion that the Company has recovered its entire investment related to the GKK Mezzanine Loan and the GKK Properties subsequent to the Settlement Agreement, after taking into consideration the net cash flow received by the Company from the investment, whether in the form of (i) net proceeds from the sales or other dispositions or transfers of the GKK Properties, (ii) the net cash flow related to the GKK Mezzanine Loan, (iii) the net cash flow related to the GKK Properties subsequent to the Settlement Agreement and/or (iv) other proceeds related to the assets and liabilities received under the Settlement Agreement, then the Company will pay the Advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other conditions set forth in the Advisory Agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable promptly upon such determination by the conflicts committee.

Pursuant to Amendment No. 1, with respect to sales of GKK Properties for which a disposition fee has not yet been paid, based on the proceeds received from the entire investment related to the GKK Mezzanine Loan and the GKK Properties to date and expected proceeds from future sales, the conflicts committee determined that the Advisor had provided a substantial amount of services in connection with the sale of each such 160 GKK Property named therein and approved the payment to the Advisor of a disposition fee equal to 1.0% of the aggregate contract sales prices of such GKK Properties, which aggregate disposition fee was \$2.0 million. The aggregate contract sales price of such 160 GKK Properties was \$214.1 million.

Also pursuant to Amendment No. 1, for substantial assistance in connection with the sale of all GKK Properties that have not yet been sold (as determined by the conflicts committee of the Company's board of directors), the Company will pay the Advisor or its affiliates a disposition fee of 1% of the contract sales such GKK Properties sold. However, in no event may the total commissions (including such disposition fees) paid to the Advisor, its affiliates and unaffiliated third parties exceed 6% of the contract sales price of the property, loan or other investment sold or exceed a competitive real estate commission.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying financial statements of KBS Real Estate Investment Trust, Inc. and the notes thereto. As used herein, the terms "we," "our" and "us" refer to KBS Real Estate Investment Trust, Inc., a Maryland corporation, and, as required by context, KBS Limited Partnership, a Delaware limited partnership, which we refer to as the "Operating Partnership," and to their subsidiaries.

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Real Estate Investment Trust, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as "may," "will," "seeks," "anticipates," "believes," "estimates," "expects," "plans," "intends," "should" or similar expressions. Actual results may differ materially from those contemplated by such forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, unless required by law.

The following are some of the risks and uncertainties, although not all of the risks and uncertainties, that could cause our actual results to differ materially from those presented in our forward-looking statements:

- We are the first publicly offered investment program sponsored by the affiliates of our external advisor, KBS Capital Advisors LLC ("KBS Capital Advisors"), which makes our future performance difficult to predict. Our stockholders should not assume that our performance will be similar to the past performance of other real estate investment programs sponsored by affiliates of our advisor.
- All of our executive officers and some of our directors and other key real estate and debt finance professionals are also officers, directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor, the entity that acted as our dealer manager and/or other KBS-affiliated entities. As a result, they face conflicts of interest, including significant conflicts created by our advisor's compensation arrangements with us and other KBS-sponsored programs and KBS-advised investors and conflicts in allocating time among us and these other programs and investors. These conflicts could result in unanticipated actions.
- We pay substantial fees to and expenses of our advisor and its affiliates. These payments increase the risk that our stockholders will not earn a profit on their investment in us and increase the risk of loss to our stockholders.
- We depend on tenants for the revenue generated by our real estate investments and, accordingly, the revenue generated by our real estate investments is dependent upon the success and economic viability of our tenants. Revenues from our properties could decrease due to a reduction in occupancy (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases) and/or lower rental rates, making it more difficult for us to meet our debt service obligations and reducing our stockholders' returns.
- We may not be able to refinance some or all of our existing indebtedness or to obtain additional debt financing on attractive terms. If we are not able to refinance existing indebtedness on attractive terms at or prior to its maturity, we may be forced to dispose of our assets sooner than we otherwise would and/or our lenders may take action against us.
- Our investments in real estate and real estate loans may be affected by unfavorable real estate market and general economic conditions, which could decrease the value of those assets and reduce the investment return to our stockholders. Revenues from our real property investments could decrease, making it more difficult for us to meet our debt service obligations. Revenues from the properties and other assets directly or indirectly securing our loan investments could decrease, making it more difficult for the borrowers under those loans to meet their payment obligations to us. In addition, decreases in revenues from the properties directly or indirectly securing our loan investments could result in decreased valuations for those properties, which could make it difficult for our borrowers to repay or refinance their obligations to us. These factors could make it more difficult for us to meet our debt service obligations and could reduce our stockholders' return.
- Disruptions in the financial markets and uncertain economic conditions could adversely affect our ability to meet our debt service obligations and cash needs, reducing the value of our stockholders' investment in us.
- Certain of our debt obligations have variable interest rates and related payments that vary with the movement of LIBOR or other indexes. Increases in these indexes could increase the amount of our debt payments and reduce our stockholders' return.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

- Our share redemption program provides only for redemptions sought upon a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program and, together with redemptions in connection with a stockholder's death, "special redemptions"). The dollar amounts available for such redemptions are determined by our board of directors and may be reviewed and adjusted from time to time. Additionally, redemptions are further subject to limitations described in our share redemption program. We currently do not expect to have funds available for ordinary redemptions in the future.
- We may not be able to successfully operate and/or sell the GKK Properties (defined below) given the concentration of the GKK Properties in the financial services sector, and our advisor's limited experience operating, managing and selling bank branch properties. Moreover, we depend upon GKK Realty Advisors LLC (the "Property Manager"), an affiliate of Gramercy (defined below), and GPT Realty Management LP to manage and conduct the operations of the GKK Properties and any adverse changes in or the termination of our relationship with the Property Manager or GPT Realty Management LP could hinder the performance of the GKK Properties and the return on our stockholders' investment in us.
- As a result of the transfer of the GKK Properties to us, a significant portion of our properties are leased to financial institutions, making us more economically vulnerable in the event of a downturn in the banking industry.
- During the year ended December 31, 2015, the Company disposed of 34 properties (of which 31 were GKK Properties) and terminated its leasehold interest in three GKK Properties. During the six months ended June 30, 2016, the Company disposed of 133 properties (132 of which were GKK Properties). As a result of our disposition activity, our general and administrative expenses, which are not directly related to the size of our portfolio, have increased significantly as a percentage of our cash flow from operations and will continue to increase to the extent we sell additional assets.
- Although the Special Committee (defined below) has engaged a financial advisor to assist with the exploration of strategic alternatives for us, we are not obligated to enter into any particular transaction or any transaction at all. Further, although we have begun the process of exploring strategic alternatives and intend to market for sale our assets, there is no assurance that this process will result in stockholder liquidity, or provide a return to stockholders that equals or exceeds our estimated value per share. We do not expect to provide additional updates regarding our review of strategic alternatives until such time, if any, that we are prepared to announce a material transaction or to conclude the strategic review.

All forward-looking statements should be read in light of the risks identified herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC").

Overview

We are a Maryland corporation that was formed on June 13, 2005 to invest in a diverse portfolio of real estate properties and real estate-related investments. We elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2006 and we intend to continue to operate in such a manner. We own substantially all of our assets and conduct our operations through our Operating Partnership, of which we are the sole general partner. Subject to certain restrictions and limitations, our business is managed by KBS Capital Advisors pursuant to an advisory agreement. Our advisor owns 20,000 shares of our common stock. We have no paid employees.

On January 27, 2006, we launched our initial public offering of up to 200,000,000 shares of common stock in our primary offering and 80,000,000 shares of common stock under our dividend reinvestment plan. We ceased offering shares of common stock in our primary offering on May 30, 2008. We terminated our dividend reinvestment plan effective April 10, 2012. We sold 171,109,494 shares in our primary offering for gross offering proceeds of \$1.7 billion and 28,306,086 shares under our dividend reinvestment plan for gross offering proceeds of \$233.7 million.

As of June 30, 2016, we owned or, with respect to a limited number of properties, held a leasehold interest in, 232 real estate properties (of which 23 properties were held for sale, 22 of which were GKK Properties), including the GKK Properties. In addition, as of June 30, 2016, we owned three real estate loans receivable and a participation interest with respect to a real estate joint venture.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)**

On September 1, 2011, we, through indirect wholly owned subsidiaries (collectively, “KBS”), entered into a Collateral Transfer and Settlement Agreement (the “Settlement Agreement”) with, among other parties, GKK Stars Acquisition LLC (“GKK Stars”), the wholly owned subsidiary of Gramercy Property Trust, Inc. (“Gramercy”) that indirectly owned the Gramercy real estate portfolio, to effect the orderly transfer of certain assets and liabilities of the Gramercy real estate portfolio to KBS in satisfaction of certain debt obligations under a mezzanine loan owed by wholly owned subsidiaries of Gramercy to KBS (the “GKK Mezzanine Loan”). The Settlement Agreement resulted in the transfer of the equity interests in certain subsidiaries of Gramercy (the “Equity Interests”) that indirectly owned or, with respect to a limited number of properties, held a leasehold interest in, 867 properties (the “GKK Properties”), consisting of 576 bank branch properties and 291 office buildings, operations centers and other properties. For a further discussion of the Settlement Agreement, the transfers of the GKK Properties and the debt related to these properties, see our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC.

Our focus in 2016 is to manage our existing investment portfolio, which includes strategically selling assets; exploring short-term value-add opportunities for a small number of GKK Properties; and distributing operating cash flow and net sales proceeds to stockholders. On January 27, 2016, our board of directors formed a special committee (the “Special Committee”) composed of all of our independent directors to explore the availability of strategic alternatives involving us. As part of the process of exploring strategic alternatives, on February 23, 2016, the Special Committee engaged Evercore Group L.L.C. (“Evercore”) to act as our financial advisor and to assist the Special Committee with this process. Under the terms of the engagement, Evercore will provide various financial advisory services, as requested by the Special Committee as customary for an engagement in connection with exploring strategic alternatives. Although the Special Committee has engaged Evercore to assist us and the Special Committee with the exploration of strategic alternatives for us, we are not obligated to enter into any particular transaction or any transaction at all.

While the Special Committee continues to explore strategic alternatives for us, the Special Committee has determined that it would be in our best interests and the best interests of our stockholders to market for sale our assets. Based on the results of this sales effort, the board of directors may conclude that it would be in our best interests and the best interests of our stockholders to sell one or more of our assets, and, depending on the scope of the proposed asset sales, thereafter to adopt a plan of liquidation that would involve the sale of our remaining assets. In the event of such a determination, the proposed plan of liquidation would be presented to our stockholders for approval. Alternatively, based on the results of the initial sales effort, the board of directors may conclude that it would be in our best interests and the best interests of our stockholders for us to engage in a limited number of asset sales and continue to operate as a going concern, but with a portfolio that is smaller than the present portfolio. Although we have begun the process of exploring strategic alternatives and intend to market for sale our assets, there is no assurance that this process will result in stockholder liquidity, or provide a return to stockholders that equals or exceeds our estimated value per share.

Market Outlook – Real Estate and Real Estate Finance Markets

The following discussion is based on management’s beliefs, observations and expectations with respect to the real estate and real estate finance markets.

