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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015
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	**20-2985918**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
800 Newport Center Drive, Suite 700 Newport Beach, California	**92660**
(Address of Principal Executive Offices)	(Zip Code)

(949) 417-6500
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value per share

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment of this Form 10-K. ☒

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 ☒

There is no established market for the Registrant's shares of common stock. On December 9, 2014, the board of directors of the Registrant approved an estimated value per share of the Registrant's common stock of $4.52 based on the estimated value of the Registrant's assets less the estimated value of the Registrant's liabilities divided by the number of shares outstanding, all as of September 30, 2014. For a full description of the methodologies used to value the Registrant's assets and liabilities in connection with the calculation of the estimated value per share as of December 9, 2014, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information" of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014. On December 8, 2015, the board of directors of the Registrant approved an estimated value per share of the Registrant's common stock of $3.94 based on the estimated value of the Registrant's assets less the estimated value of the Registrant's liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2015, with the exception of an adjustment to the Registrant's 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 common stock of the Registrant to the stockholders of record as of the close of business on December 1, 2015. For a full description of the methodologies used to value the Registrant's assets and liabilities in connection with the calculation of the estimated value per share as of December 8, 2015, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information."

There were approximately 187,114,420 shares of common stock held by non-affiliates as of June 30, 2015, the last business day of the Registrant's most recently completed second fiscal quarter.

As of March 14, 2016, there were 186,191,379 outstanding shares of common stock of the Registrant.

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FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K 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.

- 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, the significant debt obligations we have assumed with respect to such GKK Properties, 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), 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 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.
- Although the special committee of our board of directors 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.

All forward-looking statements should be read in light of the risks identified in Part I, Item 1A of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Overview

KBS Real Estate Investment Trust, Inc. is 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. As used herein, the terms "we," "our" and "us" refer to the Company and as required by context, KBS Limited Partnership, a Delaware limited partnership, which we refer to as our "Operating Partnership," and to their subsidiaries. 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 December 31, 2015, we owned or, with respect to a limited number of properties, held a leasehold interest in, 364 real estate properties (of which eight properties were held for sale), including the GKK Properties. In addition, as of December 31, 2015, we owned four real estate loans receivable and a participation interest with respect to a real estate joint venture.

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.

Objectives and Strategies

Our primary investment objectives were:

- to preserve and return our stockholders' capital contributions; and
- to manage our investments to allow our stockholders to realize a return on their investment.

We have sought and will seek to achieve these objectives by managing our portfolio of real estate and real estate-related investments, which we acquired using a combination of equity raised in our initial public offering, debt financing and joint ventures. We diversified our portfolio by investment type, geographic region, and tenant/borrower base.

Our primary business objectives are: (i) to maintain and, if possible, improve the quality and income-producing ability of our investments; (ii) to position our investments to improve their value; and (iii) to manage our portfolio to remain compliant with REIT requirements under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). We intend to meet these objectives by utilizing the expertise of our advisor to diligently increase the occupancy of our real estate properties while structuring leases that enhance property operating performance. We will also, through our advisor, seek to improve the cash flows from our real estate-related investments, through continuing debt service, restructuring of terms and, if necessary, foreclosing on the collateral securing our real estate-related investments. All of our business activities are conducted with the intention of remaining compliant with REIT requirements; if we continue to qualify for taxation as a REIT, we will generally not be subject to federal corporate income taxes on our taxable income that is currently distributed to stockholders. This treatment substantially eliminates “double taxation” at the corporate and stockholder levels that usually results from investment in the stock of a corporation.

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. While we conduct this process, we remain 100% focused on managing our properties.

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. Further, although we have begun the process of exploring strategic alternatives, there is no assurance that the process will result in stockholder liquidity, or provide a return to stockholders that equals or exceeds our estimated value per share.

Investment Portfolio

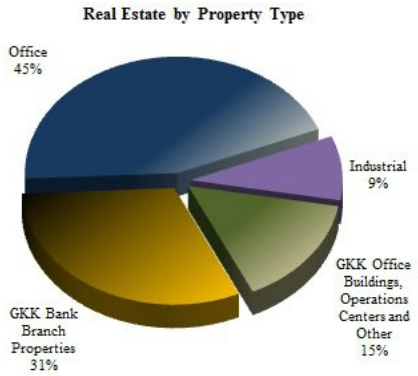
Real Estate Properties

We made investments in core office and industrial properties, which are generally lower risk, existing properties with at least 80% occupancy and minimal near-term lease rollover. We also own other types of properties, including bank branches, transferred to us pursuant to the Settlement Agreement (discussed above under “Overview”) and properties transferred to us through foreclosures or deeds-in-lieu of foreclosures. These properties had originally secured certain of our investments in real estate loans receivable. All of our properties are located in the United States. As of December 31, 2015, we owned 356 real estate properties held for investment. We also owned eight properties that were held for sale. The 356 real estate properties held for investment totaled 7.7 million rentable square feet and included the following:

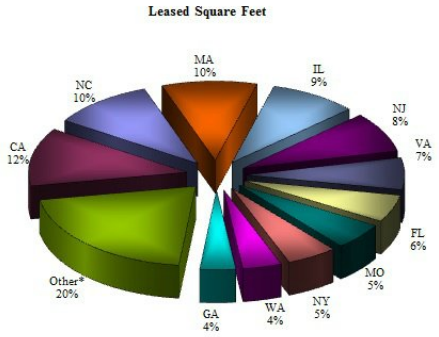
- Nine office buildings and three corporate research buildings; and
- GKK Properties consisting of 291 bank branch properties and 53 office buildings, operations centers and other properties.

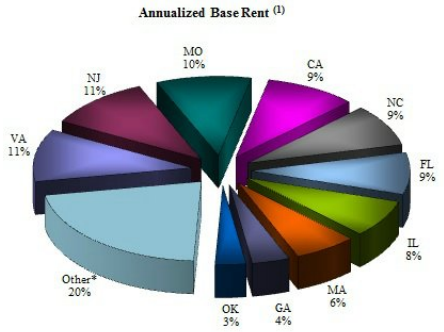
We originally intended to hold our core properties for four to seven years. With respect to the GKK Properties, our management continues to evaluate which properties to hold and which properties to sell. During the year ended December 31, 2015, we sold 34 properties (of which 31 were GKK Properties) and terminated the leasehold interest in three properties. The hold period of certain GKK Properties has been affected by the underlying debt structure and related defeasance costs and prepayment penalties. Additionally, economic and market conditions influence us to hold our investments for different periods of time.

The following chart illustrates the composition of our real estate portfolio (excluding eight properties that were held for sale) as of December 31, 2015 based on the carrying value of the investments:



As noted above, our real estate property investments (excluding eight properties that were held for sale) are diversified by geographic location with properties in 30 states as shown in the charts below:

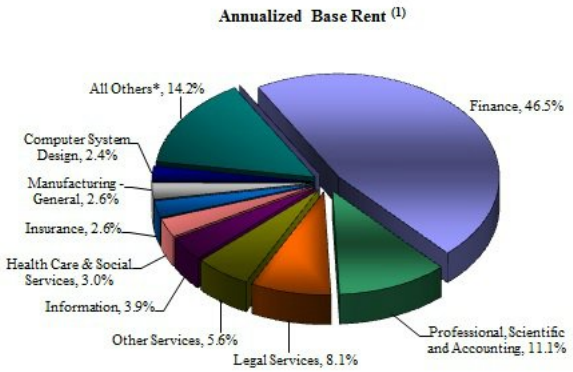




*Other includes any state less than 3% of the total.

(1) Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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.

One of our objectives is to maintain a stable and diversified tenant base and have long-term relationships with our tenants in order to limit our exposure to any one tenant or industry. However, as a result of the transfers of the GKK Properties, beginning in December 2011 and as of December 31, 2015, we had a concentration of credit risk related to Bank of America, N.A., which represented approximately 16.9% of our annualized base rent as of December 31, 2015 and reduced the diversity of our tenant base. Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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. Also, as of December 31, 2015, we had a concentration of credit risk related to the finance industry, which represented approximately 46.5% of our annualized base rent. The finance industry concentration is due to the concentration in the GKK Properties. As of December 31, 2015, our real estate portfolio was 85% occupied (excluding properties that were held for sale). The chart below illustrates the diversity of tenant industries in our portfolio (excluding properties that were held for sale) based on total annualized base rent as of December 31, 2015:



* All others includes any industry less than 2% of the total.

(1) Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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.

The carrying value of our real estate portfolio as of December 31, 2015 was $0.9 billion (including eight properties that were held for sale).

Real Estate-Related Investments

We have also invested in real estate-related investments including: (i) mortgage loans; (ii) mezzanine loans; (iii) participations in mortgage and mezzanine loans; (iv) B-Notes; and (v) real estate-related debt securities, such as commercial mortgage-backed securities ("CMBS"). We initially intended to hold our real estate-related investments until maturity. However, economic and market conditions may influence us to hold our investments for different periods of time. We may sell an asset before the end of the expected holding period if we believe that market conditions and asset positioning have maximized its value to us or the sale of the asset would otherwise be in the best interests of our stockholders.

As of December 31, 2015, we owned one mortgage loan, one mezzanine loan and two B-Notes. The book value (net of asset specific reserves) of our real estate-related investments as of December 31, 2015 was $27.3 million. As of December 31, 2015, our real estate-related investments consisted of four fixed rate real estate loans receivable with a weighted average annualized effective interest rate of 9.0%.

Financing Objectives

We financed the majority of our real estate acquisitions with a combination of the proceeds we received from our initial public offering and debt. In addition, we purchased certain real estate-related investments with a combination of the proceeds we received from our initial public offering and repurchase financing. We used debt financing to increase the amount available for investment and to increase overall investment yields to us and our stockholders. As of December 31, 2015, the weighted-average interest rate on our debt was 4.6%.

We have borrowed funds at a combination of fixed and variable rates. As of December 31, 2015, we had approximately $267.0 million and $164.1 million of fixed and variable rate debt outstanding, respectively. The weighted-average interest rates of our fixed rate debt and variable rate debt at December 31, 2015 were 6.0% and 2.2%, respectively.

Some of our debt allows us to extend the maturity dates, subject to certain conditions. Although we believe we will be permitted to extend the maturity dates of our current debt obligations, we can give no assurance in this regard. The following is a schedule of maturities, including principal amortization payments, for all of our notes payable outstanding as of December 31, 2015 (in thousands):

2016	$	67,950
2017		269,956
2018		4,707
2019		61,957
2020		2,728
Thereafter		23,840
	$	431,138

We limit our total liabilities to 75% of the cost (before deducting depreciation or other noncash reserves) of all of our tangible assets; however, we may exceed this limit if the majority of the conflicts committee approves each borrowing in excess of that limitation and we disclose such borrowings to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. We did not exceed this limitation on borrowings during any quarter of 2015. As of December 31, 2015, our borrowings and other liabilities were approximately 35% of both the cost (before deducting depreciation or other noncash reserves) and book value (before deducting depreciation) of our tangible assets, respectively.

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. The slowdown in global economic growth, and the increase in oil production capacity, has had a ripple effect through the energy and commodity markets. Decreasing levels of demand for commodities have led to a weakening of global economic conditions, particularly in emerging market nations. Many nations in the developing world rely on metals, minerals and oil production as the basis of their economies. When demand for these resources drops, the economic environment deteriorates, and deflation becomes a very real risk. Over the past decade the United States has seen a resurgence of the domestic energy markets. The growth of domestic oil and natural gas production helped the U.S. economy rebound from the 2008-2009 recession. During the first quarter of 2016, supply pressures in the energy markets have driven down the price of oil to levels not seen in many years, and U.S. economic growth has slowed.

Central bank interventions and the use of monetary policy to combat the lingering effects of the 2008-2009 recession continue to affect the global economy. The U.S. Federal Reserve (the "FED") pursued an accommodative monetary policy that included cutting interest rates and implementing a quantitative easing ("QE") program. In 2015, the U.S. economy continued strengthening, and the FED ceased the QE program and raised the Target Funds rate by 25 basis points. In 2012, Japan embarked on a massive QE program designed to kick start the country's economy. The Japanese economy remains weak, with little or no economic growth. In Europe, the European Central Bank ("ECB") announced its own QE program in January 2015. The long awaited announcement led to lower European interest rates and a weakening of the Euro against other currencies. With much of the EU economy still experiencing low economic growth, the ECB is now poised to increase its QE program. While the intent of these policies is to spur economic growth, the size of these programs is unprecedented, and the ultimate impact on the global financial system is unknown.

In the United States, recent economic data has been mixed. Slow and steady growth in the labor markets has driven unemployment to 4.9% as of January 2016. The labor force participation rate continues to be relatively low and personal income growth has been modest. Consumer spending in the United States has been increasing, and consumer confidence levels are starting to reach levels last seen in the mid-2000's. U.S. gross domestic product ("U.S. GDP") has continued to grow. On an annual basis, U.S. GDP growth in 2014 was 2.4%, which was an improvement over 2013's growth rate of 1.5%. In 2015 U.S. GDP growth came in at 2.4%, with the trend moving towards slower growth in the first quarter of 2016.

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. The U.S. commercial real estate market has benefited from strong 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. Foreign capital flows represent 17% of the 2015 volume. Initially, gateway markets such as New York City and San Francisco benefited from a high demand for commercial properties. Now investors have branched into secondary and tertiary markets, and demand for investments is leading to price increases and an uptick in construction and development. Some fear the potential creation of an asset bubble, particularly in the gateway metropolitan markets.

Impact on Our Real Estate Investments

The increased volatility in the global financial markets and the potential increase in U.S. interest rates are introducing a level of uncertainty into our outlook for the performance of the U.S. commercial real estate markets. Currently, 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, which has resulted in an increase in real estate values in certain 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 FED increased interest rates in Q4 2015. 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. Current 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.

We have fixed rate real estate-related loan investments with a total book value (excluding asset-specific loan loss reserves) of $33.8 million. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. We are currently negotiating an agreement in lieu of foreclosure with the borrower under the Lawrence Village Plaza Loan Origination to transfer title of the property securing the loan to us in full satisfaction of the debt outstanding under, and all other obligations related to, the Lawrence Village Plaza Loan Origination. No other real estate-related loan investments are scheduled to mature within one year from December 31, 2015. As of December 31, 2015, we had recorded $6.5 million of reserves for loan losses related to two of our real estate-related investments, one of which was the Lawrence Village Plaza Loan Origination.

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. Recent 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 December 31, 2015, we had a total of $267.0 million of fixed rate notes payable and $164.1 million of variable rate notes payable. We have $68.0 million of debt maturing (including principal amortization payments) during the 12 months ending December 31, 2016.

Economic Dependency

We are dependent on our advisor for certain services that are essential to us, including the management of the daily operations of our 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 KBS Capital Advisors is unable to provide any of these services, we will be required to obtain such services from other sources. We are also dependent on the Property Manager for the services under the Amended Services Agreement, including the operations, leasing and eventual dispositions of the GKK Properties.

Competitive Market Factors

The U.S. commercial real estate leasing markets remain competitive. We face competition from various entities for prospective tenants and to retain our current tenants, including other REITs, pension funds, insurance companies, investment funds and companies, partnerships and developers. Many of these entities have substantially greater financial resources than we do and may be able to accept more risk than we can prudently manage, including risks with respect to the creditworthiness of a tenant. As a result of their greater resources, those entities may have more flexibility than we do in their ability to offer rental concessions to attract and retain tenants. This could put pressure on our ability to maintain or raise rents and could adversely affect our ability to attract or retain tenants. As a result, our financial condition, results of operations, cash flow, ability to satisfy our debt service obligations and ability to pay distributions to our stockholders may be adversely affected.

We also face competition from many of the types of entities referenced above regarding the disposition of properties. These entities may possess properties in similar locations and/or of the same property types as ours and may be attempting to dispose of these properties at the same time we are attempting to dispose of some of our properties, providing potential purchasers with a larger number of properties from which to choose and potentially decreasing the sales price for such properties. Additionally, these entities may be willing to accept a lower return on their individual investments, which could further reduce the sales price of such properties. This competition could decrease the sales proceeds we receive for properties that we sell, assuming we are able to sell such properties, which could adversely affect our cash flows and the overall return for our stockholders.

Compliance with Federal, State and Local Environmental Law

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous real property owner or operator may be liable for the cost of removing or remediating hazardous or toxic substances on, under or in such property. These costs could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose liens on properties or restrictions on the manner in which properties may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for the release of and exposure to hazardous substances, including asbestos-containing materials and lead-based paint. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances and governments may seek recovery for natural resource damage. The cost of defending against claims of environmental liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury, property damage or natural resource damage claims could reduce the amounts available for distribution to our stockholders.

Except for the GKK Properties and other properties to which we took title to through foreclosure or deed-in-lieu of foreclosure, all of our direct real estate investments were subject to Phase I environmental assessments prior to the time they were acquired. Some of our properties are subject to potential environmental liabilities arising primarily from historic activities at or in the vicinity of the properties. Based on our environmental diligence and assessments of our properties and our purchase of pollution and remediation legal liability insurance with respect to some of our properties, we do not believe that environmental conditions at our properties are likely to have a material adverse effect on our operations.

We own one property that is subject to activity use limitations ("AULs") whereby the government has placed limitations on redevelopment of the property for certain uses, particularly residential uses. AULs are typically imposed on a property that has environmental contamination in exchange for less stringent environmental clean-up standards. In view of the location of the affected property, the environmental characteristics of the contaminants and the characteristics of the neighborhood, we do not believe that these AULs have a material impact on our portfolio valuation, but they could result in the depression of the value of the property, should we resell it for uses different from its existing uses. The property subject to AULs is ADP Plaza, located in Portland, Oregon.

Some of the properties in our portfolio had or have underground storage tanks either for space heating of the buildings, fueling motor vehicles, or industrial processes. Many of the underground storage tanks at the premises have been replaced over time. Given changing standards regarding closure of underground storage tanks and associated contamination, many of the tanks may not have been closed in compliance with current standards. Some of these properties likely have some residual petroleum or chemical contamination. Properties exhibiting these risks include 129 Concord Road, Billerica, Massachusetts (Rivertech) and ADP Plaza, Portland, Oregon.

Under the Settlement Agreement, we 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, we were not able to inspect the GKK Properties or conduct standard due diligence on certain of the GKK Properties before the transfers. Additionally, we 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 we subsequently discover environmental problems with the GKK Properties.

Industry Segments

We operate in three business segments. Our segments are based on our method of internal reporting which classifies our 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, or the GKK Properties. For financial data by segment, see Note 12, "Segment Information" in the notes to our consolidated financial statements filed herewith.

Employees

We have no paid employees. The employees of our advisor and its affiliates provide management, disposition, advisory and certain administrative services for us.

Principal Executive Office

Our principal executive offices are located at 800 Newport Center Drive, Suite 700, Newport Beach, California 92660. Our telephone number, general facsimile number and website address are (949) 417-6500, (949) 417-6501 and *http://www.kbsreit.com*, respectively.

Available Information

Access to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other filings with the SEC, including amendments to such filings, may be obtained free of charge from the following website, *http://www.kbsreit.com*, through a link to the SEC's website, *http://www.sec.gov*. These filings are available promptly after we file them with, or furnish them to, the SEC.

ITEM 1A. RISK FACTORS

The following are some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

Risks Related to an Investment in Us

Because no public trading market for our shares currently exists and because we have delayed the liquidation or the listing of our shares of common stock on a national securities exchange beyond 2015, our stockholders may not realize the cash value of their investment for an extended period.

There is no public market for our shares and we currently have no plans to list our shares on a national securities exchange. Until our shares are listed, if ever, our stockholders may not sell their shares unless the buyer meets the applicable suitability and minimum purchase standards. Any sale must also comply with applicable state and federal securities laws. In addition, our charter prohibits the ownership of more than 9.8% of our stock by any person, unless exempted by our board of directors, which may inhibit large investors from purchasing our shares. Our share redemption program only provides for redemptions sought upon a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program document and together with redemptions sought in connection with stockholder's death, "special redemptions"). Such special redemptions are subject to an annual dollar limitation, which was $10.0 million in the aggregate for the calendar year 2015, and further subject to the limitations described in the share redemption program document. On December 8, 2015, our board of directors approved the same annual dollar limitation of $10.0 million in the aggregate for the calendar year 2016 (subject to review and adjustment during the year by the 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 the share redemption program will be reviewed and adjusted from time to time. We currently do not expect to have funds available to resume ordinary redemptions in the future. Therefore, until further notice, and except with respect to special redemptions, stockholders will not be able to sell any of their shares back to us pursuant to our share redemption program. In addition, even if we were to resume ordinary redemptions, our share redemption program includes numerous restrictions that would limit a stockholder's ability to sell his or her shares. In its sole discretion, our board of directors may amend, suspend or terminate our share redemption program upon 30 days' notice. Therefore, it will be difficult for our stockholders to sell their shares promptly or at all. If a stockholder is able to sell his or her shares, it would likely be at a substantial discount to the price at which we sold the shares in our public offering or our estimated value per share. It is also likely that our shares would not be accepted as the primary collateral for a loan.

Disruptions in the financial markets and uncertain economic conditions could adversely affect market rental rates, our ability to service our existing indebtedness, our ability to refinance or secure additional debt financing on attractive terms and the values of our investments.

We have relied on debt financing to finance our properties and real estate-related assets and 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. If we are not able to refinance our existing indebtedness on attractive terms at the various maturity dates, we may be forced to dispose of some of our assets. Recent financial market conditions have improved from the bottom of the economic cycle, but material risks are still present. Market conditions can change quickly, which could negatively impact the value of our assets. In the short-term, we anticipate that market conditions will continue to remain volatile and, combined with a challenging global macro-economic environment, may interfere with the implementation of our business strategy and/or force us to modify it.

Disruptions in the financial markets and uncertain economic conditions could adversely affect the values of our investments. It remains uncertain whether the capital markets can sustain the current levels of lending activity. Any disruption to the debt and capital markets could result in fewer buyers seeking to acquire commercial properties and possible increases in capitalization rates and lower property values. Furthermore, any decline in economic conditions could negatively impact commercial real estate fundamentals and result in lower occupancy, lower rental rates and declining values in our real estate portfolio and in the collateral securing our loan investments, which could have the following negative effects on us:

- the values of our investments in commercial properties could decrease below the amounts paid for such investments;
- the value of collateral securing our loan investments could decrease below the outstanding principal amounts of such loans;
- revenues from our properties could decrease due to fewer tenants and/or lower rental rates, making it more difficult for us to meet our debt service obligations on debt financing; and/or
- revenues generated by the properties and other assets underlying our loan investments could decrease, making it more difficult for the borrowers to meet their payment obligations to us, which could in turn make it more difficult for us to meet our debt service obligations on debt financing.

All of these factors could reduce our stockholders' return and decrease the value of an investment in us.

Our stockholders should not assume that our performance will be similar to the performance of other real estate programs sponsored by affiliates of our advisor, which makes our future performance difficult to predict.

We are the first publicly offered investment program sponsored by the affiliates of our advisor, KBS Capital Advisors. 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. The private KBS-sponsored programs were not subject to the up-front commissions, fees and expenses associated with our initial public offering nor all of the laws and regulations that apply to us. For these reasons, our stockholders should be especially cautious when drawing conclusions about our future performance and our stockholders should not assume that it will be similar to the prior performance of other KBS-sponsored programs. The differences between us and the private KBS-sponsored programs significantly increase the risk and uncertainty our stockholders face.

Because we depend upon our advisor and its affiliates to conduct our operations, any adverse changes in the financial health of our advisor or its affiliates or our relationship with them could hinder our operating performance and the return on our stockholders' investment.

We depend on our advisor to manage our operations and our portfolio of real estate and real estate-related assets. Our advisor depends upon the fees and other compensation that it receives from us and the other public KBS-sponsored programs in connection with the purchase, management and sale of assets to conduct its operations. Any adverse changes in the financial condition of KBS Capital Advisors or our relationship with KBS Capital Advisors and its affiliates could hinder their ability to successfully manage our operations and our portfolio of investments.

KBS Capital Advisors has limited experience operating, overseeing and selling bank branch properties, which could cause inefficiencies in the operation and sale of these properties, thereby reducing the value of our stockholders' investment in us.

Our advisor has limited experience operating, overseeing and selling bank branch properties, which properties make up the majority of the GKK Properties. As such, and while we believe we have retained appropriate asset management by hiring the Property Manager to manage and provide certain other services related to the GKK Properties, we may not be able to operate, lease and/or sell these GKK Properties efficiently and effectively, which could prevent us from improving the value of our overall portfolio. Additionally, some of these bank branches are located outside of our target markets and our advisor has limited experience in these markets. For these reasons, there may be inefficiencies in the operation and sale of these GKK Properties, which may prevent us from recognizing the full potential value of these GKK Properties and may reduce the overall return to our stockholders.

Because of the Property Manager's experience with managing the bank branch and bank-related properties that make up the majority of the GKK Properties, we depend upon the Property Manager to manage and conduct the operations of the GKK Properties and any adverse changes in or termination of our relationship with the Property Manager could hinder the performance of the GKK Properties and reduce the return on our stockholders' investment.

Prior to the transfers of the GKK Properties to us under the Settlement Agreement, GKK Stars and its affiliates indirectly owned and managed the GKK Properties and thus have developed experience and expertise in the management and operations of bank branch and bank-related properties. As of the effective date of the Settlement Agreement, GKK Stars agreed to provide standard asset management services relating 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, an affiliate of GKK Stars, 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 (collectively, the "Services"). The Property Manager is not affiliated with us or KBS Acquisition Sub. Pursuant to the Amended Services Agreement, we made a payment in the amount of $12.0 million to the Property Manager in satisfaction of the profit participation provisions under the prior asset management services agreement. 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.

The Amended 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 Amended Services Agreement. The Amended Services Agreement supersedes and replaces all prior agreements related to the Services among us and our affiliates and the Property Manager and its affiliates.

We depend on the Property Manager to efficiently conduct the management and operations of the GKK Properties. If the Amended Services Agreement is terminated, we would be required to obtain such management services for the GKK Properties from other sources, which sources may not have the experience or capabilities of the Property Manager or its affiliates. Additionally, as our advisor has limited experience operating bank branch properties, should the Property Manager or an affiliate cease managing the GKK Properties, our ability to efficiently and effectively manage the GKK Properties would be affected, and as a result, the value of our stockholders' investment in us could decline.

To the extent distributions exceed current and accumulated earnings and profits, a stockholder's basis in our stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize capital gain.

Our organizational documents permit us, to the extent permitted by Maryland law, to pay distributions from any source. We have paid distributions with proceeds from asset sales, loan repayments, financings, a loan from our advisor (which our advisor forgave without repayment) and our cash flow from operations. If we fund distributions from financings or sources other than cash flow from operations, the overall return to our stockholders may be reduced. On March 20, 2012, our board of directors approved the suspension of monthly distribution payments in order to manage our reduced cash flow from operations and to redirect available funds to reduce our debt. Our primary focus was and is 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. Our focus in 2016 is to manage our existing investment portfolio, which includes strategically selling assets and 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 continue to make strategic asset sales and, from time to time, may declare additional 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 investors. 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. We intend to maintain adequate cash reserves for liquidity, capital expenditures, debt repayments, future special redemptions under our share redemption program and other future capital needs.

To the extent distributions in excess of current and accumulated earnings and profits (i) do not exceed a stockholder's adjusted basis in our stock, such distributions will not be taxable to a stockholder, but rather a stockholder's adjusted basis in our stock will be reduced; and, (ii) exceed a stockholder's adjusted basis in our stock, such distributions will be included in income as long-term capital gain if the stockholder has held its shares for more than one year and otherwise as short-term capital gain.

We may not have sufficient liquidity to fund our future capital needs. If we are unable to repay indebtedness or to fund future contractual commitments or required capital expenditures on our real estate investments, lenders or tenants may take legal action against us, which could have a material adverse effect on us and our stockholders' return.

We cannot be certain that our business will generate sufficient cash flow from operations or from the sales of some of our real estate assets, that we will be able to raise funds in the capital markets or that future financing or refinancing will be available to us in an amount sufficient, if at all, to enable to us to fund our liquidity needs. If we are unable to repay indebtedness or to fund future contractual commitments or necessary capital expenditures on our real estate investments, our lenders or tenants may take legal action against us, which could have a material adverse effect on us and our stockholders' return.

Economic conditions have had a significant impact on our real estate and real estate-related properties. In addition, these conditions have impacted the businesses of our tenants as well as the tenants in buildings securing our real estate-related investments. As a result of a decline in cash flows and projected future declines, on March 20, 2012, our board of directors approved the suspension of monthly distribution payments in order to manage our reduced cash flow from operations and to redirect available funds to reduce our debt. Our primary focus was and is the repayment of certain debt obligations. We expect to continue to use available funds to reduce and manage certain other debt obligations and fund cash flow needs. We plan to continue to make strategic asset sales and, from time to time, may declare additional special distributions to our stockholders that would be funded with the net proceeds from those asset sales or from cash flow from other sources.

Possible future declines in rental rates, slower or potentially negative net absorption of leasable space and expectations of future rental concessions, including free rent to renew tenants early, to retain tenants who are up for renewal or to sign new tenants, may result in additional decreases in cash flows from our properties. As a result of these same factors, the borrowers under our real estate-related investments have experienced a reduction in cash flows that has made it difficult for them to pay us debt service in some instances. Additionally, these reduced and potentially decreasing cash flows have had a negative impact on the valuation of the collateral directly or indirectly securing some of our real estate-related investments, and as a result, some of the borrowers may not be able to refinance their debt to us or sell the collateral at a price sufficient to repay our note balances in full when they come due. Further, we depend on the cash flow from our real estate and real estate-related investments to meet the debt service obligations under our financing arrangements, and we will depend on the proceeds from the sale of real estate and proceeds from the repayment of our real estate-related investments in order to repay our outstanding debt obligations.

All of these factors could limit our liquidity and impact our ability to properly maintain or make improvements to our real estate properties. If we are unable to meet future funding commitments or fund required capital expenditures, our borrowers or tenants may take legal action against us. This, in turn, could result in reductions in the value of our investments and therefore a reduction in the value of an investment in us.

We may not generate sufficient operating cash flow on a quarterly basis to fund our operations, which would reduce the value of an investment in us.

Our portfolio has recently experienced declines in cash flow from a number of our investments. A general decline in the occupancy of our portfolio, an important element to the continued growth of our portfolio, has resulted in lower current cash flow. Tenant-specific issues, including bankruptcy and downsizing, have resulted in decreases in our operating cash flow because these tenants have terminated their leases early, not renewed their leases or have not paid their contractual rent to us. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of increases in future rental concessions, including three or more months of free rent to retain tenants who are up for renewal or to sign new tenants, may result in additional decreases in cash flow. In addition, we have experienced a decline in cash flow from our real estate-related investments, as some borrowers under our loans have been unable to make contractual interest payments to us. In particular, our investments in mezzanine and mortgage loans have been impacted as the operating performance and values of buildings directly or indirectly securing our investment positions have decreased from the date of our acquisition or origination of these investments. In such instances, some of the borrowers have not been able to refinance their debt owed to us or sell the collateral at a price sufficient to repay our note balances in full when they become due. Asset sales in 2012, 2013, 2014 and 2015 have resulted in, and expected future asset sales will result in, further decreases in operating cash flow.

Due to these factors, we may not generate sufficient operating cash flow on a quarterly basis to fund our operations. Our projected cash flow from operations may not be sufficient to cover our capital expenditures, amortization payment requirements on our debt obligations and principal pay-down requirements for our debt obligations at maturity or to allow us to meet the conditions for extension of our loans, which may require us to sell assets in order to meet our capital requirements. If our cash flow from operations deteriorates, we will be more dependent on asset sales to fund our operations and for our liquidity needs. Moreover, we may be unable to meet financial and operating covenants in our debt obligations, and our lenders may take action against us, including commencing foreclosure actions. If we are unable to meet future funding commitments or fund required capital expenditures, our borrowers or tenants may take legal action against us. This, in turn, could result in reductions in the value of our investments and therefore a reduction in the value of an investment in us. These factors could also have a material adverse effect on us and our stockholders' return.

If we are unable to obtain funding for future capital needs, the value of our investments and our stockholders' return could decline.

When tenants do not renew their leases or otherwise vacate their space, we will often need to expend substantial funds for improvements to the vacated space in order to attract replacement tenants. Even when tenants do renew their leases we may agree to make improvements to their space as part of our negotiations. If we need additional capital in the future to improve or maintain our properties or for any other reason, we may have to obtain funding from sources other than our cash flow from operations, such as borrowings, asset sales or future equity offerings. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both, which would reduce the value of our stockholders' investment.

The loss of or the inability to retain or obtain key real estate and debt finance professionals at our advisor could delay or hinder implementation of our investment management and disposition strategies, which could decrease the value of an investment in our shares.

Our success depends to a significant degree upon the contributions of Peter M. Bren, Keith D. Hall, Peter McMillan III, and Charles J. Schreiber, Jr., each of whom would be difficult to replace. Neither we nor our advisor nor its affiliates have employment agreements with these individuals and they may not remain associated with us, our advisor or its affiliates. If any of these persons were to cease their association with us, our advisor or its affiliates, we may be unable to find suitable replacements and our operating results could suffer as a result. We do not intend to maintain key person life insurance on any person. We believe that our future success depends, in large part, upon our advisor's and its affiliates' ability to attract and retain highly skilled managerial, operational and marketing professionals. Competition for such professionals is intense, and our advisor and its affiliates may be unsuccessful in attracting and retaining such skilled individuals. Further, we have established strategic relationships with firms that have special expertise in certain services or detailed knowledge regarding real properties in certain geographic regions. Maintaining such relationships will be important for us to effectively compete with other investors for tenants in such regions. We may be unsuccessful in maintaining such relationships. If we lose or are unable to obtain the services of highly skilled professionals or do not establish or maintain appropriate strategic relationships, our ability to implement our investment management and disposition strategies could be delayed or hindered, and the value of our stockholders' investment in us may decline.

Our rights and the rights of our stockholders to recover claims against our independent directors are limited, which could reduce our stockholders' and our recovery against our independent directors if they negligently cause us to incur losses.

Maryland law provides that a director has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in the best interests of the company and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter provides that no independent director shall be liable to us or our stockholders for monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct. As a result, our stockholders and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce our stockholders' and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees (if we ever have employees) and agents) in some cases, which would decrease the return to our stockholders.

We face risks associated with security breaches through cyber-attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations;
- result in misstated financial reports, violations of loan covenants and/or missed reporting deadlines;
- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or which could expose us to damage claims by third-parties for disruptive, destructive or otherwise harmful purposes and outcomes;
- require significant management attention and resources to remedy any damages that result;
- subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or
- damage our reputation among our stockholders.

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

We can give no assurances regarding any particular transaction in connection with the exploration of 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. Further, although we have begun the process of exploring strategic alternatives, there is no assurance that the process will result in stockholder liquidity, or provide a return to stockholders that equals or exceeds our estimated value per share.

Risks Related to Conflicts of Interest

KBS Capital Advisors and its affiliates, including all of our executive officers and some of our directors and other key real estate and debt finance professionals, face conflicts of interest caused by their compensation arrangements with us and with other KBS-sponsored programs, which could result in actions that are not in the long-term best interests of our stockholders.

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, KBS Capital Markets Group LLC, the entity that acted as our dealer manager, and/or other KBS-affiliated entities. KBS Capital Advisors and its affiliates receive substantial fees from us. These fees could influence our advisor's advice to us as well as the judgment of its affiliates. Among other matters, these compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with KBS Capital Advisors and its affiliates, including the advisory agreement;
- public offerings of equity by us, which would entitle our dealer manager to dealer-manager fees and may entitle KBS Capital Advisors to increased acquisition, origination and asset-management fees;
- sales of properties and other investments, which may entitle KBS Capital Advisors to disposition fees and possible subordinated incentive fees;
- whether and when we seek to list our common stock on a national securities exchange, which listing (i) may make it more likely for us to become self-managed or internalize our management or (ii) could entitle our advisor to a subordinated incentive listing fee, and which could also adversely affect the sales efforts for other KBS-sponsored programs, depending on the price at which our shares trade; and
- whether and when we seek to sell the company or its assets, which sale could entitle KBS Capital Advisors to a subordinated incentive fee and terminate the asset management fee.

In addition, the fees our advisor receives in connection with the management of our assets are based on the cost of the investment, and not based on the quality of the investment or the quality of the services rendered to us.

KBS Capital Advisors faces conflicts of interest relating to the leasing and disposition of properties and such conflicts may not be resolved in our favor, which could limit our ability to make distributions to our stockholders and reduce our stockholders' overall investment return.

We and other KBS-sponsored programs and KBS-advised investors rely on our sponsors and other key real estate professionals at our advisor, including Messrs. Bren, Hall, McMillan and Schreiber, to supervise the property management and leasing of properties. If the KBS team of real estate professionals directs creditworthy prospective tenants to properties owned by another KBS-sponsored program or KBS-advised investor when they could direct such tenants to our properties, our tenant base may have more inherent risk and our properties' occupancy may be lower than might otherwise be the case.

In addition, we and other KBS-sponsored programs and KBS-advised investors rely on our sponsors and other key real estate professionals at our advisor to sell our properties. These KBS-sponsored programs and KBS-advised investors may possess properties in similar locations and/or of the same property types as ours and may be attempting to sell these properties at the same time we are attempting to sell some of our properties. If our advisor directs potential purchasers to properties owned by another KBS-sponsored program or KBS-advised investor when it could direct such purchasers to our properties, we may be unable to sell some or all of our properties at the time or at the price we otherwise would, which could limit our ability to make distributions and reduce our stockholders' overall investment return.

Our sponsors, our officers, our advisor and the real estate, debt finance, management and accounting professionals assembled by our advisor face competing demands on their time and this may cause our operations and our stockholders' investment in us to suffer.

We rely on our sponsors, our officers, our advisor and the real estate, debt finance, management and accounting professionals that our advisor retains, including Messrs. Bren, Hall, McMillan, Schreiber and Jeffrey K. Waldvogel and Stacie K. Yamane, to provide services to us for the day-to-day operation of our business. KBS Real Estate Investment Trust II, Inc. ("KBS REIT II"), KBS Strategic Opportunity REIT, Inc. ("KBS Strategic Opportunity REIT"), KBS Legacy Partners Apartment REIT, Inc. ("KBS Legacy Partners Apartment REIT"), KBS Real Estate Investment Trust III, Inc. ("KBS REIT III"), KBS Strategic Opportunity REIT II, Inc. ("KBS Strategic Opportunity REIT II") and KBS Growth & Income REIT, Inc. ("KBS Growth & Income REIT") are also advised by KBS Capital Advisors and rely on our sponsors and many of the same real estate, debt finance, management and accounting professionals, as will future KBS-sponsored programs and KBS-advised investors. Further, our officers and directors are also officers and/or directors of some or all of the other public KBS-sponsored programs. Messrs. Bren, Hall, McMillan, Schreiber and Waldvogel and Ms. Yamane are also executive officers of KBS REIT II, KBS REIT III and KBS Growth & Income REIT. Messrs. Hall, McMillan and Waldvogel and Ms. Yamane are executive officers of KBS Strategic Opportunity REIT and KBS Strategic Opportunity REIT II, and Messrs. Bren, McMillan and Waldvogel and Ms. Yamane are executive officers of KBS Legacy Partners Apartment REIT. In addition, Messrs. Bren and Schreiber and Ms. Yamane are executive officers of KBS Realty Advisors and its affiliates, the advisors of private KBS-sponsored programs and the investment advisors to KBS-advised investors. As a result of their interests in other KBS-sponsored programs, their obligations to KBS-advised investors and the fact that they engage in and will continue to engage in other business activities, on behalf of themselves and others, Messrs. Bren, Hall, McMillan, Schreiber and Waldvogel and Ms. Yamane face conflicts of interest in allocating their time among us, KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II, KBS Growth & Income REIT, KBS Capital Advisors, other KBS-sponsored programs and KBS-advised investors, as well as other business activities in which they are involved. In addition, our advisor and KBS Realty Advisors and their affiliates share many of the same key real estate, management and accounting professionals. During times of intense activity in other programs and ventures, these individuals may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. Furthermore, some or all of these individuals may become employees of another KBS-sponsored program in an internalization transaction or, if we internalize our advisor, may not become our employees as a result of their relationship with other KBS-sponsored programs. If these events occur, the returns on our investments and the value of our stockholders' investment in us may decline.

All of our executive officers, some of our directors and the key real estate and debt finance professionals assembled by our advisor face conflicts of interest related to their positions and/or interests in KBS Capital Advisors and its affiliates, which could hinder our ability to implement our business strategy and to generate returns to our stockholders.

All of our executive officers and some of our directors and the key real estate and debt finance professionals assembled by our advisor are also executive officers, directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor and other KBS-affiliated entities. Through KBS-affiliated entities, some of these persons also serve as the investment advisors to KBS-advised investors and, through KBS Capital Advisors and KBS Realty Advisors, these persons serve as the advisor to KBS REIT II, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS REIT III, KBS Strategic Opportunity REIT II, KBS Growth & Income REIT and other KBS-sponsored programs. As a result, they owe fiduciary duties to each of these entities, their members and limited partners and their investors, which fiduciary duties may from time to time conflict with the fiduciary duties that they owe to us and our stockholders. Their loyalties to these other entities and investors could result in action or inaction that is detrimental to our business, which could harm the implementation of our business strategy and our leasing opportunities. Further, Messrs. Bren, Hall, McMillan and Schreiber and existing and future KBS-sponsored programs and KBS-advised investors generally are not and will not be prohibited from engaging, directly or indirectly, in any business or from possessing interests in any other business venture or ventures, including businesses and ventures involved in the acquisition, development, ownership, leasing or sale of real estate investments. If we do not successfully implement our business strategy, we may be unable to maintain or increase the value of our assets, which would reduce the returns to our stockholders.

Our board of directors' loyalties to KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Strategic Opportunity REIT II, KBS Growth & Income REIT and possibly to future KBS-sponsored programs could influence its judgment, resulting in actions that may not be in our stockholders' best interest or that result in a disproportionate benefit to another KBS-sponsored program at our expense.

All of our directors are also directors of KBS REIT II and KBS REIT III and two of our directors are also directors of KBS Growth & Income REIT. One of our directors is also a director of KBS Strategic Opportunity REIT and KBS Strategic Opportunity REIT II. The loyalties of our directors serving on the boards of directors of KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Strategic Opportunity REIT II, KBS Growth & Income REIT, or possibly on the boards of directors of future KBS-sponsored programs, may influence the judgment of our board of directors when considering issues for us that also may affect other KBS-sponsored programs, such as the following:

- We could enter into transactions with other KBS-sponsored programs, such as property sales or financing arrangements. Such transactions might entitle our advisor or its affiliates to fees and other compensation from both parties to the transaction. For example, property sales to other KBS-sponsored programs might entitle our advisor or its affiliates to acquisition fees in connection with its services to the purchaser in addition to disposition and other fees that we might pay to our advisor in connection with such transaction. Decisions of our board or the conflicts committee regarding the terms of those transactions may be influenced by our board's or the conflicts committee's loyalties to such other KBS-sponsored programs.
- A decision of our board or the conflicts committee regarding the timing of a debt or equity offering could be influenced by concerns that the offering would compete with offerings of other KBS-sponsored programs.
- A decision of our board or the conflicts committee regarding the timing of property sales could be influenced by concerns that the sales would compete with those of other KBS-sponsored programs.
- A decision of our board or the conflicts committee regarding whether or when we seek to list our common stock on a national securities exchange could be influenced by concerns that such listing could adversely affect the sales efforts of other KBS-sponsored programs, depending on the price at which our shares trade.

Because our independent directors are also independent directors of KBS REIT II and KBS REIT III, they receive compensation for service on the board of directors of KBS REIT II and KBS REIT III. Like us, KBS REIT II and KBS REIT III each pays each independent director an annual retainer of $40,000 as well as compensation for attending meetings as follows: (i) $2,500 for each board meeting attended, (ii) $2,500 for each conflicts or audit committee meeting attended (except that the committee chairman is paid $3,000 for each conflicts or audit committee meeting attended), (iii) $2,000 for each teleconference board meeting attended, and (iv) $2,000 for each teleconference conflicts or audit committee meeting attended (except that the committee chairman is paid $3,000 for each teleconference conflicts or audit committee meeting attended). Like us, KBS REIT II also pays each independent director compensation for attending other committee meetings as follows: (i) $2,000 for each committee meeting attended (except that the meeting chairman is paid $3,000 for each committee meeting attended), and (ii) $2,000 for each teleconference committee meeting attended (except that the meeting chairman is paid $3,000 for each teleconference committee meeting attended). In addition, like us, KBS REIT II and KBS REIT III each reimburses directors for reasonable out-of-pocket expenses incurred in connection with attendance at meetings of their boards of directors.

Risks Related to Our Corporate Structure

Ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

In order for us to qualify as a REIT for each taxable year, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. "Individuals" for this purpose include natural persons, and some entities such as private foundations. To preserve our REIT qualification, our charter generally prohibits any person from directly or indirectly owning more than 9.8% in value of our capital stock. This ownership limitation could have the effect of delaying, deferring or preventing a takeover or other transaction including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets), in which holders of our common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to our stockholders.

Our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock.

Our stockholders' investment return may be reduced if we are required to register as an investment company under the Investment Company Act; if we or our subsidiaries become an unregistered investment company, we could not continue our business.

Neither we nor any of our subsidiaries intends to register as an investment company under the Investment Company Act. If we or any of our subsidiaries were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act that impose, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

Under the relevant provisions of Section 3(a)(1) of the Investment Company Act, an investment company is any issuer that:

- pursuant to Section 3(a)(1)(A), is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities (the "primarily engaged test"); or
- pursuant to Section 3(a)(1)(C), is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of such issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (the "40% test"). "Investment securities" excludes U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) (relating to private investment companies).

We believe that neither we nor our Operating Partnership will be required to register as an investment company based on the following analysis. With respect to the 40% test, most of the entities through which we and our Operating Partnership own our assets are majority owned subsidiaries that are not themselves investment companies and are not relying on the exceptions from the definition of investment company under Section 3(c)(1) or Section 3(c)(7).

