Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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 333-207471

KBS GROWTH & INCOME REIT, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**47-2778257**
(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)

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

As of November 2, 2018, there were 9,356,337 outstanding shares of Class A common stock and 293,786 outstanding shares of Class T common stock of KBS Growth & Income REIT, Inc.

INDEX TO FINANCIAL STATEMENTS

KBS GROWTH & INCOME REIT, INC.

FORM 10-Q

September 30, 2018

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KBS GROWTH & INCOME REIT, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Real estate:		
Land	$ 31,309	$ 31,309
Building and improvements	142,872	142,400
Tenant origination and absorption costs	16,270	17,047
Total real estate, cost	190,451	190,756
Less accumulated depreciation and amortization	(15,557)	(9,627)
Total real estate, net	174,894	181,129
Cash and cash equivalents	5,661	2,523
Rent and other receivables	3,010	1,920
Above-market leases, net	158	180
Prepaid expenses and other assets, net	3,203	1,388
Total assets	$ 186,926	$ 187,140
Liabilities and stockholders' equity		
Notes payable, net	$ 116,769	$ 112,780
Accounts payable and accrued liabilities	2,346	2,717
Due to affiliates	3,180	1,787
Distributions payable	416	385
Below-market leases, net	4,249	5,910
Other liabilities	2,949	1,828
Total liabilities	129,909	125,407
Commitments and contingencies (Note 9)		
Redeemable common stock	—	2,314
Stockholders' equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Class A common stock, $.01 par value per share; 500,000,000 shares authorized, 9,309,748 and 9,149,100 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	93	91
Class T common stock, $.01 par value per share; 500,000,000 shares authorized, 291,413 shares and 281,537 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	3	3
Additional paid-in capital	78,678	76,265
Cumulative distributions and net losses	(21,757)	(16,940)
Total stockholders' equity	57,017	59,419
Total liabilities and stockholders' equity	$ 186,926	$ 187,140

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except share and per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental income	$ 4,463	$ 3,188	$ 13,702	$ 9,714
Tenant reimbursements	1,054	821	3,049	2,478
Other operating income	44	19	120	56
Total revenues	5,561	4,028	16,871	12,248
Expenses:				
Operating, maintenance, and management	1,207	983	3,412	2,606
Property management fees and expenses to affiliate	45	30	129	91
Real estate taxes and insurance	628	537	2,058	1,507
Asset management fees to affiliate	468	—	1,386	214
General and administrative expenses	333	461	1,088	1,224
Depreciation and amortization	2,221	2,031	7,314	5,571
Interest expense	974	776	2,742	2,275
Total expenses	5,876	4,818	18,129	13,488
Other income (loss):				
Interest and other income	16	7	29	42
Loss from extinguishment of debt	—	—	—	(206)
Total other income (loss)	16	7	29	(164)
Net loss	$ (299)	$ (783)	$ (1,229)	$ (1,404)
Class A Common Stock:				
Net loss	$ (290)	$ (760)	$ (1,192)	$ (1,358)
Net loss per common share, basic and diluted	$ (0.03)	$ (0.08)	$ (0.13)	$ (0.15)
Weighted-average number of common shares outstanding basic and diluted	9,270,850	9,134,823	9,154,854	9,059,187
Class T Common Stock:				
Net loss	$ (9)	$ (23)	$ (37)	$ (46)
Net loss per common share, basic and diluted	$ (0.03)	$ (0.08)	$ (0.13)	$ (0.19)
Weighted-average number of common shares outstanding basic and diluted	290,153	277,331	286,846	235,372

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Year Ended December 31, 2017 and the Nine Months Ended September 30, 2018 (unaudited)
(dollars in thousands)