Current conditions in the global capital markets remain volatile. Prior to the June 23, 2016 vote in the United Kingdom in favor of leaving the European Union, economic data and financial market developments suggested that the global economy was improving, although at a slow incremental rate. Growth in most advanced economies remained lackluster, with low potential growth and a gradual closing of output gaps. Prospects remained uneven across emerging markets and developing economies, with some improvement for a few large emerging markets, in particular Brazil and Russia, pointing to a modest upward revision to 2017 global growth relative to the International Monetary Fund’s April 2016 forecast.

The outcome of the U.K. vote, which surprised global financial markets, implies downside risk for the world economy. As a result, the International Monetary Fund recently downgraded the global outlook for 2016 and 2017, despite the better-than-expected performance in early 2016. This downgrade in outlook reflects the expected macroeconomic consequences of a sizable increase in uncertainty, including on the political front. This uncertainty is projected to take a toll on both business and consumer confidence and investment. The initial financial market reaction was severe but generally orderly. As of mid-July 2016, the Great Britain Pound was weakened by about 10 percent since the June 23, 2016 vote; despite some rebound, equity prices are lower in some sectors, especially for European banks; and yields on higher quality assets have declined. Historically low interest rates have been reached in many developed nations.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

In the United States, economic growth has been relatively steady and modest. In the United States, first-quarter growth was 0.8%, which was weaker than expected, triggering a downward revision of 0.2% to the 2016 growth forecast. The high-frequency indicators point to a pick up in growth in the U.S. economy in the second quarter and for the remainder of the year, consistent with fading headwinds from a strong U.S. dollar and lower energy sector investment. The impact of Brexit is projected to be muted for the United States, as lower long-term interest rates and a more gradual path of monetary policy normalization in the United States are expected to broadly offset larger corporate spreads, a stronger U.S. dollar, and some decline in confidence in the U.S. economy.

The low interest rate policy of the Federal Reserve Board remains in place. While the U.S. Federal Reserve appeared ready to raise interest rates in the second half of 2016, increased global geopolitical and economic risks seem to have muted those expectations until late 2016 or early 2017.

Europe and Japan continue to engage in unconventional monetary policy. Asset purchases and stimulus programs in both regions have driven interest rates and investment yields to new lows. Both regions now have historically low interest rates, with some government and corporate bonds trading with negative yields. While the intent of these policies is to spur economic growth, the size of these programs is unprecedented, and the ultimate impact on those economies and the broader global financial system remains unknown.

With the backdrop of increasing levels of global political conflict, and weaker international economic conditions, the U.S. dollar has remained a safe haven currency. Slowing economic growth, poor corporate earnings and increased global geopolitical risks have caused the markets to discount the likelihood of substantial ongoing tightening of monetary policy. This, in turn, has kept the U.S. yield curve near all-time lows.

The U.S. commercial real estate market continues to benefit from inflows of foreign capital. In 2015, commercial real estate transaction volumes increased 23%, making 2015 the second highest level of investment volume, behind only 2007. However, in the first half of 2016, this trend appears to be slowing. Despite international equity capital continuing to flow into the U.S. markets, lenders have cooled to the market. For balance sheet lenders, such as banks and insurance companies, underwriting standards have been tightened. This has resulted in lower loan-to-value and coverage ratios. The lack of CMBS lending has added pressure to the situation as CMBS lenders are trying to adjust to the new securitization rules which require issuers to maintain an ongoing equity stake in pooled transactions. These trends have led to increased uncertainty in the level and cost of debt for commercial properties, and in turn has injected some volatility into commercial real estate markets.

Impact on Our Real Estate Investments

The volatility in the global financial markets continues to cause a level of uncertainty in our outlook for the performance of the U.S. commercial real estate markets. Both the investing and leasing environments are highly competitive. While there has been an increase in the amount of capital flowing into U.S. real estate markets, the uncertainty regarding the economic environment has made businesses reluctant to make long-term commitments, as is evidenced by the lower level of business investment and capital expenditures. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of future rental concessions, including free rent to renew tenants early, to retain tenants who are up for renewal or to attract new tenants, may result in decreases in cash flows. Historically low interest rates could help offset some of the impact of these potential decreases in operating cash flow for properties financed with variable rate mortgages; however, interest rates likely will not remain at these historically low levels for the remaining life of many of our investments. In fact, the Federal Reserve increased interest rates in Q4 2015, and has left the door open for another increase at the end of 2016. Currently we expect further increases in interest rates, but are uncertain as to the timing and levels. Interest rates have become more volatile as the global capital markets react to increasing economic and geopolitical risks.

Impact on Our Real Estate-Related Investments

All of our real estate-related investments are directly or indirectly secured by commercial real estate. As a result, our real estate-related investments, in general, have been and likely will continue to be impacted by the same factors impacting our real estate properties. The higher yields and the improving credit position of many U.S. tenants and borrowers have attracted global capital. However, the real estate and capital markets are fluid, and the positive trends can reverse quickly. Economic conditions remain relatively volatile and can have a negative impact on the performance of collateral securing our loan investments, and therefore may impact the ability of some of the borrowers under our loans to make contractual interest payments to us.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

As of June 30, 2016, we had fixed rate real estate-related loan investments with a total book value (excluding asset-specific loan loss reserves) of \$27.4 million. Other than the Sandmar Mezzanine Loan, which has a book value of zero after asset specific loan loss reserves, no other real estate-related loan investments are scheduled to mature within one year from June 30, 2016. As of June 30, 2016, we had recorded \$5.1 million of reserves for loan losses related to the Sandmar Mezzanine Loan.

Impact on Our Financing Activities

In light of the risks associated with potentially volatile operating cash flows from some of our real estate properties, and the possible increase in the cost of financing due to higher interest rates, we may have difficulty refinancing some of our debt obligations prior to or at maturity or we may not be able to refinance these obligations at terms as favorable as the terms of our existing indebtedness. Financial market conditions have improved from the bottom of the economic cycle, and short-term interest rates in the U.S. have increased. Market conditions can change quickly, potentially negatively impacting the value of our investments.

As of June 30, 2016, we had a total of \$98.4 million of fixed rate notes payable and \$153.5 million of variable rate notes payable. We have \$215.7 million of debt maturing (including principal amortization payments) during the 12 months ending June 30, 2017. We plan to exercise our extension options available under our loan agreements or pay down or refinance the related notes payable prior to their maturity dates.

Liquidity and Capital Resources

Our principal demands for funds during the short- and long-term are and will be for: the payment of operating expenses, capital expenditures and general and administrative expenses; refinancing upcoming maturities and paying down debt obligations; special redemptions of common stock pursuant to our share redemption program; and the payment of distributions to stockholders.

We intend to use our cash on hand, proceeds from asset sales and principal repayments on our real estate loans receivable as our primary sources of immediate and long-term liquidity. To the extent available, we also intend to use cash flow generated by our real estate and real estate-related investments and funds available under our credit facilities. However, we have suffered declines in cash flows from these sources.

Our share redemption program provides only for special redemptions. Such redemptions are subject to an annual dollar limitation. On December 8, 2015, our board of directors approved an annual dollar limitation for redemptions of \$10.0 million in the aggregate for the calendar year 2016 (subject to review and adjustment during the year by our board of directors), and further subject to the limitations described in the share redemption program document. Based on historical redemption activity, we believe the \$10.0 million redemption limitation for the calendar year 2016 will be sufficient for these special redemptions. During each calendar year, the annual dollar limitation for our share redemption program will be reviewed and adjusted from time to time, if necessary. We currently do not expect to have funds available for ordinary redemptions in the future.

Our focus in 2016 is: to manage our existing investment portfolio, which includes strategically selling assets; exploring short-term value-add opportunities for a small number of GKK Properties; and distributing operating cash flow and net sales proceeds to stockholders. We plan to make certain strategic asset sales and, from time to time, may declare special distributions to our stockholders that would be funded with the net proceeds from those asset sales or from cash flow from other sources. We will continue our existing strategy of selling assets when we believe the assets have reached the stage that disposition will assist in improving returns to our stockholders. Our board of directors currently expects to authorize and declare distributions on a quarterly basis based on cash flow generated by our real estate and real estate-related investments. We can give no assurance regarding the timing or source of future distributions. On March 11, 2016, our board of directors declared a distribution in the amount of \$0.025 per share of common stock to stockholders of record as of the close of business on March 21, 2016. We paid this distribution on March 28, 2016. On May 6, 2016, our board of directors declared a distribution in the amount of \$0.025 per share of common stock to stockholders of record as of the close of business on June 22, 2016. We paid this distribution on June 28, 2016. We funded these distributions with cash flow from operations from the current period. We also continue to focus on the repayment of certain debt obligations. Reducing our debt will allow us to hold certain assets in our portfolio with a goal of improving their value and the returns to our stockholders. We intend to maintain adequate cash reserves for liquidity, capital expenditures, debt repayments, future share redemptions and other future capital needs.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

On January 27, 2016, our board of directors formed the Special Committee, which is composed of all of our independent directors, to explore the availability of strategic alternatives involving us. As part of the process of exploring strategic alternatives, on February 23, 2016, the Special Committee engaged Evercore to act as our financial advisor and to assist the Special Committee with this process. Under the terms of the engagement, Evercore will provide various financial advisory services, as requested by the Special Committee as customary for an engagement in connection with exploring strategic alternatives. Although the Special Committee has engaged Evercore to assist us and the Special Committee with the exploration of strategic alternatives for us, we are not obligated to enter into any particular transaction or any transaction at all.

While the Special Committee continues to explore strategic alternatives for us, the Special Committee has determined that it would be in our best interests and the best interests of our stockholders to market for sale our assets. Based on the results of this sales effort, the board of directors may conclude that it would be in our best interests and the best interests of our stockholders to sell one or more of our assets, and, depending on the scope of the proposed asset sales, thereafter to adopt a plan of liquidation that would involve the sale of our remaining assets. In the event of such a determination, the proposed plan of liquidation would be presented to our stockholders for approval. Alternatively, based on the results of the initial sales effort, the board of directors may conclude that it would be in our best interests and the best interests of our stockholders for us to engage in a limited number of asset sales and continue to operate as a going concern, but with a portfolio that is smaller than the present portfolio. Although we have begun the process of exploring strategic alternatives and intend to market for sale our assets, there is no assurance that this process will result in stockholder liquidity, or provide a return to stockholders that equals or exceeds our estimated value per share.

Our investments in real estate generate cash flow in the form of rental revenues and tenant reimbursements, which are reduced by operating expenditures, debt service payments, the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from our real estate investments is primarily dependent upon the occupancy level of our portfolio, the net effective rental rates on our leases, the collectibility of rent and operating recoveries from our tenants and how well we manage our expenditures. As of June 30, 2016, our real estate held for investment was 86% occupied.

Our real estate-related investments generate cash flow in the form of interest income, which is reduced by the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from our real estate-related investments is primarily dependent on the operating performance of the underlying collateral and the borrowers' ability to make debt service payments. As of June 30, 2016, the borrower under the Sandmar Mezzanine Loan was delinquent. On May 13, 2016, we received a deed-in-lieu of foreclosure in satisfaction of all amounts due to us under our investment in the Lawrence Village Plaza Loan Origination and received title to the collateral that secured the loan.