With respect to the primarily engaged test, we and our Operating Partnership are holding companies and do not intend to invest or trade in securities ourselves. Rather, through the majority-owned subsidiaries of our Operating Partnership, we and our Operating Partnership are primarily engaged in the non-investment company businesses of these subsidiaries, namely the business of purchasing or otherwise acquiring real estate and real estate-related assets.

If any of the subsidiaries of our Operating Partnership fail to meet the 40% test, we believe they will usually, if not always, be able to rely on Section 3(c)(5)(C) of the Investment Company Act for an exception from the definition of an investment company. (Otherwise, they should be able to rely on the exceptions for private investment companies pursuant to Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act.) As reflected in no-action letters, the SEC staff's position on Section 3(c)(5)(C) generally requires that an issuer maintain at least 55% of its assets in "mortgages and other liens on and interests in real estate," or qualifying assets; at least 80% of its assets in qualifying assets plus real estate-related assets; and no more than 20% of the value of its assets in other than qualifying assets and real estate-related assets, which we refer to as miscellaneous assets. To constitute a qualifying asset under this 55% requirement, a real estate interest must meet various criteria based on no-action letters. We expect that each of the subsidiaries of our Operating Partnership relying on Section 3(c)(5)(C) will invest at least 55% of its assets in qualifying assets, and approximately an additional 25% of its assets in other types of real estate-related assets. If any subsidiary relies on Section 3(c)(5)(C), we expect to rely on guidance published by the SEC staff or on our analyses of guidance published with respect to types of assets to determine which assets are qualifying real estate assets and real estate-related assets.

Rapid changes in the values of our assets may make it more difficult for us to maintain our qualification as a REIT or our exception from the definition of an investment company under the Investment Company Act.

If the market value or income potential of our qualifying real estate assets changes as compared to the market value or income potential of our non-qualifying assets, or if the market value or income potential of our assets that are considered "real estate-related assets" under the Investment Company Act or REIT qualification tests changes as compared to the market value or income potential of our assets that are not considered "real estate-related assets" under the Investment Company Act or REIT qualification tests, whether as a result of increased interest rates, prepayment rates or other factors, we may need to modify our investment portfolio in order to maintain our REIT qualification or exception from the definition of an investment company. If the decline in asset values or income occurs quickly, this may be especially difficult, if not impossible, to accomplish. This difficulty may be exacerbated by the illiquid nature of many of the assets that we may own. We may have to make investment decisions that we otherwise would not make absent REIT and Investment Company Act considerations.

Our stockholders will have limited control over changes in our policies and operations, which increases the uncertainty and risks our stockholders face.

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under Maryland General Corporation Law and our charter, our stockholders have a right to vote only on limited matters. Our board's broad discretion in setting policies and our stockholders' inability to exert control over those policies increases the uncertainty and risks our stockholders face.

We have not had funds available for ordinary redemptions under our share redemption program since the April 2009 redemption date, and our share redemption program provides only for special redemptions. We currently do not expect to have funds available to resume ordinary redemptions in the future.

We have not had funds available for ordinary redemptions since the April 2009 redemption date, and our share redemption program provides only for special redemptions. Such redemptions are subject to an annual dollar limitation, which was $10.0 million in the aggregate for the calendar year 2015, and further subject to the limitations described in the share redemption program document. On December 8, 2015, our board of directors approved the same annual dollar limitation of $10.0 million in the aggregate for the calendar year 2016 (subject to review and adjustment during the year by the 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 our calendar year 2016 will be sufficient for these special redemptions. During each calendar year, the annual dollar limitation for the share redemption program will be reviewed and adjusted from time to time. We currently do not expect to have funds available to resume ordinary redemptions in the future. Therefore, until further notice, and except with respect to special redemptions, stockholders will not be able to sell any of their shares back to us pursuant to our share redemption program. Even if we were to resume ordinary redemptions, our share redemption program includes numerous restrictions that would limit a stockholder's ability to sell his or her shares. Further, 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. Our board may amend, suspend or terminate our share redemption program upon 30 days' notice.

Pursuant to our share redemption program, once we have established an estimated value per share of our common stock, the redemption price per share for eligible redemptions is equal to the estimated value per share. On December 8, 2015, our board of directors approved an estimated value per share of our common stock of $3.94 based on the estimated value of our assets less the estimated value of our liabilities, or net asset value, 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 "Special Distribution"). Therefore, effective commencing with the December 31, 2015 redemption date, the redemption price for all shares eligible for redemption is $3.94 per share. 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." The value of our shares will fluctuate over time in response to developments related to individual assets in our portfolio and the management of those assets and in response to fluctuations in the real estate and finance markets. As such, the estimated value per share does not take into account developments in our portfolio since December 8, 2015. 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. If stockholders are able to sell their shares under our share redemption program, they may not recover the amount of their investment in us.

The estimated value per share of our common stock may not reflect the value that stockholders will receive for their investment and does not take into account how developments subsequent to the valuation date related to individual assets, the financial or real estate markets or other events may have increased or decreased the value of our portfolio.

On December 8, 2015, our board of directors approved an estimated value per share of our common stock of $3.94 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 Special Distribution. We provided this estimated value per share to assist broker-dealers that participated in our initial public offering in meeting their customer account statement reporting obligations under National Association of Securities Dealers ("NASD") Conduct Rule 2340 as required by the Financial Industry Regulatory Authority ("FINRA"). This valuation was performed in accordance with the provisions of and also to comply with Practice Guideline 2013-01, *Valuations of Publicly Registered, Non-Listed REITs*, issued by the Investment Program Association ("IPA") in April 2013 (the "IPA Valuation Guidelines"). The estimated value per share was based on the recommendation and valuation performed by our advisor. We engaged Duff & Phelps, LLC ("Duff & Phelps"), an independent, third-party real estate valuation firm, to provide appraisals for the majority of our real estate properties.

As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties using different assumptions and estimates could derive a different estimated value per share of our common stock, and this difference could be significant. The estimated value per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to U.S. generally accepted accounting principles ("GAAP"), nor does it represent a liquidation value of our assets and liabilities or the price at which our shares of common stock would trade on a national securities exchange. The estimated value per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated value per share also does not take into account debt defeasance costs we may incur in connection with prepayments on our notes payable, debt prepayment penalties or swap breakage fees that could apply upon the prepayment of certain of our debt obligations or termination of related swap agreements prior to expiration, the impact of restrictions on the assumption of debt, or disposition costs and fees for real estate properties that are not under contract to sell. We have generally incurred disposition costs and fees related to the sale of our historical real estate properties since inception of 1.7% to 5.7% of the gross sales price less concessions and credits, with the weighted average being 2.7%. We have generally incurred disposition costs and fees related to the sale of the GKK Properties since December 15, 2011 (the date of the completion of the transfer of the GKK Properties to us pursuant to the Settlement Agreement) of 1.5% to 8.5% of the gross sales price less concessions and credits, with the weighted average being 2.3% as of September 30, 2015. If this range of disposition costs and fees were applied to our real estate properties, which do not include these costs and fees in the appraised values, the resulting impact on the estimated value per share would be a decrease of $0.09 to $0.41 per share.

Accordingly, with respect to the estimated value per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at this estimated value;
- a stockholder would ultimately realize distributions per share equal to our estimated value per share upon liquidation of our assets and settlement of our liabilities or a sale of the company;
- our shares of common stock would trade at the estimated value per share on a national securities exchange;
- an independent third-party appraiser or other third-party valuation firm would agree with our estimated value per share; or
- the methodology used to calculate our estimated value per share would be acceptable to FINRA or for compliance with ERISA reporting requirements.

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."

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.

In addition, the value of our shares will fluctuate over time in response to developments related to individual assets in our portfolio and the management of those assets and in response to fluctuations in the real estate and finance markets. As such, the estimated value per share does not take into account developments in our portfolio since December 8, 2015, including:

- asset sales and potential future asset sales at values different from those used in the determination of the estimated value per share as well as any impairment charges related to these or other assets as a result of changes in the expected hold period, or the estimated cash flows for or future expenses related to these assets;
- any impairments we may recognize with respect to certain of our real estate-related investments;
- any increases or decreases in value of any of our real estate or real estate-related investments;
- any disruptions in the real estate and financial markets or general economic conditions;
- any unforeseen capital expenditure requirements;
- any inability to successfully operate and/or sell the GKK Properties or a downturn in the banking industry, resulting from disruptions in economic conditions and the concentration of the GKK Properties in the financial services sector; or
- any inability to meet our existing debt service obligations, or to repay or refinance such obligations on attractive terms or at all at or prior to maturity.

Our stockholders' interest in us will be diluted if we issue additional shares, which could reduce the overall value of their investment.

Our common stockholders do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 1,010,000,000 shares of capital stock, of which 1,000,000,000 shares are designated as common stock and 10,000,000 shares are designated as preferred stock. Our board of directors may increase the number of authorized shares of capital stock without stockholder approval. Our board may elect to (i) sell additional shares in future public offerings, (ii) issue equity interests in private offerings, or (iii) issue shares to our advisor, or its successors or assigns, in payment of an outstanding obligation. To the extent we issue additional equity interests, our stockholders' percentage ownership interest in us will be diluted. In addition, depending upon the terms, the use of proceeds and pricing of any additional offerings and the value of our real estate investments, our stockholders may also experience dilution in the book value and fair value of their shares.

Payment of fees to KBS Capital Advisors and its affiliates increases the risk that our stockholders will not be able to recover the amount of their investment in our shares.

KBS Capital Advisors and its affiliates performed services for us in connection with the selection and acquisition or origination of our investments and continue to perform services for us in connection with the management, leasing and disposition of our properties and the management, structuring, administration and disposition of our other investments. We pay them substantial fees for these services, which results in immediate dilution of the value of our stockholders' investment and reduces our stockholders' return on their investment in us.

We may also pay significant fees during our listing/liquidation stage. Although most of the fees expected to be paid during our listing/liquidation stage are contingent on our stockholders first receiving agreed-upon investment returns, the investment-return thresholds may be reduced with the approval of our conflicts committee and subject to the other limitations in our charter.

Therefore, these fees increase the risk that the cash available for distribution to common stockholders upon a liquidation of our portfolio would be less than stockholders paid for our shares. These substantial fees and other payments also increase the risk that our stockholders will not be able to resell their shares at a profit, even if our shares are listed on a national securities exchange.

Our stockholders may be more likely to sustain a loss on their investment because our sponsors do not have as strong an economic incentive to avoid losses as do sponsors who have made significant equity investments in their companies.

Our sponsors have only invested $200,000 in us through the purchase of 20,000 shares of our common stock at $10.00 per share. Our sponsors have little exposure to loss in the value of our shares. With this limited exposure, our stockholders may be at a greater risk of loss because our sponsors do not have as much to lose from a decrease in the value of our shares as do those sponsors who make more significant equity investments in their companies.

General Risks Related to Investments in Real Estate

Economic, market and regulatory changes that impact the real estate market generally may decrease the value of our investments and weaken our operating results.

Our operating results and the performance of our properties are subject to the risks typically associated with real estate, any of which could decrease the value of our investments and could weaken our operating results, including:

- downturns in national, regional and local economic conditions;
- competition from other office, industrial and bank branch buildings;
- adverse local conditions, such as oversupply or reduction in demand for office, industrial and bank branch buildings and changes in real estate zoning laws that may reduce the desirability of real estate in an area;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- changes in interest rates and the availability of permanent mortgage financing, which may render the sale of a property or loan difficult or unattractive;
- changes in tax (including real and personal property tax), real estate, environmental and zoning laws;
- natural disasters such as hurricanes, earthquakes and floods;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- the potential for uninsured or underinsured property losses; and
- periods of high interest rates and tight money supply.

Any of the above factors, or a combination thereof, could result in a decrease in our cash flow from operations and a decrease in the value of our investments, which would have an adverse effect on our operations and on the value of our stockholders' investment in us.

Since the acquisition of our real estate and real estate-related investments, downturns in national, regional and local economic conditions have impacted our properties' operating performance and the operating performance of properties securing our real estate-related investments, which will reduce the overall return to our stockholders.

Our portfolio experienced declines in cash flow from a number of our investments. A general decline in the occupancy of our portfolio, an important element to the continued growth of the value of our portfolio, has resulted in lower current cash flow. Tenant-specific issues, including bankruptcy and downsizing, have resulted in decreases in our operating cash flow because these tenants have terminated their leases early, not renewed their leases or have not paid their contractual rent to us. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of increases in future rental concessions, including three or more months of free rent to retain tenants who are up for renewal or to sign new tenants, may result in additional decreases in cash flow. In addition, we have experienced a decline in cash flow from our real estate-related investments, as some borrowers under our loans have been unable to make contractual interest payments to us. In particular, our investments in mezzanine and mortgage loans have been impacted as the operating performance and values of buildings directly or indirectly securing our loan investments have decreased from the date of our acquisition or origination of these investments. In such instances, some of the borrowers have not been able to refinance their debt owed to us or sell the collateral at a price sufficient to repay our note balances in full when they become due.

Because of the concentration of a significant portion of our assets in Virginia, any adverse economic, real estate or business conditions in Virginia could adversely affect our operating results and stockholders' return.

As of December 31, 2015, our real estate investments in Virginia, excluding properties held for sale, represented 12% of our total assets. As a result, the geographic concentration of our 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 space resulting from the local business climate, could adversely affect our operating results and our stockholders' return.

Properties that have significant vacancies could be difficult to sell, which could diminish the return on these properties and adversely affect our cash flows and our stockholders' overall return.

A property may incur vacancies either by the expiration and non-renewal of tenant leases or the continued default of tenants under their leases. If vacancies continue for a long period of time, we may suffer reduced revenues, which would adversely affect our cash flows. In addition, the resale value of the property could be diminished because the market value of a particular property depends principally upon the value of the cash flow generated by the leases associated with that property. Such a reduction in the resale value of a property could also reduce the value of our stockholders' investment. As of December 31, 2015, our portfolio (excluding properties that were held for sale, consisted of approximately 7.7 million rentable square feet) and was 85% occupied, and our bad debt reserve for our properties was less than 1% of annualized base rent. Included among these properties are 27 properties containing 1.2 million rentable square feet that were less than 70% occupied. As of December 31, 2015, excluding real estate held for sale, seven of our properties containing 0.1 million rentable square feet were 100% vacant.

We depend on tenants for our revenue generated by our real estate investments and, accordingly, our stockholders' overall return is partially dependent upon the success and economic viability of our tenants and our ability to retain and attract tenants. Non-renewals, terminations or lease defaults could reduce our net income and reduce our stockholders' overall return.

The success of our real estate investments materially depends upon the financial stability of the tenants leasing the properties we own. The inability of a single major tenant or a significant number of smaller tenants to meet their rental obligations would lower our net income. A non-renewal after the expiration of a lease term, termination or default by a tenant on its lease payments to us would cause us to lose the revenue associated with such lease and require us to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord of a property and may incur substantial costs in protecting our investment and re-leasing the property. Tenants may have the right to terminate their leases upon the occurrence of certain customary events of default and, in other circumstances, may not renew their leases or, because of market conditions, may only be able to renew their leases on terms that are less favorable to us than the terms of their initial leases. When tenants exercise early termination rights, our cash flow and earnings will be adversely affected to the extent that we are unable to generate an equivalent amount of net rental income by leasing the vacated space to new third party tenants. Certain leases to tenants of the GKK Properties permit such tenants to terminate their leases, in whole or in part, prior to their stated lease expiration dates, frequently with little or no termination fee being paid to us.

Further, some of our properties may be outfitted to suit the particular needs of the tenants. We may have difficulty replacing the tenants of these properties if the outfitted space limits the types of businesses that could lease that space without major renovation. If a tenant does not renew a lease, or terminates or defaults on a lease, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss as described above. See also " — General Risks Related to Investments in Real Estate — Bank branches are specialty-use properties and therefore may be more difficult to lease or sell to non-banks."

We may be required to reimburse tenants for overpayments of estimated operating expenses.

Under certain of our leases, tenants reimburse us for their proportionate share of the costs we incur to manage, operate and maintain the buildings and properties where they rent space. These leases often limit the types and amounts of expenses we can pass through to our tenants and allow the tenants to audit and contest our determination of the operating expenses they are required to pay. Given the complexity of certain operating expense reimbursement calculations, tenant audit rights under large portfolio leases can remain unresolved for several years. For example, Bank of America, a tenant that leases a significant amount of space in our real estate portfolio, is still auditing certain categories of operating expenses for the 2007 and subsequent lease years. If, as a result of a tenant audit, it is determined that we have been reimbursed more than we were permitted to collect under a lease, we must refund the excess amount back to the tenant and, sometimes, also reimburse the tenant for its audit costs. Additionally, because we acquired the GKK Properties pursuant to the Settlement Agreement, we were not able to perform standard diligence on the properties and as such, we may not be aware of possible excess reimbursements made to the prior owners. Any unexpected refund payments could materially adversely affect our financial condition and results of operations.

The bankruptcy or insolvency of our tenants or delays by our tenants in making rental payments could seriously harm our operating results and financial condition.

Any bankruptcy filing by or relating to a tenant could bar us from collecting pre-bankruptcy debts from that tenant, unless we receive an order permitting us to do so from the bankruptcy court. A tenant bankruptcy could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude full collection of these sums. If a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any unsecured claim we hold against a bankrupt entity may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. We may recover substantially less than the full value of any unsecured claims, which would harm our financial condition.

Many tenants in the GKK Properties are banks that are not eligible to be debtors under the federal bankruptcy code, but would be subject to the liquidation and insolvency provisions of applicable banking laws and regulations. If the FDIC were appointed as receiver of a banking tenant because of that tenant's insolvency, we would become an unsecured creditor of the tenant and only be entitled to share with the other unsecured non-depositor creditors in the tenant's assets on an equal basis after payment to the depositors of their claims. The FDIC has broad powers to reject any contract (including a lease) of a failed depository institution that the FDIC deems burdensome if the FDIC determines that such rejection is necessary to promise the orderly administration of the institution's affairs. By federal statute, a landlord under a lease rejected by the FDIC is not entitled to claim any damages with respect to the disaffirmation, other than rent through the effective date of the disaffirmation. The amount paid on claims with respect to the lease would depend on, among other factors, the amount of assets of the insolvent tenant available for unsecured claims. We may recover substantially less than the full value of any unsecured claims, which could have a material adverse effect on our operating results and financial condition, as well as the returns to our stockholders.

The GKK Properties were transferred to us on an "as is" basis and, therefore, the value of the GKK Properties may decline if we subsequently discover problems with them.

Since, under the Settlement Agreement, the GKK Properties were transferred to us on an "as is" basis, we were not able to inspect or conduct standard due diligence on certain of the GKK Properties before their transfer to us. We did not receive representations, warranties and indemnities relating to the GKK Properties from Gramercy and/or its affiliates and, in certain cases, pursuant to the terms of the Settlement Agreement, certain of our indirect wholly-owned subsidiaries are required to indemnify Gramercy and/or its affiliates for certain matters, including environmental matters, in connection with the transfer of such GKK Properties. If we discover issues or problems related to the physical condition of a GKK Property, issues or problems related to zoning or compliance with ordinances and regulations with a GKK Property or other significant problems with a GKK Property, we will have no recourse against Gramercy and its affiliates and the value of the GKK Property may be less than our estimated value of the GKK Property. We may incur substantial costs in remediating or repairing a GKK Property or in ensuring its compliance with governmental regulations. If we choose to and are able to make such capital expenditures, they would reduce returns to our stockholders. In addition, we may be unable to rent these GKK Properties on terms favorable to us, or at all, which could also reduce the returns to our stockholders.

We were not able to conduct standard due diligence on or receive customary tenant estoppel certificates with respect to the GKK Properties. Because we did not receive tenant estoppel certificates or other assurances from the tenants of the GKK Properties, we may be subject to unknown liabilities relating to our leases with those tenants. Thus, the value of the GKK Properties may decline if we subsequently become subject to such liabilities pursuant to the leases related to the GKK Properties.

Under the Settlement Agreement, we 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. We were not able to conduct standard due diligence on the GKK Properties nor were we able to receive tenant estoppel certificates or other assurances from the tenants of the GKK Properties before the transfers. Additionally, we did not receive representations, warranties and indemnities relating to the GKK Properties from Gramercy and/or its affiliates. As part of our standard diligence for real estate property acquisitions, we generally require the seller of a property we acquire to have the tenants of the property make certain certifications relating to their leases in an estoppel certificate. The topics covered generally include: (i) whether the lease is in full force and effect and has not been assigned, modified, supplemented or amended; (ii) whether the seller has satisfied all of the conditions required to be performed by it under the lease; (iii) whether any required payments or reimbursements by the seller to the tenant as a result of any tenant improvements have been received by the tenant; (iv) whether there are any existing claims, defenses or offsets that the tenant has against the enforcement of the lease by the seller; (v) whether any rent or related payment obligation has been paid more than one month in advance; and (vi) whether any security has been deposited with the seller.

Because we did not receive estoppel certificates or other similar certifications from the tenants of the GKK Properties covering these and other issues, we may be subject to unknown liabilities relating to the tenants' leases. We could be subject to liability relating to, among other items, (i) payments owed by us, as landlord, to tenants under the leases, (ii) uncured defaults in the performance of landlord's obligations under the tenants' leases including, without limitation, maintenance on a property that has not been performed and should have been performed under the terms of the leases, (iii) rights of a tenant to extend its lease term, acquire additional space, or exercise rights of first refusal or other purchase options relating to certain GKK Properties that were agreed upon by and between Gramercy and/or its affiliates and a tenant, which may be evidenced by an agreement that we did not receive, and (iv) certain other causes of action by a tenant against us. Defending against or settling such liabilities, should they arise, could be costly and have an adverse effect on our stockholders' investment in us.

Bank branches are specialty-use properties and therefore may be more difficult to lease or sell to non-banks.

Some of the GKK Properties are vacant and some of the bank branch tenants in these GKK Properties may not renew their leases or may terminate them before their expiration. Bank branches are specialty-use properties that are outfitted with vaults, teller counters and other customary installations and equipment specific to bank branches that require significant capital expenditures. Our revenue from and the value of these bank branches may be affected by a number of factors, including:

- demand from financial institutions to lease or purchase properties that are configured to operate as bank branches;
- the requirements by non-banking institutions for us to make significant capital expenditures to modify these specialty-use GKK Properties to suit their needs before these institutions will lease or purchase such GKK Properties;
- a downturn in the banking industry generally and, in particular, among smaller community banks;
- tenants exercising shedding rights;
- bank branches with unfavorable lease terms; and
- mergers among financial institutions resulting in the consolidation of properties and a reduction in the number of bank branches or other facilities needed by such institutions.

Further, if financial institutions do not increase the number of bank branches they operate, do not find the locations of our bank branches desirable, do not renew or extend their leases of our bank branches, or if they elect to make capital expenditures to materially modify other, non-bank branch properties rather than pay higher lease or acquisition prices for those of our GKK Properties that already are configured as bank branches, then our operating results and financial condition, as well as the returns to our stockholders, may suffer. Additionally, the sale or lease of these GKK Properties to entities other than financial institutions may be difficult due to the added cost and time of refitting the GKK Properties, which we do not expect to undertake.

Certain of the GKK Properties, including some bank branches, are located in unattractive locations and are properties that we otherwise would not have elected to add to our portfolio, which could have an adverse effect on our operating results and financial condition, as well as the returns to our stockholders.

Certain of the GKK Properties are surplus bank branches that certain financial institutions owned before they were sold to Gramercy or were subsequently vacated by the financial institution. Were we not required to accept these properties as part of the Settlement Agreement, we otherwise likely would not have elected to add these GKK Properties to our portfolio. The characteristics of these bank branches, including the following, may make it difficult for us to lease or sell these GKK Properties and could have an adverse effect on our operating results and financial condition, as well as the returns to our stockholders. Some of these bank branches:

- are in locations that overlap with other bank branches of the same financial institution, accumulated in connection with mergers and acquisitions with other financial institutions;
- have low deposit levels as compared to other bank branches of the same financial institution;
- are vacant; or
- are located in unattractive areas.

The terms of the Settlement Agreement required us to take ownership of certain leasehold interests in various GKK Properties under which the amount of rent we pay to the property owner may exceed the rental income we receive from tenants.

Under the Settlement Agreement, we were required to assume leasehold interests that we otherwise likely would not have elected to assume. Such leasehold interests relate to properties we do not own, but under which we lease space from the property owner and then sub-lease this space to various tenants. In certain cases the rent that we are required to pay to the owner of the property exceeds the rental income that we receive from the various tenants. Such negative cash flow may continue throughout the life of the lease and may also have an adverse effect on our operating results and financial condition, as well as the returns to our stockholders.

Our inability to sell a property at the time and on the terms we want could limit the returns to our stockholders.

Many factors that are beyond our control affect the real estate market and could affect our ability to sell properties for the price, on the terms or within the time frame that we desire. These factors include general economic conditions, the availability of financing, interest rates and other factors, including supply and demand. Because real estate investments are relatively illiquid, we have a limited ability to vary our portfolio in response to changes in economic or other conditions. Further, before we can sell a property on the terms we want, it may be necessary to expend funds to correct defects or to make improvements. However, we can give no assurance that we will have the funds available to correct such defects or to make such improvements. We may be unable to sell our properties at a profit. Our inability to sell properties at the time and on the terms we want could reduce our cash flow and reduce the value of our stockholders' investment in us.

As a result of the transfers of the GKK Properties, 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.

Because of the transfers of the GKK Properties, a significant portion of our revenue is derived from leases to financial institutions and as such, our portfolio has become less diversified. As of December 31, 2015, 46.5% of our annualized base rent was generated by leases to financial institutions. Individual banks, as well as the banking industry in general, may be adversely affected by negative economic and market conditions throughout the United States or in the local economies in which regional or community banks operate. Acquisitions of regional or community banks by larger financial institutions could lead to the closure of some of the bank branches formerly occupied by these regional or community banks. In addition, changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, may have an adverse impact on banks' loan portfolios and allowances for loan losses. As a result, we may experience higher rates of lease default or terminations in the event of a downturn in the banking industry than we would if our tenant base were more diversified.

Because of the transfers of the GKK Properties, Bank of America, N.A. represents a significant portion of the revenue generated by our real estate portfolio and the failure of this tenant to perform its obligations to us or to renew its leases upon expiration may adversely affect our cash flow and the returns to our stockholders.

Because of the transfers of the GKK Properties, as of December 31, 2015, Bank of America, N.A. represented approximately 16.9% of our real estate portfolio's base rental income and occupied approximately 35.2% of our total rentable square feet. The default, financial distress or insolvency of Bank of America, N.A., or its failure to renew its leases with us upon expiration, could cause interruptions in the receipt of lease revenue from this tenant and the properties that it occupies and/or result in vacancies, which would reduce our revenue and increase operating costs until the affected properties are leased, and could decrease the ultimate value of the affected properties upon sale. We may be unable to lease the vacant properties at a comparable lease rate or at all, which could affect our operating results and financial condition as well as the returns to our stockholders. See Note 3, "Real Estate Held for Investment — Operating Leases" in the notes to our consolidated financial statements filed herewith.

Should GKK Stars or any of its affiliates declare bankruptcy or otherwise become the subject of an involuntary bankruptcy proceeding, our ability to indirectly retain title to or, with respect to a limited number of GKK Properties, indirectly retain a leasehold interest in, the GKK Properties would be threatened.

Any voluntary or involuntary bankruptcy filing by GKK Stars or any of its affiliates could have an adverse effect on our ability to indirectly retain title to or, with respect to a limited number of GKK Properties, indirectly retain a leasehold interest in, the GKK Properties, including the following:

- Any transfers to us of equity interests in the entities owning the GKK Properties made within up to six years prior to a filing under some state bankruptcy codes potentially could be voided by a bankruptcy court as fraudulent transfers. If any such transfers are voided, it is possible that our liens on the GKK Properties subject to those transfers may not reattach with their existing priority.
- A bankruptcy court could reject the Settlement Agreement, which could release GKK Stars from having to satisfy any of its remaining obligations under the Settlement Agreement.
- The automatic stay imposed in certain bankruptcy actions would limit our, among other parties to the Settlement Agreement, ability to enforce the terms of the Settlement Agreement against parties with respect to whom there has been a bankruptcy filing, including preventing the exercise of remedies under the Settlement Agreement without prior bankruptcy court approval following notice and a hearing.

Costs imposed pursuant to laws and governmental regulations may reduce our net income and the overall return to our stockholders.

Real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to protection of the environment and human health. We could be subject to liability in the form of fines, penalties or damages for noncompliance with these laws and regulations. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, the remediation of contamination associated with the release or disposal of solid and hazardous materials, the presence of toxic building materials, and other health and safety-related concerns.

Some of these laws and regulations may impose joint and several liability on the tenants, owners or operators of real property for the costs to investigate or remediate contaminated properties, regardless of fault, whether the contamination occurred prior to purchase, or whether the acts causing the contamination were legal. Our tenants' operations, the condition of properties at the time we buy them, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties.

The presence of hazardous substances, or the failure to properly manage or remediate these substances, may hinder our ability to sell, rent or pledge such property as collateral for future borrowings. Any material expenditures, fines, penalties, or damages we must pay will reduce the value of our stockholders' investment.

The cost of defending against claims of environmental liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury or other damage claims could reduce the value of our stockholders' investment.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous real property owner or operator may be liable for the cost of removing or remediating hazardous or toxic substances on, under or in such property. These costs could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose liens on property or restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for the release of and exposure to hazardous substances, including asbestos-containing materials and lead-based paint. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances and governments may seek recovery for natural resource damage. The cost of defending against claims of environmental liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could reduce the amounts available for distribution to our stockholders.

Except for GKK Properties and other properties to which we took title to through foreclosure or deed-in-lieu of foreclosure, all of our direct real estate investments were subject to Phase I environmental assessments at the time they were acquired. Some of the properties we have acquired are subject to potential environmental liabilities arising primarily from historic activities at or in the vicinity of the properties.

We own one property that is subject to activity use limitations ("AULs") whereby the government has placed limitations on redevelopment of the property for certain uses, particularly residential uses. AULs are typically imposed on a property that has environmental contamination in exchange for less stringent environmental clean-up standards. In view of the location of the affected property, the environmental characteristics of the contaminants and the characteristics of the neighborhood, we do not believe that these AULs have a material impact on our portfolio valuation, but they could result in a depression of the value of the property, should we resell the property for uses different from its existing uses. The property subject to AULs is ADP Plaza, located in Portland, Oregon.

Some of the properties in our portfolio, particularly the warehouse and light industrial properties, had or have underground storage tanks either for space heating of the buildings, fueling motor vehicles, or industrial processes. Many of the underground storage tanks at the premises have been replaced over time. Given changing standards regarding closure of underground storage tanks and associated contamination, many of the tanks may not have been closed in compliance with current standards. Some of these properties likely have some residual petroleum or chemical contamination. Properties exhibiting these risks include 129 Concord Road, Billerica, Massachusetts (Rivertech) and ADP Plaza, Portland, Oregon.

Under the Settlement Agreement, we 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, we were not able to inspect the GKK Properties or conduct standard due diligence on certain of the GKK Properties before the transfers. Additionally, we 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 we subsequently discover environmental problems with the GKK Properties.

Costs associated with complying with the Americans with Disabilities Act may decrease the returns to our stockholders.

Our properties may be subject to the Americans with Disabilities Act of 1990, as amended (the "Disabilities Act"). Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for "public accommodations" and "commercial facilities" that generally require that buildings and services be made accessible and available to people with disabilities. The Disabilities Act's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. Any funds used for Disabilities Act compliance will reduce our net income and the returns to our stockholders.

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage could reduce our cash flows and the return on our stockholders' investment.

There are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, that are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential acts of terrorism could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases have begun to insist that commercial property owners purchase coverage against terrorism as a condition to providing mortgage loans. Such insurance policies may not be available at reasonable costs, if at all, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses. If any of our properties incurs a casualty loss that is not fully insured, the value of our assets will be reduced by any such uninsured loss, which will reduce the value of our stockholders' investment. In addition, other than any working capital reserve or other reserves we may establish, we have extremely limited sources of funding to repair or reconstruct any uninsured property. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower returns to stockholders.

Terrorist attacks and other acts of violence or war may affect the markets in which we operate, which could delay or hinder our ability to meet our investment objectives and reduce our stockholders' overall return.

Terrorist attacks or armed conflicts may directly impact the value of our properties through damage, destruction, loss or increased security costs. We have invested in major metropolitan markets. We may not be able to obtain insurance against the risk of terrorism because it may not be available or may not be available on terms that are economically feasible. The terrorism insurance that we obtain may not be sufficient to cover loss for damage to our properties as a result of terrorist attacks. The inability to obtain sufficient terrorism insurance or any terrorism insurance at all could limit our refinancing options as some mortgage lenders have begun to insist that specific coverage against terrorism be purchased by commercial owners as a condition of providing loans.

Risks Related to Real Estate-Related Investments

Our real estate-related investments are subject to the risks typically associated with real estate.

Our investments in mortgage and mezzanine loans and B-Notes are directly or indirectly secured by a lien on real property (or the equity interests in an entity that owns real property) that, upon the occurrence of a default on the loan, could result in our taking ownership of the property. The values of these properties may change after we acquire or originate the loans. If the values of the underlying properties drop, our risk will increase because of the lower value of the security associated with such loans. In this manner, real estate values could impact the values of our loan investments. Therefore, our real estate-related investments are subject to the risks typically associated with real estate, which are described above under the heading "— General Risks Related to Investments in Real Estate."

Our investments in real estate-related loans are subject to interest rate fluctuations that affect our returns as compared to market interest rates; accordingly, the value of our stockholders' investment in us is subject to fluctuations in interest rates.

With respect to our fixed rate, long-term loans receivable, if interest rates rise, the loans could yield a return that is lower than then-current market rates. If interest rates decrease, we will be adversely affected to the extent that loans are prepaid because we would no longer receive the revenue generated by those loans. For this reason, our returns on these loans and the value of our stockholders' investment in us are subject to fluctuations in interest rates.

Our mortgage and mezzanine loan and B-Note investments are subject to delinquency, foreclosure and loss, which could result in losses to us.

Commercial real estate loans generally are secured by commercial real estate properties and are subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, occupancy rates, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies (including environmental legislation), natural disasters, terrorism, social unrest and civil disturbances.

In the event of any default under a mortgage loan held by us, we will bear a risk of loss of principal and accrued interest to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations. Foreclosure on a property securing a mortgage loan can be an expensive and lengthy process that could have a substantial negative effect on our anticipated return on the investment. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

If there is a default under a mortgage loan investment, we may not be able to repossess and sell the underlying property quickly. The resulting time delay could reduce the value of our investment in the defaulted mortgage loan. An action to foreclose on a property securing a mortgage loan is regulated by state statutes and regulations and is subject to many of the delays and expenses of other lawsuits if the borrower raises defenses or counterclaims. In the event of default by a borrower, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due to us on the mortgage loan. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. We are currently negotiating an agreement in lieu of foreclosure with the borrower under the Lawrence Village Plaza Loan Origination to transfer title of the property securing the loan to us in full satisfaction of the debt outstanding under, and all other obligations related to, the Lawrence Village Plaza Loan Origination. We had recorded an asset-specific loan loss reserve against this investment as of December 31, 2015.

Our mezzanine loan investment involves greater risks of loss than senior loans secured by the same properties.

Our mezzanine loan investment takes the form of a subordinated loan secured by a pledge of the ownership interests of the entity owning (directly or indirectly) the real property. These types of investments may involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the real property and increasing the risk of loss of principal.

Our investments in B-Notes may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We own two B-Notes. A B-Note is a mortgage loan typically (i) secured by a first mortgage on a single large commercial property or group of related properties and (ii) subordinated to an A-Note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-Note holders after payment to the A-Note holders. Since each transaction is privately negotiated, B-Notes can vary in their structural characteristics and risks including, for example, the rights of holders of B-Notes to control the process following a borrower default may be limited.

Our investments in subordinated loans may be subject to losses.

We have invested in subordinated loans, such as mezzanine loans and B-Notes. In the event a borrower defaults on a subordinated loan and lacks sufficient assets to satisfy our loan, we may suffer a loss of principal or interest. In the event a borrower declares bankruptcy, we may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the loan. If a borrower defaults on our loan or on debt senior to our loan, or in the event of a borrower bankruptcy, our loan will be satisfied only after the senior debt is paid in full. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through “standstill periods”), and control decisions made in bankruptcy proceedings relating to borrowers.

A portion of our investments in loans may be illiquid and we may not be able to adjust our portfolio in response to changes in economic and other conditions.

The mezzanine loan we own is particularly illiquid due to its short life, its unsuitability for securitization and the greater difficulty of recoupment in the event of the borrower’s default. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited.

We depend on borrowers for the revenue generated by our real estate-related investments and, accordingly, such revenue and the returns to our stockholders are partially dependent upon the success and economic viability of such borrowers.

The success of our real estate-related investments materially depends on the financial stability of the borrowers under such investments. The inability of a single major borrower or a number of smaller borrowers to meet their payment obligations could result in reduced revenue or losses for us. In the event of a borrower default or bankruptcy, we may experience delays in enforcing our rights as a creditor, and such rights may be subordinated to the rights of other creditors. These events could negatively affect the returns to our stockholders and the value of our stockholders' investment.

Prepayments can adversely affect the yields on our debt investments.

The yields on our debt investments may be affected by the rate of prepayments differing from our projections. Prepayments on debt instruments, where permitted under the debt documents, are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. If our debt assets are prepaid or are not repaid when expected, our anticipated yield may be impacted. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition or origination of certain debt investments.

Declines in the market values of our investments may adversely affect periodic reported results of operations and credit availability, which may reduce earnings and, in turn, the returns to our stockholders.

A portion of our assets may be classified for accounting purposes as "available-for-sale." These investments are carried at estimated fair value and temporary changes in the market values of those assets will be directly charged or credited to stockholders' equity without impacting net income on our income statement. Moreover, if we determine that a decline in the estimated fair value of an available-for-sale security below its amortized value is other-than-temporary, we will recognize a loss on that security on our income statement, which will reduce our earnings in the period recognized.

A decline in the market value of our assets may adversely affect us, particularly in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we were unable to post the additional collateral, we may have to sell assets at a time when we might not otherwise have chosen to do so. A reduction in credit available may reduce our earnings and, in turn, the returns to our stockholders.

Further, credit facility providers have required and in the future may require us to maintain a certain amount of cash reserves or to set aside unleveraged assets sufficient to maintain a specified liquidity position, which would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on equity. In the event that we are unable to meet these contractual obligations, our financial condition could deteriorate rapidly.

Market values of our investments may decline for a number of reasons, such as changes in prevailing market rates, increases in defaults, increases in voluntary prepayments for our investments that are subject to prepayment risk, widening of credit spreads and downgrades of ratings of the securities by ratings agencies.

Our asset-specific loan loss reserve may not be sufficient to cover losses on loans we consider to be impaired.

Our asset-specific loan loss reserve relates to reserves for losses on loans considered impaired. We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement or other documents relating to the loan. We also consider a loan to be impaired if we grant the borrower a concession through a modification of the loan terms or if we expect to receive assets (including equity interests in the borrower) in partial satisfaction of the loan. A reserve is established when the present value of payments expected to be received, observable market prices, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or amounts expected to be received in partial satisfaction of an impaired loan are lower than the carrying value of that loan. A portfolio-based loan loss reserve is a reserve against all of the loans in our portfolio that are not specifically reserved. It is based on estimated probabilities of both term and maturity default and estimated loss severities for the portfolio. Our provision for loan losses of $6.5 million, all of which related to asset-specific loan loss reserves as of December 31, 2015, may not be sufficient to cover losses on these loans.

Risks Associated with Debt Financing

We incur and assume mortgage indebtedness, lines of credit and other borrowings, which increases our risk of loss due to potential foreclosure.

We obtain lines of credit and obtain or assume long-term financing that may be secured by our properties and other assets. We have acquired our real properties by financing a portion of the price of the properties and mortgaging or pledging all of the properties purchased as security for that debt, or by taking title to properties that already had been pledged as security for debt we assumed in connection with taking title to such properties. In addition, we may be forced to try to borrow as necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes, including borrowings to satisfy the REIT requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders (computed without regard to the dividends-paid deduction and excluding net capital gain). However, we can give our stockholders no assurance that we will be able to obtain such borrowings on satisfactory terms or at all.

Mortgage debt or the assumption of mortgage debt as part of taking title to a property increases the risk of loss of a property since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, reducing the value of our stockholders' investment. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure even though we would not necessarily receive any cash proceeds. We have given and may give full or partial guarantees to lenders of mortgage or other debt on behalf of the entities that own our properties. When we give a guarantee on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of all or a part of the debt or other amounts related to the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, a default on a mortgage secured by a single property could affect mortgages secured by other properties.

High mortgage rates or changes in underwriting standards may make it difficult for us to refinance properties, which could reduce our cash flow from operations and reduce the returns to our stockholders.

We may be unable to refinance part or all of our assets subject to mortgage debt when the debt becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance properties, our income could be reduced. We may be unable to refinance or may only be able to partly refinance properties if underwriting standards, including loan to value ratios and yield requirements, among other requirements, are more strict than when we originally financed the properties. If any of these events occurs, our cash flow could be reduced and/or we might have to pay down existing mortgages. This, in turn, could cause us to require additional capital and may hinder our ability to raise capital by issuing more stock or by borrowing more money, reducing our stockholders' overall returns.

Lenders have required and may continue to require us to enter into restrictive covenants relating to our operations, which could reduce the returns to our stockholders.

When providing financing, lenders have imposed, and in connection with future financings, may impose, restrictions on us that may reduce the returns to our stockholders and may affect our operating policies and our ability to incur additional debt. Loan agreements into which we enter may contain covenants that limit our ability to further mortgage a property or otherwise incur additional debt, or that prohibit us from discontinuing insurance coverage or replacing KBS Capital Advisors as our advisor. These or other limitations would decrease our operating flexibility and our ability to achieve our operating objectives.

Non-compliance with the financial covenants included in the documents evidencing our outstanding debt obligations may result in the lender imposing additional restrictions on our operations or constitute an event of default under such documents. Such events would harm our financial condition, results of operations and the return on our stockholders' investment in us.

The documents evidencing our outstanding debt obligations typically include restrictive financial covenants, including that specified loan-to-value and debt service coverage ratios be maintained with respect to our financed properties before we can exercise certain rights under the documents relating to such properties. A breach of the financial covenants in these documents may result in the lender imposing additional restrictions on our operations, such as 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.

Certain of the mortgage loans that we assumed in connection with the transfers of the GKK Properties could impose "cash traps", which could adversely affect our financial condition and operating results.

Certain mortgage loans that we assumed in connection with the transfers of the GKK Properties could impose "cash traps" when the financial performance of the GKK Properties securing such loans fails to meet certain financial metrics. If enforced, these "cash traps" could adversely affect our financial condition and operating results. If the provisions relating to "cash traps" in these mortgage loan documents are triggered, we may be required to fund excess cash flow into reserve accounts with our mortgage lenders until compliance with the required metrics is achieved. In such event, our liquidity will be negatively impacted, which could have an adverse effect on our results of operations and financial condition.

Because of the long-term maturities, prepayment and defeasance penalties and fees and other restrictions of certain of our outstanding debt obligations secured by some of our real estate properties, including some of the GKK Properties, we may not be able to sell these real estate properties at the times and upon the terms that would maximize the proceeds generated by such sales to us, which could reduce our stockholders' overall return.

As a result of the terms and conditions and, most significantly, the prepayment and defeasance penalties and fees, relating to certain of our debt obligations secured by our real estate properties, including some of the GKK Properties, we may be unable to sell such properties at the time or upon the terms we would prefer. Were we to sell any of these properties, the prepayment and defeasance penalties and fees could result in a significant reduction in net proceeds to us from the sale of the property. Thus, we may be forced to extend our hold period for these properties longer than we otherwise would in order to sell them after the expiration of these penalties and fees. Our inability to sell properties at the time and on the terms we want could reduce the value of our stockholders' investment.

Increases in interest rates would increase the amount of our debt payments and reduce the returns to our stockholders.

We have incurred variable rate debt and may incur additional debt or refinance existing debt in the future. Increases in interest rates will increase the cost of that debt, which could reduce our cash flow from operations and the returns to our stockholders. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments at times that may not permit realization of the maximum return on such investments.

We have broad authority to incur debt and high debt levels could decrease the value of our stockholders' investment in us.

We limit our total liabilities to 75% of the cost (before deducting depreciation or other noncash reserves) of our tangible assets and we may exceed this limit if the majority of the conflicts committee approves each borrowing in excess of that limitation and we disclose such borrowings to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. As of December 31, 2015, our borrowings and other liabilities were approximately 35% of both the cost (before deducting depreciation or other noncash reserves) and book value (before deducting depreciation) of our tangible assets, respectively. High debt levels would cause us to incur higher interest charges and higher debt service payments and may also be accompanied by restrictive covenants. These factors could result in a decline in the value of our stockholders' investment in us.

Federal Income Tax Risks

Failure to qualify as a REIT would reduce our net earnings available for distribution.

Our qualification as a REIT will depend upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Internal Revenue Code. If we fail to qualify as a REIT for any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we lost our REIT status. Losing our REIT status would reduce our net earnings available for distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends-paid deduction and we would no longer be required to pay distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to our stockholders.

We believe that we have operated and will continue to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. Accordingly, we cannot be certain that we will be successful in operating so we can remain qualified as a REIT. While we intend to continue to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments we may make, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we would be required to pay federal income tax on our taxable income. We might need to borrow money or sell assets to pay that tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for certain statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT were excused under federal tax laws, we would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost.

Our stockholders may have current tax liability on distributions they elected to reinvest in our common stock.

If our stockholders participated in our dividend reinvestment plan (which was terminated effective April 10, 2012), they will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. In addition, our stockholders will be treated for tax purposes as having received an additional distribution to the extent the shares were purchased at a discount to fair market value, if any. As a result, unless our stockholders are tax-exempt entities, they may have to use funds from other sources to pay their tax liability on the value of the shares of common stock received.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to state, local or other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

- In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.
- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate. We elected foreclosure property status for the GKK Properties but do not believe such GKK Properties will be disposed of in a manner that results in this tax.
- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% “prohibited transaction” tax unless such sale were made by one of our taxable REIT subsidiaries.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to stockholders (for example, where a borrower defers the payment of interest in cash pursuant to a contractual right or otherwise). If we do not have other funds available in these situations we could be required to borrow funds, sell investments at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirements and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and reduce our stockholders' overall return.

To qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and reduce the value of our stockholders' investment.

If our operating partnership fails to maintain its status as a partnership for federal income tax purposes, its income would be subject to taxation and our REIT status would be terminated.

We intend to maintain the status of our operating partnership as a partnership for federal income tax purposes. However, if the IRS were to successfully challenge the status of our operating partnership as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that our operating partnership could make to us. This would also result in our losing REIT status and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the return on your investment. In addition, if any of the entities through which our operating partnership owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, the underlying entity would become subject to taxation as a corporation, thereby reducing distributions to our operating partnership and jeopardizing our ability to maintain REIT status.

Potential characterization of distributions or gain on sale may be treated as unrelated business taxable income to tax-exempt investors.

If (i) all or a portion of our assets are subject to the rules relating to taxable mortgage pools, (ii) we are a "pension-held REIT," (iii) a tax-exempt stockholder has incurred debt to purchase or hold our common stock, or (iv) the residual Real Estate Mortgage Investment Conduit interests, or REMICs, we buy (if any) generate "excess inclusion income," then a portion of the distributions to and, in the case of a stockholder described in clause (iii), gains realized on the sale of common stock by such tax-exempt stockholder may be subject to federal income tax as unrelated business taxable income under the Internal Revenue Code.

The tax on prohibited transactions will limit our ability to engage in transactions that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets, other than foreclosure property, deemed held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans at the REIT level, even though the sales might otherwise be beneficial to us.

It may be possible to reduce the impact of the prohibited transaction tax by conducting certain activities through taxable REIT subsidiaries. However, to the extent that we engage in such activities through taxable REIT subsidiaries, the income associated with such activities may be subject to full corporate income tax.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and residential and commercial mortgage-backed securities. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% (20% for taxable years after 2017) of the value of our total assets can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

Liquidation of assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code may limit our ability to hedge our assets and operations. Under these provisions, any income that we generate from transactions intended to hedge our interest rate, inflation and/or currency risks will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the purpose of the instrument is to (i) hedge interest rate risk on liabilities incurred to carry or acquire real estate, (ii) hedge risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the REIT 75% or 95% gross income tests, or (iii) manage risk with respect to the termination of certain prior hedging transactions described in (i) and/or (ii) above and, in each case, such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements will generally constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may subject us to U.S. federal income tax and reduce distributions to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. While we intend to elect and qualify to be taxed as a REIT, we may not elect to be treated as a REIT or may terminate our REIT election if we determine that qualifying as a REIT is no longer in our best interests. If we cease to be a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders and on the market price of our common stock.

We may be subject to adverse legislative or regulatory tax changes.

At any time, the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation. You are urged to consult with your tax advisor with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares.

Although REITs generally receive better tax treatment than entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

Dividends payable by REITs do not qualify for the reduced tax rates.

In general, the maximum tax rate for dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for this reduced rate. While this tax treatment does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts or estates to perceive investments in REITs to be relatively less attractive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

The IRS has issued Revenue Procedure 2003-65, which provides a safe harbor pursuant to which a mezzanine loan that is secured by interests in a pass-through entity will be treated by the IRS as a real estate asset for purposes of the REIT tests, and interest derived from such loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We made investments in loans secured by interests in pass-through entities in a manner than complies with the various requirements applicable to our qualification as a REIT. To the extent, however, that any such loans do not satisfy all of the requirements for reliance on the safe harbor set forth in the Revenue Procedure, there can be no assurance that the IRS will not challenge the tax treatment of such loans, which could jeopardize our ability to qualify as a REIT.

Retirement Plan Risks

If the fiduciary of an employee benefit plan subject to ERISA (such as a profit sharing, Section 401(k) or pension plan) or an owner of a retirement arrangement subject to Section 4975 of the Internal Revenue Code (such as an individual retirement account ("IRA")) fails to meet the fiduciary and other standards under ERISA or the Internal Revenue Code as a result of an investment in our stock, the fiduciary could be subject to penalties and other sanctions.

There are special considerations that apply to employee benefit plans subject to the Employee Retirement Income Security Act ("ERISA") (such as profit sharing, Section 401(k) or pension plans) and other retirement plans or accounts subject to Section 4975 of the Internal Revenue Code (such as an IRA) that invest in our shares. Fiduciaries and IRA owners that invest the assets of such a plan or account in our common stock should satisfy themselves that:

- the investment is consistent with their fiduciary and other obligations under ERISA and the Internal Revenue Code;
- the investment is made in accordance with the documents and instruments governing the plan or IRA, including the plan's or account's investment policy;
- the investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;
- the investment in our shares, for which no public market currently exists, is consistent with the liquidity needs of the plan or IRA;
- the investment will not produce an unacceptable amount of "unrelated business taxable income" for the plan or IRA;
- our stockholders will be able to comply with the requirements under ERISA and the Internal Revenue Code to value the assets of the plan or IRA annually; and
- the investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

With respect to the annual valuation requirements described above, we will provide an estimated value for our common stock annually. We can make no claim whether such estimated value will or will not satisfy the applicable annual valuation requirements under ERISA and the Internal Revenue Code. The Department of Labor or the Internal Revenue Service may determine that a plan fiduciary or an IRA custodian is required to take further steps to determine the value of our common stock. In the absence of an appropriate determination of value, a plan fiduciary or an IRA custodian may be subject to damages, penalties or other sanctions. For information regarding our 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 this Annual Report on Form 10-K.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties and could subject the fiduciary to claims for damages or for equitable remedies, including liability for investment losses. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary or IRA owner who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested. In addition, the investment transaction must be undone. In the case of a prohibited transaction involving an IRA owner, the IRA may be disqualified as a tax-exempt account and all of the assets of the IRA may be deemed distributed and subjected to tax. ERISA plan fiduciaries and IRA owners should consult with counsel before making an investment in our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved staff comments.

ITEM 2. PROPERTIES

Real Estate Investments

As of December 31, 2015, our real estate portfolio consisted of 364 properties, including eight properties that were held for sale. Our 356 properties held for investment encompassed approximately 7.7 million rentable square feet. The properties held for investment are located in 30 states and include office, industrial and bank branch properties. As of December 31, 2015, our portfolio held for investment was 85% occupied and the average annualized base rent per square foot of our real estate portfolio held for investment was $17.09 per square foot. The weighted-average remaining lease term of our real estate portfolio held for investment was 4.3 years as of December 31, 2015. For a discussion of our real estate portfolio, see Part I, Item 1, "Business" of this Annual Report on Form 10-K.

Portfolio Lease Expirations

The following table reflects lease expirations of our 356 properties held for investment as of December 31, 2015:

Year of Expiration	Number of Leases Expiring	Annualized Base Rent (in thousands) [1]	% of Portfolio Annualized Base Rent Expiring	Leased Rentable Square Feet Expiring	% of Portfolio Leased Rentable Square Feet Expiring
Month-to-Month	41	$ 605	0.5%	73,383	1.1%
2016	75	7,700	6.9%	403,886	6.2%
2017	76	17,463	15.7%	835,298	12.8%
2018	48	6,313	5.7%	296,847	4.6%
2019	155	25,649	23.1%	2,731,786	41.9%
2020	46	8,104	7.3%	287,155	4.4%
2021	25	7,200	6.5%	424,776	6.5%
2022	17	13,973	12.6%	489,589	7.5%
2023	102	9,595	8.6%	566,656	8.7%
2024	5	1,142	1.0%	33,901	0.5%
2025	28	7,988	7.2%	174,353	2.7%
Thereafter [2]	17	5,494	4.9%	203,335	3.1%
Total	635	$ 111,226	100.0%	6,520,965	100.0%

[1] Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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] Represents leases expiring at various dates from 2026 through 2027.

Concentration of Credit Risks

As of December 31, 2015, our highest tenant industry concentration (greater than 10% of our annualized base rent), of our 356 properties held for investment, was as follows:

Industry	Number of Tenants	Annualized Base Rent [1] (in thousands)	Percentage of Annualized Base Rent
Finance	74	$ 51,756	46.5%

[1] Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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 December 31, 2015, no other tenant industries accounted for more than 10% of our annualized base rent.

As of December 31, 2015, we had a concentration of credit risk related to leases with the following tenant that represented more than 10% of our annualized base rent:

					Annualized Base Rent Statistics			
Tenant	Property	Tenant Industry	Rentable Square Feet	% of Portfolio Rentable Sq. Ft. Leased	Annualized Base Rent [1] (in thousands)	% of Portfolio Annualized Base Rent	Annualized Base Rent per Square Foot	Lease Expirations
Bank of America, N.A.	Various	Finance	2,290,434	35.2%	$ 18,826	16.9%	$ 8.22	[2]

[1] Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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 December 31, 2015, lease expiration dates ranged from 2019 through 2026 with a weighted-average remaining term of 4.3 years.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition. Nor are we aware of any such legal proceedings contemplated by government authorities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stockholder Information

As of March 14, 2016, we had approximately 186.2 million shares of common stock outstanding held by a total of approximately 41,000 stockholders. The number of stockholders is based on the records of DST Systems, Inc., which serves as our transfer agent.

Market Information

No public market currently exists for our shares of common stock, and we currently have no plans to list our shares on a national securities exchange. Until our shares are listed, if ever, our stockholders may not sell their shares unless the buyer meets the applicable suitability and minimum purchase requirements. In addition, our charter prohibits the ownership of more than 9.8% of our stock by a single person, unless exempted by our board of directors. Consequently, there is the risk that our stockholders may not be able to sell their shares at a time or price acceptable to them.

We provide an estimated value per share to assist broker-dealers that participated in our initial public offering in meeting their customer account statement reporting obligations under NASD Conduct Rule 2340 as required by FINRA. This valuation was performed in accordance with the provisions of and also to comply with the IPA Valuation Guidelines. For this purpose, we estimated the value of the shares of our common stock as $3.94 per share as of December 31, 2015. This estimated value per share is based on our board of directors' approval on December 8, 2015 of an estimated value per share of our common stock of $3.94, based on the estimated value of our assets less the estimated value of our liabilities, or net asset value, 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 the Special Distribution. Other than the declaration and payment of the Special Distribution, there were no material changes between September 30, 2015 with respect to our other assets and our liabilities and December 10, 2015 to the net values of our assets and liabilities that impacted the overall estimated value per share.

The conflicts committee of our board of directors, composed solely of all of our independent directors, is responsible for the oversight of the valuation process used to determine the estimated value per share of our common stock, including the review and approval of the valuation and appraisal processes and methodologies used to determine our estimated value per share, the consistency of the valuation and appraisal methodologies with real estate industry standards and practices and the reasonableness of the assumptions used in the valuations and appraisals. The estimated value per share was based upon the recommendation and valuation prepared by our advisor. Our advisor's valuation of our real estate properties was based on either (i) appraisals of certain of our real estate properties performed by Duff & Phelps, an independent third-party real estate valuation firm, and based on the methodologies and assumptions described further below; or (ii) the contractual sales prices less actual or estimated disposition costs and fees in the case of properties that were under contract to sell as of December 10, 2015 or properties sold subsequent to September 30, 2015 and prior to December 10, 2015.

We engaged Duff & Phelps to provide appraisals for 12 of our 13 historical real estate properties. In addition, we engaged Duff & Phelps to perform appraisals for all but 28 of the 378 GKK Properties. Our 12 appraised historical real estate properties and the 350 GKK Properties appraised by Duff & Phelps are referred to herein collectively as the "Appraised Properties." Duff & Phelps prepared appraisal reports summarizing key inputs and assumptions of its appraisals. The one historical real estate property and 28 GKK Properties not valued by Duff & Phelps either were under contract to sell as of December 10, 2015 or were sold subsequent to September 30, 2015 and prior to December 10, 2015. Our advisor performed valuations with respect to our real estate-related investments, cash, other assets, mortgage debt and other liabilities. The methodologies and assumptions used to determine the estimated value of our assets and liabilities are described further below.

Our advisor used (i) the appraised values of the Appraised Properties and the contractual sales prices less actual or estimated disposition costs and fees in the case of properties that were under contract to sell as of December 10, 2015 or properties sold subsequent to September 30, 2015 and prior to December 10, 2015, (ii) our advisor's estimated value of each of our other assets and our liabilities and (iii) the amount of the Special Distribution, to calculate and recommend an estimated value per share of our common stock. Based on (i) the conflicts committee's receipt and review of our advisor's valuation report, including our advisor's summary of the appraisal reports prepared by Duff & Phelps and our advisor's estimated value of each of our other assets and our liabilities, (ii) the conflicts committee's review of the reasonableness of our estimated value per share resulting from our advisor's valuation process, (iii) consideration of the Special Distribution, and (iv) other factors considered by the conflicts committee and the conflicts committee's own extensive knowledge of our assets and liabilities, the conflicts committee concluded that the estimated value per share proposed by our advisor was reasonable and recommended to our board of directors that it adopt $3.94 as the estimated value per share of our common stock. Our board of directors unanimously agreed to accept the recommendation of the conflicts committee and approved $3.94 as the estimated value per share of our common stock, which determination is ultimately and solely the responsibility of our board of directors.

The table below sets forth the calculation of our estimated value per share as of December 8, 2015 as well as the calculation of our prior estimated value per share as of December 9, 2014:

	December 8, 2015 Estimated Value per Share	December 9, 2014 Estimated Value per Share [1]	Change in Estimated Value per Share
Real estate properties - historical [2]	$ 2.95	$ 3.35	$ (0.40)
Real estate - GKK Properties [3]	3.42	3.88	(0.46)
Foreclosed real estate held for sale	—	0.13	(0.13)
Real estate loans receivable	0.13	0.13	—
Investments in joint ventures [4]	—	0.14	(0.14)
Cash and restricted cash	0.83	0.88	(0.05)
Other assets	0.08	0.11	(0.03)
Mortgage and other debt obligations [5]	(2.93)	(3.85)	0.92
Other liabilities	(0.29)	(0.25)	(0.04)
Estimated value per share prior to December 7, 2015 Special Distribution payment	$ 4.19	$ 4.52	$ (0.33)
Estimated enterprise value premium	None assumed	None assumed	None assumed
Special Distribution paid on December 7, 2015 [6]	(0.25)	—	(0.25)
Total estimated value per share	$ 3.94	$ 4.52	$ (0.58)

[1] The December 9, 2014 estimated value per share was based upon the recommendation and valuation of our advisor. Our advisor's recommendation and valuation of our real estate properties was based on either (i) appraisals of certain of our real estate properties performed by Duff & Phelps or (ii) the contractual sales prices less actual or estimated closing costs in the case of properties that were under contract to sell as of December 11, 2014 or properties sold subsequent to September 30, 2014 and prior to December 11, 2014. Our advisor performed valuations of our real estate-related investments, cash, other assets, mortgage debt and other liabilities. For more information relating to the December 9, 2014 estimated value per share and the assumptions and methodologies applied by our advisor and Duff & Phelps, see our Current Report on Form 8-K filed with the SEC on December 11, 2014.

[2] The decrease in the estimated value of real estate properties per share was primarily due to a decrease in the appraised value of the real estate properties.

[3] The decrease in the estimated value of GKK Properties per share was primarily due to real estate property sales.

[4] See discussion of "–Participation Interest in Unconsolidated Joint Venture" below.

[5] The decrease in the estimated value of mortgage and other debt obligations per share was primarily due to the repayment of principal related to asset sales and ongoing principal amortization payments.

[6] On November 30, 2015, our board of directors declared the Special Distribution, which we paid on December 7, 2015. The Special Distribution was paid in cash and funded from our proceeds from the sales of real estate properties.

The decrease in our estimated value per share from the previous estimate was primarily due to the items noted in the table below, which reflect the significant contributors to the decrease in the estimated value per share from $4.52 to $3.94. The changes are not equal to the change in values of each asset and liability group presented in the table above due to asset sales, debt repayments and extinguishment of debt and other factors, which caused the value of certain asset or liability groups to change with no impact to our fair value of equity or the overall estimated value per share.

	Change in Estimated Value per Share	
December 9, 2014 estimated value per share	$ 4.52	
Changes to estimated value per share		
Real Estate		
Properties held as of September 30, 2015 - historical	(0.35)	
Properties held as of September 30, 2015 - GKK Properties	0.33	
Properties sold through September 30, 2015	0.07	
Capital expenditures on real estate	(0.24)	
Total changes related to real estate	(0.19)	
Mortgage debt	(0.06)	(1)
Undistributed operating cash flows	0.03	(2)
Contingent liability to Gramercy Property Trust, Inc.	(0.09)	(3)
Other changes, net	(0.02)	
Total change in estimated value per share	$ (0.33)	(4)
Estimated value per share prior to December 7, 2015 Special Distribution payment	$ 4.19	
Special Distribution (5)	(0.25)	
December 8, 2015 estimated value per share	$ 3.94	

(1) The change in value of the notes payable is primarily due to defeasance costs paid in connection with the repayment of certain loans and a decrease in market interest rates assumed in valuing the notes payable as compared to the December 9, 2014 estimated value per share, resulting in the notes payable being valued at less of a discount or more of a premium than in the December 9, 2014 estimated value per share.

(2) Amount includes operating cash flows through September 30, 2015 from real estate properties that were under contract to sell as of December 10, 2015 or were sold subsequent to September 30, 2015 and prior to December 10, 2015, which will not provide future operating cash flows.

(3) Pursuant to an asset management services agreement, Gramercy Property Trust, Inc. has a profit participation interest with respect to the GKK Properties. The increase in this contingent liability was due to the increase in fair market value or gross sales price of the GKK Properties.

(4) The reconciliation of total change in estimated value per share does not reflect $7.4 million used to fulfill redemption requests in accordance with our share redemption program, as such redemptions resulted in no change to the estimated value per share because, while our net asset value was reduced by the $7.4 million of redemptions, it also resulted in a corresponding decrease in the number of shares outstanding.

(5) See footnote (6) to the table above.

As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties using different assumptions and estimates could derive a different estimated value per share of our common stock, and this difference could be significant. The estimated value per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to GAAP, nor does it represent a liquidation value of our assets and liabilities or the price at which our shares of common stock would trade on a national securities exchange. The estimated value per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated value per share also does not take into account debt defeasance costs we may incur in connection with prepayments on our notes payable, debt prepayment penalties or swap breakage fees that could apply upon the prepayment of certain of our debt obligations or termination of related swap agreements prior to expiration, the impact of restrictions on the assumption of debt, or disposition costs and fees for real estate properties that are not under contract to sell. We have generally incurred disposition costs and fees related to the sale of our historical real estate properties since inception of 1.7% to 5.7% of the gross sales price less concessions and credits, with the weighted average being 2.7%. We have generally incurred disposition costs and fees related to the sale of the GKK Properties since December 15, 2011 (the date of the completion of the transfer of the GKK Properties to us pursuant to the Settlement Agreement) of 1.5% to 8.5% of the gross sales price less concessions and credits, with the weighted average being 2.3%. If both these ranges of disposition costs and fees were applied to our real estate properties, which do not include these costs and fees in the appraised values, the resulting impact on the estimated value per share would be a decrease of $0.09 to $0.41 per share. As of December 8, 2015, we had no potentially dilutive securities outstanding that would impact the estimated value per share of our common stock.

Our estimated value per share takes into consideration any potential liability related to a participation fee our advisor is entitled to upon meeting certain stockholder return thresholds in accordance with the advisory agreement. For purposes of determining the estimated value per share, our advisor calculated the potential liability related to this incentive fee based on a hypothetical liquidation of the assets and liabilities at their estimated fair values, after considering the impact of any potential closing costs and fees related to the disposition of real estate properties, and determined that there would be no liability related to the participation fee.

Methodology

Our goal for the valuation was to arrive at a reasonable and supportable estimated value per share, using a process that was designed to be in compliance with the IPA Valuation Guidelines and using what we and our advisor deemed to be appropriate valuation methodologies and assumptions. The following is a summary of the valuation and appraisal methodologies, assumptions and estimates used to value our assets and liabilities:

Real Estate

Independent Valuation Firm

Duff & Phelps[1] was selected by our advisor and approved by our conflicts committee and board of directors to appraise the Appraised Properties. Duff & Phelps is engaged in the business of appraising commercial real estate properties and is not affiliated with us or our advisor. The compensation we paid to Duff & Phelps was based on the scope of work and not on the appraised values of the Appraised Properties. The appraisals were performed in accordance with the Code of Ethics and the Uniform Standards of Professional Appraisal Practice, or USPAP, the real estate appraisal industry standards created by The Appraisal Foundation, as well as the requirements of the state where each real property is located. Each appraisal was reviewed, approved and signed by an individual with the professional designation of MAI (Member of the Appraisal Institute). The use of the reports is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

Duff & Phelps collected all reasonably available material information that it deemed relevant in appraising the Appraised Properties. Duff & Phelps obtained property-level information from our advisor, including (i) property historical and projected operating revenues and expenses; (ii) property lease agreements; and (iii) information regarding recent or planned capital expenditures. Duff & Phelps reviewed and relied in part on the property-level information provided by our advisor and considered this information in light of its knowledge of each property's specific market conditions.

In conducting its investigation and analyses, Duff & Phelps took into account customary and accepted financial and commercial procedures and considerations as it deemed relevant. Although Duff & Phelps reviewed information supplied or otherwise made available by us or our advisor for reasonableness, it assumed and relied upon the accuracy and completeness of all such information and of all information supplied or otherwise made available to it by any other party and did not independently verify any such information. With respect to operating or financial forecasts and other information and data provided to or otherwise reviewed by or discussed with Duff & Phelps, Duff & Phelps assumed that such forecasts and other information and data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of our management and/or our advisor. Duff & Phelps relied on us to advise it promptly if any information previously provided became inaccurate or was required to be updated during the period of its review.

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[1] Duff & Phelps is actively engaged in the business of appraising commercial real estate properties similar to those owned by us in connection with public securities offerings, private placements, business combinations and similar transactions. We engaged Duff & Phelps to deliver appraisal reports with respect to the Appraised Properties and Duff & Phelps received fees upon the delivery of such reports. In addition, we have agreed to indemnify Duff & Phelps against certain liabilities arising out of this engagement. In the two years prior to December 10, 2015, Duff & Phelps and its affiliates have provided a number of commercial real estate, appraisal, valuation and financial advisory services for us and our affiliates and have received fees in connection with such services. In connection with prior valuations of our shares, we engaged Duff & Phelps to provide valuations of certain of our properties and to provide a review, based on a limited set of procedures, of the methodologies and assumptions used by our advisor in valuing certain properties. Duff & Phelps and its affiliates may from time to time in the future perform other commercial real estate, appraisal, valuation and financial advisory services for us and our affiliates in transactions related to the properties that are the subjects of the appraisals, so long as such other services do not adversely affect the independence of the applicable Duff & Phelps appraiser as certified in the applicable appraisal reports.

In performing its analyses, Duff & Phelps made numerous other assumptions as of various points in time with respect to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond its and our control, as well as certain factual matters. For example, unless specifically informed to the contrary, Duff & Phelps assumed that we had clear and marketable title to each of the Appraised Properties, that no title defects existed, that any improvements were made in accordance with law, that no hazardous materials were present or had been present previously, that no deed restrictions existed, and that no changes to zoning ordinances or regulations governing use, density or shape were pending or being considered. Furthermore, Duff & Phelps' analyses, opinions and conclusions were necessarily based upon market, economic, financial and other circumstances and conditions existing as of or prior to the date of the appraisal, and any material change in such circumstances and conditions may affect Duff & Phelps' analyses and conclusions. Duff & Phelps' appraisal reports contain other assumptions, qualifications and limitations that qualify the analyses, opinions and conclusions set forth therein. Furthermore, the prices at which the Appraised Properties may actually be sold could differ from Duff & Phelps' analyses.

Although Duff & Phelps considered any comments received from us or our advisor to its appraisal reports, the final appraised values of the Appraised Properties were determined by Duff & Phelps. The appraisal reports for the Appraised Properties are addressed solely to us to assist our advisor in calculating and recommending an updated estimated value per share of our common stock. The appraisal reports are not addressed to the public and may not be relied upon by any other person to establish an estimated value per share of our common stock and do not constitute a recommendation to any person to purchase or sell any shares of our common stock. In preparing its appraisal reports, Duff & Phelps did not solicit third-party indications of interest for the Appraised Properties. In preparing its appraisal reports, Duff & Phelps also did not, and was not requested to, solicit third party indications of interest for our common stock in connection with possible purchases thereof or the acquisition of all or any part of us. While Duff & Phelps is responsible for providing appraisals of the Appraised Properties, Duff & Phelps is not responsible for, did not calculate, and did not participate in, the determination of the estimated value per share of our common stock.

The foregoing is a summary of the standard assumptions, qualifications and limitations that generally apply to Duff & Phelps' appraisal reports. All of the Duff & Phelps appraisal reports, including the analyses, opinions and conclusions set forth in such reports, are qualified by the assumptions, qualifications and limitations set forth in the respective appraisal reports.

Historical Real Estate Properties

As of September 30, 2015, we owned 13 historical real estate properties (excluding the GKK Properties), consisting of office and industrial properties. We engaged Duff & Phelps to provide appraisals for 12 of the 13 historical real estate properties. Duff & Phelps appraised our historical real estate properties, using various methodologies including the direct capitalization approach, 10-year discounted cash flow analyses and sales comparison approach and relied primarily on 10-year discounted cash flow analyses for the final appraisals of 12 of the 13 historical real estate properties. Duff & Phelps calculated the discounted cash flow value of these 12 historical real estate properties using property-level cash flow estimates, terminal capitalization rates and discount rates that fall within ranges it believes would be used by similar investors to value the properties we own based on recent comparable market transactions, adjusted for unique property and market-specific factors.

The total appraised value of our 12 historical real estate properties using the appraisal methodologies described above was $537.6 million. With respect to the one historical real estate property that was under contract to sell as of December 10, 2015, the estimated value of $13.8 million was based on the contractual sales price, net of expected selling costs. Based on the appraisal and valuation methodologies described above, the estimated value of our historical properties was $551.4 million as of September 30, 2015, compared to a total cost basis, including acquisition fees and expenses, capital expenditures and leasing commissions through September 30, 2015, of $822.7 million.

The following summarizes the key assumptions that Duff & Phelps used in the 10-year discounted cash flow models to appraise these 12 historical real estate properties:

	Range in Values	Weighted-Average Basis
Terminal capitalization rate	6.50% to 8.75%	7.38%
Discount rate	7.25% to 9.50%	8.16%
Net operating income compounded annual growth rate [1]	1.32% to 13.51%	5.63%

[1] The net operating income compounded annual growth rates (the "CAGRs") reflect both the contractual and market rents and reimbursements (in cases where the contractual lease period is less than the hold period) net of expenses over the holding period. The range of CAGRs shown is the constant annual rate at which the net operating income is projected to grow to reach the net operating income in the final year of the hold period for each of the properties.

While we believe that Duff & Phelps' assumptions and inputs are reasonable, a change in these assumptions and inputs would significantly impact the appraised value of these 12 historical real estate properties and thus, our estimated value per share. The table below illustrates the impact on the estimated value per share if the terminal capitalization rates or discount rates were adjusted by 25 basis points, assuming all other factors remain unchanged, with respect to the 12 historical real estate properties referenced above. Additionally, the table below illustrates the impact on the estimated value per share if the terminal capitalization rates or discount rates were adjusted by 5% in accordance with the IPA Valuation Guidelines, assuming all other factors remain unchanged.

	Increase (Decrease) on the Estimated Value per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Terminal capitalization rates	$ 0.07	$ (0.06)	$ 0.10	$ (0.09)
Discount rates	0.06	(0.06)	0.09	(0.09)

GKK Properties

As of September 30, 2015, the GKK Properties consisted of 378 bank branch properties, office buildings, operations centers and other properties. We engaged Duff & Phelps to provide appraisals for 350 of the GKK Properties. The total appraised value for these 350 GKK Properties totaled $549.5 million. With respect to 28 GKK Properties that were under contract to sell as of December 10, 2015 or were sold subsequent to September 30, 2015 and prior to December 10, 2015, the estimated value was based on contractual sale prices, net of actual or expected selling costs. The estimated value for these 28 GKK Properties was $88.1 million. Based on the appraisal and valuation methodologies described above, the estimated value of the GKK Properties was $637.6 million as of September 30, 2015, compared to a total cost basis, including capital expenditures and leasing commissions through September 30, 2015, of $549.0 million.

Duff & Phelps appraised 296 of the GKK Properties using the direct capitalization method, which applies a current market capitalization rate to the property's net operating income. In cases where a property was not stabilized, the estimated value was based on a stabilized property reduced for capital costs that would be incurred to lease up the property. The following summarizes the key assumption that was used to appraise these 296 GKK Properties:

Range in Direct Capitalization Rate	Weighted-Average Direct Capitalization Rate
4.00% to 10.50%	7.64%

While we believe that Duff & Phelps' assumptions and inputs are reasonable, a change in these assumptions and inputs would significantly impact the appraised value of the 296 GKK Properties that Duff & Phelps appraised using the direct capitalization method and thus, our estimated value per share. The table below illustrates the impact on the estimated value per share if the direct capitalization rates were adjusted by 25 basis points, assuming all other factors remain unchanged, with respect to the 296 GKK Properties appraised by Duff & Phelps using the direct capitalization method. Additionally, the table below illustrates the impact on the estimated value per share if the capitalization rates were adjusted by 5% in accordance with the IPA Valuation Guidelines, assuming all other factors remain unchanged.

	Increase (Decrease) on the Estimated Value per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Capitalization rates	$ 0.03	$ (0.03)	$ 0.05	$ (0.05)

Duff & Phelps appraised 33 of the GKK Properties by performing 10-year discounted cash flow analyses. The following table summarizes the key assumptions that were used by Duff & Phelps in the discounted cash flow models to appraise these 33 GKK Properties:

	Range in Values	Weighted-Average Basis
Terminal capitalization rate	4.00% to 9.25%	7.06%
Discount rate	4.25% to 11.75%	8.47%
Net operating income CAGR [1]	(6.94)% to 13.50%	3.68%

[1] The net operating income CAGRs reflect both the contractual and market rents and reimbursements (in cases where the contractual lease period is less than the hold period) net of expenses over the holding period. The range of CAGRs shown is the constant annual rate at which the net operating income is projected to grow to reach the net operating income in the final year of the hold period for each of the properties.

While we believe that Duff & Phelps' assumptions and inputs are reasonable, a change in these assumptions and inputs would change the appraised value of these 33 GKK Properties and thus, our estimated value per share. The table below illustrates the impact on the estimated value per share if the terminal capitalization rates or discount rates were adjusted by 25 basis points, assuming all other factors remain unchanged, with respect to the 33 GKK Properties valued by Duff & Phelps using the discounted cash flow analysis. Additionally, the table below illustrates the impact on the estimated value per share if the terminal capitalization rates or discount rates were adjusted by 5% in accordance with the IPA Valuation Guidelines, assuming all other factors remain unchanged.

	Increase (Decrease) on the Estimated Value per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Terminal capitalization rates	$ 0.01	$ (0.01)	$ 0.01	$ (0.01)
Discount rates	0.01	(0.01)	0.01	(0.01)

The remaining 21 GKK Properties were appraised by Duff & Phelps using a present value cash flow analysis as we do not have a fee ownership interest in these GKK Properties (with the exception of one vacant building with a long-term ground lease), but instead hold leasehold interests in the properties.

Finally, a 1% increase in the appraised or estimated value of our real estate properties, including both historical properties and GKK Properties, would result in a $0.06 increase in our estimated value per share and a 1% decrease in the appraised or estimated value of our real estate properties, including both historical properties and GKK Properties, would result in a $0.06 decrease in our estimated value per share, assuming all other factors remain unchanged.

Real Estate Loans Receivable

The estimated values for our real estate loans receivable are equal to the GAAP fair values disclosed in our Quarterly Report on Form 10-Q for the period ended September 30, 2015, but do not equal the book value of the loans in accordance with GAAP. The values of the real estate loans receivable were estimated by applying a discounted cash flow analysis over the remaining expected lives of the investments, excluding any potential transaction costs. The cash flow estimates used in the analysis during the term of the investments were based on the investments' contractual cash flows, which we anticipate we will receive. The expected cash flows for the loans were discounted at rates that we expect a market participant would require for instruments with similar characteristics, including remaining loan term, loan-to-value ratios, type of collateral, current performance, credit enhancements and other factors.

As of September 30, 2015, we owned four real estate loans receivable, consisting of a mortgage loan, a mezzanine loan and two B-notes. The cost of our real estate loans receivable, including origination fees and costs and principal repayments, was $27.9 million. As of September 30, 2015, the fair value of our investments in real estate loans receivable was $24.5 million. The weighted-average discount rate applied to the cash flows from the real estate loans receivable, which have a weighted-average remaining term of 1.6 years, was approximately 16.2%. Similar to the valuation for real estate, a change in the assumptions and inputs would change the fair value of our real estate loans receivable and thus, our estimated value per share. Assuming all other factors remain unchanged, a decrease or increase in the discount rates of 25 basis points would have no impact on the estimated value per share and, additionally, a 5% decrease or increase in the discount rates would have no impact on the estimated value per share.

Participation Interest in Unconsolidated Joint Venture

As of September 30, 2015, we held an interest in an unconsolidated joint venture through which we have been granted a participation interest in certain future profits generated by the joint venture. Our advisor estimated the value of our participation interest in this unconsolidated joint venture using a discounted cash flow analysis of the expected distributions to us. The cash flow estimates used in the analysis were based on our participation interest in the estimated cash flows available after paying debt service and making distributions to the other joint venture members until such members have received distributions sufficient to recover the entire amount of their invested capital plus a stipulated return. The cash flow estimates of the joint venture were reviewed by our advisor. Due to decreases in projected cash flow estimates, we do not expect to receive future income with respect to our participation interest in the joint venture. As of September 30, 2015, the carrying value and estimated fair value of our investment in this unconsolidated joint venture were $0.

Notes Payable

The estimated values of our notes payable are equal to the GAAP fair values as disclosed in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2015. The estimated value of our notes payable does not equal the book value of the loans in accordance with GAAP. The GAAP fair values of our notes payable were determined using a discounted cash flow analysis. The discounted cash flow analysis was based on projected cash flow over the remaining loan terms, including extensions we expect to exercise, and on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio and type of collateral.

As of September 30, 2015, the GAAP fair value and carrying value of our notes payable were $547.1 million and $518.2 million, respectively. The weighted-average discount rate applied to the future estimated debt payments was approximately 3.06%. Our notes payable have a weighted-average remaining term of 1.58 years. The table below illustrates the impact on our estimated value per share if the discount rates were adjusted by 25 basis points, assuming all other factors remain unchanged, with respect to our notes payable. Additionally, the table below illustrates the impact on the estimated value per share if the discount rates were adjusted by 5% in accordance with the IPA Valuation Guidelines, assuming all other factors remain unchanged.

	Increase (Decrease) on the Estimated Value per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Discount rates	$ (0.01)	$ 0.01	$ (0.01)	$ 0.01

Other Assets and Liabilities

The carrying values of a majority of our other assets and liabilities are considered to equal their fair values due to their short maturities or liquid nature. Our advisor eliminated certain balances, such as straight-line rent receivables, lease intangible assets and liabilities, capital expenditures payable, deferred financing costs, unamortized lease commissions and unamortized lease incentives, for the purpose of the valuation due to the fact that the value of those balances was already considered in the valuation of the respective investments. Our advisor has also excluded redeemable common stock, as temporary equity does not represent a true liability to us and the shares that this amount represents are included in our total outstanding shares of common stock for purposes of calculating the estimated value per share of our common stock.

Limitations of Estimated Value Per Share

As mentioned above, we are providing this estimated value per share to assist broker dealers that participated in our initial public offering in meeting their customer account statement reporting obligations. This valuation was performed in accordance with the provisions of and also to comply with the IPA Valuation Guidelines. The estimated value per share set forth above first appeared on the December 31, 2015 customer account statements that were mailed in January 2016. As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated value per share, and this difference could be significant. The estimated value per share is not audited and does not represent the fair value of our assets or liabilities according to GAAP.

Accordingly, with respect to the estimated value per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at this estimated value per share;
- a stockholder would ultimately realize distributions per share equal to our estimated value per share upon liquidation of our assets and settlement of our liabilities or a sale of our company;
- our shares of common stock would trade at the estimated value per share on a national securities exchange;
- another independent third-party appraiser or third-party valuation firm would agree with our estimated value per share; or
- the methodology used to calculate our estimated value per share would be acceptable to FINRA or for compliance with ERISA reporting requirements.

Further, the estimated value per share as of December 8, 2015 is 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, after giving effect to the Special Distribution. The value of our shares will fluctuate over time in response to developments related to individual assets in our portfolio and the management of those assets and in response to the real estate and finance markets. The estimated value per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated value per share also does not take into account debt defeasance costs we may incur in connection with prepayments on our notes payable, debt prepayment penalties or swap breakage fees that could apply upon the prepayment of certain of our debt obligations or termination of related swap agreements prior to expiration, the impact of restrictions on the assumption of debt, or disposition costs and fees for real estate properties that are not under contract to sell. We have generally incurred disposition costs and fees related to the sale of our historical real estate properties since inception of 1.7% to 5.7% of the gross sales price less concessions and credits, with the weighted average being 2.7%. We have generally incurred disposition costs and fees related to the sale of the GKK Properties since December 15, 2011 (the date of the completion of the transfer of the GKK Properties to us pursuant to the Settlement Agreement) of 1.5% to 8.5% of the gross sales price less concessions and credits, with the weighted average being 2.3%. If this range of disposition costs and fees were applied to our real estate properties, which do not include these costs and fees in the appraised values, the resulting impact on the estimated value per share would be a decrease of $0.09 to $0.41 per share. 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.

Historical Estimated Values per Share

The historical reported estimated values per share of our common stock approved by our board of directors are set forth below:

Estimated Value per Share	Effective Date of Valuation	Filing with the Securities and Exchange Commission
$4.52	December 9, 2014	Current Report on Form 8-K, filed December 11, 2014
$4.45	December 18, 2013	Current Report on Form 8-K, filed December 19, 2013
$5.18	December 18, 2012	Current Report on Form 8-K, filed December 19, 2012
$5.16	March 22, 2012	Current Report on Form 8-K, filed March 26, 2012
$7.32	December 2, 2010	Current Report on Form 8-K, filed December 10, 2010
$7.17	November 20, 2009	Current Report on Form 8-K, filed November 23, 2009

Distribution Information

We elected to be taxed as a REIT under the Internal Revenue Code and have operated as such beginning with our taxable year ended December 31, 2006. To maintain our qualification as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our REIT taxable income (computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant.

Distributions declared per share of common stock were $0.350 in the aggregate for the year ended December 31, 2015. Distributions per share of common stock were based on a quarterly record date for each quarter during 2015. Additionally, our board of directors declared the Special Distribution in the amount of $0.25 per share on the outstanding shares of our common stock on November 30, 2015 to stockholders of record as of the close of business on December 1, 2015.

Distributions declared per common stock were $0.050 in the aggregate for the year ended December 31, 2014. On September 30, 2014, 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 30, 2014 and on December 9, 2014, 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 December 29, 2014. Distributions declared per common share assumes each share was issued and outstanding at each record date for distributions.

Distributions declared during 2015 and 2014, aggregated by quarter, are as follows (dollars in thousands, except per share amounts):

	2015				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total Distributions Declared	$ 4,690	$ 4,682	$ 4,674	$ 51,316	$ 65,362
Total Per Share Distribution	$ 0.025	$ 0.025	$ 0.025	$ 0.275	$ 0.350

	2014				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total Distributions Declared	$ —	$ —	$ 4,712	$ 4,700	$ 9,412
Total Per Share Distribution	$ —	$ —	$ 0.025	$ 0.025	$ 0.050

The tax composition of our distributions declared for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Ordinary Income	8%	—%
Capital Gain	35%	—%
Return of Capital	57%	100%
Total	100%	100%

For more information with respect to our distributions paid, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Distributions.”

On March 20, 2012, our board of directors approved the suspension of monthly distribution payments in order to manage our reduced cash flow from operations and to redirect available funds to reduce our debt. Our primary focus in approving this suspension was and is the repayment of certain debt obligations. Reducing our debt will allow us to hold certain assets in our portfolio to improve their value and the returns to our stockholders. 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 additional 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. We intend to maintain adequate cash reserves for liquidity, capital expenditures, debt repayments, future special redemptions under our share redemption program and other future capital needs.

Our portfolio has experienced declines in cash flow from a number of our investments. A general decline in the occupancy of our portfolio, an important element to the continued growth of our portfolio, has resulted in lower current cash flow. Tenant-specific issues, including bankruptcy and down sizing, have resulted in decreases in our operating cash flow because these tenants have terminated their leases early, not renewed their leases or have not paid their contractual rent to us. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of increases in future rental concessions, including three or more months of free rent to retain tenants who are up for renewal or to sign new tenants, may result in additional decreases in cash flow. Asset sales over the past four years and expected future asset sales have resulted in and will result in further decreases in operating cash flow. In addition, we have experienced a decline in cash flow from our real estate-related investments. Some borrowers under our loan investments have been unable to make contractual interest payments to us. In particular, our investments in mezzanine and mortgage loans have been impacted as the operating performance and values of buildings directly or indirectly securing these investments have decreased from the date of our acquisition or origination of these investments. In such instances, some of the borrowers have not been able to refinance their debt to us or sell the collateral at a price sufficient to repay our note balances in full when they become due.

Due to these factors, we may not generate sufficient operating cash flow on a quarterly basis to fund our operations. If our cash flow from operations deteriorates, we will be more dependent on asset sales to fund our operations and for our liquidity needs. These factors could also reduce our stockholders' overall investment return.

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," Part I, Item 1, "Business — Market Outlook — Real Estate and Real Estate Finance Markets," Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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; the significant debt obligations we assumed with respect to the GKK Properties; and our advisor's limited experience operating and selling bank branch properties.

Equity Compensation Plan

We have adopted an Employee and Independent Director Incentive Stock Plan to (i) furnish incentives to individuals chosen to receive share-based awards because we consider them capable of improving our operations and increasing our profits; (ii) encourage selected persons to accept or continue employment with our advisor; and (iii) increase the interest of our independent directors in our welfare through their participation in the growth in the value of our shares of common stock. The total number of shares of common stock we have reserved for issuance under the Employee and Independent Director Incentive Stock Plan is equal to 5% of our outstanding shares at any time, but not to exceed 10,000,000 shares. No awards had been granted under the plan as of March 1, 2016. We have no timetable for the grant of any awards under the Employee and Independent Director Incentive Stock Plan, and our board of directors has adopted a policy that prohibits grants of any awards of shares of common stock to any person under the Employee and Independent Director Stock Plan. Our Employee and Independent Director Incentive Stock Plan was approved prior to the commencement of our public offering by our board of directors and initial stockholder, KBS Capital Advisors, our advisor.

Unregistered Sales of Equity Securities

During the year ended December 31, 2015, we did not sell any equity securities that were not registered under the Securities Act of 1933.

Share Redemption Program

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, redemptions sought in connection with special redemptions are limited to an annual 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. The dollar limitation for calendar year 2015 was $10.0 million in the aggregate. 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 the 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*.

The only redemptions we made under our share redemption program in 2015 were those that qualified as, and met the requirements for, special redemptions under our share redemption program. In 2015, 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 in 2014 and 2015.

In accordance with our share redemption program, the redemption price for all stockholders whose shares are eligible for redemption is equal to the most recent estimated value per share of our common stock as of the redemption date. On December 9, 2014, our board of directors approved an estimated value per share of our common stock of $4.52 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, 2014. For a full description of the methodologies and assumptions used to value our assets and liabilities in connection with the calculation of the December 2014 estimated value per share, see our Annual Report on Form 10-K for the year ended December 31, 2014 at Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information." Effective for redemption dates from December 2014 through November 2015, the redemption price for all stockholders whose shares were eligible for redemption was $4.52 per share (unaudited).

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 the Special Distribution. 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 December 2015 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." 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 year ended December 31, 2015 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 2015	126,394	$ 4.52 [2]	[3]
February 2015	117,979	$ 4.52 [2]	[3]
March 2015	100,367	$ 4.52 [2]	[3]
April 2015	115,515	$ 4.52 [2]	[3]
May 2014	92,672	$ 4.52 [2]	[3]
June 2015	134,795	$ 4.52 [2]	[3]
July 2015	94,713	$ 4.52 [2]	[3]
August 2015	102,957	$ 4.52 [2]	[3]
September 2015	122,948	$ 4.52 [2]	[3]
October 2015	88,757	$ 4.52 [2]	[3]
November 2015	143,995	$ 4.52 [2]	[3]
December 2015	190,276	$ 3.94 [2]	[3]
Total	1,431,368		

[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 year ended December 31, 2015, we redeemed $6.4 million of shares of common stock. The only redemptions we made under our share redemption program during the year ended December 31, 2015 were those that qualified as, and met the requirements for, special redemptions under our share redemption program. For the year ended December 31, 2015, we fulfilled all redemption requests that qualified as 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 the calendar year 2016.