	Common Stock						
	Class A		Class T				
	Shares	Amounts	Shares	Amounts	Additional Paid-in Capital	Cumulative Distributions and Net Losses	Total Stockholders' Equity
Balance, December 31, 2016	8,846,164	$ 88	94,018	$ 1	$ 71,992	$ (9,451)	$ 62,630
Net loss	—	—	—	—	—	(2,199)	(2,199)
Issuance of common stock	380,538	2	185,845	2	5,417	—	5,421
Transfers to redeemable common stock	—	—	—	—	(523)	—	(523)
Redemptions of common stock	(145,214)	—	—	—	(1,210)	—	(1,210)
Stock dividends issued	67,612	1	1,674	—	706	(707)	—
Distributions declared	—	—	—	—	—	(4,583)	(4,583)
Commissions on stock sales, related dealer manager fees and stockholder servicing fees to affiliate	—	—	—	—	(103)	—	(103)
Other offering costs to affiliate	—	—	—	—	(14)	—	(14)
Balance, December 31, 2017	9,149,100	91	281,537	3	76,265	(16,940)	59,419
Net loss	—	—	—	—	—	(1,229)	(1,229)
Issuance of common stock	437,720	5	9,876	—	3,930	—	3,935
Transfers from redeemable common stock	—	—	—	—	794	—	794
Redemptions of common stock	(277,072)	(3)	—	—	(2,311)	—	(2,314)
Distributions declared	—	—	—	—	—	(3,588)	(3,588)
Balance, September 30, 2018	9,309,748	$ 93	291,413	$ 3	$ 78,678	$ (21,757)	$ 57,017

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	$ (1,229)	$ (1,404)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,314	5,571
Deferred rents	(899)	(476)
Allowance for doubtful accounts	40	91
Amortization of above and below-market leases, net	(1,639)	(1,086)
Amortization of deferred financing costs	256	377
Unrealized gain on derivative instrument	(1,136)	—
Loss from extinguishment of debt	—	206
Changes in operating assets and liabilities:		
Rents and other receivables	(219)	(66)
Prepaid expenses and other assets	(1,038)	(184)
Accounts payable and accrued liabilities	(249)	(34)
Due to affiliates	1,393	—
Other liabilities	(399)	(60)
Net cash provided by operating activities	2,195	2,935
Cash Flows from Investing Activities:		
Improvements to real estate	(1,115)	(2,431)
Escrow deposit for future real estate purchase	—	(1,500)
Net cash used in investing activities	(1,115)	(3,931)
Cash Flows from Financing Activities:		
Proceeds from notes payable	45,000	1,950
Principal payments on notes payable	(41,000)	(11,260)
Payments of deferred financing costs	(6)	(103)
Proceeds from issuance of common stock	2,415	2,537
Payments to redeem common stock	(2,314)	(379)
Payments of commissions on stock sales, related dealer manager fees to affiliate and other offering costs	—	(180)
Distributions paid to common stockholders	(2,037)	(1,657)
Net cash provided by (used in) financing activities	2,058	(9,092)
Net increase (decrease) in cash and cash equivalents	3,138	(10,088)
Cash and cash equivalents, beginning of period	2,523	15,666
Cash and cash equivalents, end of period	$ 5,661	$ 5,578
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 3,561	$ 1,885
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Stock dividends issued	$ —	$ 707
Increase in cash distributions payable	$ 31	$ —
Dividends paid to common stockholders through common stock issuances pursuant to the distribution reinvestment plan	$ 1,520	$ 1,786
Increase in redemptions payable	$ 1,520	$ —
Increase in accrued improvements to real estate	$ —	$ 1,092

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(unaudited)

1. ORGANIZATION

KBS Growth & Income REIT, Inc. (the "Company") was formed on January 12, 2015 as a Maryland corporation that elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2015. Substantially all of the Company's business is conducted through KBS Growth & Income Limited Partnership (the "Operating Partnership"), a Delaware limited partnership formed on January 14, 2015. The Company is the sole general partner of, and owns a 0.1% partnership interest in, the Operating Partnership. KBS Growth & Income REIT Holdings LLC ("REIT Holdings"), a Delaware limited liability company formed on January 14, 2015, owns the remaining 99.9% partnership interest in the Operating Partnership and is the sole limited partner. The Company is the sole member and manager of REIT Holdings.

Subject to certain restrictions and limitations, the business of the Company is externally managed by KBS Capital Advisors LLC (the "Advisor"), an affiliate of the Company, pursuant to an advisory agreement between the Company and the Advisor initially entered into on June 11, 2015, and amended at various times thereafter (the "Advisory Agreement"). The Advisor conducts the Company's operations and manages its portfolio of core real estate properties. On January 27, 2015, the Company issued 20,000 shares of its common stock to the Advisor at a purchase price of $10.00 per share. On June 11, 2015, these outstanding shares of common stock were designated Class A shares of common stock.