Other than the Sandmar Mezzanine Loan, which has a book value of zero after asset specific loan loss reserves, no other real estate-related loan investments are scheduled to mature within one year from June 30, 2016. As of June 30, 2016, we had recorded \$5.1 million of reserves for loan losses related to the Sandmar Mezzanine Loan.

As a result of the factors described above, we may experience declines in future cash flow from our real estate and real estate-related investments and we expect an increased need for capital to cover leasing costs and capital improvements needed to improve the performance of our real estate assets.

For the six months ended June 30, 2016, we met our cash needs for leasing costs, capital expenditures and the payment of debt obligations with cash on hand and proceeds from asset sales. We met our operating cash needs during the same period through cash flow generated by our real estate and real estate-related investments. We believe that potential proceeds from the sale of real estate, cash flow from operations, potential proceeds from the sale or payoff of real estate loans receivable and cash on hand will be sufficient to meet our liquidity needs for the remainder of 2016.

Cash Flows from Operating Activities

As of June 30, 2016, we owned or, with respect to a limited number of properties, held a leasehold interest in 232 real estate properties (of which 23 properties were held for sale, 22 of which were GKK Properties). In addition, as of June 30, 2016, we owned three real estate loans receivable and a participation interest with respect to a real estate joint venture.

During the six months ended June 30, 2016, net cash provided by operating activities was \$11.9 million, compared to \$18.0 million of net cash provided by operating activities during the six months ended June 30, 2015. Net cash from operations decreased in 2016 primarily due to asset sales and the timing of payments for operating expenses, offset by a decrease in interest paid as a result of debt refinancing and restructuring and debt payoffs, which resulted in an overall decrease in effective interest rates and a decrease in principal outstanding. We anticipate cash flows from operating activities will decrease due to anticipated asset sales.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Cash Flows from Investing Activities

Net cash provided by investing activities was \$322.0 million for the six months ended June 30, 2016. The significant sources and uses of net cash provided by investing activities were as follows:

- \$337.0 million of cash provided from the sale of real estate;
- \$16.5 million of cash used for improvements to real estate; and
- a \$1.5 million decrease in restricted cash for capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing activities was \$199.4 million for the six months ended June 30, 2016. The significant sources and uses of cash for financing activities were as follows:

- \$184.8 million of cash used to purchase treasury securities in connection with the defeasance of notes payable;
- \$11.9 million of principal payments on notes payable;
- \$9.9 million decrease in restricted cash for debt service obligations;
- \$9.3 million of cash used for distributions; and
- \$3.3 million of cash used for redemptions of common stock.

In addition to using our capital resources to meet our debt service obligations, for leasing costs, for capital expenditures, for operating costs, to fund special redemptions pursuant to our share redemption program and to pay distributions to our stockholders, we use our capital resources to make certain payments to our advisor. We also reimburse our advisor and dealer manager for certain costs they incur on our behalf. We pay our advisor fees in connection with the management and disposition of our assets.

Among the fees payable to our advisor is an asset management fee. With respect to investments in real estate, we pay our advisor a monthly asset management fee equal to one-twelfth of 0.75% of the amount actually paid or allocated to acquire the investment, plus the cost of any subsequent development, construction or improvements to the property. This amount includes any portion of the investment that was debt financed and is inclusive of acquisition fees and expenses related thereto. In the case of investments made through joint ventures, the asset management fee is determined based on our proportionate share of the underlying investment.

With respect to investments in loans and any investments other than real estate, we pay our advisor a monthly asset management fee calculated, each month, as one-twelfth of 0.75% of the lesser of (i) the amount actually paid or allocated to acquire or fund the loan or other investment (which amount includes any portion of the investment that was debt financed and is inclusive of acquisition or origination fees and expenses related thereto) and (ii) the outstanding principal amount of such loan or other investment, plus the acquisition or origination fees and expenses related to the acquisition or funding of such investment, as of the time of calculation.

With respect to an investment that has suffered an impairment in value, reduction in cash flow or other negative circumstances, such investment may either be excluded from the calculation of the asset management fee described above or included in such calculation at a reduced value that is recommended by our advisor and our management and then approved by a majority of our independent directors, and this change in the fee shall be applicable to an investment upon the earlier to occur of the date on which (i) such investment is sold, (ii) such investment is surrendered to a person other than the company, our direct or indirect wholly owned subsidiary or a joint venture or partnership in which we have an interest, (iii) our advisor determines that it will no longer pursue collection or other remedies related to such investment, or (iv) our advisor recommends a revised fee arrangement with respect to such investment. As of June 30, 2016, we excluded our interest in an unconsolidated joint venture from the calculation of asset management fees. Through March 31, 2016, we calculated the asset management fee for the GKK Properties based on the original cost of our investment in the GKK Mezzanine Loan, rather than on the gross value of the GKK Properties we own or in which we hold a leasehold interest. Beginning April 2016, the gross value of the GKK Properties fell below the original cost of our investment in the GKK Mezzanine Loan and for the period from April 1, 2016 through June 30, 2016, we calculated the asset management fee for these properties based on the gross value of the GKK Properties. As of June 30, 2016, we had not determined to calculate the asset management fee at an adjusted value for any other investments or to exclude any other investments from the calculation of the asset management fee.

As of June 30, 2016, we had \$181.0 million of cash and cash equivalents.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

As of June 30, 2016, our borrowings and other liabilities were approximately 24% of the cost (before deducting depreciation or other noncash reserves) and 27% of the book value (before deducting depreciation) of our tangible assets. We limit our total liabilities to 75% of the cost (before deducting depreciation or other non-cash reserves) of our tangible assets; however, we may exceed that limit if a majority of the conflicts committee approves each borrowing in excess of that limitation and we disclose such borrowing to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for exceeding the total liabilities limitation.

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of June 30, 2016 (in thousands):

Contractual Obligations	Payments Due During the Years Ending December 31,				
	Total	Remainder of 2016	2017-2018	2019-2020	Thereafter
Outstanding debt obligations related to historical portfolio ⁽¹⁾	\$ 215,699	\$ 62,200	\$ 153,499	\$ —	\$ —
Outstanding debt obligations related to the GKK Properties ⁽¹⁾	\$ 36,160	\$ 2,208	\$ 4,792	\$ 5,320	\$ 23,840
Interest payments on outstanding debt obligations related to historical portfolio ⁽²⁾	\$ 2,731	\$ 2,731	\$ —	\$ —	\$ —
Interest payments on outstanding debt obligations related to the GKK Properties ⁽²⁾	\$ 10,935	\$ 1,959	\$ 3,542	\$ 3,014	\$ 2,420
Operating leases ⁽³⁾	\$ 56,937	\$ 8,318	\$ 15,284	\$ 3,153	\$ 30,182

⁽¹⁾ Amounts include principal payments under notes payable based on maturity dates of debt obligations as of June 30, 2016.

⁽²⁾ Projected interest payments are based on the outstanding principal amounts, maturity dates and weighted-average interest rates as of June 30, 2016. We incurred interest expense of \$7.5 million, excluding amortization of deferred financing costs and the amortization of debt discount and premium totaling \$0.4 million, during the six months ended June 30, 2016.

⁽³⁾ Amounts relate to future minimum lease payments under non-cancelable building and ground leases.

Debt Covenants

The documents evidencing our outstanding debt obligations typically require that specified loan-to-value and debt service coverage ratios be maintained with respect to the financed properties. A breach of the financial covenants in these documents may result in the lender imposing additional restrictions on our operations, such as restrictions on our ability to incur additional debt, or may allow the lender to impose “cash traps” with respect to cash flow from the property securing the loan. In addition, such a breach may constitute an event of default and the lender could require us to repay the debt immediately. If we fail to make such repayment in a timely manner, the lender may be entitled to take possession of any property securing the loan. As of June 30, 2016, we were in compliance with these debt covenants.

Asset Management Services Agreement Related to the GKK Properties

On December 19, 2013, we, through an indirect wholly owned subsidiary (“KBS Acquisition Sub”), entered into an amended and restated asset management services agreement (the “Amended Services Agreement”) with the Property Manager with respect to the GKK Properties. The effective date of the Amended Services Agreement was December 1, 2013. Pursuant to the Amended Services Agreement, the Property Manager agreed to provide, among other services: standard asset management services, assistance related to dispositions, accounting services and budgeting and business plans for the GKK Properties (the “Services”). The Property Manager is not affiliated with us or KBS Acquisition Sub. As compensation for the Services, we agreed to pay the Property Manager: (i) an annual fee of \$7.5 million plus all GKK Property-related expenses incurred by the Property Manager, (ii) subject to certain terms and conditions in the Amended Services Agreement, a profit participation interest based on a percentage (ranging from 10% to 30%) of the amount by which the gross fair market value or gross sales price of certain identified portfolios of GKK Properties exceeds the sum of (a) an agreed-upon baseline value for such GKK Property portfolios plus (b) new capital expended to increase the value of GKK Properties within the portfolios and expenditures made to pay for tenant improvements and leasing commissions related to these GKK Properties as of the measurement date, and (iii) a monthly construction oversight fee equal to a percentage of construction costs for certain construction projects at the GKK Properties overseen by the Property Manager.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

On June 29, 2016, KBS Acquisition Sub entered into two agreements, a second amended and restated asset management services agreement (the "Second Amended Services Agreement") and an accounting/construction services agreement (the "Accounting/Construction Services Agreement"), with the Property Manager. The effective date of both the Second Amended Services Agreement and the Accounting/Construction Services Agreement was June 1, 2016. Combined, the Services and the key terms and compensation for the Services under the Second Amended Services Agreement and the Accounting/Construction Services Agreement are the same as those of the prior Amended Services Agreement; the two agreements allocate the Services and the compensation between asset management services and accounting/construction services. The Second Amended Services Agreement and the Accounting/Construction Services Agreement supersede and replace all prior agreements related to the Services among us and our affiliates and the Property Manager and its affiliates. The Second Amended Services Agreement and the Accounting/Construction Services Agreement will terminate on December 31, 2016, with a one-year extension option at our option, subject to certain terms and conditions contained in the agreements. On June 29, 2016, the Property Manager assigned the Second Amended Services Agreement to an affiliate, GPT Realty Management LP, an entity controlled by Gramercy.

As of June 30, 2016, we accrued \$20.1 million of estimated profit participation interest related to the GKK Properties under the Second Amended Services Agreement.

Results of Operations**Overview**

As of June 30, 2015, we owned or, with respect to a limited number of properties, held a leasehold interest in, 392 real estate properties, four real estate loans receivable (one of which was impaired) and a participation interest with respect to a real estate joint venture. Subsequent to June 30, 2015, we sold two historical real estate properties and 159 GKK Properties and received title to a retail property in connection with a deed-in-lieu of foreclosure in satisfaction of all amounts due under our investment in the Lawrence Village Plaza Loan Origination. As a result, as of June 30, 2016, we owned or, with respect to a limited number of properties, held a leasehold interest in, 232 real estate properties (of which 23 properties were held for sale, 22 of which were GKK Properties), three real estate loans receivable (one of which was impaired) and a participation interest with respect to a real estate joint venture.