We may amend, suspend or terminate our share redemption 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.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 should be read in conjunction with the accompanying consolidated financial statements and related notes thereto and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" below (in thousands, except share and per share amounts):

	As of December 31,				
	2015	2014	2013	2012	2011
Balance sheet data					
Total real estate and real estate-related investments, net	$ 888,161	$ 1,159,478	$ 1,335,604	$ 1,820,366	$ 3,084,354
Total assets	1,054,865	1,374,138	1,742,541	2,301,425	3,497,867
Total notes payable and repurchase agreements, net	428,222	656,069	959,926	1,318,403	2,292,287
Total liabilities	525,202	761,365	1,086,648	1,520,010	2,637,610
Redeemable common stock	10,000	10,000	10,000	10,000	45,376
Total KBS Real Estate Investment Trust, Inc. stockholders' equity	519,663	602,773	645,893	771,415	814,881
	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Operating data					
Total revenues	$ 188,220	$ 212,465	$ 218,304	$ 218,093	$ 143,574
Loss from continuing operations [1]	(11,775)	(27,389)	(88,240)	(78,367)	(63,691)
Loss from continuing operations per common share - basic and diluted [1]	$ (0.06)	$ (0.14)	$ (0.46)	$ (0.41)	$ (0.34)
Net loss attributable to common stockholders	(11,387)	(21,266)	(46,495)	(43,142)	(19,338)
Net loss per common share, basic and diluted	$ (0.06)	$ (0.11)	$ (0.24)	$ (0.23)	$ (0.10)
Other data					
Cash flows provided by operating activities	$ 35,952	$ 26,487	$ 9,506	$ 34,438	$ 39,059
Cash flows provided by investing activities	279,892	84,727	184,803	888,678	189,322
Cash flows used in financing activities	(327,914)	(263,930)	(237,496)	(722,529)	(326,298)
Distributions declared	$ 65,362	$ 9,412	$ 75,015	$ 16,227	$ 98,776
Distributions declared per common share [2]	0.350	0.050	0.395	0.085	0.525
Weighted-average number of common shares outstanding, basic and diluted	187,219,590	188,891,977	190,454,153	191,547,385	188,134,294
Reconciliation of funds from operations [3]					
Net loss attributable to common stockholders	$ (11,387)	$ (21,266)	$ (46,495)	$ (43,142)	$ (19,338)
Depreciation of real estate assets	37,101	41,173	41,897	43,172	25,985
Depreciation of real estate assets - discontinued operations	—	—	3,855	27,221	34,917
Amortization of lease-related costs	22,044	30,440	33,848	38,792	24,849
Amortization of lease-related costs - discontinued operations	—	—	2,659	30,878	24,287
Impairment charges on real estate	49,306	10,117	40,190	31,882	6,833
Impairment charges on real estate - discontinued operations	—	257	8,975	37,218	45,744
Gain on sales of foreclosed real estate held for sale	(2,509)	(1,108)	(378)	(127)	(134)
Gain on sales of real estate, net	(99,988)	(2,282)	—	—	—
Gain on sales of real estate, net - discontinued operations	(124)	(4,797)	(47,997)	(53,691)	(5,141)
Gain on sale of real estate securities	—	(4,410)	(10,470)	(25,456)	—
Adjustments for noncontrolling interest - consolidated entity [4]	—	—	—	—	(2,053)
FFO	$ (5,557)	$ 48,124	$ 26,084	$ 86,747	$ 135,949

[1] Amounts include certain properties in continuing operations that were held for sale or sold as of December 31, 2014 and 2015 in accordance with ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)*. See Note 6 "Real Estate Held for Sale and Discontinued Operations" for more information on the Company's real estate held for sale and discontinued operations as of December 31, 2014 and 2015.

[2] For information related to distributions declared per common share for the years ended December 31, 2015 and 2014, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Distribution Information."

[3] 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 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.

FFO is a non-GAAP financial measure and does 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 includes adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization. Accordingly, FFO should not be considered as an alternative to net income as an indicator of our operating performance.

[4] The noncontrolling interest holder's share of our consolidated venture's real estate depreciation was $1.7 million in 2011. Its share of amortization of lease-related costs was $0.3 million in 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the "Selected Financial Data" above and our accompanying consolidated financial statements and the notes thereto. Also see "Forward-Looking Statements" preceding Part I, Part I, Item 1, "Business" and Part I, Item 1A, "Risk Factors."

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 LLC ("KBS Capital Advisors"), our external advisor, 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 December 31, 2015, we owned or, with respect to a limited number of properties, held a leasehold interest in, 364 real estate properties (of which eight properties were held for sale), including the GKK Properties. In addition, as of December 31, 2015, we owned four real estate loans receivable and a participation interest with respect to a real estate joint venture.

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.

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. The slowdown in global economic growth, and the increase in oil production capacity, has had a ripple effect through the energy and commodity markets. Decreasing levels of demand for commodities have led to a weakening of global economic conditions, particularly in emerging market nations. Many nations in the developing world rely on metals, minerals and oil production as the basis of their economies. When demand for these resources drops, the economic environment deteriorates, and deflation becomes a very real risk. Over the past decade the United States has seen a resurgence of the domestic energy markets. The growth of domestic oil and natural gas production helped the U.S. economy rebound from the 2008-2009 recession. During the first quarter of 2016, supply pressures in the energy markets have driven down the price of oil to levels not seen in many years, and U.S. economic growth has slowed. For further discussion of current market conditions, see Part I, Item 1, "Business - Market Outlook - Real Estate and Real Estate Finance Markets."

Impact on Our Real Estate Investments

The increased volatility in the global financial markets and the potential increase in U.S. interest rates are introducing a level of uncertainty into our outlook for the performance of the U.S. commercial real estate markets. Currently, 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, which has resulted in an increase in real estate values in certain 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 FED increased interest rates in Q4 2015. 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. Current 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 loan investments, and therefore may impact the ability of some of the borrowers under our loans to make contractual interest payments to us.

We have fixed rate real estate-related loan investments with a total book value (excluding asset-specific loan loss reserves) of $33.8 million. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. We are currently negotiating an agreement in lieu of foreclosure with the borrower under the Lawrence Village Plaza Loan Origination to transfer title of the property securing the loan to us in full satisfaction of the debt outstanding under, and all other obligations related to, the Lawrence Village Plaza Loan Origination.

No other real estate-related loan investments are scheduled to mature within one year from December 31, 2015. As of December 31, 2015, we had recorded $6.5 million of reserves for loan losses related to two of our real estate-related investments, one of which was the Lawrence Village Plaza Loan Origination.

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. Recent 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 December 31, 2015, we had a total of $267.0 million of fixed rate notes payable and $164.1 million of variable rate notes payable. We have $68.0 million of debt maturing (including principal amortization payments) during the 12 months ending December 31, 2016.

Liquidity and Capital Resources

Our principal demands for funds during the short- and long-term are 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 ceased offering shares of common stock in our primary offering on May 30, 2008. We do not plan to acquire or originate additional real estate or real estate-related investments. 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 9, 2014, our board of directors approved an annual dollar limitation for redemptions of $10.0 million in the aggregate for the calendar year 2015 (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. On December 8, 2015, our board of directors approved the same 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 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. During 2015, our board of directors declared quarterly distributions during each quarter in the amount of $0.025 per share of common stock. We funded these distributions with cash flow from operations. In addition, on November 30, 2015, our board of directors declared the Special Distribution in the amount of $0.25 per share of common stock to stockholders of record as of the close of business on December 1, 2015. We paid this distribution on December 7, 2015. This distribution was paid in cash and funded from our proceeds from the sales of real estate properties. 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.

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. While we conduct this process, we remain 100% focused on managing our properties.

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. Further, although we have begun the process of exploring strategic alternatives, there is no assurance that the 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 December 31, 2015, our real estate held for investment was 85% 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 December 31, 2015, the borrower under the Sandmar Mezzanine Loan was delinquent. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. We are currently negotiating an agreement in lieu of foreclosure with the borrower under the Lawrence Village Plaza Loan Origination to transfer title of the property securing the loan to us in full satisfaction of the debt outstanding under, and all other obligations related to, the Lawrence Village Plaza Loan Origination.

No other real estate-related loan investments are scheduled to mature within one year from December 31, 2015. As of December 31, 2015, we had recorded $6.5 million of reserves for loan losses related to two of our real estate-related investments, one of which was the Lawrence Village Plaza Loan Origination.

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 further capital to cover leasing costs and capital improvements needed to improve the performance of our real estate assets.

For the year ended December 31, 2015, 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 2016.

Cash Flows from Operating Activities

As of December 31, 2015, we owned or, with respect to a limited number of properties, held a leasehold interest in 364 real estate properties (of which eight properties were held for sale). In addition, as of December 31, 2015, we owned four real estate loans receivable and a participation interest with respect to a real estate joint venture.

During the year ended December 31, 2015, net cash provided by operating activities was $36.0 million, compared to $26.5 million of net cash provided by operating activities during the year ended December 31, 2014. Net cash from operations increased in 2015 primarily due to the timing of payments for operating expenses, and 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.

Cash Flows from Investing Activities

Net cash provided by investing activities was $279.9 million for the year ended December 31, 2015. The significant sources and uses of net cash provided by investing activities were as follows:

- $301.8 million of cash provided from the sale of real estate;
- $38.2 million of cash used for improvements to real estate;
- $14.2 million of cash provided from the sale of foreclosed real estate held for sale;
- a $4.3 million decrease in restricted cash for capital expenditures; and
- $2.3 million of cash used for the acquisition of real estate.

Cash Flows from Financing Activities

Net cash used in financing activities was $327.9 million for the year ended December 31, 2015. The significant sources and uses of cash for financing activities were as follows:

- $146.1 million of principal payments on notes payable;
- $100.5 million of cash used to purchase treasury securities in connection with defeasance of notes payable;
- $70.1 million of cash used for distributions;
- $6.6 million of cash used for prepayment premium on the repayment of debt;
- $6.4 million of cash used for redemptions of common stock; and
- a $2.1 million decrease in restricted cash for debt service obligations.

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 December 31, 2015, we excluded our interest in an unconsolidated joint venture from the calculation of asset management fees. We also calculate 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. However, once the gross value of the GKK Properties falls below the original cost of our investment in the GKK Mezzanine Loan, we will calculate the asset management fee based on the gross value of the GKK Properties. As of December 31, 2015, 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.

On November 8, 2015, we renewed the advisory agreement with our advisor.

As of December 31, 2015, we had $46.6 million of cash and cash equivalents.

As of December 31, 2015, our borrowings and other liabilities were approximately 35% of both the cost (before deducting depreciation or other noncash reserves) and 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 our 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 December 31, 2015 (in thousands):

	Payments Due During the Years Ending December 31,				
Contractual Obligations	**Total**	**2016**	**2017-2018**	**2019-2020**	**Thereafter**
Outstanding debt obligations related to historical portfolio[1]	$ 226,331	$ 62,200	$ 164,131	$ —	$ —
Outstanding debt obligations related to the GKK Properties[1]	$ 204,807	$ 5,750	$ 110,532	$ 64,685	$ 23,840
Interest payments on outstanding debt obligations related to historical portfolio[2]	$ 6,474	$ 6,474	$ —	$ —	$ —
Interest payments on outstanding debt obligations related to the GKK Properties[2]	$ 35,714	$ 12,384	$ 15,237	$ 5,673	$ 2,420
Operating leases[3]	$ 64,971	$ 16,642	$ 15,084	$ 3,063	$ 30,182

[1] Amounts include principal payments under notes payable based on maturity dates of debt obligations as of December 31, 2015.

[2] Projected interest payments are based on the outstanding principal amounts, maturity dates and weighted-average interest rates as of December 31, 2015. We incurred interest expense of $26.3 million, excluding amortization of deferred financing costs and the amortization of debt discount and premium totaling $3.2 million, during the year ended December 31, 2015.

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

Significant Financing Transactions

Disposition of Waltham Main and Partial Defeasance of the Bank of America - BBD2 Mortgage Loan

On October 1, 2015, we, through an indirect wholly owned subsidiary, sold an office building containing 303,460 rentable square feet located in Waltham, Massachusetts ("Waltham Main") to a purchaser unaffiliated with us or our advisor for $52.5 million or $51.0 million net of concessions and credits. In connection with the disposition of Waltham Main, we entered into a partial defeasance with the lender under the Bank of America - BBD2 Mortgage Loan to defease $40.8 million of the outstanding principal balance, releasing Waltham Main and 21 other properties which had secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-offs of unamortized deferred financing costs and an unamortized discount resulted in a loss on extinguishment of debt of approximately $8.0 million. On December 15, 2015, we entered into a partial defeasance with the lender under the Bank of America - BBD2 Mortgage Loan to defease $27.0 million of outstanding principal, releasing 16 properties which had secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-offs of unamortized deferred financing costs and an unamortized discount resulted in a loss on extinguishment of debt of approximately $4.7 million. The Bank of America - BBD2 Mortgage Loan bears interest rate of 5.96% and matures on September 8, 2019. On December 31, 2015, the outstanding principal balance remaining on the Bank of America - BBD2 Mortgage Loan was $65.7 million.

Defeasance of the Sterling Bank Mortgage Loan

On October 9, 2015, we, through an indirect wholly owned subsidiary, entered into a defeasance with the lender under the Sterling Bank Mortgage Loan to defease the entire outstanding principal balance of $19.6 million, releasing all the properties which had secured the Sterling Bank Mortgage Loan. The Sterling Bank Mortgage Loan bore interest at a rate of 5.57% and was due to mature on January 11, 2017. The defeasance costs and write-off of an unamortized discount resulted in a loss on extinguishment of debt of approximately $1.2 million.

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 December 31, 2015, 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.

The Amended 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 Amended Services Agreement. The Amended Services Agreement supersedes and replaces all prior agreements related to the Services among us and our affiliates and the Property Manager and its affiliates.

Results of Operations

Overview

As of December 31, 2014, we owned or, with respect to a limited number of properties, held a leasehold interest in, 401 real estate properties, including two properties (one of which was a GKK Property) classified as held for sale, four real estate loans receivable (one of which was impaired), a participation interest with respect to a real estate joint venture and the Tribeca Building with 62 condominium units acquired through foreclosure, of which two condominium units were owned by us and were held for sale. Subsequent to December 31, 2014, we sold three historical office properties and 31 GKK Properties; terminated the lease of three properties in which we held a leasehold interest; and sold the remaining two condominium units of the Tribeca Building. As a result, as of December 31, 2015, we owned or, with respect to a limited number of properties, held a leasehold interest in, 364 real estate properties (of which eight properties were held for sale), four real estate loans receivable (two of which were 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 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. During the year ended December 31, 2014, we sold four historical real estate properties and two GKK Properties, transferred a portfolio of five GKK Properties to the lender in satisfaction of the debt and other obligations due under the BOA Windsor Mortgage Portfolio, and transferred two GKK Properties to the lenders in connection with foreclosure proceedings, 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 year ended December 31, 2015 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 disposition activity.

Comparison of the year ended December 31, 2015 versus the year ended December 31, 2014

The following table provides summary information about our results of operations for the year ended December 31, 2015 and 2014 (dollar amounts in thousands):

	Years Ended December 31,		Increase (Decrease)	Percentage Change	$ Change Due to Dispositions [1]	$ Change Due to Properties or Loans Held Throughout Both Periods [2]
	2015	2014				
Rental income	$ 135,117	$ 151,351	$ (16,234)	(11)%	$ (19,775)	$ 3,541
Tenant reimbursements	47,217	54,366	(7,149)	(13)%	(5,621)	(1,528)
Interest income from real estate loans receivable	3,089	3,077	12	— %	N/A	N/A
Parking revenues and other operating income	2,797	3,671	(874)	(24)%	(968)	94
Operating, maintenance and management costs	75,034	84,288	(9,254)	(11)%	(8,491)	(763)
Real estate taxes, property-related taxes and insurance	23,696	27,243	(3,547)	(13)%	(3,112)	(435)
Asset management fees to affiliate	9,547	9,975	(428)	(4)%	(496)	68
General and administrative expenses	32,619	18,788	13,831	74 %	N/A	N/A
Depreciation and amortization expense	59,145	71,613	(12,468)	(17)%	(11,669)	(799)
Interest expense	29,517	45,923	(16,406)	(36)%	(10,714)	(5,692)
Impairment charge on real estate	49,306	10,117	39,189	387 %	(1,666)	40,855
Provision for loan losses	2,504	1,973	531	27 %	N/A	N/A
Gain on sales of real estate securities	—	4,410	(4,410)	(100)%	(4,410)	—
Gain on sales of real estate, net	99,988	2,282	97,706	4,282 %	97,706	—
Gain on sales of foreclosed real estate held for sale	2,509	1,108	1,401	126 %	N/A	N/A
Loss (gain) from extinguishment of debt	(22,518)	21,328	(43,846)	(206)%	(24,970)	(18,876)
Gain on sales of real estate, net (discontinued operations)	124	4,797	(4,673)	(97)%	(4,673)	—
Income from discontinued operations	264	1,583	(1,319)	(83)%	(1,319)	—
Impairment charge on discontinued operations	—	(257)	257	(100)%	257	—

[1] Represents the dollar amount increase (decrease) for the year ended December 31, 2015 compared to the year ended December 31, 2014 related to investments disposed of on or after January 1, 2014.

[2] Represents the dollar amount increase (decrease) for the year ended December 31, 2015 compared to the year ended December 31, 2014 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 $16.2 million primarily due to properties sold or disposed of other than by sale, the results of which are included in income from continuing operations, offset by an increase of $1.9 million due to higher occupancy (as a result of tenants signing new leases) at certain properties and a $1.6 million increase in termination fees from a property held for sale. 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 in large part based on the occupancy rates and rental rates of the properties in our portfolio.

Tenant reimbursements from our real estate properties decreased by $7.1 million primarily due to properties sold or disposed of other than by sale, the results of which are included in income from continuing operations, and a net decrease in property tax recoveries related to the GKK Properties held throughout both periods due to prior year CAM reconciliation adjustments in 2015 being lower than 2014. 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.

Interest income from real estate loans receivable remained constant at approximately $3.1 million during the years ended December 31, 2015 and 2014. 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. 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 December 31, 2015, the borrower under the Sandmar Mezzanine Loan was delinquent. On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. Subsequently, we continued to receive interest payments from the borrower under the Lawrence Village Plaza Loan Origination and recognized the interest income on a cash basis. We are currently negotiating an agreement in lieu of foreclosure with the borrower under the Lawrence Village Plaza Loan Origination to transfer title of the property securing the loan to us in full satisfaction of the debt outstanding under, and all other obligations related to, the Lawrence Village Plaza Loan Origination.

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 have a first priority lien on the collateral securing a loan, we may agree to extend the loan at similar terms, modify the terms of the loan, or foreclose on the collateral. If we foreclose on the collateral, we may either operate the property, resulting in our receipt of any cash flows generated by the property or our payment of any cash shortfalls related to the property, or sell the property for whatever amount we are able to obtain, which may or may not be equal to the loan balance prior to foreclosure. 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. 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 $9.3 million primarily due to properties sold or disposed of other than by sale, the results of which are included in income from continuing operations, and a decrease in utility expenses and bad debt write-offs related to properties held throughout both periods, partially offset by an increase 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. 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 $27.2 million during the year ended December 31, 2014 to $23.7 million during the year ended December 31, 2015 primarily due to properties sold or disposed of other than by sale, the results of which are included in income from continuing operations, and property tax refunds received related to the GKK Properties, partially offset by an increase in consulting fees for property taxes. 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 $10.0 million for the year ended December 31, 2014 to $9.5 million for the year ended December 31, 2015 primarily due to properties sold, the results of which are included in income from continuing operations. Overall, we expect asset management fees to decrease in future periods due to anticipated asset sales or payoffs. See "Liquidity and Capital Resources."

General and administrative expenses increased by $13.8 million primarily due to an increase of $14.7 million in the estimated profit participation interest related to the GKK Properties under the Amended Services Agreement, partially offset by a decrease of $0.9 million related to lower legal fees, accounting fees, transfer agent fees and other professional fees. See "— Contractual Commitments and Contingencies — Asset Management Services Agreement Related to the GKK Properties" for more information. General and administrative expenses consist primarily of management fees related to the 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 $12.5 million primarily due to real estate property sales or dispositions other than by sale 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 $16.4 million, primarily due to a decrease in the average loan balance as a result of principal repayments and debt extinguishments subsequent to December 31, 2014. Included in interest expense is the amortization of deferred financing costs of $1.9 million and $1.5 million for the years ended December 31, 2015 and 2014, 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 year ended December 31, 2015, we recorded a non-cash impairment charge of $49.3 million. The impairment charge for the year ended December 31, 2015 included $48.4 million of impairments with respect to ten properties classified as real estate held for investment (including six GKK Properties) to write-down the carrying values of certain of our real estate investments to their estimated fair values and $0.9 million with respect to eight properties classified as held for sale and sold, all of which were GKK Properties, to write-down the carrying values of certain of our real estate investments to their estimated sales price less estimated costs to sell. The facts and circumstances leading to the impairments on our real estate held for investment during the year ended December 31, 2015 are as follows:

- *Woodfield Preserve Office Center:* We recognized an impairment charge during the year ended December 31, 2015 of $24.8 million to reduce the carrying value of our investment in Woodfield Preserve Office Center, an office property located in Schaumburg, Illinois, due to a decrease in cash flow projections. The decrease in cash flow projections was primarily due to (i) an increase in projected vacancy related to a tenant occupying 51,616 rentable square feet, or approximately 8% of the Woodfield Preserve Office Center and (ii) the challenging Schaumburg office rental market. The tenant's lease expires in November 2016 and it is no longer expected to renew since it was recently acquired and can relocate to excess space leased by the acquiring company. As a result, we revised our cash flow projections for longer lease up periods and additional tenant improvement costs and leasing concessions required to attract new tenants. Chicago's northwest suburb office rental market was heavily affected by the 2008-2009 recession; however, the outlook was optimistic that the market would recover to levels seen prior to the recession. Although the general market has seen positive net absorption, rental rates have remained low while lease concessions remain high resulting in lower projected revenue growth and cash flow projections. The market conditions in Schaumburg, Illinois have also resulted in a lack of interest from investors.
- *Tysons Dulles Plaza:* We recognized an impairment charge during the year ended December 31, 2015 of $15.7 million to reduce the carrying value of Tysons Dulles Plaza, an office property located in McLean, Virginia, to its estimated fair value. We revised our cash flow projections primarily for longer estimated lease up periods as a result of the continued lack of demand in the McLean office rental market. While the market has seen slight increases in rental rates, lease concessions have not declined as previously expected. We also revised our cash flow projections to account for higher projected capital costs for tenant improvements, general building upgrades, and deferred maintenance costs needed to position the property competitively with other properties in the area, to address certain maintenance issues and to attract additional tenants. The lack of sales activity in McLean, Virginia has also resulted in higher capitalization rates.
- *University Park Buildings:* We recognized an impairment charge during the year ended December 31, 2015 of $3.4 million related to our investment in the University Park Buildings, an office property located in Sacramento, California, due to a decrease in cash flow projections primarily due to an increase in projected vacancy related to a tenant occupying 36,377 rental square feet, or approximately 28% of the University Park Buildings. The tenant's lease expires in June 2017 and it is no longer expected to renew. As a result, we revised our cash flow projections for longer lease up periods and additional tenant improvement costs and leasing concessions required to attract new tenants.
- *69 State Street:* We recognized an impairment charge during the year ended December 31, 2015 of $2.0 million to reduce the carrying value of 69 State Street, an office property located in Albany, New York, to its estimated fair value based on its selling price at auction subsequent to December 31, 2015.
- *Las Vegas Ops Center:* We recognized an impairment charge during the year ended December 31, 2015 of $2.0 million to reduce the carrying value of Las Vegas Ops Center, an operations center located in Las Vegas, Nevada, to its estimated fair value based on its selling price at auction subsequent to December 31, 2015.
- *Other Properties:* We recognized impairment charges during the year ended December 31, 2015 of $0.5 million related to five other properties held for investment, including four GKK Properties. No impairment charge related to any individual property was greater than $250,000. These impairments generally resulted from changes in the projected hold periods or changes in leasing projections including longer estimated lease-up periods and lower projected rental rates, thus decreasing the projected cash flows the properties would generate.

During the year ended December 31, 2014, we recorded a non-cash impairment charge of $10.1 million to write-down the carrying values of six properties (including two GKK Properties) to their estimated fair values. Please see "— Comparison of the year ended December 31, 2014 versus the year ended December 31, 2013" below for a discussion of impairment charges recorded during the year ended December 31, 2014.

We recorded a provision for loan loss reserves of $2.5 million related to the Sandmar Mezzanine Loan and the Lawrence Village Plaza Loan Origination during the year ended December 31, 2015. During the year ended December 31, 2014, we recorded a provision for loan loss reserves of $2.0 million related to the Sandmar Mezzanine Loan.

During the year ended December 31, 2014, we sold 1,386,602 shares of common stock of Gramercy and recognized a gain on the sale of real estate securities of $4.4 million. We did not own or sell any shares of common stock of Gramercy during the year ended December 31, 2015.

We recognized a gain on sales of real estate of $100.0 million related to the disposition of three historical industrial properties and 30 GKK Properties during the year ended December 31, 2015 that were included in income from continuing operations. We recognized a gain on sales of real estate of $2.3 million related to the disposition of four historical industrial properties and two GKK Properties during the year ended December 31, 2014 that were included in income from continuing operations.

During the year ended December 31, 2015, we sold the remaining two condominium units of the Tribeca Building and recognized a gain of $2.5 million on the sales of foreclosed real estate held for sale. During the year ended December 31, 2014, we sold one condominium unit of Tribeca Building and recognized a gain of $1.1 million.

During the year ended December 31, 2015, we recognized a loss on extinguishment of debt of $22.5 million related to the following:

- *Early pay-off of the Pitney Bowes - Wachovia A Mortgage Loan:* On September 16, 2015, we repaid the entire $14.0 million principal balance and all other sums due on the Pitney Bowes - Wachovia A Mortgage Loan and a prepayment premium of $2.2 million.
- *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.
- *Defeasance of the Sterling Bank Mortgage Loan:* On October 9, 2015, we, through an indirect wholly owned subsidiary, entered into a defeasance with the lender under the Sterling Bank Mortgage Loan to defease the entire outstanding principal balance of $19.6 million, releasing all the properties which had secured the Sterling Bank Mortgage Loan. The defeasance costs and write-off of an unamortized discount resulted in a loss on extinguishment of debt of approximately $1.2 million.
- *Defeasance of the Bank of America - BBD2 Mortgage Loan:* On October 1, 2015, in connection with the disposition of Waltham Main, we, through an indirect wholly owned subsidiary, entered into a partial defeasance with the lender under the Bank of America - BBD2 Mortgage Loan to defease $40.8 million of the outstanding principal balance, releasing Waltham Main and 21 other properties which had secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-offs of unamortized deferred financing costs and an unamortized discount resulted in a loss on extinguishment of debt of approximately $8.0 million. On December 15, 2015, we, through an indirect wholly owned subsidiary, entered into a second partial defeasance with the lender under the Bank of America - BBD2 Mortgage Loan to defease $27.0 million of outstanding principal, releasing 16 properties which had secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-offs of unamortized deferred financing costs and unamortized discount resulted in a loss on extinguishment of debt of approximately $4.7 million.

During the year ended December 31, 2014, we recognized a gain on extinguishment of debt of $21.3 million. The gain on extinguishment of debt consisted of (i) a $1.8 million gain related to a deed-in-lieu of foreclosure agreement with respect to the BOA Windsor Mortgage Portfolio Loan, (ii) a $3.3 million gain related to the discounted payoff of the Bridgeway Technology Center Mortgage Loan, (iii) a $12.6 million gain related to the 801 Market Street Mortgage Loan foreclosure and (iv) a $3.6 million gain related to the Jenkins Court Mortgage Loan foreclosure.

We recognized a gain on sale of real estate of $0.1 million that was included in discontinued operations related to the disposition of one GKK Property during the year ended December 31, 2015. During the year ended December 31, 2014, we recognized a gain on sale of real estate of $4.8 million that was included in discontinued operations related to the disposition of one historical office property and nine GKK Properties.

Income from discontinued operations for the years ended December 31, 2015 and December 31, 2014 was $0.3 million and $1.6 million, respectively. Income from discontinued operations is composed of the results of operations from properties sold and properties designated as held for sale prior to January 1, 2014. Total revenues and other income from discontinued operations decreased from $2.5 million during the year ended December 31, 2014 to $0.1 million during the year ended December 31, 2015. Total expenses from discontinued operations decreased from $0.9 million during the year ended December 31, 2014 to $(0.2) million during the year ended December 31, 2015.

During the year ended December 31, 2014, we recognized an impairment charge on real estate from discontinued operations of $0.3 million with respect to two GKK Properties held for sale. The impairment charge was primarily a result of a reduction in the estimated sales prices of the two GKK Properties held for sale. We did not recognize an impairment charge on real estate from discontinued operations during the year ended December 31, 2015.

Comparison of the year ended December 31, 2014 versus the year ended December 31, 2013

The following table provides summary information about our results of operations for the year ended December 31, 2014 and 2013 (dollar amounts in thousands):

	Years Ended December 31,		Increase (Decrease)	Percentage Change	$ Change Due to GKK Properties	$ Change Due to Historical Real Estate Properties Held Throughout Both Periods
	2014	2013				
Rental income	$ 151,351	$ 160,014	$ (8,663)	(5)%	$ (4,838)	$ (3,825)
Tenant reimbursements	54,366	51,306	3,060	6 %	3,221	(161)
Interest income from real estate loans receivable	3,077	3,258	(181)	(6)%	N/A	N/A
Parking revenues and other operating income	3,671	3,726	(55)	(1)%	81	(136)
Operating, maintenance, and management costs	84,288	86,204	(1,916)	(2)%	(1,941)	25
Real estate taxes, property-related taxes and insurance	27,243	28,989	(1,746)	(6)%	(1,229)	(517)
Asset management fees to affiliate	9,975	10,110	(135)	(1)%	—	(135)
General and administrative expenses	18,788	17,861	927	5 %	1,535	(608)
Depreciation and amortization expense	71,613	75,745	(4,132)	(5)%	(1,620)	(2,512)
Interest expense	45,923	61,682	(15,759)	(26)%	(7,371)	(8,388)
Impairment charge on real estate	10,117	40,190	(30,073)	(75)%	(5,701)	(24,372)
Provision for loan losses	1,973	—	1,973	100 %	N/A	N/A
Gain on sales of real estate securities	4,410	10,470	(6,060)	(58)%	(6,060)	—
Gain on sales of real estate, net	2,282	—	2,282	100 %	722	1,560
Gain on sales of foreclosed real estate held for sale	1,108	378	730	193 %	N/A	N/A
Gain from extinguishment of debt	21,328	—	21,328	100 %	18,031	3,297
Gain on sales of real estate, net (discontinued operations)	4,797	47,997	(43,200)	(90)%	(31,244)	(11,956)
Income (loss) from discontinued operations	1,583	2,723	(1,140)	(42)%	(504)	(636)
Impairment charge on discontinued operations	(257)	(8,975)	8,718	(97)%	6,525	2,193

Rental income from our real estate properties decreased by $8.7 million primarily due to properties sold or disposed of other than by sale that are included in income from continuing operations as a result of our adoption of ASU 2014-08 and slightly lower occupancy (as a result of tenants vacating or tenants reducing leased space) at certain properties.

Tenant reimbursements from our real estate properties increased by $3.1 million primarily due to higher recovery of operating expenses related to the GKK Properties. Our tenant reimbursements in future periods will vary based on several factors discussed above under "— Comparison of the year ended December 31, 2015 versus the year ended December 31, 2014."

Interest income from real estate loans receivable decreased slightly from $3.3 million for the year ended December 31, 2013 to $3.1 million for the year ended December 31, 2014, due to the decrease in interest received from an impaired loan, the Sandmar Mezzanine Loan. 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. 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. Please see "— Comparison of the year ended December 31, 2015 versus the year ended December 31, 2014" 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 $1.9 million primarily due to real estate property sales. Such declines were partially offset by higher utility and snow removal expenses related to the GKK Properties located in the midwestern and northeastern regions of the United States, which experienced an extremely cold winter season during the first quarter 2014.

Real estate taxes, property-related taxes and insurance from our real estate properties decreased from $29.0 million during the year ended December 31, 2013 to $27.2 million during the year ended December 31, 2014 primarily due to real estate property sales.

Asset management fees remained constant at approximately $10.0 million during the years ended December 31, 2014 and 2013.

General and administrative expenses increased by $0.9 million primarily as a result of an increase in the contingent liability payable to the Property Manager of $3.4 million related to the profit participation provisions under the Amended Services Agreement, partially offset by a decrease of $2.6 million related to lower legal fees, accounting fees and other professional fees related to accounting system implementation costs and lower management fees related to the GKK Properties under the Amended Services Agreement. See "— Contractual Commitments and Contingencies — Asset Management Services Agreement Related to the GKK Properties" for more information. General and administrative expenses consist primarily of management fees related to the 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 $4.1 million primarily due to real estate property sales and decreased amortization of tenant origination and absorption costs resulting from lease expirations, partially offset by the acceleration of amortization of tenant improvements costs and tenant origination and absorption costs in connection with early lease terminations related to the GKK Properties. Upon classifying a property as held for sale, we cease depreciation and amortization expense for that property.

Interest expense from the financing of our portfolio decreased by $15.8 million, partially due to a decrease of $7.4 million related to debt secured by the GKK Properties, which was due to a decrease in the average loan balance as a result of principal repayments or debt extinguishments subsequent to December 31, 2013. Excluding debt secured by the GKK Properties, interest expense decreased by $8.4 million as a result of lower effective interest rates and an overall decrease in debt outstanding and discounted payoff related to Bridgeway Technology Center Mortgage Loan in April 2014. Included in interest expense is the amortization of deferred financing costs of $1.5 million and $0.8 million for the years ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2014, we recorded a non-cash impairment charge of $10.1 million to write-down the carrying values of six properties (including two GKK Properties) to their estimated fair values. Included in our impairment charge during the year ended December 31, 2014 was a $7.2 million impairment charge to reduce the carrying value of our investment in Tysons Dulles Plaza, an office property located in McLean, Virginia, to its estimated fair value due to a change in cash flow projections. We revised our cash flow projections for Tysons Dulles Plaza primarily because of a continued lag in demand in the Washington D.C. office rental market, resulting in ongoing leasing challenges and lower projected revenue growth. We also revised our cash flow projections to account for higher projected capital costs for tenant improvements and general building upgrades needed to attract additional tenants. In addition to the impairment on Tysons Dulles Plaza, we recognized impairment charges during the year ended December 31, 2014 of $2.9 million related to five other properties held for investment. No impairment charge related to any individual property was greater than $1.3 million. These impairments generally resulted from changes in leasing projections including longer estimated lease-up periods and lower projected rental rates, thus decreasing the projected cash flows the properties would generate. During the year ended December 31, 2013, we recognized an impairment charge on real estate properties held for investment of $40.2 million, with respect to 11 properties (including five GKK Properties and one historical property held for non-sale disposition), to reduce the book values of these real estate properties to their estimated fair values. The facts and circumstances leading to the impairments on our real estate held for investment during the year ended December 31, 2013 are as follows:

- *Tysons Dulles Plaza:* We recognized an impairment charge during the year ended December 31, 2013 of $19.5 million to reduce the carrying value of our investment in Tysons Dulles Plaza, an office property located in McLean, Virginia, to its estimated fair value. We revised our cash flow projections for Tysons Dulles Plaza primarily because of a decrease in demand in the Washington D.C. office rental market, resulting in lower projected revenues, and higher projected capital costs for tenant improvements and general building upgrades needed to attract additional tenants. We also revised our projections to address various deferred maintenance issues and other building system upgrades and replacements.
- *Bridgeway Technology Center:* We recognized an impairment charge during the year ended December 31, 2013 of $6.6 million related to our investment in Bridgeway Technology Center, an office-flex property located in Newark, California, due to a change in the projected hold period and a decrease in projected cash flows as a result of a difficult leasing environment. We defaulted on the mortgage loan secured by Bridgeway Technology Center and the lender commenced proceedings to foreclose on the property. As of December 31, 2013, these foreclosure proceedings were ongoing. As a result, we revised the projected hold period and recognized an impairment charge to reduce the carrying value of Bridgeway Technology Center to its estimated fair value.
- *University Park Buildings:* We recognized an impairment charge during the year ended December 31, 2013 of $4.2 million related to our investment in the University Park Buildings, an office property located in Sacramento, California, due to a decrease in projected rental rates. As a result, the projected undiscounted cash flows decreased to an amount less than the carrying value of the property and we recognized an impairment charge to reduce the carrying value of the University Park Buildings to its estimated fair value.
- *Other Properties:* We recognized impairment charges during the year ended December 31, 2013 of $9.9 million related to eight other properties held for investment. No impairment charge related to any individual property was greater than $2.2 million. These impairments generally resulted from changes in leasing projections including longer estimated lease-up periods and lower projected rental rates, thus decreasing the projected cash flows the properties would generate.

We recorded a provision for loan loss reserves of $2.0 million related to the Sandmar Mezzanine Loan during the year ended December 31, 2014. During the year ended December 31, 2013, we did not record a provision for loan loss reserves.

During the year ended December 31, 2014, we sold 1,386,602 shares of common stock of Gramercy and recognized a gain on the sale of real estate securities of $4.4 million. During the year ended December 31, 2013, we sold 4,613,398 shares of common stock of Gramercy and recognized a gain on the sale of real estate securities of $10.5 million.

We recognized a gain on sales of real estate of $2.3 million related to the disposition of four historical industrial properties and two GKK Properties during the year ended December 31, 2014.

During the year ended December 31, 2014, we recognized a gain on extinguishment of debt of $21.3 million. The gain on extinguishment of debt consisted of (i) a $1.8 million gain related to a deed-in-lieu of foreclosure agreement with respect to the BOA Windsor Mortgage Portfolio Loan, (ii) a $3.3 million gain related to the discounted payoff of the Bridgeway Technology Center Mortgage Loan, (iii) a $12.6 million gain related to the 801 Market Street Mortgage Loan foreclosure and (iv) a $3.6 million gain related to the Jenkins Court Mortgage Loan foreclosure.

We recognized a gain on sale of real estate of $4.8 million in discontinued operations related to the disposition of one historical office property and nine GKK Properties during the year ended December 31, 2014. During the year ended December 31, 2013, we recognized a gain on sale of real estate of $48.0 million related to the disposition of 111 GKK Properties and one historical office property.

Income from discontinued operations for the years ended December 31, 2014 and December 31, 2013 was $1.6 million and $2.7 million, respectively. Income from discontinued operations is composed of the results of operations from properties sold and properties designated as held for sale prior to January 1, 2014. As of December 31, 2014, two properties were classified as held for sale, including one GKK Property that is included in discontinued operations. Total revenues and other income from discontinued operations decreased from $26.3 million during the year ended December 31, 2013 to $2.5 million during the year ended December 31, 2014. Total expenses from discontinued operations decreased from $23.6 million during the year ended December 31, 2013 to $0.9 million during the year ended December 31, 2014.

During the year ended December 31, 2014, we recognized an impairment charge on real estate from discontinued operations of $0.3 million with respect to two GKK Properties held for sale. The impairment charge was primarily a result of a reduction in the estimated sales prices of the two GKK Properties held for sale. During the year ended December 31, 2013, we recognized an impairment charge on real estate from discontinued operations of $9.0 million with respect to one historical office property and 30 GKK Properties.

Funds from Operations and Modified Funds from Operations

We believe that FFO is a beneficial indicator of the performance of an equity REIT. We compute FFO in accordance with the current 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 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 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.

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, gain (loss) from extinguishment of debt, impairment charges on real estate loans receivable 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;
- *Gain (loss) from extinguishment of debt*. A gain (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 gain (loss) from extinguishment of debt in our calculation of MFFO because these gains (losses) do not impact the current operating performance of our investments and do not provide an indication of future operating performance;
- *Impairment charges on real estate loans receivable*. An impairment charge on a real estate loan receivable represents a write-down of the carrying value of a real estate loan to reflect the current valuation of the asset, whether or not the asset is intended to be held long-term. Although these losses are included in the calculation of net income (loss), we have excluded these impairment charges in our calculation of MFFO 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 it is useful to investors to have a supplemental metric that addresses core operating performance directly and therefore excludes such adjustments as impairment charges on real estate loans receivable; 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.

Our calculation of FFO and MFFO is presented in the table below for the years ended December 31, 2015, 2014 and 2013, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Years Ended December 31,		
	2015	2014	2013
Net loss	$ (11,387)	$ (21,266)	$ (46,495)
Depreciation of real estate assets	37,101	41,173	41,897
Depreciation of real estate assets - discontinued operations	—	—	3,855
Amortization of lease-related costs	22,044	30,440	33,848
Amortization of lease-related costs - discontinued operations	—	—	2,659
Impairment charges on real estate	49,306	10,117	40,190
Impairment charges on real estate - discontinued operations	—	257	8,975
Gain on foreclosed real estate held for sale	(2,509)	(1,108)	(378)
Gain on sales of real estate, net	(99,988)	(2,282)	—
Gain on sales of real estate, net - discontinued operations	(124)	(4,797)	(47,997)
Gain on sale of real estate securities	—	(4,410)	(10,470)
FFO	(5,557)	48,124	26,084
Straight-line rent and amortization of above- and below-market leases	(9,731)	(12,391)	(15,307)
Loss (gain) from extinguishment of debt	22,518	(21,328)	—
Impairment charges on real estate loans receivable	2,504	1,973	—
Amortization of discounts and closing costs on real estate loans receivable	(1,016)	(975)	(1,009)
Amortization of discounts and premiums on GKK notes payable, net	1,333	3,371	4,198
MFFO	$ 10,051	$ 18,774	$ 13,966

FFO and MFFO may 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 during 2015 (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 2015	$ 4,690	$ 0.025	$ 9,389	$ 6,809
Second Quarter 2015	4,682	0.025	4,682	11,236
Third Quarter 2015	4,674	0.025	4,674	8,190
Fourth Quarter 2015	51,316	0.275	51,316	9,717
	$ 65,362	$ 0.350	$ 70,061	$ 35,952

[1] Distributions consist of the following, as applicable:

- On December 9, 2014, 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 December 29, 2014. This distribution totaled approximately $4.7 million and was paid on January 2, 2015.
- On March 6, 2015, 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 20, 2015. This distribution totaled approximately $4.7 million and was paid on March 25, 2015.
- On May 13, 2015, 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 19, 2015. This distribution totaled approximately $4.7 million and was paid on June 26, 2015.
- On August 11, 2015, 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 18, 2015. This distribution totaled approximately $4.7 million and was paid on September 25, 2015.
- On November 9, 2015, 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 December 21, 2015. This distribution totaled approximately $4.7 million and was paid on December 28, 2015.
- On November 30, 2015, our board of directors declared the Special Distribution in the amount of $0.25 per share of common stock to stockholders of record as of the close of business on December 1, 2015. This distribution totaled approximately $46.7 million and was paid on December 7, 2015.

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

For the year ended December 31, 2015, we paid aggregate cash distributions of $70.1 million. FFO and cash flow from operations for the year ended December 31, 2015 were $(5.6) million and $36.0 million, respectively. We funded our total distributions paid with $46.7 million from the proceeds from the sales of real estate, $20.8 million of current period cash flow from operations and $2.6 million of cash flow from operations in excess of distributions paid during the year ended December 31, 2014. For purposes of determining the source of our distributions paid, and except with respect to special distributions funded by proceeds from sales of real estate properties, 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."

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," Part I, Item 1, "Business — Market Outlook — Real Estate and Real Estate Finance Markets," Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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; the significant debt obligations we assumed with respect to the GKK Properties; and our advisor's limited experience operating and selling bank branch properties.

Critical Accounting Policies

Below is a discussion of the accounting policies that management considers critical in that they involve significant management judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. 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.

Revenue Recognition

Real Estate

We recognize minimum rent, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectibility is reasonably assured and record amounts expected to be received in later years as deferred rent receivable. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or by us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance (including amounts that the tenant can take in the form of cash or a credit against its rent) that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how a tenant improvement allowance may be spent;
- whether the amount of a tenant improvement allowance is in excess of market rates;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

We record 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.

We make estimates of the collectibility of our tenant receivables related to base rents, including deferred rent receivable, expense reimbursements and other revenue or income. Management specifically analyzes accounts receivable, deferred rent receivable, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In addition, with respect to tenants in bankruptcy, management makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectibility of the related receivable. In some cases, the ultimate resolution of these claims can exceed one year. When a tenant is in bankruptcy, we will record a bad debt reserve for the tenant's receivable balance and generally will not recognize subsequent rental revenue until cash is received or until the tenant is no longer in bankruptcy and has the ability to make rental payments.

Real Estate Loans Receivable

Interest income on our real estate loans receivable is recognized on an accrual basis over the life of the investment using the interest method. Direct loan origination fees and origination or acquisition costs, as well as acquisition premiums or discounts, are amortized over the term of the loan as an adjustment to interest income. We place loans on nonaccrual status when any portion of principal or interest is 90 days past due, or earlier when concern exists as to the ultimate collection of principal or interest. When a loan is placed on nonaccrual status, we reserve for any unpaid accrued interest and generally do not recognize subsequent interest income until cash is received, or the loan returns to accrual status. We will resume the accrual of interest if we determine the collection of interest, according to the contractual terms of the loan, is probable.

We generally recognize 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. We consider 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.

Real Estate Securities

We recognize interest income on real estate securities that are beneficial interests in securitized financial assets and are rated "AA" and above on an accrual basis according to the contractual terms of the securities. Discounts or premiums are amortized to interest income over the life of the investment using the interest method.

We recognize interest income on real estate securities that are beneficial interests in securitized financial assets that are rated below "AA" using the effective yield method, which requires us to periodically project estimated cash flows related to these securities and recognize interest income at an interest rate equivalent to the estimated yield on the security, as calculated using the security's estimated cash flows and amortized cost basis, or reference amount. Changes in the estimated cash flows are recognized through an adjustment to the yield on the security on a prospective basis. Projecting cash flows for these types of securities requires significant judgment, which may have a significant impact on the timing of revenue recognized on these investments.

Real Estate

Depreciation and Amortization

Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the expected useful life of the asset on a straight-line basis. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. We consider the period of future benefit of an asset to determine its appropriate useful life. Expenditures for tenant improvements are capitalized and amortized over the shorter of the tenant's lease term or expected useful life. We anticipate the estimated useful lives of our assets by class to be generally as follows:

Buildings	15 - 40 years
Building improvements	10 - 25 years
Tenant improvements	Shorter of lease term or expected useful life
Tenant origination and absorption costs	Remaining term of related leases, including below-market renewal periods

Real Estate Acquisition Valuation

We record the acquisition of income-producing real estate or real estate that will be used for the production of income as a business combination. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. Acquisition costs are expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date.

We assess the acquisition date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers, generally utilizing a discounted cash flow analysis that applies appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

We record above-market and below-market in-place lease values for acquired properties based on the present value (using a discount rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of above-market in-place leases and for the initial term plus any extended term for any leases with below-market renewal options. We amortize any recorded above-market or below-market lease values as a reduction or increase, respectively, to rental income over the remaining non-cancelable terms of the respective lease, including any below-market renewal periods.