As of September 30, 2018, the Company had invested in four office properties. The Company intends to invest in a diverse portfolio of core real estate properties. The Company considers core properties to be existing properties with at least 80% occupancy. Based on the current market outlook, the Company expects its core focus in the U.S. office sector to reflect a value-creating core strategy, which is also known as a core-plus strategy.

The Company commenced a private placement offering exempt from registration pursuant to Rule 506(b) of Regulation D of the Securities Act of 1933, as amended, on June 11, 2015, pursuant to which the Company offered a maximum of $105,000,000 in shares of its Class A common stock for sale to accredited investors (the "Initial Private Offering"), of which $5,000,000 of Class A shares were offered pursuant to the Company's distribution reinvestment plan. The Company ceased offering shares in the primary portion of the Initial Private Offering on April 27, 2016 and processed subscriptions for the primary Initial Private Offering dated on or prior to April 27, 2016 through May 30, 2016. KBS Capital Markets Group LLC (the "Dealer Manager"), an affiliate of the Advisor, served as the dealer manager of the Initial Private Offering pursuant to a dealer manager agreement dated June 11, 2015 (the "Initial Private Offering Dealer Manager Agreement").

On February 4, 2015, the Company filed a registration statement on Form S-11 with the Securities and Exchange Commission (the "SEC") to register an initial public offering of its common stock to offer a maximum of $1,500,000,000 in shares of common stock for sale to the public in a primary offering, consisting of two classes of shares: Class A and Class T (the "Primary Offering") and a maximum of $800,000,000 in both classes of shares of its common stock pursuant to the Company's distribution reinvestment plan (the "DRP Offering" and, together with the Primary Offering, the "Public Offering"). The SEC declared the Company's registration statement effective on April 28, 2016 and the Company retained the Dealer Manager to serve as the dealer manager of the Public Offering pursuant to a dealer manager agreement dated April 28, 2016 (the "Public Offering Dealer Manager Agreement"). The Company terminated the Primary Offering effective June 30, 2017.

The Company continues to offer shares of common stock pursuant to the DRP Offering. In some states, the Company will need to renew the registration statement annually to continue the DRP Offering. The Company may terminate the DRP Offering at any time.

On October 3, 2017, the Company launched a private placement offering exempt from registration pursuant to Rule 506(c) of Regulation D of the Securities Act pursuant to which the Company is currently offering a maximum of $1,000,000,000 in shares of its Class A common stock to accredited investors (the "Second Private Offering"). Prior to the launch of the Second Private Offering, on September 29, 2017, the Company entered into a dealer manager agreement (the "NCPS Dealer Agreement") with the Advisor and North Capital Private Securities Corporation ("NCPS") in connection with the Second Private Offering.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

The Company sold 8,548,972 shares of Class A common stock for gross offering proceeds of $76.8 million in the Initial Private Offering, including 74,744 shares of Class A common stock under its distribution reinvestment plan for gross offering proceeds of $0.7 million.

The Company sold 122,721 and 270,415 shares of Class A and Class T common stock, respectively, in the Primary Offering for aggregate gross offering proceeds of $3.9 million. As of September 30, 2018, the Company had sold 518,178 and 19,224 shares of Class A and Class T common stock, respectively, in the DRP Offering for aggregate gross offering proceeds of $5.0 million.

As of September 30, 2018, the Company had sold 314,059 shares of Class A common stock in the Second Private Offering for aggregate gross offering proceeds of $2.8 million.

As of September 30, 2018, the Company had redeemed 422,286 Class A shares for $3.5 million.

On August 11, 2015, two of the individuals who own and control the Company's sponsor, Charles J. Schreiber, Jr. (who also acts as chief executive officer, the chairman of the board and a director of the Company) and Peter M. Bren (who also acts as president and director of the Company), purchased 21,181.2380 and 21,181.2390 shares of Class A common stock, respectively, each for an aggregate purchase price of $172,500 or $8.144 per share. The per share purchase price reflects an 8.5% discount to the $8.90 offering price in the Private Offering in effect on the date of their purchase because selling commissions and dealer manager fees were not paid in connection with the sales. Mr. Bren's investment was made on behalf of and for the account of three of his children, and he has disclaimed beneficial ownership of the shares. The Company issued these shares in private transactions exempt from the registration requirements pursuant to Section 4(a)(2) of the Securities Act of 1933.