In accordance with ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU No. 2014-08"), operating results of properties that are classified as held for sale in the ordinary course of business on or subsequent to January 1, 2014 would generally be included in continuing operations on our consolidated statements of operations. Operating results of properties that were classified as held for sale in financial statements issued for the reporting periods prior to reporting periods beginning January 1, 2014 will remain in discontinued operations on our consolidated statement of operations. During the six months ended June 30, 2016, we sold one historical real estate property and 132 GKK Properties, which properties were not classified as held for sale in financial statements issued for the reporting periods prior to January 1, 2014. As of June 30, 2016, we had classified 23 properties as held for sale, 22 of which were GKK Properties. During the year ended December 31, 2015, we sold three historical real estate properties and 30 GKK Properties, which properties were not classified as held for sale in financial statements issued for the reporting periods prior to January 1, 2014. In accordance with ASU No. 2014-08, the operations of these properties are included in continuing operations on our consolidated statements of operations. Our results of operations for the six months ended June 30, 2016 are not indicative of those expected in future periods due to anticipated asset sales. In general, we expect that our revenues and expenses related to our portfolio will decrease in future periods due to anticipated disposition activity.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)
Comparison of the three months ended June 30, 2016 versus the three months ended June 30, 2015

The following table provides summary information about our results of operations for the three months ended June 30, 2016 and 2015 (dollar amounts in thousands):

	Three Months Ended June 30,		Increase (Decrease)	Percentage Change	\$ Change Due to Dispositions ⁽¹⁾	\$ Change Due to Properties or Loans Held Throughout Both Periods ⁽²⁾
	2016	2015				
Rental income	\$ 24,950	\$ 32,432	\$ (7,482)	(23)%	\$ (8,053)	\$ 571
Tenant reimbursements	8,598	11,133	(2,535)	(23)%	(2,843)	308
Interest income from real estate loans receivable	739	741	(2)	— %	(76)	74
Parking revenues and other operating income	497	660	(163)	(25)%	(142)	(21)
Operating, maintenance and management costs	14,711	17,843	(3,132)	(18)%	(3,617)	485
Real estate taxes, property-related taxes and insurance	4,634	5,865	(1,231)	(21)%	(1,190)	(41)
Asset management fees to affiliate	2,097	2,346	(249)	(11)%	(55)	(194)
Foreclosure fees and expenses	262	—	262	100 %	—	262
General and administrative expenses	2,890	6,047	(3,157)	(52)%	N/A	N/A
Depreciation and amortization expense	10,046	14,205	(4,159)	(29)%	(3,981)	(178)
Interest expense	2,651	8,084	(5,433)	(67)%	(3,549)	(1,884)
Impairment charges on real estate	14,629	—	14,629	100 %	—	14,629
Gain on sales of real estate, net	97,349	35,093	62,256	177 %	62,256	—
Loss from extinguishment of debt	(19,317)	(6,385)	(12,932)	203 %	(12,932)	—
(Loss) income from discontinued operations	83	(7)	90	(1,286)%	90	—

⁽¹⁾ Represents the dollar amount increase (decrease) for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 related to real estate and real estate-related investments disposed of on or after April 1, 2015.

⁽²⁾ Represents the dollar amount increase (decrease) for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 related to real estate and real estate-related investments owned by us throughout both periods presented.

Rental income from our real estate properties decreased by \$7.5 million primarily due to properties sold, the results of which are included in income from continuing operations, partially offset by an increase in rental income due to an increase in occupancy at certain properties and our receipt of title to a retail property in connection with a deed-in-lieu of foreclosure in satisfaction of all amounts due under our investment in the Lawrence Village Plaza Loan Origination. Overall, we expect rental income to decrease in future periods due to anticipated real estate property sales. Our rental income in future periods will also vary based on the occupancy rates and rental rates of the properties in our portfolio.

Tenant reimbursements from our real estate properties decreased by \$2.5 million primarily due to properties sold, the results of which are included in income from continuing operations, partially offset by an increase in tax recoveries related to a historical real estate property held throughout both periods. Our tenant reimbursements in future periods will vary based on several factors, including the occupancy rates of the properties in our portfolio, changes in base year terms, and changes in reimbursable operating expenses. Generally, as new leases are negotiated, the base year resets to operating expenses incurred in the year the lease is signed and the tenant generally only reimburses operating expenses to the extent and by the amount that its allocable share of the building’s operating expenses in future years increases from its base year. As a result, as new leases are executed, tenant reimbursements would generally decrease. Rental income may or may not change by amounts corresponding to changes in tenant reimbursements due to new leases. Overall, we expect tenant reimbursements to decrease in future periods due to anticipated real estate property sales.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Interest income from real estate loans receivable remained constant at approximately \$0.7 million for the three months ended June 30, 2016 and 2015. In general, we expect interest income in future periods to remain fairly constant, but to decrease to the extent that we receive principal repayments on or make dispositions of real estate loans receivable. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. Subsequently, we received interest payments from the borrower under the Lawrence Village Plaza Loan Origination and recognized the interest income on a cash basis. On May 13, 2016, we received a deed-in-lieu of foreclosure in satisfaction of all amounts due to us under our investment in the Lawrence Village Plaza Loan Origination and received title to the collateral that secured the loan. Interest income from real estate loans receivable in future periods may also be affected by potential loan impairments as a result of current or future market conditions. As of June 30, 2016, the borrower under the Sandmar Mezzanine Loan was delinquent.

If any of the borrowers under our real estate loans receivable are unable to repay their loans at maturity or default on their loan, the impact to future interest income and loan recoveries may be significant and will depend on several factors unique to each individual loan. In general, if we own a mezzanine loan or a B-Note and the borrower is unable to repay its loan at maturity, we may have more restrictions and fewer options regarding the resolution of our investment than if we had a first priority lien. In certain circumstances, the senior lenders, in conjunction with us, may be willing to grant the borrower extensions or may grant extensions in exchange for more favorable terms (such as higher interest rates, a partial payoff, or the entitlement to a portion of a junior lender's interest income, etc.). If the senior lenders will not grant the borrower an extension, we, as the mezzanine lender, may foreclose on the ownership interests of the borrower and indirectly take legal title to the property subject to the existing senior loans or we may negotiate a discounted repayment. We could attempt to negotiate an extension or modification with the senior lenders as the new borrower; however, if the senior lenders were not willing to extend or modify the loans and we were not able to repay the senior loans, we would most likely relinquish our interests or rights in the investment to the holders of the senior loans. Actual outcomes may differ significantly from the above based on factors specific to individual loans and situations.

Property operating, maintenance and management costs from our real estate properties decreased by \$3.1 million primarily related to properties sold, the results of which are included in income from continuing operations, partially offset by an increase in bad debt expense reserves and general maintenance costs related to properties held throughout both periods. Overall, we expect property operating, maintenance and management costs to decrease in future periods due to anticipated real estate property sales.

Real estate taxes, property-related taxes and insurance from our real estate properties decreased from \$5.9 million for the three months ended June 30, 2015 to \$4.6 million for the three months ended June 30, 2016 primarily due to properties sold, the results of which are included in income from continuing operations. Overall, we expect real estate taxes, property-related taxes and insurance to decrease in future periods due to anticipated real estate property sales.

Asset management fees decreased from \$2.3 million for the three months ended June 30, 2015 to \$2.1 million for the three months ended June 30, 2016 due to properties sold, the results of which are included in income from continuing operations, and a decrease in asset management fees for the GKK Properties. Beginning April 2016, the gross value of the GKK Properties fell below the original cost of our investment in the GKK Mezzanine Loan and for the period from April 1, 2016 through June 30, 2016, we calculated the asset management fee related to the GKK Properties based on the gross value of the GKK Properties. See the discussion of asset management fees under “— Liquidity and Capital Resources” above. Overall, we expect asset management fees to decrease in future periods due to anticipated asset sales or payoffs.

Foreclosure fees and expenses were \$0.3 million for the three months ended June 30, 2016 and related to our receipt of title to a retail property in connection with a deed-in-lieu of foreclosure in satisfaction of all amounts due under our investment in the Lawrence Village Plaza Loan Origination. We did not incur any foreclosure fees and expenses during the three months ended June 30, 2015. We do not expect to incur significant amounts of foreclosure fees and expenses in future periods as we do not currently anticipate foreclosing on more real estate or real estate-related assets.

General and administrative expenses decreased by \$3.2 million primarily due to a decrease of \$3.5 million in the estimated profit participation interest related to the GKK Properties under the Amended Services Agreement, partially offset by an increase of \$0.4 million of other professional fees related to the Special Committee's engagement of Evercore to act as our financial advisor. See “— Contractual Commitments and Contingencies — Asset Management Services Agreement Related to the GKK Properties” for more information and “— Liquidity and Capital Resources” for our discussion on the engagement of Evercore. General and administrative expenses consist primarily of management fees related to the Second Amended Services Agreement, legal fees, audit fees, transfer agent fees, state and local income taxes and other professional fees.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Depreciation and amortization expense from our real estate properties decreased by \$4.2 million primarily due to real estate property sales. Upon classifying a property as held for sale, we cease depreciation and amortization expense for that property. Overall, we expect depreciation and amortization expense to decrease in future periods due to anticipated real estate property sales.

Interest expense from the financing of our portfolio decreased by \$5.4 million, primarily due to a decrease in the average loan balance as a result of principal repayments and debt extinguishments subsequent to June 30, 2015. Included in interest expense is the amortization of deferred financing costs of \$0.1 million and \$0.8 million for the three months ended June 30, 2016 and June 30, 2015, respectively. Interest expense in future periods will vary based on fluctuations in one-month LIBOR, our level of future borrowings and our ability to refinance existing indebtedness at similar rates. We do not currently plan to acquire or originate more real estate or real estate-related assets and, therefore, do not plan to enter into any purchase financing in the future. However, we may need to refinance our existing indebtedness in the future. Overall, we expect interest expense to decrease in future periods due to anticipated asset sales and principal paydowns.