We estimate the value of tenant origination and absorption costs by considering the estimated carrying costs during hypothetical expected lease up periods, considering current market conditions. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease up periods.

We amortize the value of tenant origination and absorption costs to depreciation and amortization expense over the remaining non-cancelable term of the leases.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require us to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment. The use of inappropriate assumptions would result in an incorrect valuation of our acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of our net income.

Impairment of Real Estate and Related Intangible Assets and Liabilities

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate and related intangible assets and liabilities may not be recoverable or realized. When indicators of potential impairment suggest that the carrying value of real estate and related intangible assets and liabilities may not be recoverable, we assess the recoverability by estimating whether we will recover the carrying value of the real estate and related intangible assets and liabilities through its undiscounted future cash flows and its eventual disposition. If, based on this analysis, we do not believe that we will be able to recover the carrying value of the real estate and related intangible assets and liabilities, we would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of the real estate and related intangible assets and liabilities.

Projecting future cash flows involves estimating expected future operating income and expenses related to the real estate and its related intangible assets and liabilities as well as market and other trends. Using inappropriate assumptions to estimate cash flows could result in incorrect fair values of the real estate and its related intangible assets and liabilities and could result in the overstatement of the carrying values of our real estate and related intangible assets and liabilities and an overstatement of our net income.

Real Estate Held for Sale and Discontinued Operations

We generally consider non-foreclosed real estate to be "held for sale" when the following criteria are met: (i) management commits to a plan to sell the property, (ii) the property is available for sale immediately, (iii) the property is actively being marketed for sale at a price that is reasonable in relation to its current fair value, (iv) the sale of the property within one year is considered probable and (v) significant changes to the plan to sell are not expected. Real estate that is held for sale and its related assets are classified as "real estate held for sale" and "assets related to real estate held for sale," respectively, for all periods presented in the accompanying consolidated financial statements. Notes payable and other liabilities related to real estate held for sale are classified as "notes payable related to real estate held for sale" and "liabilities related to real estate held for sale," respectively, for all periods presented in the accompanying consolidated financial statements. Real estate classified as held for sale is no longer depreciated and is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell. Additionally, with respect to properties that were classified as held for sale in financial statements prior to January 1, 2014, we record the operating results as discontinued operations for all periods presented if the operations have been or are expected to be eliminated and we will not have any significant continuing involvement in the operations of the property following the sale. Operating results related to properties that were disposed of or classified as held for sale in the ordinary course of business during the years ended December 31, 2015 and 2014 that had not been classified as held for sale in financial statements prior to January 1, 2014 are included in continuing operations on our consolidated statements of operations.

Change in a Plan to Sell

When real estate is initially considered "held for sale" it is measured at the lower of its depreciated book value, or estimated fair value less estimated costs to sell. Changes in the market may compel us to decide to reclassify a property that was designated as held for sale to held for investment. A property that is reclassified from held for sale to held for investment or non-sale disposition is measured and recorded individually at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used, or (ii) its fair value at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of the property as a result of the reclassification is included in income from continuing operations as an impairment charge on real estate held for investment.

Real Estate Held for Non-Sale Disposition

We consider real estate assets that do not meet the criteria to be classified as held for sale but are expected to be disposed of other than by sale as real estate held for non-sale disposition. The assets and liabilities related to real estate held for non-sale disposition are included in our consolidated balance sheets and the results of operations are presented as part of continuing operations in our consolidated statements of operations for all periods presented. With respect to properties that were disposed of other than by sale prior to January 1, 2014, we recorded the operating results as discontinued operations for all periods presented. Operating results of properties that were disposed of other than by sale during the year ended December 31, 2014 are included in continuing operations on our consolidated statements of operations. We did not dispose of any properties other than by sale during the year ended December 31, 2015.

Foreclosed Real Estate Held for Sale

Foreclosed real estate held for sale consists of properties to which we have received title through foreclosure or by deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans that we intend to market for sale in the near term. Foreclosed real estate held for sale is initially recorded at the estimated fair value of the real estate less estimated costs to sell, or the fair value of the loan satisfied if more clearly evident. The excess of the carrying value of the loan over the fair value of the property less estimated costs to sell, if any, is charged-off against the reserve for loan losses when title to the property is obtained. Costs of holding the property are expensed as incurred in our consolidated statements of operations. The gain or loss on final disposition of foreclosed real estate held for sale is recorded as other income and is considered income (loss) from continuing operations as it represents the final stage of our loan collection process.

Real Estate Loans Receivable

Our real estate loans receivable are recorded at amortized cost, net of loan loss reserves, and evaluated for impairment at each balance sheet date. The amortized cost of a real estate loan receivable is the outstanding unpaid principal balance, net of unamortized acquisition premiums or discounts and unamortized costs and fees directly associated with the origination or acquisition of the loan.

The reserve for loan losses is a valuation allowance that reflects our estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is adjusted through "Provision for loan losses" in our consolidated statements of operations and is decreased by charge-offs to specific loans when losses are confirmed. The reserve for loan losses includes a portfolio-based component and an asset-specific component.

An asset-specific reserve relates to reserves for losses on loans considered impaired. We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement. We also consider a loan to be impaired if we grant the borrower a concession through a modification of the loan terms or if we expect to receive assets (including equity interests in the borrower) with fair values that are less than the carrying value of our loan in satisfaction of the loan. A reserve is established when the present value of payments expected to be received, observable market prices, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or amounts expected to be received in satisfaction of a loan are lower than the carrying value of that loan.

A portfolio-based reserve covers the pool of loans that do not have asset-specific reserves. A provision for loan losses is recorded when available information as of each balance sheet date indicates that it is probable that a loss occurred in the pool of loans and the amount of the loss can be reasonably estimated, but we do not know which specific loans within the pool will ultimately result in losses. Required reserve balances for this pool of loans are derived from estimated probabilities of default and estimated loss severities assuming a default occurs. On a quarterly basis, we assign estimated probabilities of default and loss severities to each loan in the portfolio based on factors such as the debt service coverage of the underlying collateral, the estimated fair value of the collateral, the significance of the borrower's investment in the collateral, the financial condition of the borrower and/or its sponsors, the likelihood that the borrower and/or its sponsors would allow the loan to default, our willingness and ability to step in as owner in the event of default, and other pertinent factors.

Failure to recognize impairments would result in the overstatement of earnings and the carrying value of our real estate loans receivable. Actual losses, if any, could differ significantly from estimated amounts.

Fair Value Measurements

Under GAAP, we are required to measure certain financial instruments at fair value on a recurring basis. In addition, we are required to measure other financial instruments and balances 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.

When available, we utilize quoted market prices from independent third-party sources to determine fair value and classify such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require us to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When we determine the market for a financial instrument owned by us to be illiquid or when market transactions for similar instruments do not appear orderly, we use several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establish a fair value by assigning weights to the various valuation sources. 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, we measure 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.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

We consider the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with our estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

We consider the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code. To continue to qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to stockholders (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to federal income tax on income that we distribute as dividends to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT.

Subsequent Events

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

Distributions Declared

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 expect to pay this distribution on or about March 28, 2016.

ITEM 7A. 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.

The table below summarizes the book values, the weighted-average annual effective interest rates and fair values of our real estate loans receivable and outstanding principal balance, the weighted-average annual effective interest rates and fair values for our notes payable for each category as of December 31, 2015 based on the maturity dates as of December 31, 2015 (dollars in thousands):

	Maturity Date							
	2016	2017	2018	2019	2020	Thereafter	Total Value [1]	Fair Value
Assets								
Loans receivable, book value								
Mezzanine loans - fixed rate [2]	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Weighted-average annual effective interest rate	—	—	—	—	—	—	—%	
Mortgage loans - fixed rate	$ 5,501	$ —	$ —	$ —	$ —	$ —	$ 5,501	$ 5,709
Weighted-average annual effective interest rate [3]	8.1%	—	—	—	—	—	8.1%	
B-notes - fixed rate	$ —	$ 21,780	$ —	$ —	$ —	$ —	$ 21,780	$ 19,509
Weighted-average annual effective interest rate [3]	—	11.4%	—	—	—	—	11.4%	
Liabilities								
Notes payable, principal outstanding								
Fixed rate - Historical real estate properties	$ 62,200	$ —	$ —	$ —	$ —	$ —	$ 62,200	$ 63,720
Weighted-average interest rate [4]	5.9%	—	—	—	—	—	5.9%	
Fixed rate - GKK Properties mortgage loans	$ —	$ 102,935	$ —	$ 65,712	$ —	$ 36,160	$ 204,807	$ 220,460
Weighted-average interest rate [4]	—	6.3%	—%	6.0%	—%	5.3%	6.0%	
Variable rate - Historical real estate properties	$ —	$ 164,131	$ —	$ —	$ —	$ —	$ 164,131	$ 164,171
Weighted-average interest rate [4]	—	2.2%	—	—	—	—	2.2%	

[1] Book value of loans receivable is presented net of asset-specific reserves. Book value of notes payable is presented net of discounts and premiums on notes payable.

[2] As of December 31, 2015, the borrower under the Sandmar Mezzanine Loan was delinquent and we will recognize income on this loan on a cost-recovery basis. The book value, which is net of asset-specific reserves, of the Sandmar Mezzanine Loan was $0 at December 31, 2015.

[3] The weighted-average annual effective interest rate is calculated based on actual interest income recognized in 2015, using the interest method, divided by the average amortized cost basis of the investment during 2015. The weighted-average effective interest rates presented are as of December 31, 2015.

[4] The weighted-average interest rate as of December 31, 2015 is calculated as the contractual interest rate in effect as of December 31, 2015, using interest rate indices as of December 31, 2015, where applicable.

We borrow 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 December 31, 2015, the fair value and book value of our fixed rate real estate loans receivable were $25.2 million and $27.3 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 December 31, 2015, the fair value of our fixed rate debt was $284.2 million and the outstanding principal balance of our fixed rate debt was $267.0 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 December 31, 2015. 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 December 31, 2015, we were exposed to market risks related to fluctuations in interest rates on our $164.1 million of variable rate debt outstanding. Based on interest rates as of December 31, 2015, if interest rates are 100 basis points higher during the 12 months ending December 31, 2016, interest expense on our variable rate debt outstanding would increase by approximately $1.6 million. As of December 31, 2015, one-month LIBOR was 0.42950% and if this index was reduced to 0% during the 12 months ending December 31, 2016, 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 December 31, 2015 was 9.0%. The weighted-average annual effective interest rate represents the effective interest rate as of December 31, 2015, using the interest method, which we use to recognize interest income on our real estate loans receivable without asset-specific loan loss reserves. The weighted-average interest rates of our fixed rate debt and variable rate debt as of December 31, 2015 were 6.0% and 2.2%, respectively. The weighted-average interest rate represents the actual interest rate in effect as of December 31, 2015, using interest rate indices as of December 31, 2015, where applicable.

For developments related to our loans receivable and notes payable, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Financial Statements at page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended.

In connection with the preparation of our Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making that assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013).

Based on its assessment, our management believes that, as of December 31, 2015, our internal control over financial reporting was effective based on those criteria. There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

As of the quarter ended December 31, 2015, all items required to be disclosed under Form 8-K were reported under Form 8-K.

Second Amended and Restated Bylaws

On March 11, 2016, our board of directors approved our Second Amended and Restated Bylaws (the "Amended Bylaws"). Previously, our bylaws required that we hold our annual meeting of stockholders on a date and at the time set by the board of directors during the month of July. The Amended Bylaws now require that we hold our annual meeting of stockholders on a date and at the time set by the board of directors, and do not specify a particular month.

Amended and Restated Code of Conduct and Ethics

On March 11, 2016, our board of directors approved our amended and restated Code of Conduct and Ethics (the "Amended Code"). Previously, under our Code of Conduct and Ethics, our chief financial officer served as our compliance officer. Pursuant to the Amended Code, our advisor's chief audit executive will serve as our compliance officer. The Amended Code also makes certain administrative changes to our Code of Conduct and Ethics.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

We have provided below certain information about our directors and executive officers.

Name	Position(s)	Age *
Peter M. Bren	President	82
Charles J. Schreiber, Jr.	Chairman of the Board, Chief Executive Officer and Director	64
Peter McMillan III	Executive Vice President, Treasurer, Secretary and Director	58
Keith D. Hall	Executive Vice President	57
Jeffrey K. Waldvogel	Chief Financial Officer	38
Stacie K. Yamane	Chief Accounting Officer	51
Hank Adler	Independent Director	69
Barbara R. Cambon	Independent Director	62
Stuart A. Gabriel, Ph.D.	Independent Director	62

* As of March 1, 2016.

Peter M. Bren is our President, a position he has held since June 2005. He is also Chairman of the Board and President of our advisor, President of KBS REIT II, President of KBS REIT III and President of KBS Growth & Income REIT, positions he has held for these entities since October 2004, August 2007, January 2010 and January 2015, respectively. Mr. Bren is President and a director of KBS Legacy Partners Apartment REIT, positions he has held since August 2009 and July 2009, respectively. In addition, Mr. Bren is a sponsor of our company and is a sponsor of KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT, which were formed in 2005, 2007, 2009, 2008, 2009, 2013 and 2015, respectively. Other than de minimis amounts owned by family members or family trusts, Mr. Bren indirectly owns and controls a 33 1/3% interest in KBS Holdings LLC, which is the sole owner of our advisor and our dealer manager. All four of our sponsors, Messrs. Bren, Hall, McMillan and Schreiber, actively participate in the management and operations of our advisor.

Mr. Bren is Chairman of the Board and President of KBS Realty Advisors LLC and is a principal of Koll Bren Schreiber Realty Advisors, Inc., each an active and nationally recognized real estate investment advisor. These entities are registered as investment advisers with the SEC. The first investment advisor affiliated with Messrs. Bren and Schreiber was formed in 1992. As of December 31, 2015, KBS Realty Advisors, together with KBS affiliates, including KBS Capital Advisors, had been involved in the investment in or management of approximately $21 billion of real estate investments on behalf of institutional investors, including public and private pension plans, endowments and foundations, institutional and sovereign wealth funds, and the investors in us, KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT.

Mr. Bren oversees all aspects of KBS Capital Advisors' and KBS Realty Advisors' operations, including the acquisition, management and disposition of individual investments and portfolios of investments for KBS-sponsored programs and KBS-advised investors. He also directs all facets of KBS Capital Advisors' and KBS Realty Advisors' business activities and is responsible for investor relationships.

Mr. Bren has been involved in real estate development, management, acquisition, disposition and financing for more than 40 years and with the acquisition, origination, management, disposition and financing of real estate-related debt investments for more than 30 years. Prior to taking his current positions as Chairman of the Board and President of KBS Capital Advisors and KBS Realty Advisors, he served as the President of The Bren Company, was a Senior Partner of Lincoln Property Company and was President of Lincoln Property Company, Europe. Mr. Bren is also a founding member of the Richard S. Ziman Center for Real Estate at the UCLA Anderson School of Management. He is also a member of the Real Estate Roundtable in Washington, D.C.

Charles J. Schreiber, Jr. is our Chairman of the Board, our Chief Executive Officer and one of our directors, positions he has held since June 2005. He is also the Chief Executive Officer of our advisor and Chairman of the Board, Chief Executive Officer and a director of KBS Growth & Income REIT, positions he has held for these entities since October 2004 and January 2015, respectively. Mr. Schreiber is Chairman of the Board, Chief Executive Officer and a director of KBS REIT II, positions he has held since August 2007, August 2007 and July 2007, respectively, and he is Chairman of the Board, Chief Executive Officer and a director of KBS REIT III, positions he has held since January 2010, January 2010 and December 2009, respectively. In addition, Mr. Schreiber is a sponsor of our company and is a sponsor of KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT, which were formed in 2005, 2007, 2009, 2008, 2009, 2013 and 2015, respectively. Other than de minimis amounts owned by family members or family trusts, Mr. Schreiber indirectly owns and controls a 33 1/3% interest in KBS Holdings LLC, which is the sole owner of our advisor and our dealer manager. All four of our sponsors, Messrs. Bren, Hall, McMillan and Schreiber, actively participate in the management and operations of our advisor.

Mr. Schreiber is the Chief Executive Officer of KBS Realty Advisors LLC and is a principal of Koll Bren Schreiber Realty Advisors, Inc., each an active and nationally recognized real estate investment advisor. These entities are registered as investment advisers with the SEC. The first investment advisor affiliated with Messrs. Bren and Schreiber was formed in 1992. As of December 31, 2015, KBS Realty Advisors, together with KBS affiliates, including KBS Capital Advisors, had been involved in the investment in or management of approximately $21 billion of real estate investments on behalf of institutional investors, including public and private pension plans, endowments and foundations, institutional and sovereign wealth funds, and the investors in us, KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT.

Mr. Schreiber oversees all aspects of KBS Capital Advisors' and KBS Realty Advisors' operations, including the acquisition and management of individual investments and portfolios of investments for KBS-sponsored programs and KBS-advised investors. He also directs all facets of KBS Capital Advisors' and KBS Realty Advisors' business activities and is responsible for investor relationships.

Mr. Schreiber has been involved in real estate development, management, acquisition, disposition and financing for more than 40 years and with the acquisition, origination, management, disposition and financing of real estate-related debt investments for more than 30 years. Prior to teaming with Mr. Bren in 1992, he served as the Executive Vice President of Koll Investment Management Services and Executive Vice President of Acquisitions/Dispositions for The Koll Company. During the mid-1970s through the 1980s, he was Founder and President of Pacific Development Company and was previously Senior Vice President/Southern California Regional Manager of Ashwill-Burke Commercial Brokerage.

Mr. Schreiber graduated from the University of Southern California with a Bachelor's Degree in Finance with an emphasis in Real Estate. During his four years at USC, he did graduate work in the then newly-formed Real Estate Department in the USC Graduate School of Business. He is currently an Executive Board Member for the USC Lusk Center for Real Estate at the University of Southern California Marshall School of Business/School of Policy, Planning and Development. Mr. Schreiber also serves as a member of the Executive Committee for the Public Non-Listed REIT Council for the National Association of Real Estate Investment Trusts.

The board of directors has concluded that Mr. Schreiber is qualified to serve as a director, Chairman of the Board and as our Chief Executive Officer for reasons including his extensive industry and leadership experience. Since the formation of the first investment advisor affiliated with Messrs. Bren and Schreiber in 1992, and through December 31, 2015, Mr. Schreiber had been involved in the investment in or management of over $21 billion of real estate investments through KBS affiliates. With more than 40 years of experience in real estate development, management, acquisition and disposition and more than 30 years of experience with the acquisition, origination, management, disposition and financing of real estate-related debt investments, he has the depth and breadth of experience to implement our business strategy. He gained his understanding of the real estate and real estate-finance markets through hands-on experience with acquisitions, asset and portfolio management, asset repositioning and dispositions. As our Chief Executive Officer and a principal of our external advisor, Mr. Schreiber is best-positioned to provide the board of directors with insights and perspectives on the execution of our business strategy, our operations and other internal matters. Further, as a principal of KBS-affiliated investment advisors and as Chief Executive Officer, Chairman of the Board and a director of KBS REIT II, KBS REIT III and KBS Growth & Income REIT, Mr. Schreiber brings to the board of directors demonstrated management and leadership ability.

Peter McMillan III is one of our Executive Vice Presidents, our Treasurer and Secretary, and one of our directors, positions he has held since June 2005. He is also an Executive Vice President, the Treasurer and Secretary and a director of KBS REIT II, KBS REIT III and KBS Growth & Income REIT, positions he has held for these entities since August 2007, January 2010 and January 2015, respectively. He is President, Chairman of the Board and a director of KBS Strategic Opportunity REIT and KBS Strategic Opportunity REIT II, positions he has held for these entities since December 2008 and February 2013, respectively. He is also an Executive Vice President of KBS Legacy Partners Apartment REIT, which position he has held since August 2009. In addition, Mr. McMillan is a sponsor of our company and is a sponsor of KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT, which were formed in 2005, 2007, 2009, 2008, 2009, 2013 and 2015, respectively. Mr. McMillan owns and controls a 50% interest in GKP Holding LLC. GKP Holding owns a 33 1/3% interest in KBS Holdings LLC, which is the sole owner of our advisor and our dealer manager. All four of our sponsors, Messrs. Bren, Hall, McMillan and Schreiber, actively participate in the management and operations of our advisor.

Mr. McMillan is a Partner and co-owner of Temescal Canyon Partners LP, an investment advisor formed in 2013 to manage a multi-strategy hedge fund on behalf of investors. Mr. McMillan is also a co-founder and the Managing Partner of Willowbrook Capital Group, LLC which, from August 2003 until December 2012, was an asset management company. Prior to forming Willowbrook in 2000, Mr. McMillan served as an Executive Vice President and Chief Investment Officer of SunAmerica Investments, Inc., which was later acquired by AIG. As Chief Investment Officer, he was responsible for over $75.0 billion in assets, including residential and commercial mortgage-backed securities, public and private investment grade and non-investment grade corporate bonds and commercial mortgage loans and real estate investments. Before joining SunAmerica in 1989, he served as Assistant Vice President for Aetna Life Insurance and Annuity Company with responsibility for the company's $6.0 billion fixed income portfolios. Mr. McMillan received his Master of Business Administration in Finance from the Wharton Graduate School of Business at the University of Pennsylvania and his Bachelor of Arts Degree with honors in Economics from Clark University. Mr. McMillan is a member of the Board of Trustees of Metropolitan West Funds and TCW Mutual Funds and is a former director of Steinway Musical Instruments, Inc.

The board of directors has concluded that Mr. McMillan is qualified to serve as one of our directors for reasons including his expertise in real estate finance and with real estate-related investments. With over 30 years of experience investing in and managing real estate-related debt investments, Mr. McMillan offers insights and perspective with respect to our real estate-related investment portfolio as well as our real estate portfolio. As one of our executive officers and a principal of our advisor, Mr. McMillan is also able to direct the board of directors to the critical issues facing our company. Further, his experiences as a director of KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT, as a member of the Board of Trustees of Metropolitan West Funds and TCW Mutual Funds, and as a former director of Steinway Musical Instruments, Inc., provide him with an understanding of the requirements of serving on a public company board.

Keith D. Hall is one of our Executive Vice Presidents, a position he has held since June 2005. He is an Executive Vice President of KBS REIT II, KBS REIT III and KBS Growth & Income REIT, positions he has held for these entities since August 2007, January 2010 and January 2015, respectively. He is also the Chief Executive Officer and a director of KBS Strategic Opportunity REIT, positions he has held since December 2008 and October 2008, respectively, and is the Chief Executive Officer and a director of KBS Strategic Opportunity REIT II, positions he has held since February 2013. In addition, Mr. Hall is a sponsor of our company and is a sponsor of KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT, which were formed in 2005, 2007, 2009, 2008, 2009, 2013 and 2015, respectively. Mr. Hall owns and controls a 50% interest in GKP Holding LLC. GKP Holding owns a 33 1/3% interest in KBS Holdings LLC, which is the sole owner of our advisor and our dealer manager. All four of our sponsors, Messrs. Bren, Hall, McMillan and Schreiber, actively participate in the management and operations of our advisor.

Mr. Hall is a co-founder of Willowbrook Capital Group, LLC which, from August 2003 until December 2012, was an asset management company. Prior to forming Willowbrook in 2000, Mr. Hall was a Managing Director at CS First Boston, where he managed the distribution strategy and business development for the Principal Transaction Group's $18.0 billion real estate securities portfolio. Mr. Hall's two primary business unit responsibilities were Mezzanine Lending and Commercial Real Estate Development. Before joining CS First Boston in 1996, he served as a Director in the Real Estate Products Group at Nomura Securities, with responsibility for the company's $6.0 billion annual pipeline of fixed-income, commercial mortgage-backed securities. During the 1980s, Mr. Hall was a Senior Vice President in the High Yield Department of Drexel Burnham Lambert's Beverly Hills office, where he was responsible for distribution of the group's high-yield real estate securities. Mr. Hall received a Bachelor of Arts Degree with honors in Finance from California State University, Sacramento.

Jeffrey K. Waldvogel is our Chief Financial Officer and Assistant Secretary, positions he has held since June 2015. He is also the Chief Financial Officer of our advisor, and Chief Financial Officer and Assistant Secretary of KBS REIT II, KBS REIT III and KBS Growth & Income REIT, positions he has held for each of these entities since June 2015. He is also the Chief Financial Officer, Treasurer and Secretary of KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT and KBS Strategic Opportunity REIT II, positions he has held for these entities since June 2015.

Mr. Waldvogel has been employed by an affiliate of our advisor since November 2010. With respect to the KBS-sponsored REITs advised by our advisor, he served as the Director of Finance and Reporting from July 2012 to June 2015 and as the VP Controller Technical Accounting from November 2010 to July 2012. In these roles Mr. Waldvogel was responsible for overseeing internal and external financial reporting, valuation analysis, financial analysis, REIT compliance, debt compliance and reporting, and technical accounting.

Prior to joining an affiliate of KBS Realty Advisors in 2010, Mr. Waldvogel was an audit senior manager at Ernst & Young LLP. During his eight years at Ernst & Young LLP, where he worked from October 2002 to October 2010, Mr. Waldvogel performed or supervised various auditing engagements, including the audit of financial statements presented in accordance with GAAP, as well as financial statements prepared on a tax basis. These auditing engagements were for clients in a variety of industries, with a significant focus on clients in the real estate industry.

In April 2002, Mr. Waldvogel received a Master of Accountancy Degree and Bachelor of Science from Brigham Young University in Provo, Utah. Mr. Waldvogel is a Certified Public Accountant (California).

Stacie K. Yamane is our Chief Accounting Officer, a position she has held since October 2008. From June 2005 to December 2008, Ms. Yamane served as our Chief Financial Officer and from June 2005 to October 2008, she served as our Controller. Ms. Yamane is also the Chief Accounting Officer, Portfolio Accounting of our advisor and Chief Accounting Officer of KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II and KBS Growth & Income REIT, positions she has held for these entities since October 2008, October 2008, January 2010, August 2009, August 2009, February 2013 and January 2015, respectively. From October 2004 to October 2008, Ms. Yamane served as Fund Controller of our advisor. From July 2007 to December 2008, Ms. Yamane served as the Chief Financial Officer of KBS REIT II and from July 2007 to October 2008, she served as Controller of KBS REIT II.

Ms. Yamane also serves as Senior Vice President/Controller, Portfolio Accounting for KBS Realty Advisors LLC, a position she has held since 2004. She served as a Vice President/Portfolio Accounting with KBS-affiliated investment advisors from 1995 to 2004. At KBS Realty Advisors, from 2004 through 2015, Ms. Yamane was responsible for client accounting/reporting for two real estate portfolios. These portfolios consisted of industrial, office and retail properties as well as land parcels. Ms. Yamane worked closely with portfolio managers, asset managers, property managers and clients to ensure the completion of timely and accurate accounting, budgeting and financial reporting. In addition, she assisted in the supervision and management of KBS Realty Advisors' accounting department.

Prior to joining an affiliate of KBS Realty Advisors in 1995, Ms. Yamane was an audit manager at Kenneth Leventhal & Company, a CPA firm specializing in real estate. During her eight years at Kenneth Leventhal & Company, Ms. Yamane performed or supervised a variety of auditing, accounting and consulting engagements including the audit of financial statements presented in accordance with GAAP, as well as financial statements presented on a cash and tax basis, the valuation of asset portfolios and the review and analysis of internal control systems. Her experiences with various KBS-affiliated entities and Kenneth Leventhal & Company give her over 25 years of real estate experience.

Ms. Yamane received a Bachelor of Arts Degree in Business Administration with a dual concentration in Accounting and Management Information Systems from California State University, Fullerton. She is a Certified Public Accountant (inactive California).

Hank Adler is one of our independent directors and is the chair of the audit committee, positions he has held since June 2005. Professor Adler is also an independent director and chair of the audit committee of KBS REIT II and KBS REIT III, positions he has held for these entities since March 2008 and September 2010, respectively. He is currently an Assistant Professor of Accounting at Chapman University. Prior to his retirement from Deloitte & Touche, LLP in 2003, Professor Adler was a partner with that firm where he had been employed for over 30 years. He specialized in tax accounting and served as client service and tax partner for a variety of public and private companies. He received a Bachelor of Science in Accounting and a Master of Business Administration from the University of California, Los Angeles. From 2004 to 2015, Professor Adler served on the board of directors and as chairman of the audit committee of Corinthian Colleges, Inc., and he formerly served on the board of directors and on the finance committee of Healthy Smiles for Kids of Orange County, a California non-profit entity. From 1998 to 2007, he also chaired the Toshiba Senior Classic charity event, a PGA Senior Tour championship event. From 1994 to 2006, he served on the board of directors of Hoag Memorial Hospital Presbyterian. In the 1990s, he served on the board of trustees and as President of the Irvine Unified School District. Professor Adler is a Certified Public Accountant (California).

The board of directors has concluded that Professor Adler is qualified to serve as an independent director and as the chair of the audit committee for reasons including his extensive experience in public accounting. With over 30 years at one of the big four accounting firms, Professor Adler brings to the board of directors critical insights into and an understanding of the accounting principles and financial reporting rules and regulations affecting our company. His expertise in evaluating the financial and operational results of public companies and overseeing the financial reporting process makes him a valuable director and chair of the audit committee. In addition, as a director and chair of the audit committee of KBS REIT II and KBS REIT III and as a former director of Corinthian Colleges, Inc., of Hoag Memorial Hospital Presbyterian and of Healthy Smiles for Kids of Orange County, Professor Adler is well aware of the corporate governance and regulatory issues facing public and other companies.

Barbara R. Cambon is one of our independent directors and is the chair of the conflicts committee, positions she has held since June 2005. Ms. Cambon is also an independent director and chair of the conflicts committee of KBS REIT II and KBS REIT III, positions she has held for these entities since March 2008 and September 2010, respectively. From April 2009 to December 2010, she served as Chief Operating Officer of Premium One Asset Management LLC, a company whose business focuses on providing investment management services to investors. From October 2003 to October 2009, she also served as a Managing Member of Snowcreek Management LLC, a real estate asset management company whose business activities focus on residential development projects for institutional investors. As Managing Member, Ms. Cambon provided asset management services to an institutional partnership investment in residential real estate development. She has been involved in the real estate investment business for over 30 years, principally working with institutional capital sources and investment programs. From November 1999 until October 2002, she served as a Principal of Los Angeles-based Colony Capital, LLC, a private real estate investment firm, and from April 2000 until October 2002, she also served as its Chief Operating Officer. Prior to joining Colony Capital in 1999, Ms. Cambon was President and founder of Institutional Property Consultants, Inc., a real estate consulting company. She is a past director and chairman of the board of the Pension Real Estate Association and past director of the National Council of Real Estate Investment Fiduciaries. Ms. Cambon serves on the Advisory Board of the University of San Diego Burnham-Moores Center for Real Estate Policy. Ms. Cambon previously served on the board of directors of Neighborhood National Bancorp, Amstar Advisers and BioMed Realty Trust, Inc. Ms. Cambon received a Master of Business Administration from Southern Methodist University and a Bachelor of Science Degree in Education from the University of Delaware.

The board of directors has concluded that Ms. Cambon is qualified to serve as an independent director and as the chair of the conflicts committee for reasons including her expertise in real estate investment and management. Ms. Cambon's over 30 years of experience investing in, managing and disposing of real estate on behalf of investors give her a wealth of knowledge and experiences from which to draw in advising our company. As former Managing Member of her own real estate asset management company, Ms. Cambon is acutely aware of the operational challenges facing companies such as ours. Further, her service as a director and chair of the conflicts committee of KBS REIT II and KBS REIT III, both public REITs, and as a former director of Neighborhood National Bancorp, Amstar Advisers and BioMed Realty Trust, Inc., gives her additional perspective and insight into large public companies such as ours.

Stuart A. Gabriel, Ph.D. is one of our independent directors, a position he has held since June 2005. Professor Gabriel is also an independent director of KBS REIT II and KBS REIT III, positions he has held for these entities since June 2005 and September 2010, respectively. Since June 2007, Professor Gabriel has served as Director of the Richard S. Ziman Center for Real Estate and Professor of Finance and Arden Realty Chair at the UCLA Anderson School of Management. Prior to joining UCLA he was Director and Lusk Chair in Real Estate at the USC Lusk Center for Real Estate, a position he held from 1999 to 2007. Professor Gabriel also served as Professor of Finance and Business Economics in the Marshall School of Business at the University of Southern California, a position he held from 1990 to 2007. He received a number of awards at UCLA and USC for outstanding graduate teaching. In 2004, he was elected President of the American Real Estate and Urban Economics Association. Professor Gabriel serves on the editorial boards of seven academic journals. He is also a Fellow of the Homer Hoyt Institute for Advanced Real Estate Studies. Professor Gabriel has published extensively on the topics of real estate finance and urban and regional economics. His teaching and academic research experience include analysis of real estate and real estate capital markets performance as well as structured finance products, including credit default swaps, commercial mortgage-backed securities and collateralized debt obligations. Professor Gabriel serves as a consultant to numerous corporate and governmental entities. From 1986 through 1990, Professor Gabriel served on the economics staff of the Federal Reserve Board in Washington, D.C. He also has been a Visiting Scholar at the Federal Reserve Bank of San Francisco. Professor Gabriel holds a Ph.D. in Economics from the University of California, Berkeley.

The board of directors has concluded that Professor Gabriel is qualified to serve as an independent director for reasons including his extensive knowledge and understanding of the real estate and finance markets and real estate finance products. As a professor of real estate finance and economics, Professor Gabriel brings unique perspective to the board of directors. His years of research and analysis of the real estate and finance markets make Professor Gabriel well-positioned to advise us with respect to our investment and financing strategy. This expertise also makes him an invaluable resource for assessing and managing risks facing our company. Through his experience as a director of KBS REIT II and KBS REIT III, he also has an understanding of the requirements of serving on a public company board.

Corporate Governance

The Audit Committee

The board of directors has established an audit committee. The audit committee's function is to assist the board of directors in fulfilling its responsibilities by overseeing (i) our accounting and financial reporting processes, (ii) the integrity of our financial statements, (iii) our compliance with legal and regulatory requirements, (iv) our independent auditors' qualifications, performance and independence, and (v) the performance of our internal audit function. The members of the audit committee are Hank Adler (chair), Barbara R. Cambon and Stuart A. Gabriel, Ph.D. All of the members of the audit committee are "independent" as defined by the New York Stock Exchange. All members of the audit committee have significant financial and/or accounting experience, and the board of directors has determined that Professor Adler satisfies the SEC's requirements for an "audit committee financial expert."

Code of Conduct and Ethics

We have adopted a Code of Conduct and Ethics that applies to all of our executive officers and directors, including but not limited to, our principal executive officer, principal financial officer and principal accounting officer. Our Code of Conduct and Ethics can be found at *http://www.kbsreit.com*.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Executive Officers

Our conflicts committee, which is composed of all of our independent directors, discharges the board of directors' responsibilities relating to the compensation of our executives. However, because we do not have any paid employees and our executive officers do not receive any compensation directly from us, these responsibilities are limited to administering our Employee and Independent Director Incentive Stock Plan. As of March 16, 2016, no awards had been granted under the plan. Furthermore, there is no timetable for the grant of any awards under the Employee and Independent Director Incentive Stock Plan, and the board of directors has adopted a policy that prohibits grants of any awards of shares of common stock to any person under the Employee and Independent Director Stock Plan. Our executive officers have no role in determining the amount or form of executive compensation.

Our Employee and Independent Director Incentive Stock Plan was approved and adopted prior to the commencement of our initial public offering in order to (i) furnish incentives to individuals chosen to receive share-based awards because we consider them capable of improving our operations and increasing our profits; (ii) encourage selected persons to accept or continue employment with our advisor; and (iii) increase the interest of our independent directors in our welfare through their participation in the growth in the value of our shares of common stock. The total number of shares of common stock reserved for issuance under the Employee and Independent Director Incentive Stock Plan is equal to 5% of our outstanding shares at any time, but not to exceed 10,000,000 shares.

Our executive officers are officers and/or employees of, or hold an indirect ownership interest in, our advisor, and/or its affiliates and our executive officers are compensated by these entities, in part, for their services to us or our subsidiaries. See Part III, Item 13, "Certain Relationships and Related Transactions, and Director Independence — Report of the Conflicts Committee — Certain Transactions with Related Persons" for a discussion of the fees paid to our advisor and its affiliates.

Compensation of Directors

If a director is also one of our executive officers, we do not pay any compensation to that person for services rendered as a director. The amount and form of compensation payable to our independent directors for their service to us is determined by the conflicts committee, based upon recommendations from our advisor. Four of our executive officers, Messrs. Bren, Hall, McMillan and Schreiber, manage and control our advisor, and through our advisor, they are involved in recommending and setting the compensation to be paid to our independent directors.

We have provided below certain information regarding compensation earned by or paid to our directors during fiscal year 2015.

Name	Fees Earned or Paid in Cash in 2015 [1]	All Other Compensation	Total
Hank Adler	$ 101,333	$ —	$ 101,333
Barbara R. Cambon	103,333	—	103,333
Stuart A. Gabriel, Ph.D.	97,333	—	97,333
Peter McMillan III [2]	—	—	—
Charles J. Schreiber, Jr. [2]	—	—	—

[1] Fees Earned or Paid in Cash in 2015 include meeting fees earned in: (i) 2014 but paid or reimbursed in the first quarter of 2015 as follows: Professor Adler $7,337, Ms. Cambon $8,337, and Professor Gabriel $7,337; and (ii) 2015 but paid or to be paid in 2016 as follows: Professor Adler $12,333, Ms. Cambon $12,333, and Professor Gabriel $11,333.

[2] Directors who are also our executive officers do not receive compensation for services rendered as a director.

Cash Compensation

We compensate each of our independent directors with an annual retainer of $40,000. In addition, we pay our independent directors for attending board and, audit, conflicts or other committee meetings as follows:

- $2,500 for each board meeting attended;
- $2,500 for each audit or conflicts committee meeting attended (except that the committee chairman is paid $3,000 for each audit or conflicts committee meeting attended);
- $2,000 for each other committee meeting attended (except that the committee chairman is paid $3,000 for each other committee meeting attended);
- $2,000 for each teleconference board meeting attended;
- $2,000 for each teleconference audit or conflicts committee meeting attended (except that the committee chairman is paid $3,000 for each teleconference audit or conflicts committee meeting attended); and
- $2,000 for each other teleconference committee meeting attended (except that the committee chairman is paid $3,000 for each other teleconference committee meeting attended).

All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Stock Ownership

The following table shows, as of March 1, 2016, the amount of our common stock beneficially owned (unless otherwise indicated) by (1) any person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, (2) our directors, (3) our executive officers, and (4) all of our directors and executive officers as a group.

Name and Address of Beneficial Owner [1]	Amount and Nature of Beneficial Ownership [2]	Percentage of all Outstanding Shares
KBS Capital Advisors LLC	20,000 [3]	*
Peter M. Bren, President	20,000 [3]	*
Keith D. Hall, Executive Vice President	20,000 [3]	*
Peter McMillan III, Executive Vice President, Treasurer, Secretary and Director	20,000 [3]	*
Charles J. Schreiber, Jr., Chairman of the Board, Chief Executive Officer and Director	21,064 [3] [4]	*
Jeffrey K. Waldvogel, Chief Financial Officer	—	—
Stacie K. Yamane, Chief Accounting Officer	—	—
Hank Adler, Independent Director	15,438	—
Barbara R. Cambon, Independent Director	6,871	—
Stuart A. Gabriel, Ph.D., Independent Director	—	—
All officers and directors as a group	43,373 [3]	*

*Less than 1% of the outstanding common stock

[1] The address of each named beneficial owner is 800 Newport Center Drive, Suite 700, Newport Beach, California 92660.

[2] None of the shares is pledged as security.

[3] Includes 20,000 shares owned by KBS Capital Advisors, which is indirectly owned and controlled by Peter M. Bren, Keith D. Hall, Peter McMillan III and Charles J. Schreiber, Jr.

[4] Includes 1,064 shares held by the Schreiber Family Trust DTD 6/3/75, of which Mr. Schreiber is a trustee.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Director Independence

Although our shares are not listed for trading on any national securities exchange, a majority of the directors, and all of the members of the audit committee and the conflicts committee, are “independent” as defined by the New York Stock Exchange. The board of directors has affirmatively determined that Hank Adler, Barbara R. Cambon and Stuart A. Gabriel, Ph.D. each satisfies the New York Stock Exchange independence standards. In determining that Professor Gabriel is independent under the New York Stock Exchange independence standards, the board of directors considered that Peter M. Bren, one of our executive officers and sponsors, is a founding member of the Richard S. Ziman Center for Real Estate at the UCLA Anderson School of Management, that Professor Gabriel is a Director of the Richard S. Ziman Center for Real Estate and Professor of Finance and Arden Realty Chair at the UCLA Anderson School of Management and that in March 2012, Mr. Bren pledged a gift of $1.25 million to the Richard S. Ziman Center for Real Estate at the UCLA Anderson School of Management. The contribution by Mr. Bren would be made over five years in the amount of $250,000 per year. Because this contribution is to a tax exempt entity and the contribution will not exceed $250,000 in any year, the board of directors determined that this contribution was not material and Professor Gabriel met the New York Stock Exchange independence standards.

Report of the Conflicts Committee

Review of Our Policies

The conflicts committee has reviewed our policies and determined that they are in the best interest of our stockholders. Set forth below is a discussion of the basis for that determination.

Portfolio Management and Distribution Policy. 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 (defined below), 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 additional 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. See also the discussion under "Distribution Policies" below. Our board of directors also 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.

On March 6, 2015, 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 20, 2015. We paid this distribution on March 25, 2015. On May 13, 2015, 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 19, 2015. We paid this distribution on June 26, 2015. On August 11, 2015, 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 18, 2015. We paid this distribution on September 25, 2015. On November 9, 2015, 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 December 21, 2015. We paid this distribution on December 28, 2015. We funded these distributions with cash flow from operations from the current period and prior periods. In addition, on November 30, 2015, our board of directors declared a special distribution in the amount of $0.25 per share of common stock to stockholders of record as of the close of business on December 1, 2015. We paid this distribution on December 7, 2015. This distribution was paid in cash and funded from our proceeds from the sales of real estate properties. Distributions declared per common share assumes each share was issued and outstanding at each record date for distributions. We can give no assurance regarding the timing or source of future distributions.

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.

Acquisition and Investment Policies. We do not expect to make new acquisitions of real estate or real estate-related investments in the future. We focused our investment efforts on the acquisition of a diverse portfolio of real estate and real estate-related investments. We diversified our portfolio by investment type, geographic region and tenant/borrower base.

As a result of the default by the borrower (the "GKK Borrower") under our investment in the GKK mezzanine loan (the "GKK Mezzanine Loan"), on September 1, 2011, we entered into a Collateral Transfer and Settlement Agreement (the "Settlement Agreement") with the GKK Borrower pursuant to which we received equity interests in entities that own or hold leasehold interests in approximately 867 real estate assets (the "GKK Properties"), consisting of 576 bank branch properties and 291 office buildings, operations centers and other properties, and assumed $1.5 billion in mortgage debt. As a result of the transfers of the GKK Properties, a significant portion of our revenue is derived from leases to financial institutions and as such, our portfolio became less diversified. As of December 31, 2015, 46.5% of our annualized base rent was generated by leases to financial institutions. Specifically, as of December 31, 2015, we owned or, with respect to a limited number of properties, held a leasehold interest in, 364 real estate properties (of which eight properties were held for sale), including the GKK Properties. In addition, as of December 31, 2015, we owned four real estate loans receivable and a participation interest with respect to a real estate joint venture.

Borrowing Policies. In order to execute our investment strategy, we utilized mortgage, mezzanine and repurchase financings to finance the majority of our investment portfolio. Our management remains vigilant in monitoring the risks inherent with the use of debt in our portfolio and is taking actions to ensure that these risks, including refinancing and interest rate risks, are properly balanced with the benefits of maintaining such leverage. We depend on the cash flow from our real estate and real estate-related investments to meet the debt service obligations under our financing arrangements, and we will depend on the proceeds from the sale of real estate and proceeds from the repayment of our real estate-related investments in order to repay our outstanding debt obligations.

In light of the risks associated with potentially volatile operating cash flows from some of our real estate properties, 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. Some of our debt allows us to extend the maturity date, subject to certain terms and conditions contained in the applicable loan documents. Though we can give no assurance in this regard, we believe we will be permitted to extend the maturity dates of these debt obligations or otherwise satisfy these debt obligations. During the year ended December 31, 2015, we, through indirect wholly owned subsidiaries: entered into two partial defeasances with the lender under the Bank of America - BBD2 Mortgage Loan, defeasing an aggregate of $67.8 million of the principal balance and releasing an aggregate of 38 properties which had secured the Bank of America - BBD2 Mortgage Loan (for more information, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Contractual Commitments and Contingencies - Significant Financing Transactions - Disposition of Waltham Main and Partial Defeasance of the Bank of America - BBD2 Mortgage Loan”); and entered into a defeasance with the lender under the Sterling Bank Mortgage Loan to defease the entire outstanding principal balance of $19.6 million, releasing all the properties which had secured the Sterling Bank Mortgage Loan (for more information, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Contractual Commitments and Contingencies - Significant Financing Transactions - Defeasance of the Sterling Bank Mortgage Loan.”)

As of December 31, 2015, we had a total of $267.0 million of fixed rate notes payable and $164.1 million of variable rate notes payable. As of December 31, 2015, we had approximately $68.0 million of debt maturing (including principal amortization payments) during the 12 months ending December 31, 2016.

We limit our total liabilities to 75% of the cost (before deducting depreciation or other noncash reserves) of our tangible assets; however, we may exceed this limit if the majority of the conflicts committee approves each borrowing in excess of this limitation and we disclose such borrowings to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. We did not exceed this limitation on borrowings during any quarter of 2015. As of January 31, 2016, our borrowings and other liabilities were approximately 35% of both the cost (before deducting depreciation or other noncash reserves) and book value (before deducting depreciation) of our tangible assets, respectively.

Disposition Policies. During the year ended December 31, 2015, we sold 34 properties (of which 31 were GKK Properties) and terminated the leasehold interest in three properties.