During the three months ended June 30, 2016, we recorded non-cash impairment charges of \$14.6 million, of which \$14.2 million relates to 30 properties classified as real estate held for investment (including 27 GKK Properties), to write-down the carrying values of these real estate investments to their estimated fair values and \$0.4 million with respect to two GKK Properties that were held for sale to write-down the carrying values of these real estate investments to their estimated sales price less estimated costs to sell. We did not record an impairment charge on real estate during the three months ended June 30, 2015. The facts and circumstances leading to the impairments on our real estate held for investment during the three months ended June 30, 2016 are as follows:

- *City Gate Plaza:* We recognized an impairment charge during the three months ended June 30, 2016 of \$0.7 million to reduce the carrying value of our investment in City Gate Plaza, an office property located in Sacramento, California, to its estimated fair value. We revised our cash flow projections to account for higher projected leasing costs to stabilize the property. The continued lack of demand in the Sacramento office rental market also resulted in higher capitalization rates.
- *University Park Buildings:* We recognized an impairment charge during the three months ended June 30, 2016 of \$2.0 million to reduce the carrying value of our investment in the University Park Buildings, an office property located in Sacramento, California, to its estimated fair value. We revised our cash flow projections primarily to account for higher projected capital costs for general building upgrades and to address certain maintenance issues. The continued lack of demand in the Sacramento office rental market also resulted in higher capitalization rates.
- *ADP Plaza:* We recognized an impairment charge during the three months ended June 30, 2016 of \$1.7 million to reduce the carrying value of our investment in ADP Plaza, an office property located in Portland, Oregon, to its estimated fair value. We revised our cash flow projections due to an increase in projected vacancy as a tenant occupying 48.6% of the building's rentable square feet notified us that it will exercise its contraction option as early as January 2017, resulting in a decrease in our projected cash flows.
- *GKK Properties:*
 - *Citizens Bank Portfolio:* We recognized an impairment charge during the three months ended June 30, 2016 of \$4.1 million relating to nine properties in the Citizens Bank Portfolio due to a decrease in cash flow projections primarily due to an increase in projected vacancy, thus decreasing the projected cash flows the properties would generate.
 - *Pitney Bowes - Bank of America Portfolio:* We recognized an impairment charge during the three months ended June 30, 2016 of \$1.7 million relating to 8 properties in the Pitney Bowes - Bank of America Portfolio due to a decrease in cash flow projections primarily due to an increase in projected vacancy, thus decreasing the projected cash flows the properties would generate.
 - *Other Properties:* We recognized an impairment charge during the three months ended June 30, 2016 of \$4.0 million relating to ten other GKK Properties classified as held for investment. No impairment charge related to any individual property was greater than \$800,000. These impairments generally resulted from changes in lease projections, including longer estimated lease-up periods and lower projected rental rates, thus decreasing the projected cash flows the properties would generate.

We recognized a gain on sales of real estate of \$97.3 million related to the disposition of one historical real estate property and 118 GKK Properties during the three months ended June 30, 2016 that were included in income from continuing operations. We recognized a gain on sales of real estate of \$35.1 million related to the disposition of two GKK Properties during the three months ended June 30, 2015 that were included in income from continuing operations.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

During the three months ended June 30, 2016, we recognized a loss on extinguishment of debt of \$19.3 million related to the following:

- *Defeasance of the FSI 6000 Mortgage Loan:* In connection with the disposition of 61 bank branch properties, containing an aggregate of 245,843 rentable square feet (the “FSI 6000 Properties”) on April 11, 2016, we entered into a defeasance agreement with each of the lenders under the FSI 6000A Mortgage Loan, FSI 6000B Mortgage Loan, FSI 6000C Mortgage Loan and FSI 6000D Mortgage Loan (collectively, the “FSI 6000 Mortgage Loans”) to defease the entire aggregate outstanding principal balance of \$102.3 million under the FSI 6000 Mortgage Loans, releasing the FSI 6000 Properties, which had secured the FSI 6000 Mortgage Loans. The defeasance costs and write-off of an unamortized discount resulted in an aggregate loss on extinguishment of debt of approximately \$6.6 million.
- *Defeasance of the Bank of America - BBD2 Mortgage Loan:* On April 15, 2016, we, through an indirect wholly owned subsidiary, entered into a defeasance agreement with the lender under the Bank of America - BBD2 Mortgage Loan to defease the remaining outstanding principal balance of \$65.1 million, releasing all the properties that secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-off of an unamortized discount and unamortized deferred financing costs resulted in a loss on extinguishment of debt of approximately \$12.7 million.

During the three months ended June 30, 2015, we recognized a loss on extinguishment of debt of \$6.4 million related to the early pay-off of the 101 Independence Mortgage Loan. On May 1, 2015, in connection with the disposition of 101 Independence, we repaid the entire \$65.3 million principal balance and all other sums due on the 101 Independence Mortgage Loan, including a prepayment premium of \$4.4 million, and we wrote off an unamortized discount on note payable of \$2.0 million.

Comparison of the six months ended June 30, 2016 versus the six months ended June 30, 2015

The following table provides summary information about our results of operations for the six months ended June 30, 2016 and 2015 (dollar amounts in thousands):

	Six Months Ended June 30,		Increase (Decrease)	Percentage Change	\$ Change Due to Dispositions ⁽¹⁾	\$ Change Due to Properties or Loans Held Throughout Both Periods ⁽²⁾
	2016	2015				
Rental income	\$ 54,346	\$ 67,797	\$ (13,451)	(20)%	\$ (14,852)	\$ 1,401
Tenant reimbursements	18,846	23,688	(4,842)	(20)%	(5,585)	743
Interest income from real estate loans receivable	1,549	1,467	82	6 %	(74)	156
Parking revenues and other operating income	1,169	1,592	(423)	(27)%	(416)	(7)
Operating, maintenance and management costs	30,565	39,833	(9,268)	(23)%	(8,954)	(314)
Real estate taxes, property-related taxes and insurance	10,096	12,646	(2,550)	(20)%	(2,183)	(367)
Asset management fees to affiliate	4,446	4,766	(320)	(7)%	(186)	(134)
Foreclosure fees and expenses	262	—	262	100 %	—	262
General and administrative expenses	6,262	8,277	(2,015)	(24)%	N/A	N/A
Depreciation and amortization expense	21,044	29,810	(8,766)	(29)%	(8,373)	(393)
Interest expense	7,880	16,816	(8,936)	(53)%	(6,095)	(2,841)
Impairment charge on real estate	25,493	—	25,493	100 %	271	25,222
Gain on sales of real estate, net	120,935	49,059	71,876	147 %	71,876	—
Gain on sale of foreclosed real estate held for sale	—	2,509	(2,509)	(100)%	(2,509)	—
Loss from extinguishment of debt	(19,320)	(6,376)	(12,944)	203 %	(12,944)	—
Gain on sales of real estate, net (discontinued operations)	—	124	(124)	(100)%	(124)	—
(Loss) income from discontinued operations	78	38	40	105 %	40	—

⁽¹⁾ Represents the dollar amount increase (decrease) for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 related to real estate and real estate-related investments disposed of on or after January 1, 2015.

⁽²⁾ Represents the dollar amount increase (decrease) for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 related to real estate and real estate-related investments owned by us throughout both periods presented.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Rental income from our real estate properties decreased by \$13.5 million primarily due to properties sold, the results of which are included in income from continuing operations, partially offset by an increase in rental income due to termination fees, an increase in occupancy at certain properties and our receipt of title to a retail property in connection with a deed-in-lieu of foreclosure in satisfaction of all amounts due under our investment in the Lawrence Village Plaza Loan Origination. Overall, we expect rental income to decrease in future periods due to anticipated real estate property sales. Our rental income in future periods will also vary based on the occupancy rates and rental rates of the properties in our portfolio.

Tenant reimbursements from our real estate properties decreased by \$4.8 million primarily due to properties sold, the results of which are included in income from continuing operations, partially offset by a net increase in operating expense recoveries related to the GKK Properties held throughout both periods and an increase in tax recoveries related to a historical real estate property held throughout both periods. Our tenant reimbursements in future periods will vary based on several factors discussed above under “ — Comparison of the three months ended June 30, 2016 versus the three months ended June 30, 2015.”

Interest income from real estate loans receivable remained constant at approximately \$1.5 million for the six months ended June 30, 2016 and 2015. In general, we expect interest income in future periods to remain fairly constant, but to decrease to the extent that we receive principal repayments on or make dispositions of real estate loans receivable. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. Subsequently, we received interest payments from the borrower under the Lawrence Village Plaza Loan Origination and recognized the interest income on a cash basis. On May 13, 2016, we received a deed-in-lieu of foreclosure in satisfaction of all amounts due under our investment in the Lawrence Village Plaza Loan Origination and received title of the collateral that secured the loan. Interest income from real estate loans receivable in future periods may also be affected by potential loan impairments as a result of current or future market conditions. As of June 30, 2016, the borrower under the Sandmar Mezzanine Loan was delinquent.

Please see “ — Comparison of the three months ended June 30, 2016 versus the three months ended June 30, 2015” above for a discussion of the impact of potential loan impairments on interest income and a discussion of the impact to us if any of the borrowers under our real estate loans receivable are unable to repay their loans at maturity or default on their loan.

Property operating, maintenance and management costs from our real estate properties decreased by \$9.3 million primarily related to properties sold, the results of which are included in income from continuing operations, and a decrease in snow removal expenses related to our real estate properties located in the midwestern and northeastern regions of the United States due to record snow fall during the first quarter 2015, partially offset by an increase in general repair and maintenance costs related to properties held throughout both periods. Overall, we expect property operating, maintenance and management costs to decrease in future periods due to anticipated real estate property sales.

Real estate taxes, property-related taxes and insurance from our real estate properties decreased from \$12.6 million for the six months ended June 30, 2015 to \$10.1 million for the six months ended June 30, 2016 primarily due to properties sold, the results of which are included in income from continuing operations, and a decrease in property tax consulting fees for one of our historical real estate property held throughout both periods. Overall, we expect real estate taxes, property-related taxes and insurance to decrease in future periods due to anticipated real estate property sales.

Asset management fees decreased from \$4.8 million for the six months ended June 30, 2015 to \$4.4 million for the six months ended June 30, 2016 due to properties sold, the results of which are included in income from continuing operations, and a decrease in asset management fees for the GKK Properties. Beginning April 2016, the gross value of the GKK Properties fell below the original cost of our investment in the GKK Mezzanine Loan and for the period from April 1, 2016 through June 30, 2016, we calculated the asset management fee related to the GKK Properties based on the gross value of the GKK Properties. See the discussion of asset management fees under “ — Liquidity and Capital Resources” above. Overall, we expect asset management fees to decrease in future periods due to anticipated asset sales or payoffs.

Foreclosure fees and expenses were \$0.3 million for the six months ended June 30, 2016 and related to our receipt of title to a retail property in connection with a deed-in-lieu of foreclosure in satisfaction of all amounts due under our investment in the Lawrence Village Plaza Loan Origination. We did not incur any foreclosure fees and expenses during the six months ended June 30, 2015. We do not expect to incur significant amounts of foreclosure fees and expenses in future periods as we do not currently anticipate foreclosing on more real estate or real estate-related assets.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

General and administrative expenses decreased by \$2.0 million primarily due to a decrease of \$2.6 million in the estimated profit participation interest related to the GKK Properties under the Second Amended Services Agreement, partially offset by an increase of \$0.7 million of other professional fees related to the Special Committee’s engagement of Evercore to act as our financial advisor. See “— Contractual Commitments and Contingencies — Asset Management Services Agreement Related to the GKK Properties” for more information and “— Liquidity and Capital Resources” for our discussion on the engagement of Evercore. General and administrative expenses consist primarily of management fees related to the Second Amended Services Agreement, legal fees, audit fees, transfer agent fees, state and local income taxes and other professional fees.

Depreciation and amortization expense from our real estate properties decreased by \$8.8 million primarily due to real estate property sales and decreased amortization of tenant origination and absorption costs resulting from lease expirations related to properties held throughout both periods. Upon classifying a property as held for sale, we cease depreciation and amortization expense for that property. Overall, we expect depreciation and amortization expense to decrease in future periods due to anticipated real estate property sales.

Interest expense from the financing of our portfolio decreased by \$8.9 million, primarily due to a decrease in the average loan balance as a result of principal repayments and debt extinguishments subsequent to June 30, 2015. Included in interest expense is the amortization of deferred financing costs of \$0.2 million and \$1.3 million for the six months ended June 30, 2016 and June 30, 2015, respectively. Interest expense in future periods will vary based on fluctuations in one-month LIBOR, our level of future borrowings and our ability to refinance existing indebtedness at similar rates. We do not currently plan to acquire or originate more real estate or real estate-related assets and, therefore, do not plan to enter into any purchase financing in the future. However, we may need to refinance our existing indebtedness in the future. Overall, we expect interest expense to decrease in future periods due to anticipated asset sales and principal paydowns.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

During the six months ended June 30, 2016, we recorded non-cash impairment charges of \$25.5 million, of which \$24.8 million related to 44 properties classified as real estate held for investment (including 41 GKK Properties), to write-down the carrying values of these real estate investments to their estimated fair values and \$0.7 million with respect to five GKK Properties that were held for sale or sold to write-down the carrying values of these real estate investments to their estimated sales price less estimated costs to sell. We did not record an impairment charge on real estate during the six months ended June 30, 2015. The facts and circumstances leading to the impairments on our real estate held for investment during the six months ended June 30, 2016 are as follows:

- *City Gate Plaza:* We recognized an impairment charge during the six months ended June 30, 2016 of \$3.3 million to reduce the carrying value of our investment in City Gate Plaza, an office property located in Sacramento, California, to its estimated fair value. We revised our cash flow projections to account for higher projected leasing costs to stabilize the property. The continued lack of demand in the Sacramento office rental market also resulted in higher capitalization rates.
- *University Park Buildings:* We recognized an impairment charge during the six months ended June 30, 2016 of \$3.2 million to reduce the carrying value of our investment in the University Park Buildings, an office property located in Sacramento, California, to its estimated fair value. We revised our cash flow projections primarily to account for higher projected capital costs for general building upgrades and to address certain maintenance issues. The continued lack of demand in the Sacramento office rental market also resulted in higher capitalization rates.
- *ADP Plaza:* We recognized an impairment charge during the six months ended June 30, 2016 of \$1.7 million to reduce the carrying value of our investment in ADP Plaza, an office property located in Portland, Oregon, to its estimated fair value. We revised our cash flow projections due to an increase in projected vacancy as a tenant occupying 48.6% of the building's rentable square feet notified us that it will exercise its contraction option as early as January 2017, resulting in a decrease in projected cash flows.
- *GKK Properties:*
 - *Citizens Bank Portfolio:* We recognized an impairment charge during the six months ended June 30, 2016 of \$9.5 million relating to 21 properties in the Citizens Bank Portfolio due to a decrease in cash flow projections primarily due to an increase in projected vacancy, thus decreasing the projected cash flows the properties would generate.
 - *Pitney Bowes - Bank of America Portfolio:* We recognized an impairment charge during the six months ended June 30, 2016 of \$1.7 million relating to 8 properties in the Pitney Bowes - Bank of America Portfolio due to a decrease in cash flow projections primarily due to an increase in projected vacancy, thus decreasing the projected cash flows the properties would generate.
 - *Other Properties:* We recognized an impairment charge during the six months ended June 30, 2016 of \$5.4 million relating to 12 other GKK Properties classified as held for investment. No impairment charge related to any individual property was greater than \$800,000. These impairments generally resulted from changes in lease projections, including longer estimated lease-up periods and lower projected rental rates, thus decreasing the projected cash flows the properties would generate.

We recognized a gain on sales of real estate of \$120.9 million related to the disposition of one historical real estate property and 132 GKK Properties during the six months ended June 30, 2016 that were included in income from continuing operations. We recognized a gain on sales of real estate of \$49.1 million related to the disposition of two historical industrial properties and three GKK Properties during the six months ended June 30, 2015 that were included in income from continuing operations.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

During the six months ended June 30, 2016, we recognized a loss on extinguishment of debt of \$19.3 million related to the following:

- *Defeasance of the FSI 6000 Mortgage Loan:* In connection with the disposition of the FSI 6000 Properties on April 11, 2016, we entered into a defeasance agreement with each of the lenders under the FSI 6000 Mortgage Loans to defease the entire aggregate outstanding principal balance of \$102.3 million under the FSI 6000 Mortgage Loans, releasing the FSI 6000 Properties, which had secured the FSI 6000 Mortgage Loans. The defeasance costs and write-off of an unamortized discount resulted in an aggregate loss on extinguishment of debt of approximately \$6.6 million.
- *Defeasance of the Bank of America - BBD2 Mortgage Loan:* On April 15, 2016, we, through an indirect wholly owned subsidiary, entered into a defeasance agreement with the lender under the Bank of America - BBD2 Mortgage Loan to defease the remaining outstanding principal balance of \$65.1 million, releasing all the properties that secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-off of an unamortized discount and unamortized deferred financing costs resulted in a loss on extinguishment of debt of approximately \$12.7 million.

During the six months ended June 30, 2015, we recognized a loss on extinguishment of debt of \$6.4 million related to the early pay-off of the 101 Independence Mortgage Loan. On May 1, 2015, in connection with the disposition of 101 Independence, we repaid the entire \$65.3 million principal balance and all other sums due on the 101 Independence Mortgage Loan, including a prepayment premium of \$4.4 million, and we wrote off an unamortized discount on note payable of \$2.0 million.

Funds from Operations and Modified Funds from Operations

We believe that funds from operations ("FFO") is a beneficial indicator of the performance of an equity REIT. We compute FFO in accordance with the current National Association of Real Estate Investment Trusts ("NAREIT") definition. FFO represents net income, excluding gains and losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), impairment losses on real estate assets, depreciation and amortization of real estate assets, and adjustments for unconsolidated partnerships and joint ventures. In connection with NAREIT's Accounting and Financial Standards Hot Topics, we are excluding impairment charges on real estate assets from our calculation of FFO. We have also restated FFO from prior periods to exclude these impairment charges. NAREIT believes that impairment charges on real estate assets are often early recognition of losses on prospective sales of properties, and therefore, the exclusion of these impairments is consistent with the exclusion of gains and losses recognized from the sales of real estate. Although these losses are included in the calculation of net income (loss), we have excluded these impairment charges in our calculation of FFO because impairments do not impact the current operating performance of our investments, and may or may not provide an indication of future operating performance. We believe FFO facilitates comparisons of operating performance between periods and among other REITs. However, our computation of FFO may not be comparable to other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. Our management believes that historical cost accounting for real estate assets in accordance with U.S. generally accepted accounting principles ("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, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provides a more complete understanding of our performance relative to our competitors and provides a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

Changes in accounting rules have resulted in a substantial increase in the number of non-operating and non-cash items included in the calculation of FFO. As a result, our management also uses modified funds from operations ("MFFO") as an indicator of our ongoing performance. MFFO excludes from FFO: acquisition fees and expenses; adjustments related to contingent purchase price obligations; amounts relating to straight-line rents and amortization of above and below market intangible lease assets and liabilities; accretion of discounts and amortization of premiums on debt investments; amortization of closing costs relating to debt investments; impairments of real estate-related investments; mark-to-market adjustments included in net income; and gains or losses included in net income for the extinguishment or sale of debt or hedges. We compute MFFO in accordance with the definition of MFFO included in the practice guideline issued by the Investment Program Association ("IPA") in November 2010 as interpreted by management. Our computation of MFFO may not be comparable to other REITs that do not compute MFFO in accordance with the current IPA definition or that interpret the current IPA definition differently than we do.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

We believe that MFFO is helpful as a measure of ongoing operating performance because it excludes non-operating items included in FFO. MFFO also excludes non-cash items such as straight-line rental revenue. Additionally, we believe that MFFO provides investors with supplemental performance information that is consistent with the performance indicators and analysis used by management, in addition to net income and cash flows from operating activities as defined by GAAP, to evaluate the sustainability of our operating performance. MFFO provides comparability in evaluating the operating performance of our portfolio with other non-traded REITs, which typically have limited lives with short and defined acquisition periods and targeted exit strategies. MFFO, or an equivalent measure, is routinely reported by non-traded REITs, and we believe often used by analysts and investors for comparison purposes.

FFO and MFFO are non-GAAP financial measures and do not represent net income as defined by GAAP. Net income as defined by GAAP is the most relevant measure in determining our operating performance because FFO and MFFO include adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization and the other items described above. Accordingly, FFO and MFFO should not be considered as alternatives to net income as an indicator of our current and historical operating performance. In addition, FFO and MFFO do not represent cash flows from operating activities determined in accordance with GAAP and should not be considered an indication of our liquidity. We believe FFO and MFFO, in addition to net income and cash flows from operating activities as defined by GAAP, are meaningful supplemental performance measures. During periods of significant disposition activity, FFO and MFFO are much more limited as measures of future performance.

Although MFFO includes other adjustments, the exclusion of straight-line rent, amortization of above- and below-market leases, loss from extinguishment of debt and the net amortization of discounts and premiums on mortgage loans related to the GKK Properties are the most significant adjustments to us at the present time. We have excluded these items based on the following economic considerations:

- *Adjustments for straight-line rent.* These are adjustments to rental revenue as required by GAAP to recognize contractual lease payments on a straight-line basis over the life of the respective lease. We have excluded these adjustments in our calculation of MFFO to more appropriately reflect the current economic impact of our in-place leases, while also providing investors with a useful supplemental metric that addresses core operating performance by removing rent we expect to receive in a future period or rent that was received in a prior period;
- *Amortization of above- and below-market leases.* Similar to depreciation and amortization of real estate assets and lease related costs that are excluded from FFO, GAAP implicitly assumes that the value of intangible lease assets and liabilities diminishes predictably over time and requires that these charges be recognized currently in revenue. Since market lease rates in the aggregate have historically risen or fallen with local market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the operating performance of the real estate;
- *Loss from extinguishment of debt.* A loss from extinguishment of debt represents the difference between the carrying value of any consideration transferred to the lender in return for the extinguishment of a debt and the net carrying value of the debt at the time of settlement. We have excluded the loss from extinguishment of debt in our calculation of MFFO because these losses do not impact the current operating performance of our investments and do not provide an indication of future operating performance; and
- *Net amortization of discounts and premiums on mortgage loans related to the GKK Properties.* Discounts and premiums on debt are amortized over the term of the loan as an adjustment to interest expense. This application results in interest expense recognition that is different than the underlying contractual terms of the debt. We have excluded the amortization of discounts and premiums related to the debt assumed in connection with the Settlement Agreement in our calculation of MFFO to more appropriately reflect the economic impact of our debt as the amortization of discounts and premiums has no ongoing economic impact on our operations. The debt assumed related to the GKK Properties was marked to market as of the date we entered into Settlement Agreement, which resulted in discounts and premiums related to the debt assumed. We believe excluding these items provides investors with a useful supplemental metric that directly addresses core operating performance.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Our calculation of FFO and MFFO is presented in the table below for the three and six months ended June 30, 2016 and 2015, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 61,182	\$ 19,751	\$ 72,001	\$ 28,340
Depreciation of real estate assets	7,118	9,228	14,738	19,243
Amortization of lease-related costs	2,928	4,977	6,306	10,567
Impairment charges on real estate	14,629	—	25,493	—
Gain on foreclosed real estate held for sale	—	—	—	(2,509)
Gain on sales of real estate, net	(97,349)	(35,093)	(120,935)	(49,059)
Gain on sales of real estate, net - discontinued operations	—	—	—	(124)
FFO	(11,492)	(1,137)	(2,397)	6,458
Straight-line rent and amortization of above- and below-market leases	(1,918)	(2,731)	(3,162)	(5,016)
Loss from extinguishment of debt	19,317	6,385	19,320	6,376
Amortization of discounts and closing costs on real estate loans receivable	(280)	(250)	(551)	(491)
Amortization of discounts and premiums on GKK notes payable, net	23	356	211	867
Foreclosure fees and expenses	262	—	262	—
MFFO	\$ 5,912	\$ 2,623	\$ 13,683	\$ 8,194

FFO and MFFO may also be used to fund all or a portion of certain capitalizable items that are excluded from FFO and MFFO, such as tenant improvements, building improvements and deferred leasing costs.