We originally intended to hold our core properties for four to seven years. With respect to the GKK Properties, our management continues to evaluate which properties to hold and which properties to sell. The hold period of certain GKK Properties has been affected by the underlying debt structure and related defeasance costs and prepayment penalties.

We initially intended to hold our real estate-related investments until maturity.

Our advisor develops an exit strategy for each of our investments and regularly performs a hold-sell analysis on each asset. Our advisor also has developed such exit strategies for the majority of the GKK Properties. Periodic reviews of each asset focus on the remaining available value enhancement opportunities for the asset, the demand for the asset in the marketplace, market conditions and our overall portfolio objectives to determine if the sale of the asset, whether via an individual sale or as part of a portfolio sale or merger, would generate a favorable return to our stockholders. We may sell an asset before the end of the expected holding period if we believe that market conditions and asset positioning have maximized its value or the sale of the asset would otherwise be in the best interests of our stockholders. Moreover, economic and market conditions may influence us to hold our investments for different periods of time.

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. While we conduct this process, we remain 100% focused on managing our properties.

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. Further, although we have begun the process of exploring strategic alternatives, there is no assurance that the process will result in stockholder liquidity, or provide a return to stockholders that equals or exceeds our estimated value per share.

Policy Regarding Working Capital Reserves. We establish an annual budget for capital requirements and working capital reserves that we update periodically during the year. 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 operations and real estate-related investments and funds available under our credit facilities. However, we have suffered declines in cash flows from these sources. We intend to maintain adequate cash reserves for liquidity, capital expenditures, debt repayments, future special redemptions under our share redemption program and other future capital needs.

Policies Regarding Operating Expenses. Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the four most recently completed fiscal quarters, as these terms are defined in our charter, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expenses for the four fiscal quarters ended December 31, 2015 did not exceed the charter-imposed limitation because our total operating expenses were less than 2% of our average invested assets. For the four consecutive quarters ended December 31, 2015, total operating expenses represented approximately 1.6% of our average invested assets. We had a net loss for the four consecutive quarters ended December 31, 2015.

Policy Regarding Transactions with Related Persons. Our charter requires the conflicts committee to review and approve all transactions between us and our advisor, any of our officers or directors or any of their affiliates. Prior to entering into a transaction with a related party, a majority of the conflicts committee must conclude that the transaction is fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties. In addition, our Code of Conduct and Ethics lists examples of types of transactions with related parties that would create prohibited conflicts of interest and requires our officers and directors to be conscientious of actual and potential conflicts of interest with respect to our interests and to seek to avoid such conflicts or handle such conflicts in an ethical manner at all times consistent with applicable law. Our executive officers and directors are required to report potential and actual conflicts to the Compliance Officer, currently our Chief Financial Officer, via the Ethics Hotline, to an internal audit representative or directly to the audit committee chair, as appropriate.

Certain Transactions with Related Persons. The conflicts committee has reviewed the material transactions between our affiliates and us since the beginning of 2015 as well as any such currently proposed transactions. Set forth below is a description of such transactions and the conflicts committee's report on their fairness.

We have entered into agreements with certain affiliates pursuant to which they provide services to us. Peter M. Bren, Keith D. Hall, Peter McMillan III and Charles J. Schreiber, Jr. control and indirectly own KBS Capital Advisors and KBS Capital Markets Group. We refer to these individuals as our sponsors. They are also some of our executive officers. All four of our sponsors actively participate in the management and operations of our advisor. Our advisor has three managers: an entity owned and controlled by Mr. Bren; an entity owned and controlled by Messrs. Hall and McMillan; and an entity owned and controlled by Mr. Schreiber.

Our Relationship with KBS Capital Advisors. Since our inception, our advisor has provided day-to-day management of our business. Among the services that are provided or have been provided by our advisor under the terms of the advisory agreement are the following:

- finding, presenting and recommending to us real estate and real estate-related investment opportunities consistent with our investment policies and objectives;
- structuring the terms and conditions of our investments, sales and joint ventures;
- acquiring properties and other investments on our behalf in compliance with our investment objectives and policies;
- sourcing and structuring our loan originations and acquisitions;
- arranging for financing and refinancing of our properties and our other investments;
- entering into leases and service contracts for our properties;
- supervising and evaluating each property manager's performance;
- reviewing and analyzing the properties' operating and capital budgets;
- assisting us in obtaining insurance;
- generating an annual budget for us;
- reviewing and analyzing financial information for each of our assets and our overall portfolio;
- formulating and overseeing the implementation of strategies for the administration, promotion, management, operation, maintenance, improvement, financing and refinancing, marketing, leasing and disposition of our properties and other investments;
- performing investor-relations services;
- maintaining our accounting and other records and assisting us in filing all reports required to be filed with the SEC, the IRS and other regulatory agencies;
- engaging in and supervising the performance of our agents, including our registrar and transfer agent; and
- performing any other services reasonably requested by us.

Our advisor is subject to the supervision of the board of directors and only has such authority as we may delegate to it as our agent. The advisory agreement has a one-year term expiring November 8, 2016, subject to an unlimited number of successive one-year renewals upon the mutual consent of the parties. From January 1, 2015 through the most recent date practicable, which was January 31, 2016, we compensated our advisor as set forth below.

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 January 31, 2016, we excluded our interest in an unconsolidated joint venture from the calculation of asset management fees. We also calculate 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. However, once the gross value of the GKK Properties falls below the original cost of our investment in the GKK Mezzanine Loan, we will calculate the asset management fee based on the gross value of the GKK Properties. As of January 31, 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.

From January 1, 2015 through January 31, 2016, our asset management fees totaled $10.3 million, all of which had been paid as of January 31, 2016.

Under the advisory agreement, our advisor has the right to seek reimbursement from us for all costs and expenses it incurs in connection with the provision of services to us, including our allocable share of our advisor's overhead, such as rent, employee costs, utilities and cybersecurity costs. Commencing July 1, 2010, we have reimbursed our advisor for our allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to us. In the future, our advisor may seek reimbursement for additional employee costs. We will not reimburse our advisor for employee costs in connection with services for which our advisor earns acquisition, origination or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries and benefits our advisor or its affiliates may pay to our executive officers. From January 1, 2015 through January 31, 2016, we reimbursed our advisor for $282,000 of operating expenses, $262,000 of which was employee costs.

For substantial assistance in connection with the sale of properties or other investments, we pay our advisor or its affiliates a disposition fee of 1% of the contract sales price of the properties or other investments sold. However, in no event may aggregate real estate commissions paid to our advisor, its affiliates and unaffiliated third parties exceed 6% of the contract sales price of the properties or other investments sold.

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.

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 our 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 we received 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.

From January 1, 2015 through January 31, 2016, we incurred $3.4 million of disposition fees, all of which had been paid as of January 31, 2016. As of January 31, 2016, we had sold 161 GKK Properties for an aggregate contract sales price of $214.1 million for which we had not paid or accrued a disposition fee. If our conflicts committee determines we have recovered our entire investment related to the GKK Mezzanine Loan and the GKK Properties upon the sale of the final GKK Property, our conflicts committee may authorize us to pay our advisor a disposition fee of up to 1% of the aggregate contract sales prices of these GKK Properties sold as of January 31, 2016, which amount would be determined by the conflicts committee in its sole discretion.

In 2006 and 2007, we originally made the three debt investments (collectively, the "Tribeca Loans") related to the Tribeca Building in New York, New York. On February 19, 2010, the borrowers under the Tribeca Loans defaulted and we foreclosed on the Tribeca Building by exercising our right to accept 100% of the ownership interest of the borrowers. We acquired the remaining unsold condominium units of the Tribeca Building (the residential, retail and parking space condominium units transferred to us are, collectively, the "Units" and, individually, each is a "Unit"). As of January 15, 2015, we had sold 26 residential Units, two retail Units and the parking space Units. On January 15, 2015, our conflicts committee approved, pursuant to the advisory agreement, the payment of a disposition fee of 1% of the contract sales price of the Units sold or to be sold, as the remaining two unsold residential Units of the Tribeca Building were under contract to sell as of that date. The sale of the final residential Unit closed on March 9, 2015 and aggregate disposition fees for the disposition of all of the Units of approximately $0.6 million were paid to our advisor on March 25, 2015.

On January 6, 2014, we, together with KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT II, our dealer manager, our 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 our 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. Our advisor's and our 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 was added to the insurance program at terms similar to those described above.

The conflicts committee considers our relationship with our advisor during 2015 to be fair. The conflicts committee believes that the amounts payable to our advisor under the advisory agreement are similar to those paid by other publicly offered, unlisted, externally advised REITs and that this compensation is necessary in order for our advisor to provide the desired level of services to us and our stockholders.

Our Relationship with KBS Capital Markets Group. We have entered into a fee reimbursement agreement (the "AIP Reimbursement Agreement") with KBS Capital Markets Group pursuant to which we agreed to reimburse KBS Capital Markets Group for certain fees and expenses it incurs for administering our participation in the DTCC Alternative Investment Product Platform with respect to certain accounts of our stockholders serviced through the platform. From January 1, 2015 through January 31, 2016, we incurred and paid $48,000 of costs and expenses related to the AIP Reimbursement Agreement.

The conflicts committee believes that this arrangement with our dealer manager is fair.

Other Transactions. On May 18, 2012, KBS Strategic Opportunity REIT, Inc. made an $8.0 million investment in a joint venture in which we indirectly own a participation interest through another joint venture investment. The conflicts committee, composed of all of our independent directors, approved the transaction. For more information, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC. The conflicts committee believes that this transaction was fair.

The conflicts committee has determined that the policies set forth in this Report of the Conflicts Committee are in the best interests of our stockholders because they provide us with the highest likelihood of achieving our investment objectives.

March 16, 2016

The Conflicts Committee of the Board of Directors:
Barbara R. Cambon (chair), Hank Adler and Stuart A. Gabriel, Ph.D.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Independent Registered Public Accounting Firm

During the year ended December 31, 2015, Ernst & Young LLP served as our independent registered public accounting firm and provided certain tax and other services. Ernst & Young has served as our independent registered public accounting firm since our formation.

Pre-Approval Policies

In order to ensure that the provision of such services does not impair the auditors' independence, the audit committee charter imposes a duty on the audit committee to pre-approve all auditing services performed for us by our independent auditors, as well as all permitted non-audit services. In determining whether or not to pre-approve services, the audit committee considers whether the service is a permissible service under the rules and regulations promulgated by the SEC. The audit committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by our independent auditors, provided any such approval is presented to and approved by the full audit committee at its next scheduled meeting.

For the years ended December 31, 2015 and 2014, all services rendered by Ernst & Young were pre-approved in accordance with the policies and procedures described above.

Principal Independent Registered Public Accounting Firm Fees

The audit committee reviewed the audit and non-audit services performed by Ernst & Young, as well as the fees charged by Ernst & Young for such services. In its review of the non-audit service fees, the audit committee considered whether the provision of such services is compatible with maintaining the independence of Ernst & Young. The aggregate fees billed to us for professional accounting services, including the audit of our annual financial statements by Ernst & Young for the years ended December 31, 2015 and 2014, are set forth in the table below.

	2015	2014
Audit fees	$ 810,500	$ 884,741
Audit-related fees	79,000	136,500
Tax fees	381,727	516,418
All other fees	333	399
Total	$ 1,271,560	$ 1,538,058

For purposes of the preceding table, Ernst & Young's professional fees are classified as follows:

- Audit fees - These are fees for professional services performed for the audit of our annual financial statements and the required review of quarterly financial statements and other procedures performed by Ernst & Young in order for them to be able to form an opinion on our consolidated financial statements. These fees also cover services that are normally provided by independent auditors in connection with statutory and regulatory filings or engagements.
- Audit-related fees - These are fees for assurance and related services that traditionally are performed by independent auditors that are reasonably related to the performance of the audit or review of our financial statements, such as due diligence related to acquisitions and dispositions, attestation services that are not required by statute or regulation, internal control reviews and consultation concerning financial accounting and reporting standards.
- Tax fees - These are fees for all professional services performed by professional staff in our independent auditor's tax division, except those services related to the audit of our financial statements. These include fees for tax compliance, tax planning and tax advice, including federal, state and local issues. Services may also include assistance with tax audits and appeals before the IRS and similar state and local agencies, as well as federal, state and local tax issues related to due diligence.
- All other fees - These are fees for any services not included in the above-described categories.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statement Schedules

See the Index to Financial Statements at page F-1 of this report.

The following financial statement schedules are included herein at pages F-44 through F-58 of this report:

Schedule II - Valuation and Qualifying Accounts

Schedule III - Real Estate Assets and Accumulated Depreciation and Amortization

(b) 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	Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2006, filed May 4, 2006
3.3	Second Amended and Restated Bylaws of the Company
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	Amendment No. 1 to the Advisory Agreement, by and between the Company and KBS Capital Advisors, LLC, dated as of January 15, 2015, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed January 16, 2015
10.2	Advisory Agreement, by and between the Company and KBS Capital Advisors, LLC, dated as of November 8, 2015
21.1	Subsidiaries of the Company
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, filed March 13, 2013
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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
KBS Real Estate Investment Trust, Inc.

We have audited the accompanying consolidated balance sheets of KBS Real Estate Investment Trust, Inc. (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KBS Real Estate Investment Trust, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

Irvine, California
March 16, 2016

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31, 2015	December 31, 2014
Assets		
Real estate held for investment:		
Land	$ 236,034	$ 241,664
Buildings and improvements	716,829	764,010
Tenant origination and absorption costs	61,708	67,646
Total real estate held for investment, at cost and net of impairment charges	1,014,571	1,073,320
Less accumulated depreciation and amortization	(161,243)	(162,814)
Total real estate held for investment, net	853,328	910,506
Real estate held for sale, net	7,552	208,005
Foreclosed real estate held for sale	—	12,045
Total real estate, net	860,880	1,130,556
Real estate loans receivable, net	27,281	28,922
Total real estate and real estate-related investments, net	888,161	1,159,478
Cash and cash equivalents	46,605	58,675
Restricted cash	39,874	62,755
Rents and other receivables, net	37,388	37,210
Above-market leases, net	17,896	21,643
Assets related to real estate held for sale	110	10,783
Prepaid expenses and other assets, net	24,831	23,594
Total assets	$ 1,054,865	$ 1,374,138
Liabilities and equity		
Notes payable:		
Notes payable, net	$ 428,222	$ 542,645
Notes payable related to real estate held for sale, net	—	113,424
Total notes payable, net	428,222	656,069
Accounts payable and accrued liabilities	19,152	22,579
Due to affiliates	68	444
Distributions payable	—	4,699
Below-market leases, net	25,863	35,314
Liabilities related to real estate held for sale	939	6,578
Other liabilities	50,958	35,682
Total liabilities	525,202	761,365
Commitments and contingencies (Note 14)		
Redeemable common stock	10,000	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, 186,414,147 and 187,845,515 shares issued and outstanding as of December 31, 2015 and December 31, 2014, respectively	1,864	1,879
Additional paid-in capital	1,656,137	1,662,483
Cumulative distributions and net losses	(1,138,338)	(1,061,589)
Total stockholders' equity	519,663	602,773
Total liabilities and stockholders' equity	$ 1,054,865	$ 1,374,138

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Years Ended December 31,		
	2015	2014	2013
Revenues:			
Rental income	$ 135,117	$ 151,351	$ 160,014
Tenant reimbursements	47,217	54,366	51,306
Interest income from real estate loans receivable	3,089	3,077	3,258
Parking revenues and other operating income	2,797	3,671	3,726
Total revenues	188,220	212,465	218,304
Expenses:			
Operating, maintenance, and management	75,034	84,288	86,204
Real estate taxes, property-related taxes, and insurance	23,696	27,243	28,989
Asset management fees to affiliate	9,547	9,975	10,110
General and administrative expenses	32,619	18,788	17,861
Depreciation and amortization	59,145	71,613	75,745
Interest expense	29,517	45,923	61,682
Impairment charges on real estate	49,306	10,117	40,190
Provision for loan losses	2,504	1,973	—
Total expenses	281,368	269,920	320,781
Other income			
Gain on sales of real estate securities (includes $4.5 million and $10.6 million of unrealized gains reclassified from accumulated other comprehensive income during the years ended December 31, 2014 and 2013, respectively)	—	4,410	10,470
Gain on sales of real estate, net	99,988	2,282	—
Gain on sales of foreclosed real estate held for sale	2,509	1,108	378
(Loss) gain from extinguishment of debt	(22,518)	21,328	—
Other interest income	605	535	658
Other income	789	403	2,731
Total other income	81,373	30,066	14,237
Loss from continuing operations	(11,775)	(27,389)	(88,240)
Discontinued operations:			
Gain on sales of real estate, net	124	4,797	47,997
Income from discontinued operations	264	1,583	2,723
Impairment charges on discontinued operations	—	(257)	(8,975)
Total income from discontinued operations	388	6,123	41,745
Net loss	$ (11,387)	$ (21,266)	$ (46,495)
Basic and diluted income (loss) per common share:			
Continuing operations	$ (0.06)	$ (0.14)	$ (0.46)
Discontinued operations	—	0.03	0.22
Net loss per common share	$ (0.06)	$ (0.11)	$ (0.24)
Weighted-average number of common shares outstanding, basic and diluted	187,219,590	188,891,977	190,454,153

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Years Ended December 31,		
	2015	2014	2013
Net loss	$ (11,387)	$ (21,266)	$ (46,495)
Other comprehensive (loss) income			
Unrealized change in market value of real estate securities	—	(100)	13,867
Reclassification of realized gain on real estate securities	—	(4,452)	(10,609)
Unrealized gains on derivative instruments	—	—	114
Total other comprehensive (loss) income	—	(4,552)	3,372
Total comprehensive loss	$ (11,387)	$ (25,818)	$ (43,123)

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Cumulative Distributions and Net Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amounts				
Balance, December 31, 2012	191,061,016	$ 1,911	$ 1,677,725	$ (909,401)	$ 1,180	$ 771,415
Net loss	—	—	—	(46,495)	—	(46,495)
Other comprehensive loss	—	—	—	—	3,372	3,372
Redemptions of common stock	(1,444,315)	(15)	(7,369)	—	—	(7,384)
Distributions declared	—	—	—	(75,015)	—	(75,015)
Balance, December 31, 2013	189,616,701	$ 1,896	$ 1,670,356	$ (1,030,911)	$ 4,552	$ 645,893
Net loss	—	—	—	(21,266)	—	(21,266)
Other comprehensive income	—	—	—	—	(4,552)	(4,552)
Redemptions of common stock	(1,771,186)	(17)	(7,873)	—	—	(7,890)
Distributions declared	—	—	—	(9,412)	—	(9,412)
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

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2015	2014	2013
Cash Flows from Operating Activities:			
Net loss	$ (11,387)	$ (21,266)	$ (46,495)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization			
Continuing operations	59,145	71,613	75,745
Discontinued operations	—	—	6,514
Impairment charges on real estate - continuing operations	49,306	10,117	40,190
Impairment charges on real estate - discontinued operations	—	257	8,975
Noncash interest income on real estate-related investments	(1,016)	(975)	(1,009)
Change in provision for loan losses	2,504	1,973	—
Deferred rent	(2,539)	(3,351)	(4,095)
Bad debt (recovery) expense	(320)	683	2,490
Amortization of deferred financing costs	1,873	1,581	1,216
Deferred interest payable	—	637	2,184
Amortization of above- and below-market leases, net	(7,192)	(9,040)	(11,212)
Gain on sales of foreclosed real estate held for sale	(2,509)	(1,108)	(378)
Gain on sales of real estate, net	(100,112)	(7,079)	(47,997)
Gain on sales of real estate securities	—	(4,410)	(10,470)
Loss (gain) on extinguishment of debt	22,518	(21,328)	—
Amortization of discounts and premiums on notes payable, net	1,333	3,371	4,198
Changes in operating assets and liabilities:			
Restricted cash for operational expenditures	16,521	23,222	4,177
Rents and other receivables	298	(4,876)	6,586
Prepaid expenses and other assets	(6,651)	(7,241)	(5,714)
Accounts payable and accrued liabilities	(1,326)	(8,508)	(6,076)
Due to affiliates	23	45	(104)
Other liabilities	15,483	2,170	(9,219)
Net cash provided by operating activities	35,952	26,487	9,506
Cash Flows from Investing Activities:			
Acquisition of real estate	(2,297)	—	—
Improvements to real estate	(38,233)	(27,377)	(20,359)
Proceeds from sales of real estate, net	301,833	93,335	183,379
Proceeds from sales of foreclosed real estate held for sale	14,155	8,861	7,589
Principal repayments on real estate loans receivable	153	127	87
Proceeds from sale of real estate securities	—	7,831	22,166
Net change in restricted cash for capital expenditures	4,281	1,950	3,941
Payment of contingent consideration related to the GKK Properties	—	—	(12,000)
Net cash provided by investing activities	279,892	84,727	184,803
Cash Flows from Financing Activities:			
Proceeds from notes payable	—	42,500	185,634
Principal payments on notes payable	(146,094)	(293,367)	(343,498)
Prepayment premium on the repayment of debt	(6,643)	—	—
Net change in restricted cash for debt service obligations	2,079	1,271	3,729
Payments of deferred financing costs	(294)	(1,731)	(962)
Purchase of treasury securities in connection with defeasance of notes payable	(100,540)	—	—
Payments to redeem common stock	(6,361)	(7,890)	(7,384)
Distributions paid to common stockholders	(70,061)	(4,713)	(75,015)
Net cash used in financing activities	(327,914)	(263,930)	(237,496)
Net decrease in cash and cash equivalents	(12,070)	(152,716)	(43,187)
Cash and cash equivalents, beginning of period	58,675	211,391	254,578
Cash and cash equivalents, end of period	$ 46,605	$ 58,675	$ 211,391

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

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 December 31, 2015, the Company owned or, with respect to a limited number of properties, held a leasehold interest in, 364 real estate properties (of which eight properties were held for sale), including the GKK Properties (defined below). In addition, as of December 31, 2015, the Company owned four 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 December 31, 2015, the Company had redeemed 13,021,433 of the shares sold in the Offering for $91.8 million.

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. As of December 31, 2015, the Company accrued $21.7 million of estimated profit participation interest related to the GKK Properties under the Amended Services Agreement.

The Amended 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 Amended Services Agreement. The Amended Services Agreement supersedes and replaces all prior agreements related to the Services among the Company and its affiliates and the Property Manager and its affiliates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company, KBS REIT Holdings, the Operating Partnership, their direct and indirect wholly owned subsidiaries, and joint ventures the Company controls or for which it is the primary beneficiary, as well as the related amounts of noncontrolling interests. All significant intercompany balances and transactions are eliminated in consolidation.

The Company evaluates the need to consolidate joint ventures and consolidates joint ventures that it determines to be variable interest entities for which it is the primary beneficiary. The Company also consolidates joint ventures that are not determined to be variable interest entities, but for which it exercises control over major operating decisions through substantive participation rights, such as approval of budgets, selection of property managers, asset management, investment activity and changes in financing.

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and the rules and regulations of the Securities and Exchange Commission ("SEC").

Use of Estimates

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

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

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. The Company early adopted ASU No. 2014-08 (defined below) for the reporting period beginning January 1, 2014. During the year ended December 31, 2015, the Company sold 34 properties (of which 31 were GKK Properties), two of which were held for sale as of December 31, 2014. Additionally, the Company had classified eight properties as held for sale, all of which were GKK Properties, as of December 31, 2015. As a result, certain assets and liabilities were reclassified to held for sale on the consolidated balance sheets for all periods presented. 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 statements of operations. Operating results of properties that were disposed of or classified as held for sale in the ordinary course of business subsequent to January 1, 2014 that had not been classified as held for sale in financial statements issued for the reporting periods prior to January 1, 2014 are included in continuing operations on the Company's consolidated statements of operations. During the year ended December 31, 2015, the Company elected to early adopt ASU No. 2015-03 (defined below). As a result, the Company has reclassified debt issuance costs associated with a debt liability from prepaid expenses and other assets to notes payable, net on the consolidated balance sheets for all periods presented.

Revenue Recognition

Real Estate

The Company recognizes minimum rent, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectibility is reasonably assured and records amounts expected to be received in later years as deferred rent receivable. If the lease provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance (including amounts that the tenant can take in the form of cash or a credit against its rent) that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how a tenant improvement allowance may be spent;
- whether the amount of a tenant improvement allowance is in excess of market rates;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

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 Company makes estimates of the collectibility of its tenant receivables related to base rents, including deferred rent receivable, expense reimbursements and other revenue or income. Management specifically analyzes accounts receivable, deferred rent receivable, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In addition, with respect to tenants in bankruptcy, management makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectibility of the related receivable. In some cases, the ultimate resolution of these claims can exceed one year. When a tenant is in bankruptcy, the Company will record a bad debt reserve for the tenant's receivable balance and generally will not recognize subsequent rental revenue until cash is received or until the tenant is no longer in bankruptcy and has the ability to make rental payments.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

Real Estate Loans Receivable

Interest income on the Company's real estate loans receivable is recognized on an accrual basis over the life of the investment using the interest method. Direct loan origination fees and origination or acquisition costs, as well as acquisition premiums or discounts, are amortized over the term of the loan as an adjustment to interest income. The Company places loans on nonaccrual status when any portion of principal or interest is 90 days past due, or earlier when concern exists as to the ultimate collection of principal or interest. When a loan is placed on nonaccrual status, the Company reserves for any unpaid accrued interest and generally does not recognize subsequent interest income until cash is received, or the loan returns to accrual status. 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 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 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.

Real Estate Securities

The Company recognizes interest income on real estate securities that are beneficial interests in securitized financial assets and are rated "AA" and above on an accrual basis according to the contractual terms of the securities. Discounts or premiums are amortized to interest income over the life of the investment using the interest method.

The Company recognizes interest income on real estate securities that are beneficial interests in securitized financial assets that are rated below "AA" using the effective yield method, which requires the Company to periodically project estimated cash flows related to these securities and recognize interest income at an interest rate equivalent to the estimated yield on the security, as calculated using the security's estimated cash flows and amortized cost basis, or reference amount. Changes in the estimated cash flows are recognized through an adjustment to the yield on the security on a prospective basis. Projecting cash flows for these types of securities requires significant judgment, which may have a significant impact on the timing of revenue recognized on these investments.

Cash and Cash Equivalents

The Company recognizes interest income on its cash and cash equivalents as it is earned and classifies such amounts as other interest income.

Real Estate

Depreciation and Amortization

Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the expected useful life of the asset on a straight-line basis. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. The Company considers the period of future benefit of an asset to determine its appropriate useful life. Expenditures for tenant improvements are capitalized and amortized over the shorter of the tenant's lease term or expected useful life. The Company anticipates the estimated useful lives of its assets by class to be generally as follows:

Buildings	15 - 40 years
Building improvements	10 - 25 years
Tenant improvements	Shorter of lease term or expected useful life
Tenant origination and absorption costs	Remaining term of related leases, including below-market renewal periods

Real Estate Acquisition Valuation

The Company records the acquisition of income-producing real estate or real estate that will be used for the production of income as a business combination. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. Acquisition costs are expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date.

The Company assesses the acquisition date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers, generally utilizing a discounted cash flow analysis that applies appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

The Company records above-market and below-market in-place lease values for acquired properties based on the present value (using a discount rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of above-market in-place leases and for the initial term plus any extended term for any leases with below-market renewal options. The Company amortizes any recorded above-market or below-market lease values as a reduction or increase, respectively, to rental income over the remaining non-cancelable terms of the respective lease, including any below-market renewal periods.

The Company estimates the value of tenant origination and absorption costs by considering the estimated carrying costs during hypothetical expected lease up periods, considering current market conditions. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease up periods.

The Company amortizes the value of tenant origination and absorption costs to depreciation and amortization expense over the remaining non-cancelable term of the leases.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require the Company to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment. The use of inappropriate assumptions would result in an incorrect valuation of the Company's acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of the Company's net income.

Impairment of Real Estate and Related Intangible Assets and Liabilities

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its real estate and related intangible assets and liabilities may not be recoverable or realized. When indicators of potential impairment suggest that the carrying value of real estate and related intangible assets and liabilities may not be recoverable, the Company assesses the recoverability by estimating whether the Company will recover the carrying value of the real estate and related intangible assets and liabilities through its undiscounted future cash flows and its eventual disposition. If, based on this analysis, the Company does not believe that it will be able to recover the carrying value of the real estate and related intangible assets and liabilities, the Company would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of the real estate and related intangible assets and liabilities.

Real Estate Held for Sale and Discontinued Operations

The Company generally considers non-foreclosed real estate to be "held for sale" when the following criteria are met: (i) management commits to a plan to sell the property, (ii) the property is available for sale immediately, (iii) the property is actively being marketed for sale at a price that is reasonable in relation to its current fair value, (iv) the sale of the property within one year is considered probable and (v) significant changes to the plan to sell are not expected. Real estate that is held for sale and its related assets are classified as "real estate held for sale" and "assets related to real estate held for sale," respectively, for all periods presented in the accompanying consolidated financial statements. Notes payable and other liabilities related to real estate held for sale are classified as "notes payable related to real estate held for sale" and "liabilities related to real estate held for sale," respectively, for all periods presented in the accompanying consolidated financial statements. Real estate classified as held for sale is no longer depreciated and is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell. Additionally, with respect to properties that were classified as held for sale in financial statements prior to January 1, 2014, the Company records the operating results and gains on sale as discontinued operations for all periods presented if the operations have been or are expected to be eliminated and the Company will not have any significant continuing involvement in the operations of the property following the sale. Operating results of properties and gains on sale that were disposed of or classified as held for sale in the ordinary course of business during the years ended December 31, 2015 and 2014 that had not been classified as held for sale in financial statements prior to January 1, 2014 are included in continuing operations on the Company's consolidated statements of operations.

Change in a Plan to Sell

When real estate is initially considered "held for sale" it is measured at the lower of its depreciated book value, or estimated fair value less estimated costs to sell. Changes in the market may compel the Company to decide to reclassify a property that was designated as held for sale to held for investment. A property that is reclassified from held for sale to held for investment or non-sale disposition is measured and recorded individually at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used, or (ii) its fair value at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of the property as a result of the reclassification is included in income from continuing operations as an impairment charge on real estate held for investment.

Real Estate Held for Non-Sale Disposition

The Company considers real estate assets that do not meet the criteria to be classified as held for sale but are expected to be disposed of other than by sale as real estate held for non-sale disposition. The assets and liabilities related to real estate held for non-sale disposition are included in the Company's consolidated balance sheets and the results of operations are presented as part of continuing operations in the Company's consolidated statements of operations for all periods presented. With respect to properties that were disposed of other than by sale prior to January 1, 2014, the Company records the operating results as discontinued operations for all periods presented. Operating results of properties that were disposed of other than by sale during the year ended December 31, 2014 are included in continuing operations on the Company's consolidated statements of operations. The Company did not dispose of any properties other than by sale during the year ended December 31, 2015.

Foreclosed Real Estate Held for Sale

Foreclosed real estate held for sale consists of properties to which the Company has received title through foreclosure or by deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans that the Company intends to market for sale in the near term. Foreclosed real estate held for sale is initially recorded at the estimated fair value of the real estate less estimated costs to sell, or the fair value of the loan satisfied if more clearly evident. The excess of the carrying value of the loan over the fair value of the property less estimated costs to sell, if any, is charged-off against the reserve for loan losses when title to the property is obtained. Costs of holding the property are expensed as incurred in the Company's consolidated statements of operations. The gain or loss on final disposition of foreclosed real estate held for sale is recorded as other income and is considered income (loss) from continuing operations as it represents the final stage of the Company's loan collection process.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

Real Estate Loans Receivable

The Company's real estate loans receivable are recorded at amortized cost, net of loan loss reserves, and evaluated for impairment at each balance sheet date. The amortized cost of a real estate loan receivable is the outstanding unpaid principal balance, net of unamortized acquisition premiums or discounts and unamortized costs and fees directly associated with the origination or acquisition of the loan.

The reserve for loan losses is a valuation allowance that reflects management's estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is adjusted through "Provision for loan losses" on the Company's consolidated statements of operations and is decreased by charge-offs to specific loans when losses are confirmed. The reserve for loan losses includes a portfolio-based component and an asset-specific component.

An asset-specific reserve relates to reserves for losses on loans considered impaired. The Company considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. The Company also considers a loan to be impaired if it grants the borrower a concession through a modification of the loan terms or if it expects to receive assets (including equity interests in the borrower) with fair values that are less than the carrying value of the loan in satisfaction of the loan. A reserve is established when the present value of payments expected to be received, observable market prices, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or amounts expected to be received in satisfaction of a loan are lower than the carrying value of that loan.

A portfolio-based reserve covers the pool of loans that do not have asset-specific reserves. A provision for loan losses is recorded when available information as of each balance sheet date indicates that it is probable that a loss occurred in the pool of loans and the amount of the loss can be reasonably estimated, but the Company does not know which specific loans within the pool will ultimately result in losses. Required reserve balances for this pool of loans are derived from estimated probabilities of default and estimated loss severities assuming a default occurs. On a quarterly basis, the Company's management assigns estimated probabilities of default and loss severities to each loan in the portfolio based on factors such as the debt service coverage of the underlying collateral, the estimated fair value of the collateral, the significance of the borrower's investment in the collateral, the financial condition of the borrower and/or its sponsors, the likelihood that the borrower and/or its sponsors would allow the loan to default, the Company's willingness and ability to step in as owner in the event of default, and other pertinent factors.

Failure to recognize impairments would result in the overstatement of earnings and the carrying value of the Company's real estate loans receivable. Actual losses, if any, could differ significantly from estimated amounts.

Participation Interest in an Unconsolidated Joint Venture

The Company holds a participation interest with respect to a real estate joint venture. The carrying value of this participation interest as of December 31, 2015 and 2014 was $0 and the Company did not record any income or losses with respect to this participation interest during the years ended December 31, 2015, 2014 and 2013.

Cash and Cash Equivalents

The Company considers all short-term (with an original maturity of three months or less), highly-liquid investments utilized as part of the Company's cash-management activities to be cash equivalents. Cash equivalents may include cash and short-term investments. Short-term investments are stated at cost, which approximates fair value.

The Company's cash and cash equivalents balance exceeded federally insurable limits as of December 31, 2015. The Company monitors the cash balances in its operating accounts and adjusts the cash balances as appropriate; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to cash in its operating accounts.

Restricted Cash

Restricted cash is comprised of lender impound reserve accounts on the Company's borrowings for security deposits, property taxes, insurance, rent from master lease, letters of credit, debt service obligations and capital improvements and replacements.

Rents and Other Receivables

The Company periodically evaluates the collectibility of amounts due from tenants and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under lease agreements. In addition, the Company maintains an allowance for deferred rent receivable that arises from the straight-lining of rents. The Company exercises judgment in establishing these allowances and considers payment history and current credit status of its tenants in developing these estimates.

Deferred Financing Costs

Deferred financing costs represent commitment fees, loan fees, legal fees and other third-party costs associated with obtaining financing and are presented on the balance sheet as a direct deduction from the carrying value of the associated debt liabilities. These costs are amortized over the terms of the respective financing agreements using the interest method. Unamortized deferred financing costs are generally expensed when the associated debt is refinanced or repaid before maturity unless specific rules are met that would allow for the carryover of such costs to the refinanced debt. Deferred financing costs incurred before an associated debt liability is recognized are included in prepaid and other assets on the balance sheet. Costs incurred in seeking financing transactions that do not close are expensed in the period in which it is determined that the financing will not close.

Fair Value Measurements

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 financial instruments and balances 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.

When available, the Company utilizes quoted market prices from independent third-party sources to determine fair value and classifies such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require the Company to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When the Company determines the market for a financial instrument owned by the Company to be illiquid or when market transactions for similar instruments do not appear orderly, the Company uses several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establishes a fair value by assigning weights to the various valuation sources. 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.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

The Company considers the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the Company's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

The Company considers the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

Share Redemption Program

The Company has a share redemption program pursuant to which stockholders may sell their shares to the Company only 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 the share redemption program, including:

- During each calendar year, special redemptions are limited to an annual amount determined by the board of directors. The annual dollar limitation for special redemptions may be reviewed and adjusted from time to time during the year. The dollar limitation for calendar year 2015 was $10.0 million in the aggregate. On December 8, 2015, the Company's 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 the board of directors), and further subject to the limitations described in the share redemption program.
- During any calendar year, the Company may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- The Company has 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.

The Company currently does not expect to have funds available for ordinary redemptions in the future.

If the Company cannot repurchase all shares presented for redemption in any month because of the limitations on redemptions set forth in the share redemption program, then the Company 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 the Company's most recently effective registration statement, as such registration statement has been amended or supplemented, then the Company would redeem all of such stockholder's shares.

The Company redeems shares eligible for redemption at the estimated value per share of the Company's common stock as of the applicable redemption date.

On December 9, 2014, the Company's board of directors approved an estimated value per share of the Company's common stock of $4.52 (unaudited), based on the estimated value of the Company's assets less the estimated value of its liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2014. As such, the redemption price for shares eligible for redemption was $4.52 per share for redemption dates from December 2014 through November 2015.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

On December 8, 2015, the Company's board of directors approved an estimated value per share of the Company's common stock of $3.94 (unaudited), based on the estimated value of the Company's assets less the estimated value of its liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2015, with the exception of an adjustment to the Company's 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 common stock of the Company to the stockholders of record as of the close of business on December 1, 2015. Commencing with the December 2015 redemption date and until the estimated value per share is updated, the redemption price for all shares eligible for redemption is $3.94 per share (unaudited).

The estimated value per share was based upon the recommendation and valuation prepared by the Advisor. As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties using different assumptions and estimates could derive a different estimated value per share of the Company's common stock, and this difference could be significant. The estimated value per share is not audited and does not represent the fair value of the Company's assets less the fair value of its liabilities according to GAAP, nor does it represent a liquidation value of the Company's assets and liabilities or the price at which the Company's shares of common stock would trade on a national securities exchange. The estimated value per share does not reflect a discount for the fact that the Company is externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated value per share also does not take into account debt defeasance costs the Company may incur in connection with prepayments on its notes payable, debt prepayment penalties or swap breakage fees that could apply upon the prepayment of certain of the Company's debt obligations or termination of related swap agreements prior to expiration, the impact of restrictions on the assumption of debt, or disposition costs and fees for real estate properties that are not under contract to sell.

The value of the Company's shares will fluctuate over time in response to developments related to individual assets in the portfolio and the management of those assets and in response to the real estate and finance markets. The Company currently expects to utilize the Advisor and/or an independent valuation firm to update the estimated value per share no later than December 2016.

The Company's board of directors may amend, suspend or terminate the share redemption program upon 30 days' notice to its stockholders. The Company may provide this notice by including such information in a Current Report on Form 8-K or in the Company's annual or quarterly reports, all publicly filed with the SEC, or by a separate mailing to its stockholders.

The Company records amounts that are redeemable under the share redemption program as redeemable common stock in the accompanying consolidated balance sheets because the shares are mandatorily redeemable at the option of the holder upon the stockholder's death, "qualifying disability" or "determination of incompetence" and therefore their redemption is outside the control of the Company. Pursuant to the share redemption program, beginning in 2012, the maximum amount redeemable under the Company's share redemption program is limited to an annual dollar amount determined by the Company's board of directors, as described above. However, because the amounts that can be redeemed in future periods are determinable and only contingent on an event that is likely to occur (e.g., the passage of time), the Company presents the amounts available for redemptions in future periods as redeemable common stock in the accompanying balance sheets.

The Company classifies financial instruments that represent a mandatory obligation of the Company to redeem shares as liabilities. The Company's redeemable common shares are contingently redeemable at the option of the holder upon the stockholder's death, "qualifying disability" or "determination of incompetence." When shares are tendered for redemption and the Company determines that it has a mandatory obligation to redeem shares under the share redemption program, it will reclassify such obligations from temporary equity to a liability based upon their respective settlement values.

The Company limits the dollar value of shares that may be redeemed under the share redemption program as described above. During the year ended December 31, 2015, the Company redeemed $6.4 million of common stock. The only redemptions the Company made under the share redemption program in 2015 were those that qualified as, and met the requirements for, special redemptions. In 2015, the Company fulfilled all redemption requests that qualified as special redemptions under the Company's share redemption program.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

Related Party Transactions

The Company has entered into the Advisory Agreement. This agreement entitles the Advisor to specified fees upon the provision of certain services with regard the management of the Company's investments, among other services, and the disposition of investments, as well as reimbursement of 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 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 ("AIP Platform") with respect to certain accounts of the Company's investors serviced through the platform. The Advisor also serves, and 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.

The Company records all related party fees as incurred, subject to any limitations described in the Advisory Agreement. The Company has granted no stock-based compensation awards to the Advisor or its affiliates and it did not incur any subordinated participation in net cash flows or subordinated incentive listing fees during the year ended December 31, 2015 or any previous periods.

Operating Expenses

Under the Advisory Agreement, the Advisor has the right to seek reimbursement from the Company for all costs and expenses it incurs in connection with the provision of services to the Company, including the Company's allocable share of the Advisor's overhead, such as rent, employee costs, accounting software and cybersecurity costs. Commencing July 1, 2010, the Company has reimbursed the Advisor for the Company's allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company. In the future, the Advisor may seek reimbursement for additional employee costs. The Company will not reimburse the Advisor for employee costs in connection with services for which the Advisor earns acquisition, origination or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries and benefits the Advisor or its affiliates may pay to the Company's executive officers.

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 will be determined based on the Company's proportionate share of the underlying investment. The Company calculates the asset management fee for its investment in the GKK Properties based on the original cost of the Company's 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. However, once the gross value of the GKK Properties falls below the original cost of the Company's investment in the GKK Mezzanine Loan, the Company will calculate the asset management fee based on the gross value of the GKK Properties.

With respect to investments in loans and any investments other than real estate, the Company pays the Advisor a monthly fee calculated, each month, as one-twelfth of 0.75% of the lesser of (i) the amount 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 shall 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 the Company's management and then approved by a majority of the Company's 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 the Company 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.

Disposition Fees

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.

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.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

Income Taxes

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). To continue to qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company's annual REIT taxable income to stockholders (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax on income that it distributes as dividends to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could materially and adversely affect the Company's net income and net cash available for distribution to stockholders. However, the Company believes that it is organized and operates in such a manner as to continue to qualify for treatment as a REIT.

The Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Neither the Company nor its subsidiaries have been assessed interest or penalties by any major tax jurisdictions. The Company's evaluations were performed for the tax years ended December 31, 2015, 2014 and 2013. As of December 31, 2015, returns for the calendar years 2011 through 2014 remain subject to examination by major tax jurisdictions.

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 years ended December 31, 2015, 2014 and 2013, respectively.

Distributions declared per share of common stock were $0.350 for the year ended December 31, 2015. Distributions per share of common stock were based on a quarterly record date for each quarter during 2015. Additionally, the Company's board of directors declared a special distribution in the amount of $0.25 per share on the outstanding shares of the Company's common stock on November 30, 2015 to stockholders of record as of the close of business on December 1, 2015.

Distributions declared per share of common stock were $0.050 and $0.395 for the years ended December 31, 2014 and 2013, respectively. On November 6, 2013, the Company's board of directors declared a distribution in the amount of $0.395 per share of common stock to stockholders of record as of the close of business on November 8, 2013. On September 30, 2014, the Company's board of directions 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 30, 2014. On December 9, 2014, 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 December 29, 2014.

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 12, "Segment Information."

Square Footage, Occupancy and Other Measures

Square footage, occupancy and other measures used to describe real estate and real estate-related investments included in these notes to consolidated financial statements are presented on an unaudited basis.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

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 2015, the FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* ("ASU No. 2015-01"). The amendments in ASU No. 2015-01 eliminate from GAAP the concept of extraordinary items. Although the amendments will eliminate the requirements in Subtopic 225-20 for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. ASU No. 2015-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU No. 2015-01 to have a significant impact on its financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs* ("ASU No. 2015-03"). The amendments in ASU No. 2015-03 require debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. ASU No. 2015-03 is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. Given the absence of authoritative guidance within ASU No. 2015-03 for debt issuance costs related to line-of-credit arrangements, in August 2015, the FASB issued ASU No. 2015-15, *Interest - Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU No. 2015-15"), which clarifies ASU No. 2015-03 by stating that the staff of the SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU No. 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and is to be applied retrospectively. Early adoption is permitted for financial statements that have not been previously issued. The Company elected to early adopt ASU No. 2015-03 for the reporting period ending December 31, 2015. As a result of adoption of ASU No. 2015-03, the Company changed the presentation of debt issuance costs associated with a debt liability from prepaid expenses and other assets to notes payable, net on the accompanying consolidated balance sheets. All periods presented have been retroactively adjusted.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments* ("ASU No. 2015-16"). The amendments in ASU No. 2015-16 require that in a business combination, an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU No. 2015-16 is effective for annual periods beginning after December 15, 2015, and interim periods within those fiscal years and is to be applied prospectively. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU No. 2015-16 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 changes 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

3. REAL ESTATE HELD FOR INVESTMENT

As of December 31, 2015, the Company's portfolio of real estate held for investment, including the GKK Properties, was composed of approximately 7.7 million rentable square feet and was 85% occupied. These properties are located in 30 states and include office properties, industrial properties and bank branch properties. Included in the Company's portfolio of real estate held for investment was 4.6 million rentable square feet related to the GKK Properties held for investment, which were 83% occupied as of December 31, 2015.