Distributions

Distributions declared, distributions paid and cash flow from operations were as follows for the first and second quarters of 2016 (in thousands, except per share amounts):

Period	Distributions Declared ⁽¹⁾	Distributions Declared Per Share ⁽¹⁾⁽²⁾	Distributions Paid ⁽¹⁾⁽²⁾	Cash Flow From Operations
First Quarter 2016	\$ 4,655	\$ 0.025	\$ 4,655	\$ 4,653
Second Quarter 2016	4,645	0.025	4,645	7,198
	\$ 9,300	\$ 0.050	\$ 9,300	\$ 11,851

⁽¹⁾ Distributions consist of the following, as applicable:

- On March 11, 2016, our board of directors declared a distribution in the amount of \$0.025 per share of common stock to stockholders of record as of the close of business on March 21, 2016. This distribution totaled approximately \$4.7 million and was paid on March 28, 2016.
- On May 6, 2016, our board of directors declared a distribution in the amount of \$0.025 per share of common stock to stockholders of record as of the close of business on June 22, 2016. This distribution totaled approximately \$4.6 million and was paid on June 28, 2016.

⁽²⁾ Assumes each share was issued and outstanding each day that was a record date for distributions during the period presented.

For the six months ended June 30, 2016, we paid aggregate cash distributions of \$9.3 million. FFO and cash flow from operations for the six months ended June 30, 2016 were \$(2.4) million and \$11.9 million, respectively. We funded our total distributions paid with current period cash flow from operations. For purposes of determining the source of our distributions paid, we assume first that we use cash flow from operations from the relevant periods to fund distribution payments. See the reconciliation of FFO to net income above. For information on our liquidity and distribution policies, see “— Liquidity and Capital Resources.”

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Our operating performance and ability to pay distributions cannot be accurately predicted and may deteriorate in the future due to numerous factors, including those discussed under "Forward-Looking Statements," "– Market Outlook - Real Estate and Real Estate Finance Markets," "Liquidity and Capital Resources" and "Results of Operations" herein and the risks discussed herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC. Those factors include: the future operating performance of our investments; the success and economic viability of our tenants; the ability of our borrowers and their sponsors to continue to make their debt service payments and/or to repay their loans upon maturity; our ability to refinance existing indebtedness at comparable terms; changes in interest rates on our variable rate debt obligations; our ability to sell assets to cover our liquidity needs; our ability to successfully operate and sell the GKK Properties given the concentration of the GKK Properties in the financial services sector; and our advisor's limited experience operating and selling bank branch properties.

Critical Accounting Policies

Our consolidated interim financial statements and condensed notes thereto have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. A discussion of the accounting policies that management considers critical in that they involve significant management judgments, assumptions and estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC. There have been no significant changes to our policies during 2016.

Subsequent Events

We evaluate subsequent events up until the date the consolidated financial statements are issued.

Distribution Declared

On August 9, 2016, our board of directors declared a distribution in the amount of \$0.025 per share of common stock to stockholders of record as of the close of business on September 22, 2016. We expect to pay this distribution on or about September 29, 2016.

Disposition of Woodfield Preserve Office Center

On November 13, 2007, we, through an indirect wholly owned subsidiary, purchased two six-story office buildings containing an aggregate of 647,216 rentable square feet on approximately 24 acres of land in Schaumburg, Illinois ("Woodfield Preserve Office Center"). On July 14, 2016, we sold Woodfield Preserve Office Center, which had a net book value of \$71.5 million as of the date of sale, for \$73.4 million. The purchaser is not affiliated with the us or our advisor. In connection with the disposition of Woodfield Preserve Office Center, we repaid \$37.1 million of the outstanding principal balance due under the Portfolio Loan, which was partially secured by Woodfield Preserve Office Center.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Advisory Agreement Amendment

On August 9, 2016, we and our advisor entered into an amendment ("Amendment No. 1") to the advisory agreement between the parties to amend certain terms related to the disposition fee payable to our advisor by us.

Prior to Amendment No. 1, with respect to sales of GKK Properties, the advisory agreement provided:

With respect to sales of the GKK Properties, and provided that the conflicts committee determines that our advisor has provided a substantial amount of services in connection with the sale of each GKK Property for which the payment of a disposition fee is requested by the Advisor, then:

- (a) With respect to portfolio or single asset sales of GKK Properties designated by the conflicts committee in its sole discretion at or about the time of the sale, we will pay our advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other limitations and conditions set forth in the advisory agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable upon the respective closing; and
- (b) With respect to sales of all other GKK Properties for which a disposition fee has not yet been paid, if, upon the sale of the final GKK Property, the conflicts committee determines in its sole discretion that we have recovered our entire investment related to the GKK Mezzanine Loan and the GKK Properties subsequent to the Settlement Agreement, after taking into consideration the net cash flow received by us from the investment, whether in the form of (i) net proceeds from the sales or other dispositions or transfers of the GKK Properties, (ii) the net cash flow related to the GKK Mezzanine Loan, (iii) the net cash flow related to the GKK Properties subsequent to the Settlement Agreement and/or (iv) other proceeds related to the assets and liabilities received under the Settlement Agreement, then we will pay our advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other conditions set forth in the advisory agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable promptly upon such determination by the conflicts committee.

Pursuant to Amendment No. 1, with respect to sales of GKK Properties for which a disposition fee has not yet been paid, based on the proceeds received from the entire investment related to the GKK Mezzanine Loan and the GKK Properties to date and expected proceeds from future sales, the conflicts committee determined that our advisor had provided a substantial amount of services in connection with the sale of each such 160 GKK Property named therein and approved the payment to our advisor of a disposition fee equal to 1.0% of the aggregate contract sales prices of such GKK Properties, which aggregate disposition fee was \$2.0 million. The aggregate contract sales price of such 160 GKK Properties was \$214.1 million.

Also pursuant to Amendment No. 1, for substantial assistance in connection with the sale of all GKK Properties that have not yet been sold (as determined by the conflicts committee of our board of directors), we will pay our advisor or its affiliates a disposition fee of 1% of the contract sales such GKK Properties sold. However, in no event may the total commissions (including such disposition fees) paid to our advisor, its affiliates and unaffiliated third parties exceed 6% of the contract sales price of the property, loan or other investment sold or exceed a competitive real estate commission.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to the effects of interest rate changes as a result of borrowings used to (i) maintain liquidity, (ii) fund the financing and refinancing of our real estate investment portfolio, and (iii) fund operations and payments on the debt assumed in connection with the Settlement Agreement. We are also exposed to the effects of changes in interest rates as a result of our investments in mortgage, mezzanine and other real estate loans receivable. Our profitability and the value of our investment portfolio may be adversely affected during any period as a result of interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs. We have managed and will continue to manage interest rate risk by maintaining a ratio of fixed rate, long-term debt such that variable rate exposure is kept at an acceptable level. In addition, we may utilize a variety of financial instruments, including interest rate caps, floors, and swap agreements, in order to limit the effects of changes in interest rates on our operations. When we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the overall returns to our stockholders and that the losses may exceed the amount we invested in the instruments.

We have borrowed funds and made investments at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt or fixed rate real estate loans receivable unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. As of June 30, 2016, the fair value and book value of our fixed rate real estate loans receivable were \$20.6 million and \$22.3 million, respectively. The fair value estimate of our real estate loans receivable is calculated using an internal valuation model that considers the expected cash flows for the loans, underlying collateral values (for collateral-dependent loans) and the estimated yield requirements of institutional investors for loans with similar characteristics, including remaining loan term, loan-to-value, type of collateral and other credit enhancements. As of June 30, 2016, the fair value of our fixed rate debt was \$105.6 million and the outstanding principal balance of our fixed rate debt was \$98.4 million. The fair value estimate of our fixed rate debt was calculated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated as of June 30, 2016. With respect to our fixed rate instruments, we do not expect that fluctuations in interest rates, and the resulting changes in fair value of our fixed rate instruments, would have a significant impact on our ongoing operations.

Conversely, movements in interest rates on variable rate debt would change our future earnings and cash flows, but would not significantly affect the fair value of those instruments. However, changes in required risk premiums would result in changes in the fair value of variable rate instruments. As of June 30, 2016, we were exposed to market risks related to fluctuations in interest rates on our \$153.5 million of variable rate debt outstanding. Based on interest rates as of June 30, 2016, if interest rates are 100 basis points higher during the 12 months ending June 30, 2017, interest expense on our variable rate debt outstanding would increase by approximately \$1.5 million. As of June 30, 2016, one-month LIBOR was 0.46505% and if this index was reduced to 0% during the 12 months ending June 30, 2017, interest expense on our variable rate debt would decrease by \$0.7 million.

The weighted-average annual effective interest rate of our fixed rate real estate loans receivable as of June 30, 2016 was 11.4%. The weighted-average annual effective interest rate represents the effective interest rate as of June 30, 2016, using the interest method, which we use to recognize interest income on our real estate loans receivable. The weighted-average interest rates of our fixed rate debt and interest rate of our variable rate debt as of June 30, 2016 were 5.7% and 2.3%, respectively. The weighted-average interest rate represents the actual interest rate in effect as of June 30, 2016, using interest rate indices as of June 30, 2016, where applicable.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

See the risks below and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 16, 2016.

We can give no assurances regarding any particular transaction in connection with the exploration of strategic alternatives and the marketing of our assets for sale.

Although the Special Committee has engaged Evercore to assist us and the Special Committee with the exploration of strategic alternatives for us, we are not obligated to enter into any particular transaction or any transaction at all. Based on the results of this sales effort, the board of directors may conclude that it would be in our best interests and the best interests of our stockholders to sell one or more of our assets, and, depending on the scope of the proposed asset sales, thereafter to adopt a plan of liquidation that would involve the sale of our remaining assets. Alternatively, based on the results of the initial sales effort, the board of directors may conclude that it would be in our best interests and the best interests of our stockholders for us to engage in a limited number of asset sales and continue to operate as a going concern, but with a portfolio that is smaller than the present portfolio. Although we have begun the process of exploring strategic alternatives and intend to market for sale our assets, there is no assurance that this process will result in stockholder liquidity, or provide a return to stockholders that equals or exceeds our estimated value per share.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- a) During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933.
- b) Not applicable.
- c) We have a share redemption program pursuant to which stockholders may only sell their shares to us in connection with a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program and, together with redemptions sought in connection with a stockholder's death, "special redemptions"). Such redemptions are subject to an annual dollar limitation and are further subject to the other limitations described in our share redemption program, including:
 - During each calendar year, special redemptions are limited to an annual dollar amount determined by our board of directors. The annual dollar limitation for our share redemption program may be reviewed and adjusted from time to time during the year. On December 8, 2015, our board of directors approved an annual dollar limitation of \$10.0 million in the aggregate for the calendar year 2016 (subject to review and adjustment during the year by our board of directors), and further subject to the limitations described in our share redemption program.
 - During any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
 - We have no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

We do not currently expect to have funds available for ordinary redemptions in the future.

If we cannot repurchase all shares presented for redemption in any month because of the limitations on redemptions set forth in our share redemption program, then we will honor redemption requests on a pro rata basis, except that if a pro rata redemption would result in a stockholder owning less than the minimum purchase requirement described in our most recently effective registration statement, as such registration statement has been amended or supplemented, then we would redeem all of such stockholder's shares.

The complete share redemption program document is filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2012 and is available at the SEC's website at <http://www.sec.gov>.

PART II. OTHER INFORMATION (CONTINUED)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (continued)

The only redemptions we made under our share redemption program during the six months ended June 30, 2016 were those that qualified as, and met the requirements for, special redemptions under our share redemption program. For the six months ended June 30, 2016, we fulfilled all redemption requests that qualified as special redemptions under our share redemption program with a combination of cash flow from operations and proceeds from the sale of properties.

We may amend, suspend or terminate the program upon 30 days' notice to our stockholders. We may provide this notice by including such information in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC, or by a separate mailing to our stockholders.

On December 8, 2015, our board of directors approved an estimated value per share of our common stock of \$3.94 per share (unaudited), based on the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares outstanding, all as of September 30, 2015, with the exception of an adjustment to our net asset value to give effect to the December 7, 2015 payment of a special distribution of \$0.25 per share on the outstanding shares of our common stock to the stockholders of record as of the close of business on December 1, 2015. The change in redemption price became effective for the December 2015 redemption date and will be effective until the estimated value per share is updated. For a full description of the methodologies and assumptions used to value our assets and liabilities in connection with the calculation of the estimated value per share, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information" of our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 16, 2016. We currently expect to utilize our advisor and/or an independent valuation firm to update the estimated value per share no later than December 2016.

During the six months ended June 30, 2016, we redeemed shares pursuant to our share redemption program as follows:

Month	Total Number of Shares Redeemed ⁽¹⁾	Average Price Paid Per Share	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2016	110,866	\$ 3.94 ⁽²⁾	(3)
February 2016	111,902	\$ 3.94 ⁽²⁾	(3)
March 2016	93,851	\$ 3.94 ⁽²⁾	(3)
April 2016	218,998	\$ 3.94 ⁽²⁾	(3)
May 2016	111,156	\$ 3.94 ⁽²⁾	(3)
June 2016	188,704	\$ 3.94 ⁽²⁾	(3)
Total	835,477		

⁽¹⁾ We announced commencement of our share redemption program on April 6, 2006 and amendments to the program on August 16, 2006 (which amendment became effective on December 14, 2006), August 1, 2007 (which amendment became effective on September 13, 2007), August 14, 2008 (which amendment became effective on September 13, 2008), March 26, 2009 (which amendment became effective on April 26, 2009), May 13, 2009 (which amendment became effective on June 12, 2009), March 26, 2012 (which amendment became effective on April 25, 2012) and March 13, 2013 (which amendment became effective on April 12, 2013).

⁽²⁾ In accordance with our share redemption program, the redemption price for all stockholders is equal to the most recent estimated value per share of our common stock as of the redemption date (described above).

⁽³⁾ We limit the dollar value of shares that may be redeemed under our share redemption program as described above. During the six months ended June 30, 2016, we redeemed \$3.3 million of shares of common stock. The only redemptions we made under our share redemption program during the six months ended June 30, 2016 were those that qualified as, and met the requirements for, special redemptions under our share redemption program. On December 8, 2015, our board of directors approved an annual dollar limitation for redemptions of \$10.0 million in the aggregate for calendar year 2016. Based on this redemption limitation and those described above and redemptions through June 30, 2016, we may redeem up to \$6.7 million of shares that meet the requirements for special redemptions for the remainder of 2016.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

PART II. OTHER INFORMATION (CONTINUED)

Item 5. Other Information

Advisory Agreement Amendment

On August 9, 2016, we and our advisor entered into Amendment No. 1 to the advisory agreement between the parties to amend certain terms related to the disposition fee payable to our advisor by us.

Prior to Amendment No. 1, with respect to sales of GKK Properties, the advisory agreement provided:

With respect to sales of the GKK Properties, and provided that the conflicts committee determines that our advisor has provided a substantial amount of services in connection with the sale of each GKK Property for which the payment of a disposition fee is requested by the Advisor, then:

- (a) With respect to portfolio or single asset sales of GKK Properties designated by the conflicts committee in its sole discretion at or about the time of the sale, we will pay our advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other limitations and conditions set forth in the advisory agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable upon the respective closing; and
- (b) With respect to sales of all other GKK Properties for which a disposition fee has not yet been paid, if, upon the sale of the final GKK Property, the conflicts committee determines in its sole discretion that we have recovered our entire investment related to the GKK Mezzanine Loan and the GKK Properties subsequent to the Settlement Agreement, after taking into consideration the net cash flow received by us from the investment, whether in the form of (i) net proceeds from the sales or other dispositions or transfers of the GKK Properties, (ii) the net cash flow related to the GKK Mezzanine Loan, (iii) the net cash flow related to the GKK Properties subsequent to the Settlement Agreement and/or (iv) other proceeds related to the assets and liabilities received under the Settlement Agreement, then we will pay our advisor a fee in an amount not to exceed 1% of the contract sales price and subject to other conditions set forth in the advisory agreement, as determined by the conflicts committee in its sole discretion, which fee will be payable promptly upon such determination by the conflicts committee.

Pursuant to Amendment No. 1, with respect to sales of GKK Properties for which a disposition fee has not yet been paid, based on the proceeds received from the entire investment related to the GKK Mezzanine Loan and the GKK Properties to date and expected proceeds from future sales, the conflicts committee determined that our advisor had provided a substantial amount of services in connection with the sale of each such 160 GKK Property named therein and approved the payment to our advisor of a disposition fee equal to 1.0% of the aggregate contract sales prices of such GKK Properties, which aggregate disposition fee was \$2.0 million. The aggregate contract sales price of such 160 GKK Properties was \$214.1 million.

Also pursuant to Amendment No. 1, for substantial assistance in connection with the sale of all GKK Properties that have not yet been sold (as determined by the conflicts committee of our board of directors), we will pay our advisor or its affiliates a disposition fee of 1% of the contract sales such GKK Properties sold. However, in no event may the total commissions (including such disposition fees) paid to our advisor, its affiliates and unaffiliated third parties exceed 6% of the contract sales price of the property, loan or other investment sold or exceed a competitive real estate commission.

PART II. OTHER INFORMATION (CONTINUED)

Item 6. Exhibits

Ex.	Description
3.1	Articles of Amendment and Restatement of the Company, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2006, filed May 4, 2006
3.2	Second Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed March 16, 2016
4.1	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-11, Commission File No. 333-126087, filed June 23, 2005
10.1	Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Net Lease Advisors, LLC, dated October 19, 2015
10.2	Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Net Lease Advisors, LLC, dated October 21, 2015
10.3	First Amendment to Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Net Lease Advisors, LLC, dated December 4, 2015
10.4	Second Amendment to Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Net Lease Advisors, LLC, dated January 8, 2016
10.5	Third Amendment to Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Net Lease Advisors, LLC, dated February 19, 2016
10.6	Fourth Amendment to Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Vault Portfolio, LLC, dated March 7, 2016
10.7	Fifth Amendment to Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Vault Portfolio, LLC, dated March 10, 2016
10.8	Sixth Amendment to Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Vault Portfolio, LLC, dated March 17, 2016
10.9	Seventh Amendment to Amended and Restated Purchase and Sale Agreement, by and among First States Investors 6000A, L.P., First States Investors 6000B, L.P., First States Investors 6000C, L.P. and First States Investors 6000D, L.P. and Pontus Vault Portfolio, LLC, dated March 18, 2016
10.10	Second Amended and Restated Asset Management Services Agreement, by and between KBS Acquisition Sub, LLC and GKK Realty Advisors LLC, effective as of June 1, 2016
10.11	Accounting/Construction Services Agreement, by and between KBS Acquisition Sub, LLC and GKK Realty Advisors LLC, effective as of June 1, 2016
10.12	Amendment No. 1 to the Advisory Agreement, by and between the Company and KBS Capital Advisors LLC, dated August 9, 2016

PART II. OTHER INFORMATION (CONTINUED)**Item 6. Exhibits (continued)**

Ex.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Amended and Restated Share Redemption Program, dated March 6, 2013, incorporated by reference to Exhibit 99.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements 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.

KBS REAL ESTATE INVESTMENT TRUST, INC.

Date: August 10, 2016

By: /s/ CHARLES J. SCHREIBER, JR.

Charles J. Schreiber, Jr.

*Chairman of the Board,
Chief Executive Officer and Director*
(principal executive officer)

Date: August 10, 2016

By: /s/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel

Chief Financial Officer
(principal financial officer)

**Certification of Chief Executive Officer pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Charles J. Schreiber, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBS Real Estate Investment Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2016

By: /S/ CHARLES J. SCHREIBER, JR.

Charles J. Schreiber, Jr.
*Chairman of the Board,
Chief Executive Officer and Director*
(principal executive officer)

**Certification pursuant to 18 U.S.C. Section 1350,
as Adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of KBS Real Estate Investment Trust, Inc. (the “Registrant”) for the quarter ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Charles J. Schreiber, Jr., Chief Executive Officer and Director of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 10, 2016

By: /s/ CHARLES J. SCHREIBER, JR.

Charles J. Schreiber, Jr.

*Chairman of the Board,
Chief Executive Officer and Director*
(principal executive officer)

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

By: /s/ JEFFREY K. WALDVOGEL

Chief Financial Officer
(principal financial officer)

**Certification pursuant to 18 U.S.C. Section 1350,
as Adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of KBS Real Estate Investment Trust II, Inc. (the “Registrant”) for the quarter ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jeffrey K. Waldvogel, the Chief Financial Officer of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 10, 2016

By: /s/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel

Chief Financial Officer
(principal financial officer)