The following table summarizes the Company's investments in real estate as of December 31, 2015 and 2014 (in thousands):

	Land	Buildings and Improvements	Tenant Origination and Absorption Costs	Total Real Estate Held for Investment
As of December 31, 2015:				
Office	$ 61,987	$ 357,524	$ 565	$ 420,076
Industrial	14,651	73,411	2,244	90,306
GKK Properties	159,396	285,894	58,899	504,189
Real estate held for investment, at cost and net of impairment charges	$ 236,034	$ 716,829	$ 61,708	$ 1,014,571
Accumulated depreciation and amortization	—	(129,317)	(31,926)	(161,243)
Real estate held for investment, net	$ 236,034	$ 587,512	$ 29,782	$ 853,328
As of December 31, 2014:				
Office	$ 68,178	$ 401,083	$ 1,825	$ 471,086
Industrial	14,651	70,039	3,137	87,827
GKK Properties	158,835	292,888	62,684	514,407
Real estate held for investment, at cost and net of impairment charges	$ 241,664	$ 764,010	$ 67,646	$ 1,073,320
Accumulated depreciation and amortization	—	(133,861)	(28,953)	(162,814)
Real estate held for investment, net	$ 241,664	$ 630,149	$ 38,693	$ 910,506

Operating Leases

The Company's real estate assets are leased to tenants under operating leases for which the terms and expirations vary. As of December 31, 2015, the Company's leases, including the GKK Properties held for investment and excluding options to extend, had remaining terms of up to 11.2 years with a weighted-average remaining term of 4.3 years. As of December 31, 2015, leases related to the GKK Properties, excluding options to extend, had remaining terms of up to 11.2 years with a weighted-average remaining term of 4.1 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 $3.2 million and $3.0 million as of December 31, 2015 and 2014, respectively.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

During the years ended December 31, 2015, 2014 and 2013, the Company recognized deferred rent from tenants of $2.5 million, $3.4 million and $4.0 million, respectively. These amounts for the years ended December 31, 2015, 2014 and 2013 were net of $1.4 million, $1.4 million and $1.4 million of lease incentive amortization, respectively. As of December 31, 2015 and 2014, the cumulative deferred rent balance was $30.3 million and $27.7 million, respectively, and is included in rents and other receivables on the accompanying balance sheets. The cumulative deferred rent balance included $5.8 million and $5.7 million of unamortized lease incentives as of December 31, 2015 and 2014, 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 December 31, 2015 for the years ending December 31 is as follows (in thousands):

2016	$	111,091
2017		104,503
2018		91,565
2019		78,161
2020		58,534
Thereafter		156,386
	$	600,240

As of December 31, 2015, 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	74	$ 51,756	46.5%

[1] Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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 December 31, 2015, no other tenant industries accounted for more than 10% of the Company's annualized base rent. The Company currently has over 300 tenants over a diverse range of industries and geographical regions. As of December 31, 2015 and 2014, the Company had a bad debt expense reserve of $0.5 million and $1.1 million, respectively. The Company's bad debt expense reserve as of December 31, 2015 and 2014 included $0.4 million and $1.0 million related to the GKK Properties, respectively. During the years ended December 31, 2015, 2014 and 2013, the Company recorded bad debt (recovery) expense related to its tenant receivables of $(0.1) million, $0.5 million and $2.2 million, respectively.

As of December 31, 2015, 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:

					Annualized Base Rent Statistics			
Tenant	Property	Tenant Industry	Rentable Square Feet	% of Portfolio Rentable Sq. Ft. Leased [1]	Annualized Base Rent [1] (in thousands)	% of Portfolio Annualized Base Rent	Annualized Base Rent per Square Foot	Lease Expirations
Bank of America, N.A.	Various	Finance	2,290,434	35.2%	$ 18,826	16.9%	$ 8.22	[2]

[1] Annualized base rent represents annualized contractual base rental income as of December 31, 2015, 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 December 31, 2015, lease expiration dates ranged from 2019 through 2026 with a weighted-average remaining term of 4.3 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

Bank of America Corporation is the guarantor of various leases that its subsidiary, Bank of America, N.A., has with the Company. The condensed consolidated financial information of Bank of America Corporation has been included herein because of the significant credit concentration the Company has with this guarantor. Bank of America Corporation currently files its financial statements in reports filed with the SEC, and the following unaudited summary financial data regarding Bank of America Corporation is taken from its previously filed public reports. For more detailed financial information regarding Bank of America Corporation, please refer to its financial statements, which are publicly available with the SEC at *http://www.sec.gov*.

	Years Ended December 31,		
	2015	2014	2013
Consolidated Statements of Income (in millions)			
Total revenue, net of interest expense	$ 82,507	$ 84,247	$ 88,942
Income before income taxes	22,154	6,855	16,172
Net income	15,888	4,833	11,431

	As of	
	December 31, 2015	December 31, 2014
Consolidated Balance Sheets (in millions)		
Total assets	$ 2,144,316	$ 2,104,534
Total liabilities	1,888,111	1,861,063
Total stockholders' equity	256,205	243,471

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

Geographic Concentration Risk

As of December 31, 2015, the Company's net investments in real estate in Virginia represented 12% 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 year ended December 31, 2015, the Company recorded non-cash impairment charges of $49.3 million. The impairment charges for the year ended December 31, 2015 included $48.4 million of impairments with respect to ten properties classified as real estate held for investment (including six GKK Properties) to write-down the carrying values of these real estate investments to their estimated fair values. See Note 6, "Real Estate Held for Sale and Discontinued Operations," for information regarding impairments of assets related to real estate held for sale. The facts and circumstances leading to the impairments on the Company's real estate held for investment are as follows:

Woodfield Preserve Office Center

The Company recognized an impairment charge during the year ended December 31, 2015 of $24.8 million to reduce the carrying value of the Company's investment in Woodfield Preserve Office Center, an office property located in Schaumburg, Illinois, due to a decrease in projected cash flow projections. The decrease in cash flow projections was primarily due to (i) an increase in projected vacancy related to a tenant occupying 51,616 rentable square feet, or approximately 8% of the Woodfield Preserve Office Center and (ii) the challenging Schaumburg office rental market. The tenant's lease expires in November 2016 and it is no longer expected to renew since it was recently acquired and can relocate to excess space leased by the acquiring company. As a result, the Company revised its cash flow projections for longer lease up periods and additional tenant improvement costs and leasing concessions required to attract new tenants. Chicago's northwest suburb office rental market was heavily affected by the 2008-2009 recession; however, the outlook was optimistic that the market would recover to levels seen prior to the recession. Although the general market has seen positive net absorption, rental rates have remained low while lease concessions remain high resulting in lower projected revenue growth and cash flow projections. The market conditions in Schaumburg, Illinois have also resulted in a lack of interest from investors.

Tysons Dulles Plaza

The Company recognized an impairment charge during the year ended December 31, 2015 of $15.7 million to reduce the carrying value of Tysons Dulles Plaza, an office property located in McLean, Virginia, to its estimated fair value. The Company revised its cash flow projections primarily for longer estimated lease up periods as a result of the continued lack of demand in the McLean office rental market. While the market has seen slight increases in rental rates, lease concessions have not declined as previously expected. The Company also revised its cash flow projections to account for higher projected capital costs for tenant improvements, general building upgrades, and deferred maintenance costs needed to position the property competitively with other properties in the area, to address certain maintenance issues and to attract additional tenants. The lack of sales activity in McLean, Virginia has also resulted in higher capitalization rates.

University Park Buildings

The Company recognized an impairment charge during the year ended December 31, 2015 of $3.4 million related to the Company's investment in the University Park Buildings, an office property located in Sacramento, California, due to a decrease in cash flow projections primarily due to an increase in projected vacancy related to a tenant occupying 36,377 rental square feet, or approximately 28% of the University Park Buildings. The tenant's lease expires in June 2017 and it is no longer expected to renew. As a result, the Company revised its cash flow projections for longer lease up periods and additional tenant improvement costs and leasing concessions required to attract new tenants.

69 State Street

The Company recognized an impairment charge during the year ended December 31, 2015 of $2.0 million to reduce the carrying value of 69 State Street, an office property located in Albany, New York, to its estimated fair value based on its selling price at auction subsequent to December 31, 2015.

Las Vegas Ops Center

The Company recognized an impairment charge during the year ended December 31, 2015 of $2.0 million to reduce the carrying value of Las Vegas Ops Center, an operations center located in Las Vegas, Nevada, to its estimated fair value based on its selling price at auction subsequent to December 31, 2015.

Other Properties

The Company recognized impairment charges during the year ended December 31, 2015 of $0.5 million related to five other properties held for investment, including four GKK Properties. No impairment charge related to any individual property was greater than $250,000. These impairments generally resulted from changes in the projected hold periods or changes in leasing 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

Prior Period Impairments

During the year ended December 31, 2014, the Company recorded impairment charges of $10.1 million with respect to six properties (including two GKK Properties). Included in the Company's impairment charges during the year ended December 31, 2014 was a $7.2 million impairment charge to reduce the carrying value of the Company's investment in Tysons Dulles Plaza to its estimated fair value due to a change in cash flow projections. The Company revised its cash flow projections for Tysons Dulles Plaza primarily because of a continued lag in demand in the Washington D.C. office rental market, resulting in ongoing leasing challenges and lower projected revenue growth. The Company also revised its cash flow projections to account for higher projected capital costs for tenant improvements and general building upgrades needed to attract additional tenants.

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

As of December 31, 2015 and 2014, 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	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Cost, net of impairments [1]	$ 61,708	$ 67,646	$ 32,415	$ 32,661	$ (65,882)	$ (66,136)
Accumulated amortization [1]	(31,926)	(28,953)	(14,519)	(11,018)	40,019	30,822
Net amount	$ 29,782	$ 38,693	$ 17,896	$ 21,643	$ (25,863)	$ (35,314)

[1] In 2015 and 2014, the Company wrote-off fully amortized tenant origination and absorption costs of $2.4 million and $7.3 million, respectively, above-market lease assets of $0.2 million and $1.2 million, respectively, and below-market lease liabilities of $0.3 million and $3.9 million, respectively.

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 years ended December 31, 2015, 2014 and 2013 were as follows (in thousands):

	Tenant Origination and Absorption Costs			Above-Market Lease Assets			Below-Market Lease Liabilities		
	For the Years Ended December 31,			For the Years Ended December 31,			For the Years Ended December 31,		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Amortization	$ (11,902)	$ (16,345)	$ (18,483)	$ (3,840)	$ (3,790)	$ (4,560)	$ 11,032	$ 12,531	$ 12,875

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December 31, 2015

The remaining unamortized balance for these outstanding intangible assets and liabilities as of December 31, 2015 is expected to be amortized for the years ending December 31 as follows (in thousands):

	Tenant Origination and Absorption Costs	Above-Market Lease Assets	Below-Market Lease Liabilities
2016	$ (7,253)	$ (3,271)	$ 8,867
2017	(6,474)	(2,885)	7,716
2018	(5,965)	(2,627)	4,705
2019	(4,597)	(1,925)	3,360
2020	(1,423)	(1,591)	310
Thereafter	(4,070)	(5,597)	905
	$ (29,782)	$ (17,896)	$ 25,863
Weighted-Average Remaining Amortization Period	5.3 years	7.6 years	3.6 years

5. REAL ESTATE LOANS RECEIVABLE

As of December 31, 2015 and 2014, 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 December 31, 2015 [1]	Book Value as of December 31, 2015 [2]	Book Value as of December 31, 2014 [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	$ 5,181	5.4%	—%	01/01/2017
Lawrence Village Plaza Loan Origination New Castle, Pennsylvania [5]	08/06/2007	Retail	Mortgage	6,903	6,903	6,920	8.0%	8.1%	09/01/2015
San Diego Office Portfolio B-Note San Diego, California [6]	10/26/2007	Office	B-Note	20,000	18,277	17,450	5.8%	11.2%	10/11/2017
4929 Wilshire B-Note Los Angeles, California	11/19/2007	Office	B-Note	3,834	3,503	3,365	6.1%	12.4%	07/11/2017
				$ 35,811	$ 33,779	$ 32,916			
Reserve for Loan Losses [7]				—	(6,498)	(3,994)			
				$ 35,811	$ 27,281	$ 28,922			

[1] Outstanding principal balance as of December 31, 2015 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 2015, using the interest method, annualized and divided by the average amortized cost basis of the investment during 2015. The contractual interest rates and annualized effective interest rates presented are as of December 31, 2015.

[4] The Company had recorded an asset-specific loan loss reserve against this investment as of December 31, 2015 and 2014. See "—Reserve for Loan Losses."

[5] On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. The Company had recorded an asset-specific loan loss reserve against this investment as of December 31, 2015. See "—Reserve for Loan Losses." The Company is currently negotiating an agreement in lieu of foreclosure with the borrower under the Lawrence Village Plaza Loan Origination to transfer title of the property securing the loan to the Company in full satisfaction of the debt outstanding under, and all other obligations related to, the Lawrence Village Plaza Loan Origination.

[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 year ended December 31, 2015, the Company recognized $2.0 million of interest income related to its investment in this loan.

[7] See "—Reserve for Loan Losses."

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December 31, 2015

As of December 31, 2015 and 2014, 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 is a schedule of maturities for all real estate loans receivable outstanding as of December 31, 2015 (in thousands):

2015 [1]	$	6,903
2017		28,908
	$	35,811

[1] On September 1, 2015, the Lawrence Village Plaza Loan Origination matured without repayment. The Company had recorded an asset-specific loan loss reserve against this investment as of December 31, 2015. See "—Reserve for Loan Losses." The Company is currently negotiating an agreement in lieu of foreclosure with the borrower under the Lawrence Village Plaza Loan Origination to transfer title of the property securing the loan to the Company in full satisfaction of the debt outstanding under, and all other obligations related to, the Lawrence Village Plaza Loan Origination.

The following summarizes the activity related to real estate loans receivable for the year ended December 31, 2015 (in thousands):

Real estate loans receivable, net - December 31, 2014	$	28,922
Principal repayments received on real estate loans receivable		(153)
Accretion of discounts on purchased real estate loans receivable		1,048
Amortization of origination fees and costs on purchased and originated real estate loans receivable		(32)
Change in loan loss reserve		(2,504)
Real estate loans receivable, net - December 31, 2015	$	27,281

The following summarizes the Company's investments in real estate loans receivable as of December 31, 2015 (in thousands):

Outstanding principal balance	$	35,811
Discounts on real estate loans receivable		(8,060)
Accumulated accretion of discounts on purchases of real estate loans receivable		5,943
Origination fees and costs on purchases and originations of real estate loans receivable		348
Accumulated amortization of origination fees and costs, net		(263)
Reserve for loan losses		(6,498)
Real estate loans receivable, net - December 31, 2015	$	27,281

For the years ended December 31, 2015, 2014 and 2013, interest income from real estate loans receivable consisted of the following (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Contractual interest income	$ 2,073	$ 2,102	$ 2,249
Interest accretion	1,048	1,007	972
Amortization of origination fees and costs and acquisition costs, net	(32)	(32)	37
Interest income from real estate loans receivable	$ 3,089	$ 3,077	$ 3,258

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. 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 years ended December 31, 2015 and 2014, the Company recognized interest income of $0.1 million and $0.2 million, respectively, on the Sandmar Mezzanine Loan. During the years ended December 31, 2015 and 2014, the Company recognized interest income of $0.6 million and $0.6 million on the Lawrence Village Plaza Loan Origination, respectively. Subsequent to the maturity of the Lawrence Village Plaza Loan Origination on September 1, 2015, the Company recognized interest income of $0.2 million related to this impaired real estate loan receivable.

Reserve for Loan Losses

Changes in the Company's reserve for loan losses for the year ended December 31, 2015 were as follows (in thousands):

Reserve for loan losses, December 31, 2014	$	3,994
Provision for loan losses		2,504
Reserve for loan losses, December 31, 2015	$	6,498

As of December 31, 2015, the total reserve for loan losses consisted of $5.1 million of asset-specific reserves related to the Sandmar Mezzanine Loan and $1.4 million of asset-specific reserves related to the Lawrence Village Plaza Loan Origination; these loans had amortized cost bases of $5.1 million and $6.9 million, respectively.

The Company recorded a provision for loan loss reserves of $2.0 million related to the Sandmar Mezzanine Loan during the year ended December 31, 2014. During the year ended December 31, 2015, the Company recorded a provision for loan loss reserves of $2.5 million related to the Sandmar Mezzanine Loan and the Lawrence Village Plaza Loan Origination.

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 operations 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, 2014, the Company disposed of 16 properties (of which 11 were GKK Properties), transferred a portfolio of five GKK Properties to the lender in satisfaction of the debt and other obligations due under the BOA Windsor Mortgage Portfolio, terminated its leasehold interest in three GKK Properties and transferred two GKK Properties to the lenders in connection with foreclosure proceedings. 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.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

The following summary presents the major components of assets and liabilities related to real estate held for sale as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
Assets related to real estate held for sale		
Total real estate, at cost and net of impairment charges	$ 9,392	$ 238,599
Accumulated depreciation and amortization	(1,840)	(30,594)
Real estate held for sale, net	7,552	208,005
Other assets	110	10,783
Total assets related to real estate held for sale	$ 7,662	$ 218,788
Liabilities related to real estate held for sale		
Notes payable	—	113,424
Other liabilities	939	6,578
Total liabilities related to real estate held for sale	$ 939	$ 120,002

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. During the year ended December 31, 2014, the Company sold four historical real estate properties and two GKK Properties, disposed of a portfolio of five properties in connection with a deed-in-lieu of foreclosure, and transferred two GKK Properties to the lenders in connection with foreclosure proceedings, which properties were not classified as held for sale in financial statements issued for the reporting periods prior to January 1, 2014. As of December 31, 2015, the Company had classified eight properties as held for sale, all 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):

	Years Ended December 31,		
	2015	2014	2013
Revenues			
Rental income	$ 19,020	$ 37,165	$ 42,259
Tenant reimbursements and other operating income	7,482	14,517	14,658
Total revenues	26,502	51,682	56,917
Expenses			
Operating, maintenance, and management	9,534	18,819	22,948
Real estate taxes and insurance	3,169	6,558	7,365
Asset management fees to affiliate	224	721	914
General and administrative expenses	—	75	11
Depreciation and amortization	7,596	19,095	17,874
Interest expense	3,456	14,237	19,303
Impairment of real estate	908	2,235	1,813
Total expenses	24,887	61,740	70,228

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

Discontinued Operations

The following table summarizes operating income from discontinued operations for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Total revenues and other income	$ 110	$ 2,505	$ 26,297
Total expenses	(154)	922	23,574
Income from discontinued operations before gain on sales of real estate, net and impairment charge	264	1,583	2,723
Gain on sales of real estate, net	124	4,797	47,997
Impairment charge	—	(257)	(8,975)
Income from discontinued operations	$ 388	$ 6,123	$ 41,745

Significant Transactions

101 Independence

On May 1, 2015, the Company, through an indirect wholly owned subsidiary, sold an office building containing 565,694 rentable square feet located in Charlotte, North Carolina ("101 Independence") to a purchaser unaffiliated with the Company or the Advisor for $107.8 million, or $106.8 million net of concessions and credits. The carrying value of 101 Independence as of the date of sale was $69.5 million, which was net of $13.3 million of accumulated depreciation and amortization. The Company recognized a gain on the disposition of 101 Independence of approximately $35.0 million after fees and expenses.

7. FORECLOSED REAL ESTATE HELD FOR SALE

In 2006 and 2007, the Company originally made three debt investments (collectively, the "Tribeca Loans") related to the conversion of an eight-story loft building into a 10-story condominium building with 62 units (the "Tribeca Building") located at 415 Greenwich Street in New York, New York. On February 19, 2010, the borrowers under the Tribeca Loans defaulted and the Company foreclosed on the Tribeca Building by exercising its right to accept 100% of the ownership interest of the borrowers. The Company acquired the remaining unsold condominium units of the Tribeca Building (the residential, retail and parking space condominium units transferred to the Company are, collectively, the "Units" and, individually, each is a "Unit") and assumed the project liabilities. The Company recorded the Tribeca Building at fair value using a discounted cash flow valuation model based on the net realizable value (expected sales price less estimated costs to sell the unsold Units) of the real estate. As of December 31, 2014, the Company's investment in the Tribeca Building consisted of two Units with a carrying value of $12.0 million and is presented as foreclosed real estate held for sale on the consolidated balance sheet. During the year ended December 31, 2015, the Company sold the remaining two Units 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. During the year ended December 31, 2014, the Company sold one Unit and recognized a gain on sale of $1.1 million (which gain on sale has been reduced by disposition fees to the Advisor of $0.4 million related to 26 residential Units, two retail Units and the parking space Units sold as of December 31, 2014) and recorded expenses of $1.2 million related to foreclosed real estate held for sale. During the year ended December 31, 2013, the Company sold two retail Units and parking space Units and recognized a gain on sale of $0.4 million and recorded expenses of $1.5 million related to foreclosed real estate held for sale.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

8. NOTES PAYABLE

As of December 31, 2015 and 2014, the Company's notes payable, including notes payable related to real estate held for sale, consisted of the following (dollars in thousands):

	Book Value as of December 31, 2015	Book Value as of December 31, 2014	Contractual Interest Rates as of December 31, 2015 [1]	Effective Interest Rate as of December 31, 2015 [1]	Payment Type	Maturity Date [2]
Notes Payable						
Plaza in Clayton Mortgage Loan	$ 62,200	$ 62,200	5.9%	5.9%	Interest Only	10/06/2016
Portfolio Loan	164,131	181,249	One-month LIBOR + 1.80%	2.2%	Interest Only	01/01/2017
	226,331	243,449				
GKK Properties Notes Payable						
Bank of America - BBD2 Mortgage Loan	65,712	138,027	6.0%	6.0%	Principal & Interest	09/08/2019
101 Independence Mortgage Loan	—	65,780	(3)	(3)	(3)	(3)
Citizens Bank Portfolio Mortgage Loan	—	40,000	(4)	(4)	(4)	(4)
Pitney Bowes - Bank of America Mortgage Loan	36,160	38,261	5.3%	5.3%	Principal & Interest	10/10/2022
FSI 6000D Mortgage Loan	28,934	29,419	5.8%	5.8%	Principal & Interest	06/05/2017
FSI 6000B Mortgage Loan	27,763	28,228	5.8%	5.8%	Principal & Interest	06/05/2017
FSI 6000A Mortgage Loan	24,271	24,551	6.8%	6.8%	Principal & Interest	10/05/2017
FSI 6000C Mortgage Loan	21,967	22,219	6.8%	6.8%	Principal & Interest	10/05/2017
Sterling Bank Mortgage Loan	—	19,629	(5)	(5)	(5)	(5)
Pitney Bowes - Wachovia A Mortgage Loan	—	15,065	(6)	(6)	(6)	(6)
	204,807	421,179				
Total notes payable principal outstanding	431,138	664,628				
Discount on notes payable, net [7]	(2,487)	(6,530)				
Deferred financing costs, net	(429)	(2,029)				
Total notes payable, net	$ 428,222	$ 656,069				

[1] Contractual interest rate represents the interest rate in effect under the loan as of December 31, 2015. Effective interest rate is calculated as the actual interest rate in effect as of December 31, 2015 (consisting of the contractual interest rate), using interest rate indices as of December 31, 2015, where applicable.

[2] Represents the initial maturity date or the maturity date as extended as of December 31, 2015; subject to certain conditions, the maturity dates of certain loans may be extended beyond the maturity date shown.

[3] On May 1, 2015, in connection with the disposition of 101 Independence, the Company repaid the entire $65.3 million principal balance and all other sums due under this loan, including a prepayment premium of $4.4 million, and wrote-off an unamortized discount on note payable of $1.9 million.

[4] On May 15, 2015, the Company repaid the entire principal balance and all other sums due under this loan.

[5] On October 9, 2015, the Company, through an indirect wholly owned subsidiary, entered into a defeasance with the lender under the Sterling Bank Mortgage Loan to defease the entire outstanding principal balance of $19.6 million, releasing all the properties securing the Sterling Bank Mortgage Loan. See "Significant Financing Transactions - Defeasance of the Sterling Bank Mortgage Loan" below.

[6] On September 16, 2015, the Company repaid the entire principal balance and all other sums due under this loan, including a prepayment premium of $2.2 million.

[7] Represents the unamortized discount and premium on notes payable due to the above- and below-market interest rates when the loans were assumed. The discount and premium are amortized over the remaining life of the respective loan.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

As of December 31, 2015 and 2014, the Company's deferred financing costs were $0.4 million and $2.0 million, respectively, net of amortization. During the years ended December 31, 2015, 2014 and 2013, the Company incurred interest expense, net of discontinued operations, of $29.5 million, $45.9 million and $61.7 million, respectively. Included in interest expense was: (i) the amortization of deferred financing costs of $1.9 million, $1.5 million and $0.8 million for the years ended December 31, 2015, 2014 and 2013, respectively, and (ii) the amortization of discounts and premiums on notes payable, which increased interest expense by $1.3 million, $3.4 million and $2.5 million for the years ended December 31, 2015, 2014 and 2013. As of December 31, 2015 and 2014, $1.7 million and $1.9 million of interest was payable, respectively.

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of December 31, 2015 (in thousands):

2016	$	67,950
2017		269,956
2018		4,707
2019		61,957
2020		2,728
Thereafter		23,840
	$	431,138

The following summarizes the activity related to notes payable for the year ended December 31, 2015 (in thousands):

Total notes payable, net - December 31, 2014	$	656,069
Principal repayments		(146,094)
Defeasance of notes payable		(87,396)
Write-off of discount on notes payable related to sale		2,437
Amortization of deferred financing costs		1,873
Amortization of discount and premium on notes payable, net		1,333
Total notes payable, net - December 31, 2015	$	428,222

Significant Financing Transactions

Disposition of Waltham Main and Partial Defeasance of the Bank of America - BBD2 Mortgage Loan

On October 1, 2015, the Company, through an indirect wholly owned subsidiary, sold an office building containing 303,460 rentable square feet located in Waltham, Massachusetts ("Waltham Main") to a purchaser unaffiliated with the Company or the Advisor for $52.5 million or $51.0 million net of concessions and credits. In connection with the disposition of Waltham Main, the Company entered into a partial defeasance with the lender under the Bank of America - BBD2 Mortgage Loan to defease $40.8 million of the outstanding principal balance, releasing Waltham Main and 21 other properties which had secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-offs of unamortized deferred financing costs and an unamortized discount resulted in a loss on extinguishment of debt of approximately $8.0 million. On December 15, 2015, the Company entered into a partial defeasance with the lender under the Bank of America - BBD2 Mortgage Loan to defease $27.0 million of outstanding principal, releasing 16 properties which had secured the Bank of America - BBD2 Mortgage Loan. The defeasance costs and write-offs of unamortized deferred financing costs and an unamortized discount resulted in a loss on extinguishment of debt of approximately $4.7 million.

Defeasance of the Sterling Bank Mortgage Loan

On October 9, 2015, the Company, through an indirect wholly owned subsidiary, entered into a defeasance with the lender under the Sterling Bank Mortgage Loan to defease the entire outstanding principal balance of $19.6 million, releasing all the properties which had secured the Sterling Bank Mortgage Loan. The Sterling Bank Mortgage Loan bore interest at a rate of 5.57% and was due to mature on January 11, 2017. The defeasance costs and write-off of an unamortized discount resulted in a loss on extinguishment of debt of approximately $1.2 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 December 31, 2015, the Company was in compliance with these debt covenants.

9. 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 financial instruments and balances 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.

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.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

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 December 31, 2015 and 2014, which carrying amounts generally do not approximate the fair values (in thousands):

	December 31, 2015			December 31, 2014		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial assets:						
Real estate loans receivable [1]	$ 35,811	$ 27,281	$ 25,218	$ 35,966	$ 28,922	$ 25,818
Financial liabilities:						
Notes payable	$ 431,138	$ 428,222	$ 448,351	$ 664,628	$ 656,069	$ 688,374

[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. The actual value of these investments could be materially different from the Company's estimate of value.

Assets Recorded at Fair Value

During the year ended December 31, 2015, the Company measured the following assets at fair value on a nonrecurring basis (in thousands):

		Fair Value Measurements Using		
	Total	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	$ 235,105	$ —	$ —	$ 235,105
Impaired real estate held for sale	518	—	—	518
Impaired real estate sold	2,126	—	—	2,126

[1] Amounts represent the aggregate fair value for real estate assets impacted by impairment charges during the year, 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 December 31, 2015, 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 as a result of changes in cash flow projections or selling price at auction, subsequent to December 31, 2015. 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 December 31, 2015, 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.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

10. 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.

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 years ended December 31, 2015, 2014 and 2013, no other 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 years ended December 31, 2015, 2014 and 2013, respectively, and any related amounts payable as of December 31, 2015 and 2014 (in thousands):

	Incurred Year Ended December 31,			Payable as of December 31,	
	2015	2014	2013	2015	2014
Expensed					
Asset management fees[1]	$ 9,547	$ 9,992	$ 11,034	$ —	$ —
Reimbursement of operating expenses[2]	269	261	187	68	45
Disposition fees[3]	3,244	1,174	3,315	—	399
	$ 13,060	$ 11,427	$ 14,536	$ 68	$ 444

[1] Amounts include asset management fees from discontinued operations totaling $17,000 and $0.9 million for the years ended December 31, 2014 and 2013, respectively.

[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 $0.2 million, $0.2 million and $0.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. These were the only types of employee costs reimbursed under the Advisory Agreement for the years ended December 31, 2015, 2014 and 2013. 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.

[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. Disposition fees with respect to real estate securities sold are included in the gain on sales of real estate securities in the accompanying consolidated statements of operations. Also see Note 7, "Foreclosed Real Estate Held for Sale" with respect to disposition fees on foreclosed real estate held for sale.

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.

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 December 31, 2015, the Company had sold 161 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 December 31, 2015, which amount would be determined by the conflicts committee in its sole discretion.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

11. SUPPLEMENTAL CASH FLOW AND SIGNIFICANT NONCASH TRANSACTION DISCLOSURES

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

	For the Years Ended December 31,		
	2015	2014	2013
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$ 26,541	$ 47,095	$ 60,598
Supplemental Disclosure of Significant Noncash Investing and Financing Activities:			
Treasury securities transferred in connection with defeasance of notes payable	$ 100,229	$ —	$ —
Defeasance of notes payable	$ (87,396)	$ —	$ —
Mortgage loans extinguished in connection with foreclosures and deed in lieu of foreclosure	$ —	$ 54,028	$ —
Increase in distributions payable	$ —	$ 4,699	$ —
Increase in capital expenses payable	$ —	$ 6,004	$ 1,319

12. 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 30 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.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

The following tables summarize total revenues, interest expense and NOI for each reportable segment for the years ended December 31, 2015, 2014 and 2013, and total assets and total liabilities for each reportable segment as of December 31, 2015 and 2014 (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Revenues:			
Real estate segment [1]	$ 67,536	$ 71,965	$ 76,087
Real estate-related segment	3,089	3,077	3,258
GKK Properties segment [1]	117,595	137,423	138,959
Total revenues	$ 188,220	$ 212,465	$ 218,304
Interest expense:			
Real estate segment [1]	$ 8,391	$ 9,613	$ 18,001
Real estate-related segment	—	—	—
GKK Properties segment [1]	21,126	36,310	43,681
Total interest expense	$ 29,517	$ 45,923	$ 61,682
NOI:			
Real estate segment [1]	$ 26,882	$ 29,437	$ 24,545
Real estate-related segment	3,087	2,940	3,255
GKK Properties segment [1]	30,004	22,634	13,629
Total NOI	$ 59,973	$ 55,011	$ 41,429

	December 31,	
	2015	2014
Assets:		
Real estate segment	$ 499,789	$ 529,012
Real estate-related segment	27,899	29,096
GKK Properties segment	508,345	550,406
Total segment assets	1,036,033	1,108,514
Real estate held for sale	7,662	218,788
Foreclosed real estate held for sale	—	12,045
Corporate-level [2]	11,170	34,791
Total assets	$ 1,054,865	$ 1,374,138
Liabilities:		
Real estate segment	$ 243,387	$ 239,802
Real estate-related segment	3	—
GKK Properties segment	279,569	395,923
Total segment liabilities	522,959	635,725
Real estate held for sale	939	120,002
Corporate-level [3]	1,304	5,638
Total liabilities	$ 525,202	$ 761,365

[1] Amounts include certain properties in continuing operations that were sold or held for sale as of December 31, 2015. 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 $10.6 million and $34.2 million as of December 31, 2015 and 2014, respectively.

[3] As of December 31, 2015, corporate-level liabilities consisted primarily of accounts payable and accrued liabilities for general and administrative expenses. As of December 31, 2014, corporate-level liabilities consisted primarily of distributions payable.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

The following table reconciles the Company's net loss to its NOI for the years ended December 31, 2015, 2014 and 2013 (amounts in thousands):

	Years Ended December 31,		
	2015	2014	2013
Net loss	$ (11,387)	$ (21,266)	$ (46,495)
Gain on sales of real estate	(99,988)	(2,282)	—
Gain on sales of real estate securities	—	(4,410)	(10,470)
Loss (gain) from extinguishment of debt	22,518	(21,328)	—
Gain on sales of foreclosed real estate held for sale	(2,509)	(1,108)	(378)
Other income and interest income	(1,394)	(938)	(3,389)
Asset management fees to affiliate	9,547	9,975	10,110
General and administrative expenses	32,619	18,788	17,861
Depreciation and amortization	59,145	71,613	75,745
Impairment charges on real estate	49,306	10,117	40,190
Provision for loan losses	2,504	1,973	—
Total income from discontinued operations	(388)	(6,123)	(41,745)
NOI [1]	$ 59,973	$ 55,011	$ 41,429

[1] Amounts include certain properties in continuing operations that were sold or held for sale as of December 31, 2015. See Note 6, "Real Estate Held for Sale and Discontinued Operations" for more information.

13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Presented below is a summary of the unaudited quarterly financial information for the years ended December 31, 2015 and 2014 (in thousands, except per share amounts):

	2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 49,577	$ 44,966	$ 44,844	$ 48,833
Total income (loss) from discontinued operations	$ 168	$ (7)	$ 305	$ (78)
Net income (loss) attributable to common stockholders	$ 8,589	$ 19,751	$ (47,411)	$ 7,684
Income (loss) per common share, basic and diluted	$ 0.05	$ 0.11	$ (0.25)	$ 0.03
Distributions declared per common share [1]	$ 0.025	$ 0.025	$ 0.025	$ 0.275

	2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 54,006	$ 54,462	$ 52,885	$ 51,112
Total income from discontinued operations	$ 3,152	$ 9	$ 298	$ 2,664
Net loss attributable to common stockholders	$ (4,515)	$ (7,652)	$ (249)	$ (8,850)
Loss per common share, basic and diluted	$ (0.02)	$ (0.04)	$ —	$ (0.05)
Distributions declared per common share [1]	$ —	$ —	$ 0.025	$ 0.025

[1] See Note 2, "Summary of Significant Accounting Policies — Per Share Data" for more information on distributions declared per common share.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

14. 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 2016 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 December 31, 2015 were as follows (in thousands):

2016	$	16,642
2017		12,644
2018		2,440
2019		1,774
2020		1,289
Thereafter		30,182
	$	64,971

If the Company was 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.

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 the Property Manager for the Services under the Amended 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.

KBS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

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.

15. SUBSEQUENT EVENTS

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

Distributions Declared

On March 11, 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 March 21, 2016. The Company expects to pay this distribution on or about March 28, 2016.

KBS REAL ESTATE INVESTMENT TRUST, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Description	Balance at Beginning of Year	Additions Charged Against Operations	Uncollectible Accounts Written-off	Balance at End of Year
Year Ended December 31, 2015				
Allowance for doubtful accounts	$ 1,051	$ (320)	$ (258)	$ 473
Reserve for loan losses	3,994	2,504	—	6,498
Year Ended December 31, 2014				
Allowance for doubtful accounts	$ 6,385	$ 683	$ (6,017)	$ 1,051
Reserve for loan losses	2,090	1,973	(69)	3,994
Year Ended December 31, 2013				
Allowance for doubtful accounts	$ 5,297	$ 2,490	$ (1,402)	$ 6,385
Reserve for loan losses	2,222	—	(132)	2,090

KBS REAL ESTATE INVESTMENT TRUST, INC.

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION

December 31, 2015

(dollar amounts in thousands)

				Initial Cost to Company				Gross Amount at which Carried at Close of Period					
Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Properties Held for Investment													
Plaza in Clayton	Saint Louis, MO	100%	$ 62,200	$ 2,793	$ 91,162	$ 93,955	$ (1,201)	$ 2,793	$ 89,961	$ 92,754	$ (22,912)	2001	09/27/2006
825 University Avenue Building	Norwood, MA	100%	[4]	4,165	27,087	31,252	(10,207)	3,676	17,369	21,045	(2,903)	2004 / 2006	12/05/2006
Bridgeway Technology Center	Newark, CA	100%	[4]	11,299	34,705	46,004	(17,938)	7,044	21,022	28,066	(1,510)	1996	06/27/2007
ADP Plaza	Portland, OR	100%	[4]	5,100	28,755	33,855	3,689	5,100	32,444	37,544	(6,925)	1981	11/07/2007
Woodfield Preserve Office Center	Schaumburg, IL	100%	[4]	7,001	121,603	128,604	(60,776)	5,242	62,586	67,828	—	2001	11/13/2007
Rivertech I and II	Billerica, MA	100%	[4]	3,931	42,111	46,042	(4,847)	3,931	37,264	41,195	(9,699)	1983/2001,2007	02/20/2008
Tysons Dulles Plaza	McLean, VA	100%	[4]	38,839	121,210	160,049	(43,263)	27,989	88,797	116,786	(1,037)	1986-1990	06/06/2008
Great Oaks Center	Alpharetta, GA	100%	[4]	7,743	28,330	36,073	(17,679)	3,349	15,045	18,394	(980)	1999	07/18/2008
University Park Buildings	Sacramento, CA	100%	[4]	4,520	22,029	26,549	(11,701)	3,054	11,794	14,848	—	1981	07/31/2008
Meridian Tower	Tulsa, OK	100%	[4]	2,050	16,728	18,778	400	2,050	17,128	19,178	(3,357)	1982	08/18/2008
North Creek Parkway Center	Bothell, WA	100%	[4]	11,200	30,755	41,955	(4,254)	9,941	27,760	37,701	(4,048)	1986-1987	08/28/2008
City Gate Plaza	Sacramento, CA	100%	[4]	2,880	18,895	21,775	(6,732)	2,469	12,574	15,043	(163)	1988-1990	11/25/2008
Bentonville	Benton, AR	100%	[5]	167	607	774	(14)	167	593	760	(197)	1973 / 1981	09/01/2011
RH Johnson - Main Building	Sun City, AZ	100%	[5]	949	546	1,495	28	949	574	1,523	(273)	1981	09/01/2011
Arnold	Arnold, CA	100%	[5]	213	684	897	(65)	213	619	832	(208)	1981	09/01/2011
Bay - Fair	San Leandro, CA	100%	[5]	913	594	1,507	(90)	913	504	1,417	(205)	1981	09/01/2011
Burlingame - Main Building	Burlingame, CA	100%	[5]	671	467	1,138	(87)	671	380	1,051	(174)	1961	09/01/2011
Canoga Park Branch	Canoga Park, CA	100%	[5]	886	467	1,353	(45)	886	422	1,308	(184)	1957	09/01/2011
College Heights	Bakersfield, CA	100%	[5]	582	523	1,105	(90)	582	433	1,015	(187)	1979	09/01/2011
Dinuba	Dinuba, CA	100%	[5]	496	357	853	(21)	496	336	832	(153)	1972	09/01/2011
East Fresno	Fresno, CA	100%	[5]	373	463	836	(37)	373	426	799	(182)	1959	09/01/2011
Folsum	Folsum, CA	100%	[5]	506	402	908	(78)	506	324	830	(146)	1981	09/01/2011
Fort Bragg	Fort Bragg, CA	100%	[5]	332	528	860	(85)	332	443	775	(179)	1975	09/01/2011
Hanford - Main Building	Hanford, CA	100%	[5]	466	614	1,080	(36)	466	578	1,044	(233)	1976	09/01/2011
Healdsburg	Healdsburg, CA	100%	[5]	850	407	1,257	(33)	850	374	1,224	(152)	1979	09/01/2011
Hemet Branch	Hemet, CA	100%	[5]	1,200	780	1,980	—	1,200	780	1,980	(407)	1982	09/01/2011
Hilltop	Redding, CA	100%	[5]	773	437	1,210	(44)	773	393	1,166	(171)	1982	09/01/2011
Lemoore	Lemoore, CA	100%	[5]	175	407	582	108	175	515	690	(206)	1959	09/01/2011
Livermore	Livermore, CA	100%	[5]	755	655	1,410	(35)	755	620	1,375	(254)	1982	09/01/2011
Martin Luther King Jr.	Los Angeles, CA	100%	[5]	1,278	626	1,904	(43)	1,278	583	1,861	(256)	1971	09/01/2011
Mission-23rd	San Francisco, CA	100%	[5]	618	471	1,089	—	618	471	1,089	(215)	1925	09/01/2011
Montrose Branch	Montrose, CA	100%	[5]	906	402	1,308	(18)	906	384	1,290	(167)	1952	09/01/2011

KBS REAL ESTATE INVESTMENT TRUST, INC.

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION (CONTINUED)

December 31, 2015

(dollar amounts in thousands)

				Initial Cost to Company				Gross Amount at which Carried at Close of Period					
Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Ontario Plaza Branch	Ontario, CA	100%	[5]	$ 370	$ 439	$ 809	$ 68	$ 370	$ 507	$ 877	$ (179)	1982	09/01/2011
Orangevale Branch	Orangevale, CA	100%	[5]	469	798	1,267	(121)	469	677	1,146	(212)	1978	09/01/2011
Oroville	Oroville, CA	100%	[5]	669	381	1,050	(69)	669	312	981	(128)	1981	09/01/2011
Pleasanton	Pleasanton, CA	100%	[5]	944	448	1,392	(24)	944	424	1,368	(165)	1981	09/01/2011
Porterville - Main Building	Porterville, CA	100%	[5]	729	457	1,186	(58)	729	399	1,128	(178)	1974	09/01/2011
Reedley	Reedley, CA	100%	[5]	450	541	991	(53)	450	488	938	(187)	1964	09/01/2011
Reseda Branch	Reseda, CA	100%	[5]	449	388	837	(35)	449	353	802	(167)	1958	09/01/2011
Ridgecrest	Ridgecrest, CA	100%	[5]	634	478	1,112	(53)	634	425	1,059	(193)	1973	09/01/2011
Sherman Oaks	Sherman Oaks, CA	100%	[5]	957	483	1,440	(49)	957	434	1,391	(191)	1958	09/01/2011
Slauson - Vermont	Los Angeles, CA	100%	[5]	1,159	609	1,768	(23)	1,159	586	1,745	(257)	1971	09/01/2011
St. Helena	St. Helena, CA	100%	[5]	824	763	1,587	(120)	824	643	1,467	(237)	1976	09/01/2011
Turlock - Main Building	Turlock, CA	100%	[5]	805	556	1,361	(45)	805	511	1,316	(274)	1971	09/01/2011
Vernon Branch	Vernon, CA	100%	[5]	1,102	566	1,668	(53)	1,102	513	1,615	(225)	1960	09/01/2011
Batterson	Farmington, CT	100%	[5]	3,390	7,113	10,503	3	3,390	7,116	10,506	(2,991)	1970	09/01/2011
Greenwich	Greenwich, CT	100%	[5]	1,353	5,675	7,028	103	1,353	5,778	7,131	(1,880)	1927	09/01/2011
North Wakefield Drive	Newark, DE	100%	[5]	1,662	10,166	11,828	—	1,662	10,166	11,828	(3,097)	1996	09/01/2011
Baypoint	Miami, FL	100%	[5]	246	619	865	(122)	246	497	743	(185)	1958	09/01/2011
Bayshore - Main Building	Bradentown, FL	100%	[5]	391	445	836	89	391	534	925	(184)	1971	09/01/2011
Coral Ridge - Main Building	Ft. Lauderdale, FL	100%	[5]	835	1,099	1,934	(136)	835	963	1,798	(637)	1969	09/01/2011
Crystal River - Main Building	Crystal River, FL	100%	[5]	119	329	448	10	119	339	458	(123)	1970	09/01/2011
Homestead - Main Building	Homestead, FL	100%	[5]	1,113	578	1,691	(87)	1,113	491	1,604	(215)	1973	09/01/2011
Live Oak - Main Building	Live Oak, FL	100%	[5]	679	942	1,621	—	679	942	1,621	(720)	1965	09/01/2011
Midway - Main Building	Miami, FL	100%	[5]	1,401	826	2,227	(68)	1,401	758	2,159	(321)	1974	09/01/2011
Plantation - Main Building	Plantation, FL	100%	[5]	1,189	1,092	2,281	6	1,189	1,098	2,287	(298)	1976 / 2002	09/01/2011
Trouble Creek - Main Building	New Port Richey, FL	100%	[5]	453	478	931	(71)	453	407	860	(158)	1970	09/01/2011
West Sunrise - Main Building	Plantation, FL	100%	[5]	1,060	1,146	2,206	123	1,060	1,269	2,329	(746)	1976	09/01/2011
Weeki Wachee - Main Building	Brooksville, FL	100%	[5]	407	813	1,220	(145)	407	668	1,075	(282)	1970	09/01/2011
Westside - Main Building	Bradenton, FL	100%	[5]	608	388	996	(43)	608	345	953	(139)	1964	09/01/2011
Aberdeen Village - Main Building	Peachtree City, GA	100%	[5]	564	1,830	2,394	—	564	1,830	2,394	(587)	1981	09/01/2011
East Point - Main Building	East Point, GA	100%	[5]	319	337	656	7	319	344	663	(116)	1981	09/01/2011
Exchange Street	Malden, MA	100%	[5]	6,856	10,795	17,651	(2,192)	6,856	8,603	15,459	(3,229)	1984	09/01/2011
Wheaton - Main Building	Wheaton, MD	100%	[5]	1,245	939	2,184	(95)	1,245	844	2,089	(213)	1960 / 2003	09/01/2011
Gannett Drive	South Portland, ME	100%	[5]	953	1,905	2,858	—	953	1,905	2,858	(726)	1997	09/01/2011
Ballwin Facility - Main Building	Ballwin, MO	100%	[5]	114	464	578	(8)	114	456	570	(175)	1972	09/01/2011

KBS REAL ESTATE INVESTMENT TRUST, INC.

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION (CONTINUED)

December 31, 2015

(dollar amounts in thousands)

				Initial Cost to Company				Gross Amount at which Carried at Close of Period					
Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Belton Facility - Main Building	Belton, MO	100%	[5]	$ 454	$ 574	$ 1,028	$ (83)	$ 453	$ 492	$ 945	$ (191)	1976	09/01/2011
Forsyth Facility - Main Building	Forsyth, MO	100%	[5]	83	239	322	15	83	254	337	(104)	1960	09/01/2011
I-70 & Noland Facility - Main Bldg	Independence, MO	100%	[5]	598	640	1,238	(136)	598	504	1,102	(178)	1981	09/01/2011
Gateway Center - Charlotte	Charlotte, NC	100%	[5]	6,334	22,712	29,046	716	6,334	23,428	29,762	(7,255)	1987 / 1988	09/01/2011
Gateway Land	Charlotte, NC	100%	—	2,297	—	2,297	—	2,297	—	2,297	—	N/A	08/31/2015
Nashua Main	Nashua, NH	100%	[5]	334	2,639	2,973	(88)	334	2,551	2,885	(904)	1800	09/01/2011
Portsmouth Pleasant	Portsmouth, NH	100%	[5]	317	673	990	(31)	317	642	959	(250)	1860s	09/01/2011
Arthur Street	East Brunswick, NJ	100%	[5]	1,010	941	1,951	41	1,010	982	1,992	(349)	1972	09/01/2011
Beechwood Road	Summit, NJ	100%	[5]	465	651	1,116	(272)	465	379	844	(81)	1957	09/01/2011
Bellevue Avenue	Hammonton, NJ	100%	[5]	382	2,200	2,582	(996)	379	1,207	1,586	—	1964	09/01/2011
Bergenline Avenue	Union City, NJ	100%	[5]	179	370	549	(104)	179	266	445	(109)	1970	09/01/2011
Bridgewater	Bridgewater, NJ	100%	[5]	1,493	2,530	4,023	282	1,493	2,812	4,305	(603)	1974 / 1980	09/01/2011
Lakewood Route 70	Lakewood, NJ	100%	[5]	1,328	953	2,281	52	1,328	1,005	2,333	(448)	1988	09/01/2011
Maplewood Avenue	Maplewood, NJ	100%	[5]	406	497	903	(173)	406	324	730	(151)	1926 / 1983	09/01/2011
Pennsauken	Pennsauken, NJ	100%	[5]	750	794	1,544	(138)	750	656	1,406	(301)	1966	09/01/2011
Springfield Avenue	Summit, NJ	100%	[5]	2,166	769	2,935	51	2,166	820	2,986	(346)	1929	09/01/2011
Wood Avenue	Linden, NJ	100%	[5]	1,657	1,043	2,700	(60)	1,657	983	2,640	(400)	1955 / 1970	09/01/2011
Amador (Las Cruces) - Main Bldg	Las Cruces, NM	100%	[5]	120	634	754	(103)	120	531	651	(196)	1970 / 1991	09/01/2011
Santa Fe-Metro Bank - Main Bldg	Santa Fe, NM	100%	[5]	—	1,646	1,646	(115)	—	1,531	1,531	(479)	1972 / 1985	09/01/2011
Genesee Street	Auburn, NY	100%	[5]	284	1,241	1,525	18	284	1,259	1,543	(473)	1928	09/01/2011
Jamaica	Jamaica, NY	100%	[5]	185	953	1,138	(5)	185	948	1,133	(215)	1960 / 2001	09/01/2011
Levittown	Levittown, NY	100%	[5]	543	389	932	125	543	514	1,057	(183)	1962	09/01/2011
Merrick Avenue	Merrick, NY	100%	[5]	259	1,846	2,105	(212)	259	1,634	1,893	(513)	1952	09/01/2011
Park Avenue	Wantagh, NY	100%	[5]	213	360	573	(42)	213	318	531	(118)	1953	09/01/2011
State Street	Albany, NY	100%	[5]	865	7,631	8,496	(4,039)	597	3,860	4,457	—	1927 / 1980s	09/01/2011
Transit Road	West Seneca, NY	100%	[5]	665	6,065	6,730	965	665	7,030	7,695	(2,947)	1972	09/01/2011
Wantagh	West Hempstead, NY	100%	[5]	928	1,787	2,715	(82)	928	1,705	2,633	(445)	1940 / 2002	09/01/2011
31st Street - Main Building	Tulsa, OK	100%	[5]	400	591	991	(38)	400	553	953	(190)	1972 / 1979	09/01/2011
Gresham - Main Building	Gresham, OR	100%	[5]	374	668	1,042	(67)	374	601	975	(194)	1978	09/01/2011
Parkrose - Main Building	Portland, OR	100%	[5]	216	326	542	2	216	328	544	(142)	1967	09/01/2011
Blair Mill Road	Horsham, PA	100%	[5]	1,171	1,794	2,965	3,155	1,171	4,949	6,120	(1,519)	1985	09/01/2011
Bustleton Avenue	Philadelphia, PA	100%	[5]	188	788	976	17	188	805	993	(288)	1953	09/01/2011
Post Road	North Kingstown, RI	100%	[5]	825	1,527	2,352	(418)	825	1,109	1,934	(282)	1988	09/01/2011
Hilton Head-Pope Ave - Main Bldg	Hilton Head, SC	100%	[5]	527	646	1,173	(269)	527	377	904	(146)	1981	09/01/2011

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Rock Hill MO - Main Building	Rock Hill, SC	100%	[5]	$ 553	$ 538	$ 1,091	$ 160	$ 553	$ 698	$ 1,251	$ (115)	1986	09/01/2011
Beaumont - Main Building	Beaumont, TX	100%	[5]	181	369	550	(109)	181	260	441	(114)	1958	09/01/2011
Harlandale - Main Building	San Antonio, TX	100%	[5]	282	418	700	(45)	282	373	655	(159)	1970	09/01/2011
Northern Hills - Main Building	San Antonio, TX	100%	[5]	342	449	791	(101)	342	348	690	(135)	1979	09/01/2011
Steeplechase - Main Building	Houston, TX	100%	[5]	286	637	923	(301)	286	336	622	(147)	1981	09/01/2011
Witchita Falls - Main Building	Wichita Falls, TX	100%	[5]	566	780	1,346	(318)	566	462	1,028	(194)	1978	09/01/2011
Abingdon - Main Building	Abingdon, VA	100%	[5]	375	295	670	(22)	375	273	648	(121)	1964 / 1980	09/01/2011
Fairfax Courthouse	Fairfax, VA	100%	[5]	590	968	1,558	93	590	1,061	1,651	(264)	1932 / 2000	09/01/2011
Orange - Main Building	Orange, VA	100%	[5]	48	266	314	(71)	48	195	243	(90)	1925	09/01/2011
Robinson & Broad - Main Building	Richmond, VA	100%	[5]	291	573	864	(63)	291	510	801	(213)	1947 / 1985	09/01/2011
Camas - Main Building	Camas, WA	100%	[5]	386	243	629	(40)	386	203	589	(88)	1951	09/01/2011
Clarkston - Main Building	Clarkston, WA	100%	[5]	205	610	815	(25)	205	585	790	(215)	1958	09/01/2011
Edmonds - Main Building	Edmonds, WA	100%	[5]	367	348	715	27	367	375	742	(181)	1956	09/01/2011
Greenwood - Main Building	Seattle, WA	100%	[5]	104	221	325	12	104	233	337	(109)	1948	09/01/2011
Kennewick - Main Building	Kennewick, WA	100%	[5]	243	673	916	(37)	243	636	879	(167)	1977 / 1991	09/01/2011
Sequim - Main Building	Sequim, WA	100%	[5]	377	370	747	8	377	378	755	(138)	1979	09/01/2011
Wenatchee Valley - Main Building	Wenatchee, WA	100%	[5]	19	456	475	162	19	618	637	(183)	1965 / 1992	09/01/2011
Ballard - Main Building	Seattle, WA	100%	[5]	270	326	596	77	270	403	673	(165)	1951	09/01/2011
Daytona Beach Spdwy - Main Bldg	Daytona Beach, FL	100%	[5]	1,060	638	1,698	42	1,060	680	1,740	(278)	1974	09/01/2011
Palm Beach Vault	West Palm Beach, FL	100%	[5]	854	533	1,387	(40)	854	493	1,347	(195)	1997	09/01/2011
Redmond - Main Building	Redmond, OR	100%	[5]	50	206	256	(8)	50	198	248	(75)	1925 / 1982	09/01/2011
Las Vegas Ops Center	Las Vegas, NV	100%	[5]	5,313	4,474	9,787	(4,066)	3,949	1,772	5,721	—	1972 / 1990	09/01/2011
Barbee Chapel Road	Chapel Hill, NC	100%	[6]	117	610	727	—	117	610	727	(120)	2005	09/01/2011
Bernwood Park	Bonita Springs, FL	100%	[6]	1,106	1,891	2,997	—	1,106	1,891	2,997	(363)	2003	09/01/2011
Charlotte Harbor Office	Port Charlotte, FL	100%	[6]	191	633	824	—	191	633	824	(229)	1981	09/01/2011
Cypress Point	Palm Coast, FL	100%	[6]	984	2,456	3,440	—	984	2,456	3,440	(503)	1995	09/01/2011
Hudson Office	Hudson, FL	100%	[6]	1,000	2,478	3,478	—	1,000	2,478	3,478	(637)	1978	09/01/2011
Marco Island Office	Marco Island, FL	100%	[6]	768	2,021	2,789	—	768	2,021	2,789	(682)	1967	09/01/2011
North Lockwood Ridge	Sarasota, FL	100%	[6]	468	1,231	1,699	(420)	344	935	1,279	(190)	2000	09/01/2011
West Bradenton	Bradenton, FL	100%	[6]	382	1,368	1,750	—	382	1,368	1,750	(339)	1989	09/01/2011
Cheshire Sheridan	Atlanta, GA	100%	[6]	861	2,261	3,122	—	861	2,261	3,122	(771)	1971	09/01/2011
Edgewood	Columbus, GA	100%	[6]	146	387	533	(99)	145	289	434	(117)	1974	09/01/2011
University Place Office	Charlotte, NC	100%	[6]	862	1,990	2,852	—	862	1,990	2,852	(465)	1993	09/01/2011
Forest Drive Office	Columbia, SC	100%	[6]	363	1,035	1,398	—	363	1,035	1,398	(266)	1996	09/01/2011

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Land O'Lakes Office	Lutz, FL	100%	[6]	$ 431	$ 1,764	$ 2,195	$ —	$ 431	$ 1,764	$ 2,195	$ (428)	1988	09/01/2011
West Placerville Branch	Placerville, CA	100%	[6]	388	873	1,261	—	388	873	1,261	(392)	1984	09/01/2011
New Smyrna Beach East	New Smyrna Beach, FL	100%	[7]	472	861	1,333	—	472	861	1,333	(250)	1983	09/01/2011
Hamilton Square	Hamilton Square, NJ	100%	[7]	361	1,251	1,612	(200)	361	1,051	1,412	(357)	1940	09/01/2011
East Commercial Blvd (Relo)	Fort Lauderdale, FL	100%	[7]	523	1,857	2,380	—	523	1,857	2,380	(624)	1975	09/01/2011
Largo Office	Largo, FL	100%	[7]	757	1,577	2,334	—	757	1,577	2,334	(490)	1980	09/01/2011
New Citrus Park	Tampa, FL	100%	[7]	853	2,069	2,922	—	853	2,069	2,922	(361)	2001	09/01/2011
Providence Square	Marietta, GA	100%	[7]	536	1,573	2,109	—	536	1,573	2,109	(417)	1982	09/01/2011
Ashley Village	Cary, NC	100%	[7]	428	1,373	1,801	—	428	1,373	1,801	(293)	1996	09/01/2011
West Market Street	Greensboro, NC	100%	[7]	304	1,034	1,338	—	304	1,034	1,338	(210)	1996	09/01/2011
Harbison Office	Irmo, SC	100%	[7]	369	1,338	1,707	—	369	1,338	1,707	(305)	1994	09/01/2011
Virginia Beach Shore Drive	Virginia Beach, VA	100%	[7]	276	1,593	1,869	—	276	1,593	1,869	(401)	1979	09/01/2011
Cypress Lake Drive	Fort Myers, FL	100%	[7]	795	1,829	2,624	(7)	788	1,829	2,617	(353)	1998	09/01/2011
Woodstock Crossing	Woodstock, GA	100%	[7]	606	1,376	1,982	—	606	1,376	1,982	(358)	1994	09/01/2011
The Avenues	Jacksonville, FL	100%	[7]	438	1,163	1,601	—	438	1,163	1,601	(234)	1999	09/01/2011
Roseville Branch	Roseville, CA	100%	[7]	655	1,870	2,525	—	655	1,870	2,525	(602)	1987	09/01/2011
Valley Springs	Valley Springs, CA	100%	[7]	123	886	1,009	—	123	886	1,009	(254)	1992	09/01/2011
Lake Community Bank	Lakeport, CA	100%	[7]	564	2,211	2,775	—	564	2,211	2,775	(697)	1994	09/01/2011
Park Hill	N. Little Rock, AR	100%	[8]	175	691	866	(173)	175	518	693	(171)	1965	09/01/2011
Holiday	Holiday, FL	100%	[8]	734	1,324	2,058	(270)	734	1,054	1,788	(310)	1973	09/01/2011
Village Circle	Chapel Hill, NC	100%	[8]	367	2,312	2,679	—	367	2,312	2,679	(684)	2005	09/01/2011
Bloomingdale	Brandon, FL	100%	[8]	379	787	1,166	—	379	787	1,166	(275)	1980	09/01/2011
Cedar Shores Office	Ocala, FL	100%	[8]	749	943	1,692	—	749	943	1,692	(236)	1990	09/01/2011
Grove City Office	Grove City, FL	100%	[8]	536	1,217	1,753	—	536	1,217	1,753	(314)	1978	09/01/2011
Bluegrass Office	Alpharetta, GA	100%	[8]	595	1,521	2,116	(119)	476	1,521	1,997	(310)	1997	09/01/2011
LaVista Road	Tucker, GA	100%	[8]	659	1,225	1,884	—	659	1,225	1,884	(307)	2002	09/01/2011
Garner Office	Garner, NC	100%	[8]	526	1,372	1,898	—	526	1,372	1,898	(270)	1998	09/01/2011
James Island	Charleston, SC	100%	[8]	665	1,258	1,923	—	665	1,258	1,923	(257)	1999	09/01/2011
Chester	Chester, VA	100%	[8]	187	368	555	—	187	368	555	(161)	1986	09/01/2011
Haddonfield - Kings	Haddonfield, NJ	100%	[8]	196	914	1,110	—	196	914	1,110	(182)	1986	09/01/2011
Staples Mill	Richmond, VA	100%	[8]	368	737	1,105	—	368	737	1,105	(298)	1974	09/01/2011
Cameron Park	Cameron Park, CA	100%	[8]	454	1,566	2,020	—	454	1,566	2,020	(476)	1993	09/01/2011
Sonora - Branch	Sonora, CA	100%	[8]	27	1,284	1,311	—	27	1,284	1,311	(432)	1980	09/01/2011
Simpsonville Main Office	Simpsonville, SC	100%	[9]	292	677	969	—	292	677	969	(258)	1981	09/01/2011

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Banner Elk	Banner Elk, NC	100%	[9]	$ 221	$ 492	$ 713	$ —	$ 221	$ 492	$ 713	$ (253)	1985	09/01/2011
47th Terrace Office	Cape Coral, FL	100%	[9]	567	1,509	2,076	—	567	1,509	2,076	(293)	1986	09/01/2011
Altamonte Crossing Office	Altamonte Springs, FL	100%	[9]	799	1,254	2,053	—	799	1,254	2,053	(322)	1992	09/01/2011
Bradenton City	Bradenton, FL	100%	[9]	674	1,097	1,771	(689)	387	695	1,082	(154)	1999	09/01/2011
Brandon	Brandon, FL	100%	[9]	373	1,022	1,395	—	373	1,022	1,395	(300)	1981	09/01/2011
Cordova Office - Pensacola	Pensacola, FL	100%	[9]	270	759	1,029	—	270	759	1,029	(177)	1986	09/01/2011
Deerfield Beach (H.S.)	Deerfield Beach, FL	100%	[9]	1,239	2,278	3,517	—	1,239	2,278	3,517	(458)	1986	09/01/2011
Holly Hill Office	Holly Hill, FL	100%	[9]	301	756	1,057	—	301	756	1,057	(302)	1961	09/01/2011
Sawgrass	Plantation, FL	100%	[9]	1,094	1,345	2,439	—	1,094	1,345	2,439	(321)	1995	09/01/2011
Vero-West (1st Am.)	Vero Beach, FL	100%	[9]	344	1,011	1,355	(199)	344	812	1,156	(215)	1984	09/01/2011
Lilburn Office	Lilburn, GA	100%	[9]	493	870	1,363	—	493	870	1,363	(273)	1986	09/01/2011
Stonehenge Office	Raleigh, NC	100%	[9]	766	1,485	2,251	—	766	1,485	2,251	(295)	1994	09/01/2011
Centerville	Manakin-Sabot, VA	100%	[9]	797	832	1,629	—	797	832	1,629	(288)	1973	09/01/2011
El Dorado Hills Branch	El Dorado Hills, CA	100%	[9]	618	1,548	2,166	(75)	618	1,473	2,091	(410)	2000	09/01/2011
Sutter Creek	Sutter Creek, CA	100%	[9]	215	522	737	—	215	522	737	(212)	1984	09/01/2011
Albemarle Road	Charlotte, NC	100%	[10]	240	563	803	—	240	563	803	(204)	1979	09/01/2011
Beatties Ford Road	Charlotte, NC	100%	[10]	184	490	674	—	184	490	674	(185)	1970	09/01/2011
Belhaven Boulevard	Charlotte, NC	100%	[10]	240	501	741	(80)	240	421	661	(132)	1966	09/01/2011
Boger City	Lincolnton, NC	100%	[10]	182	588	770	—	182	588	770	(231)	1971	09/01/2011
Boone Main Office	Boone, NC	100%	[10]	128	753	881	(61)	128	692	820	(216)	1970	09/01/2011
Burgaw Main Office	Burgaw, NC	100%	[10]	106	382	488	(27)	106	355	461	(112)	1963	09/01/2011
Burlington Main Office	Burlington, NC	100%	[10]	213	1,220	1,433	(41)	213	1,179	1,392	(315)	1982	09/01/2011
Cameron Village	Raleigh, NC	100%	[10]	300	822	1,122	—	300	822	1,122	(288)	1985	09/01/2011
Candler	Candler, NC	100%	[10]	157	431	588	—	157	431	588	(163)	1977	09/01/2011
Carmel Commons	Charlotte, NC	100%	[10]	502	898	1,400	—	502	898	1,400	(303)	1980	09/01/2011
Carolina Beach	Carolina Beach, NC	100%	[10]	194	1,045	1,239	—	194	1,045	1,239	(342)	1971	09/01/2011
Cary Village	Cary, NC	100%	[10]	132	540	672	(60)	132	480	612	(81)	1997	09/01/2011
Cherryville	Cherryville, NC	100%	[10]	96	468	564	—	96	468	564	(168)	1965	09/01/2011
Columbus	Columbus, NC	100%	[10]	58	307	365	(32)	58	275	333	(85)	1971	09/01/2011
Cornelius	Cornelius, NC	100%	[10]	983	989	1,972	—	983	989	1,972	(270)	1989	09/01/2011
Cumberland	Fayetteville, NC	100%	[10]	186	551	737	—	186	551	737	(192)	1982	09/01/2011
Dallas	Dallas, NC	100%	[10]	110	379	489	(40)	110	339	449	(106)	1972	09/01/2011
Denver	Denver, NC	100%	[10]	75	333	408	(36)	75	297	372	(93)	1974	09/01/2011
Dixie Village	Gastonia, NC	100%	[10]	137	513	650	—	137	513	650	(192)	1972	09/01/2011

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Eden Main Office	Eden, NC	100%	[10]	$ 219	$ 662	$ 881	$ (106)	$ 219	$ 556	$ 775	$ (153)	1980	09/01/2011
Elizabethtown Main	Elizabethtown, NC	100%	[10]	71	592	663	—	71	592	663	(201)	1962	09/01/2011
Farmville	Farmville, NC	100%	[10]	112	892	1,004	(39)	112	853	965	(265)	1965	09/01/2011
Fayetteville Dwntown	Fayetteville, NC	100%	[10]	216	452	668	(109)	216	343	559	(91)	1980	09/01/2011
Garner	Garner, NC	100%	[10]	126	704	830	(39)	126	665	791	(207)	1971	09/01/2011
Gastonia Main Office	Gastonia, NC	100%	[10]	313	1,277	1,590	(115)	279	1,196	1,475	(318)	1977	09/01/2011
Guilford College	Greensboro, NC	100%	[10]	235	803	1,038	—	235	803	1,038	(249)	1983	09/01/2011
Henderson Mo Relc	Henderson, NC	100%	[10]	116	1,145	1,261	—	116	1,145	1,261	(286)	1994	09/01/2011
Hillsborough	Hillsborough, NC	100%	[10]	55	383	438	(35)	55	348	403	(107)	1920	09/01/2011
Hilltop Plaza	Monroe, NC	100%	[10]	352	935	1,287	—	352	935	1,287	(245)	1993	09/01/2011
Hospital - Greenville	Greenville, NC	100%	[10]	407	737	1,144	—	407	737	1,144	(202)	1991	09/01/2011
Kenansville	Kenansville, NC	100%	[10]	90	463	553	—	90	463	553	(170)	1970	09/01/2011
Kinston Main Office	Kinston, NC	100%	[10]	136	1,121	1,257	(42)	136	1,079	1,215	(279)	1982	09/01/2011
Landfall	Wilmington, NC	100%	[10]	353	1,116	1,469	—	353	1,116	1,469	(298)	1989	09/01/2011
Marion Main Office	Marion, NC	100%	[10]	232	1,341	1,573	—	232	1,341	1,573	(354)	1982	09/01/2011
Mooresville Main	Mooresville, NC	100%	[10]	195	756	951	(65)	195	691	886	(214)	1957	09/01/2011
Mt Olive Main Office	Mount Olive, NC	100%	[10]	119	404	523	—	119	404	523	(175)	1962	09/01/2011
Myers Park	Charlotte, NC	100%	[10]	340	1,477	1,817	—	340	1,477	1,817	(495)	1974	09/01/2011
North Asheville	Asheville, NC	100%	[10]	73	430	503	—	73	430	503	(147)	1973	09/01/2011
North Boulevard - Raleigh	Raleigh, NC	100%	[10]	266	689	955	—	266	689	955	(197)	1986	09/01/2011
North Durham	Durham, NC	100%	[10]	202	429	631	—	202	429	631	(169)	1982	09/01/2011
North Henderson	Henderson, NC	100%	[10]	92	247	339	(39)	92	208	300	(71)	1969	09/01/2011
North Raleigh	Raleigh, NC	100%	[10]	188	472	660	—	188	472	660	(164)	1979	09/01/2011
Northeast	Charlotte, NC	100%	[10]	538	766	1,304	—	538	766	1,304	(299)	1962	09/01/2011
Northwood	High Point, NC	100%	[10]	184	396	580	—	184	396	580	(165)	1980	09/01/2011
Park Road	Charlotte, NC	100%	[10]	376	766	1,142	—	376	766	1,142	(275)	1971	09/01/2011
Pavilions	Winston-Salem, NC	100%	[10]	574	1,284	1,858	—	574	1,284	1,858	(311)	1989	09/01/2011
Pinehurst	Pinehurst, NC	100%	[10]	214	602	816	(96)	214	506	720	(158)	1904	09/01/2011
Pleasant Garden	Pleasant Garden, NC	100%	[10]	97	235	332	(46)	97	189	286	(62)	1935	09/01/2011
Reidsville Main Office	Reidsville, NC	100%	[10]	160	349	509	(60)	160	289	449	(98)	1900	09/01/2011
Reynolda	Winston-Salem, NC	100%	[10]	236	518	754	—	236	518	754	(211)	1972	09/01/2011
Salisbury Main Office	Salisbury, NC	100%	[10]	413	987	1,400	—	413	987	1,400	(303)	1983	09/01/2011
Salisbury West	Salisbury, NC	100%	[10]	351	189	540	—	351	189	540	(99)	1994	09/01/2011
Sardis Village	Charlotte, NC	100%	[10]	624	747	1,371	—	624	747	1,371	(285)	1982	09/01/2011

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SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION (CONTINUED)

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				Initial Cost to Company				Gross Amount at which Carried at Close of Period					
Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Signal Hill	Statesville, NC	100%	[10]	$ 407	$ 657	$ 1,064	$ —	$ 407	$ 657	$ 1,064	$ (264)	1975	09/01/2011
Six Forks	Raleigh, NC	100%	[10]	338	1,053	1,391	—	338	1,053	1,391	(283)	1986	09/01/2011
South Elm	Greensboro, NC	100%	[10]	220	575	795	—	220	575	795	(247)	1969	09/01/2011
South Park Greenville	Greenville, NC	100%	[10]	237	478	715	—	237	478	715	(181)	1980	09/01/2011
South Square	Durham, NC	100%	[10]	288	482	770	—	288	482	770	(178)	1983	09/01/2011
South Pines Main Office	Southern Pines, NC	100%	[10]	399	742	1,141	—	399	742	1,141	(323)	1974	09/01/2011
Southwinds	Spring Lake, NC	100%	[10]	395	886	1,281	—	395	886	1,281	(243)	1994	09/01/2011
Southwood Square	High Point, NC	100%	[10]	348	716	1,064	—	348	716	1,064	(294)	1981	09/01/2011
Spruce Pine Main	Spruce Pine, NC	100%	[10]	172	953	1,125	—	172	953	1,125	(342)	1930	09/01/2011
Statesville Main Office	Statesville, NC	100%	[10]	130	1,852	1,982	—	130	1,852	1,982	(590)	1910	09/01/2011
Swansboro	Swansboro, NC	100%	[10]	92	272	364	(27)	92	245	337	(77)	1975	09/01/2011
Troutman	Troutman, NC	100%	[10]	319	400	719	(133)	319	267	586	(86)	1975	09/01/2011
Tryon Main Office	Tryon, NC	100%	[10]	87	1,067	1,154	—	87	1,067	1,154	(330)	1966	09/01/2011
Twin Rivers	New Bern, NC	100%	[10]	255	414	669	(82)	255	332	587	(91)	1979	09/01/2011
Union Road	Gastonia, NC	100%	[10]	203	750	953	(92)	203	658	861	(172)	1981	09/01/2011
University	Wilmington, NC	100%	[10]	397	852	1,249	(30)	367	852	1,219	(330)	1974	09/01/2011
Village Drive	Fayetteville, NC	100%	[10]	293	406	699	—	293	406	699	(166)	1973	09/01/2011
Combee	Lakeland, FL	100%	—	198	501	699	—	198	501	699	(206)	1980	09/01/2011
Lantana	Lantana, FL	100%	—	604	781	1,385	(203)	604	578	1,182	(189)	1963	09/01/2011
Monument Road	Jacksonville, FL	100%	—	947	2,475	3,422	—	947	2,475	3,422	(613)	1986	09/01/2011
North Boca Raton	Boca Raton, FL	100%	—	276	806	1,082	—	276	806	1,082	(282)	1981	09/01/2011
Ridge Road	New Port Richey, FL	100%	—	152	554	706	—	152	554	706	(201)	1981	09/01/2011
Rockledge	Rockledge, FL	100%	—	230	627	857	—	230	627	857	(273)	1982	09/01/2011
S. Mandarin	Jacksonville, FL	100%	—	241	613	854	—	241	613	854	(187)	1986	09/01/2011
Westside	Jacksonville, FL	100%	—	495	2,057	2,552	—	495	2,057	2,552	(682)	1962	09/01/2011
Hapeville	Hapeville, GA	100%	—	648	1,859	2,507	—	648	1,859	2,507	(614)	1958	09/01/2011
Perimeter Center	Atlanta, GA	100%	—	756	2,523	3,279	—	756	2,523	3,279	(604)	1994	09/01/2011
Stephenson	Savannah, GA	100%	—	305	621	926	—	305	621	926	(267)	1967	09/01/2011
Toco Hills	Atlanta, GA	100%	—	230	692	922	—	230	692	922	(228)	1986	09/01/2011
Walton Way	Augusta, GA	100%	—	431	1,144	1,575	—	431	1,144	1,575	(370)	1985	09/01/2011
Washington Road	Augusta, GA	100%	—	395	1,421	1,816	—	395	1,421	1,816	(440)	1984	09/01/2011
Clemmons	Clemmons, NC	100%	—	179	506	685	—	179	506	685	(220)	1973	09/01/2011
King Main	King, NC	100%	—	133	600	733	—	133	600	733	(198)	1978	09/01/2011
Marion Main	Marion, NC	100%	—	230	897	1,127	—	230	897	1,127	(321)	1980	09/01/2011

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				Initial Cost to Company				Gross Amount at which Carried at Close of Period					
Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Roxboro Main	Roxboro, NC	100%	—	$ 424	$ 1,307	$ 1,731	$ —	$ 424	$ 1,307	$ 1,731	$ (506)	1980	09/01/2011
Russ Avenue	Waynesville, NC	100%	—	296	897	1,193	(224)	296	673	969	(217)	1972	09/01/2011
Sardis Road	Charlotte, NC	100%	—	149	480	629	—	149	480	629	(154)	1986	09/01/2011
Valdese Main	Valdese, NC	100%	—	198	1,218	1,416	—	198	1,218	1,416	(395)	1952	09/01/2011
Viewmont	Hickory, NC	100%	—	147	735	882	—	147	735	882	(259)	1974	09/01/2011
Wilkesboro Main	Wilkesboro, NC	100%	—	130	645	775	—	130	645	775	(192)	1986	09/01/2011
Champions	Houston, TX	100%	—	390	1,935	2,325	—	390	1,935	2,325	(358)	1997	09/01/2011
Clear Lake	Houston, TX	100%	—	434	1,772	2,206	—	434	1,772	2,206	(379)	1981/2005	09/01/2011
Cypress Station	Houston, TX	100%	—	203	982	1,185	(22)	203	960	1,163	(161)	1996	09/01/2011
Deer Park	Deer Park, TX	100%	—	191	646	837	—	191	646	837	(174)	1990	09/01/2011
Duncanville	Duncanville, TX	100%	—	65	322	387	(129)	65	193	258	(42)	1980	09/01/2011
Highway 290	Houston, TX	100%	—	1,822	3,466	5,288	(3,868)	517	903	1,420	107	1981	09/01/2011
Highway 6	Houston, TX	100%	—	970	2,151	3,121	—	970	2,151	3,121	(391)	1997	09/01/2011
Humble	Humble, TX	100%	—	446	1,811	2,257	—	446	1,811	2,257	(369)	1998	09/01/2011
Inverness	Inverness, FL	100%	—	—	—	—	—	—	—	—	—	1994	09/01/2011
Paoli	Paoli, PA	100%	—	—	—	—	—	—	—	—	—	1989	09/01/2011
Forest Hill Banking Center	Germantown, TN	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Upper Montclair Drive Up	Upper Montclair, NJ	100%	—	—	—	—	—	—	—	—	—	1941	09/01/2011
Ardmore	Ardmore, PA	100%	—	—	—	—	—	—	—	—	—	1980	09/01/2011
Milltown	Milltown, NJ	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Fairgrounds	Allentown, PA	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
West Goshen	West Chester, PA	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Reading Airport	Reading Airport, PA	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Concordia	Cranbury, NJ	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Thorndale	Thorndale, PA	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Wind Gap	Wind Gap, PA	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Harborside	Jersey City, NJ	100%	—	—	—	—	—	—	—	—	—	2002	09/01/2011
Hickory Parking Lot	Hickory, NC	100%	—	59	50	109	—	59	50	109	(7)	1986	09/01/2011
Torrance	Torrance, CA	100%	—	—	—	—	—	—	—	—	—	1975	09/01/2011
Chapel Hill	Chapel Hill, NC	100%	—	—	—	—	—	—	—	—	—	1942 / 1993	09/01/2011
Greenville Main	Greenville, SC	100%	—	—	—	—	—	—	—	—	—	1997	09/01/2011
Del Prado	Cape Coral, FL	100%	—	—	—	—	—	—	—	—	—	1990	09/01/2011
Parkside Marketplace	Glen Allen, VA	100%	—	—	61	61	—	—	61	61	(35)	1988	09/01/2011
Livingston	Livingston, NJ	100%	—	—	—	—	—	—	—	—	—	1980	09/01/2011

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Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Downtown St. Petersburg	St. Petersburg, FL	100%	—	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	1912 / 1981	09/01/2011
Bank of America Finc - Sub-Lease	Spokane, WA	100%	—	—	—	—	—	—	—	—	—	1981	09/01/2011
Gulfgate - Main Building	Sarasota, FL	100%	—	—	1,165	1,165	(1,049)	—	116	116	(243)	1963	09/01/2011
Cocoa Village Dt	Cocoa, FL	100%	—	483	2,167	2,650	(1,782)	483	385	868	(330)	1957 / 1991	09/01/2011
Citizens - Clinton East Main	Clinton, CT	100%	—	172	641	813	—	172	641	813	(218)	1972	10/24/2011
Citizens - Railroad Avenue	Plainfield, CT	100%	—	232	426	658	(34)	232	392	624	(134)	1980	10/24/2011
Citizens - Shunpike Road	Cromwell, CT	100%	—	281	484	765	(49)	281	435	716	(126)	1976	10/24/2011
Citizens - Whalley Avenue	New Haven, CT	100%	—	186	416	602	(32)	186	384	570	(148)	1943	10/24/2011
Citizens - Lockport	Lockport, IL	100%	—	287	1,129	1,416	(130)	287	999	1,286	(205)	1981 / 1996	10/24/2011
Citizens - Columbia Road	Dorchester, MA	100%	—	370	1,433	1,803	(23)	370	1,410	1,780	(504)	1930	10/24/2011
Citizens - East Boston Square	East Boston, MA	100%	—	192	785	977	—	192	785	977	(270)	1928	10/24/2011
Citizens - Massachusetts Avenue	Arllington Heights, MA	100%	—	401	395	796	(32)	401	363	764	(114)	1979	10/24/2011
Citizens - Rogers Road	Gloucester, MA	100%	—	251	1,174	1,425	—	251	1,174	1,425	(411)	1950	10/24/2011
Citizens - Union Sq - Somerville	Somerville, MA	100%	—	647	952	1,599	—	647	952	1,599	(329)	1970	10/24/2011
Citizens - 18 Mile Road	Sterling Height, MI	100%	—	207	835	1,042	—	207	835	1,042	(265)	1977	10/24/2011
Citizens - Allen Road - Southgate	Southgate, MI	100%	—	422	2,949	3,371	—	422	2,949	3,371	(878)	1973	10/24/2011
Citizens - Ford Road Heights	Dearborn Heights, MI	100%	—	494	1,130	1,624	—	494	1,130	1,624	(325)	1981	10/24/2011
Citizens - Grand River	Detroit, MI	100%	—	52	611	663	—	52	611	663	(254)	1920	10/24/2011
Citizens - Greater Mack	St. Clair Shores, MI	100%	—	626	1,150	1,776	—	626	1,150	1,776	(419)	1980	10/24/2011
Citizens - Grosse Pointe Woods	Grosse Pointe Woods, MI	100%	—	249	572	821	—	249	572	821	(211)	1955	10/24/2011
Citizens - Hoover Road	Warren, MI	100%	—	133	741	874	(85)	133	656	789	(125)	1997	10/24/2011
Citizens - Joy Road	Detroit, MI	100%	—	66	591	657	(338)	52	267	319	—	1957	10/24/2011
Citizens - Main Street - Belleville	Belleville, MI	100%	—	181	1,228	1,409	—	181	1,228	1,409	(254)	1998	10/24/2011
Citizens - North Adams	Rochester, MI	100%	—	227	1,417	1,644	—	227	1,417	1,644	(405)	1976	10/24/2011
Citizens - Plymouth Road - Detroit	Detroit, MI	100%	—	66	539	605	(306)	54	245	299	—	Early 1960's	10/24/2011
Citizens - Roseville	Roseville, MI	100%	—	347	906	1,253	—	347	906	1,253	(299)	1981	10/24/2011
Citizens - Schoenherr	Warren, MI	100%	—	145	1,088	1,233	—	145	1,088	1,233	(343)	1979	10/24/2011
Citizens - West Fort Street	Southgate, MI	100%	—	122	1,315	1,437	—	122	1,315	1,437	(292)	1984	10/24/2011
Citizens - West Maple	Bloomfield Hills, MI	100%	—	317	1,675	1,992	—	317	1,675	1,992	(586)	1962	10/24/2011
Citizens - Woodward - Ferndale	Ferndale, MI	100%	—	313	798	1,111	—	313	798	1,111	(300)	1960	10/24/2011
Citizens - Barrington	Barrington, NH	100%	—	176	335	511	(82)	176	253	429	(75)	1985	10/24/2011
Citizens - Coliseum Avenue	Nashua, NH	100%	—	206	655	861	(91)	206	564	770	(134)	1981	10/24/2011
Citizens - One Constitution Way	Somersworth, NH	100%	—	135	1,013	1,148	(32)	135	981	1,116	(214)	1985	10/24/2011
Citizens - Endicott	Endicott, NY	100%	—	117	2,001	2,118	—	117	2,001	2,118	(719)	1927	10/24/2011

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Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Citizens - Genesee - Utica	Utica, NY	100%	—	$ 91	$ 2,001	$ 2,092	$ —	$ 91	$ 2,001	$ 2,092	$ (737)	1956 / 1968	10/24/2011
Citizens - Glens Falls	Glens Falls, NY	100%	—	167	1,234	1,401	—	167	1,234	1,401	(436)	1956	10/24/2011
Citizens - Main Street - Beacon	Beacon, NY	100%	—	440	1,247	1,687	—	440	1,247	1,687	(458)	1955	10/24/2011
Citizens - Meadow Avenue	Newburgh, NY	100%	—	364	1,232	1,596	(133)	364	1,099	1,463	(303)	1972	10/24/2011
Citizens - Montcalm Street	Ticonderoga, NY	100%	—	16	607	623	—	16	607	623	(226)	1920	10/24/2011
Citizens - Dover Center Road	Bay Village, OH	100%	—	196	484	680	—	196	484	680	(193)	1967	10/24/2011
Citizens - East Street - Euclid	Euclid, OH	100%	—	86	708	794	—	86	708	794	(208)	1975	10/24/2011
Citizens - Fairview Park	Fairview Park, OH	100%	—	289	374	663	(43)	289	331	620	(125)	1966	10/24/2011
Citizens - Girard	Girard, OH	100%	—	88	1,091	1,179	—	88	1,091	1,179	(306)	1977 / 1983	10/24/2011
Citizens - Lake Shore Boulevard	Euclid, OH	100%	—	234	622	856	—	234	622	856	(273)	1971	10/24/2011
Citizens - Lorain Road	North Olmsted, OH	100%	—	254	599	853	—	254	599	853	(157)	1981	10/24/2011
Citizens - Mentor Avenue	Mentor, OH	100%	—	690	1,283	1,973	(145)	690	1,138	1,828	(386)	1958	10/24/2011
Citizens - Navarre Avenue	Oregon, OH	100%	—	107	1,015	1,122	—	107	1,015	1,122	(321)	1980	10/24/2011
Citizens - Richmond Heights	Richmond Heights, OH	100%	—	353	683	1,036	(122)	353	561	914	(113)	2002	10/24/2011
Citizens - Toledo Main	Toledo, OH	100%	—	83	664	747	—	83	664	747	(261)	1952	10/24/2011
Citizens - University Heights	University Heights, OH	100%	—	426	505	931	(55)	426	450	876	(93)	1989 / 2002	10/24/2011
Citizens - Westlake	Westlake, OH	100%	—	283	596	879	—	283	596	879	(193)	1981	10/24/2011
Citizens - Burgettstown	Burgettstown, PA	100%	—	68	1,165	1,233	—	68	1,165	1,233	(390)	1921	10/24/2011
Citizens - Zelienople	Zelienople, PA	100%	—	26	1,054	1,080	—	26	1,054	1,080	(347)	1920 / 1971	10/24/2011
Citizens - Portsmouth East Main	Portsmouth, RI	100%	—	446	518	964	(68)	446	450	896	(147)	1979	10/24/2011
Citizens - Pearl St - Essex Junction	Essex Junction, VT	100%	—	170	415	585	—	171	414	585	(117)	1986	10/24/2011
Feasterville	Feasterville, PA	100%	—	319	2,064	2,383	(663)	320	1,400	1,720	(132)	1964	09/01/2011
Total Properties Held for Investment				$ 264,484	$ 948,762	$ 1,213,246	$ (198,675)	$ 236,034	$ 778,537	$ 1,014,571	$ (161,243)		

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Description	Location	Ownership Percent	Encumbrances	Land	Building and Improvements [1]	Total	Cost Capitalized Subsequent to Acquisition [2]	Land	Building and Improvements [1]	Total [3]	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Properties Held for Sale													
Mountain Home - Main Building	Mountain Home, AR	100%	—	$ 380	$ 438	$ 818	$ (453)	$ 254	$ 111	$ 365	$ (2)	1980	09/01/2011
Nederland - Main Building	Nederland, TX	100%	—	49	510	559	(375)	44	140	184	(3)	1946	09/01/2011
Toluca Lake	Burbank, CA	100%	—	522	869	1,391	(10)	522	859	1,381	(298)	1978	09/01/2011
West Los Angeles Branch	W. Los Angeles, CA	100%	—	991	570	1,561	(50)	991	520	1,511	(228)	1957	09/01/2011
Williow Glenn	San Jose, CA	100%	—	353	295	648	(23)	353	272	625	(134)	1955	09/01/2011
NBOC Operations Center	North Brunswick, NJ	100%	—	30	40	70	56	30	96	126	(31)	1950	09/01/2011
NBOC Operations Center	North Brunswick, NJ	100%	—	1,701	3,999	5,700	(1,223)	1,700	2,777	4,477	(970)	1950/1959	09/01/2011
Helotes	San Antonio, TX	100%	—	201	522	723	—	200	523	723	(174)	1982	09/01/2011
Total Properties Held for Sale				$ 4,227	$ 7,243	$ 11,470	$ (2,078)	$ 4,094	$ 5,298	$ 9,392	$ (1,840)		
TOTAL				$ 268,711	$ 956,005	$ 1,224,716	$ (200,753)	$ 240,128	$ 783,835	$ 1,023,963	$ (163,083)		

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(1) Building and improvements include tenant origination and absorption costs.

(2) Costs capitalized subsequent to acquisition is net of impairments and write-offs of fully depreciated/amortized assets.

(3) The aggregate cost of real estate for federal income tax purposes was approximately $1.3 billion as of December 31, 2015.

(4) These properties are security for the Portfolio Loan, which had an outstanding principal balance of $164.1 million as of December 31, 2015.

(5) These properties are security for the Bank of America - BBD2 Mortgage Loan, which had an outstanding principal balance of $65.7 million as of December 31, 2015.

(6) These properties are security for the FSI 6000A Mortgage Loan, which had an outstanding principal balance of $24.3 million as of December 31, 2015.

(7) These properties are security for the FSI 6000B Mortgage Loan, which had an outstanding principal balance of $27.8 million as of December 31, 2015.

(8) These properties are security for the FSI 6000C Mortgage Loan, which had an outstanding principal balance of $22.0 million as of December 31, 2015.

(9) These properties are security for the FSI 6000D Mortgage Loan, which had an outstanding principal balance of $28.9 million as of December 31, 2015.

(10) These properties are security for the Pitney Bowes - Bank of America Mortgage Loan, which had an outstanding principal balance of $36.2 million as of December 31, 2015.

KBS REAL ESTATE INVESTMENT TRUST, INC.

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION (CONTINUED)

December 31, 2015

(dollar amounts in thousands)

	2015	2014	2013
Real Estate [1]			
Balance at the beginning of the year	$ 1,311,919	$ 1,460,838	$ 1,953,615
Acquisition	2,297	—	—
Improvements	36,816	33,046	21,678
Write-off of fully depreciated and fully amortized assets	(18,169)	(31,954)	(29,166)
Impairments	(85,255)	(18,902)	(80,609)
Sales	(223,645)	(94,562)	(404,680)
Foreclosures	—	(36,547)	—
Balance at the end of the year	$ 1,023,963	$ 1,311,919	$ 1,460,838
Accumulated depreciation and amortization [1]			
Balance at the beginning of the year	$ 193,408	$ 182,039	$ 204,781
Depreciation and amortization expense	55,995	67,848	78,461
Write-off of fully depreciated and fully amortized assets	(18,169)	(31,954)	(29,166)
Impairment	(38,916)	(8,885)	(32,595)
Sales	(29,235)	(10,973)	(39,442)
Foreclosures	—	(4,667)	—
Balance at the end of the year	$ 163,083	$ 193,408	$ 182,039

[1] Amounts include properties held for sale.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newport Beach, State of California, on March 16, 2016.

KBS REAL ESTATE INVESTMENT TRUST, INC.

By: /s/ Charles J. Schreiber, Jr.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ CHARLES J. SCHREIBER, JR. Charles J. Schreiber, Jr.	Chairman of the Board, Chief Executive Officer and Director (principal executive officer)	March 16, 2016
/s/ JEFFREY K. WALDVOGEL Jeffrey K. Waldvogel	Chief Financial Officer (principal financial officer)	March 16, 2016
/s/ PETER MCMILLAN III Peter McMillan III	Executive Vice President, Treasurer, Secretary and Director	March 16, 2016
/s/ STACIE K. YAMANE Stacie K. Yamane	Chief Accounting Officer (principal accounting officer)	March 16, 2016
/s/ HANK ADLER Hank Adler	Director	March 16, 2016
/s/ BARBARA R. CAMBON Barbara R. Cambon	Director	March 16, 2016
/s/ STUART A. GABRIEL, PH.D. Stuart A. Gabriel, Ph.D.	Director	March 16, 2016

Exhibit 31.1

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 annual report on Form 10-K 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: March 16, 2016

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

Charles J. Schreiber, Jr.

Chairman of the Board,
Chief Executive Officer and Director

(principal executive officer)

Exhibit 31.2

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

I, Jeffrey K. Waldvogel, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 16, 2016

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

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 Annual Report on Form 10-K of KBS Real Estate Investment Trust, Inc. (the "Registrant") for the year ended December 31, 2015, 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: March 16, 2016

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

Charles J. Schreiber, Jr.

Chairman of the Board,
Chief Executive Officer and Director

(principal executive officer)

Exhibit 32.2

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 Annual Report on Form 10-K of KBS Real Estate Investment Trust, Inc. (the "Registrant") for the year ended December 31, 2015, 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: March 16, 2016

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer
(principal financial officer)