As described above, the Company intends to use substantially all of the net proceeds from its offerings to invest in a diverse portfolio of core real estate properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2017, except for the Company's adoption of the revenue recognition standards issued by the Financial Accounting Standards Board ("FASB") effective on January 1, 2018. For further information about the Company's accounting policies, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as contained within the FASB Accounting Standards Codification ("ASC") and the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

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.

Segments

The Company had invested in four office properties as of September 30, 2018. Substantially all of the Company's revenue and net loss is from real estate, and therefore, the Company currently operates in one reportable segment.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09") using the modified retrospective approach, which requires a cumulative effect adjustment as of the date of the Company's adoption. Under the modified retrospective approach, an entity may also elect to apply this standard to either (i) all contracts as of January 1, 2018 or (ii) only to contracts that were not completed as of January 1, 2018. A completed contract is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP that was in effect before the date of initial application. The Company elected to apply this standard only to contracts that were not completed as of January 1, 2018.

Based on the Company's evaluation of contracts within the scope of ASU No. 2014-09, revenue that is impacted by ASU No. 2014-09 includes revenue generated by sales of real estate, other operating income and tenant reimbursements for substantial services earned at the Company's properties. The recognition of such revenue will occur when the services are provided and the performance obligations are satisfied. For the three and nine months ended September 30, 2018, tenant reimbursements for substantial services accounted for under ASU No. 2014-09 were $34,000 and $98,000, respectively, and were included in tenant reimbursements on the accompanying statements of operations.

Sales of Real Estate

Effective January 1, 2018, the Company adopted the guidance of ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets ("ASC 610-20"),* which applies to sales or transfers to noncustomers of nonfinancial assets or in substance nonfinancial assets that do not meet the definition of a business. Generally, the Company's sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20.

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-09. Under ASC 610-20, if the Company determines it does not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, the Company would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer. As a result of the adoption of ASU 610-20, there was no impact to the Company's consolidated financial statements of operations for the three and nine months ended September 30, 2018 and 2017 since the Company did not sell any real estate properties for those periods.

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 for the three and nine months ended September 30, 2018 and 2017, respectively. For the purpose of determining the weighted average number of shares outstanding, stock dividends issued during the period presented are adjusted retroactively and treated as if they were issued and outstanding for all periods presented.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

During the three and nine months ended September 30, 2017, the Company declared stock distributions of 0.00166666 and 0.00666664 shares per share outstanding, respectively, and issued a total of 23,441 and 69,287 shares. The Company ceased issuing stock dividends to all stockholders on September 5, 2017. Stock dividends had been declared on a monthly basis and the amount declared per share outstanding assumed the share was issued and outstanding each date that was a record date for stock dividends during the periods presented. Stock dividends were issued in the same class of shares as the shares for which such stockholder received the stock dividend.

During the three and nine months ended September 30, 2018, aggregate cash distributions declared per share of Class A common stock were $0.13293356 and $0.38001669, assuming the share was issued and outstanding each date that was a record date for distributions during the period. During the three and nine months ended September 30, 2018, aggregate cash distributions declared per share of Class T common stock were $0.13293356 and $0.38001669, assuming the share was issued and outstanding each date that was a record date for distributions during the period. During the three and nine months ended September 30, 2017, aggregate cash distributions declared per share of Class A common stock were $0.12448602 and $0.37243068, assuming the share was issued and outstanding each date that was a record date for distributions during the period. During the three and nine months ended September 30, 2017, aggregate cash distributions declared per share of Class T common stock were $0.12448602 and $0.32334150, assuming the share was issued and outstanding each date that was a record date for distributions during the period. Distributions for the period from January 1, 2017 through August 31, 2017 were calculated at a rate of (i) $0.00136986 per share per day, less (ii) the applicable daily class-specific stockholder servicing fees accrued for and allocable to any class of common stock, divided by the number of shares of common stock of such class outstanding as of the close of business on each respective record date. Distributions for the period from September 1, 2017 through September 30, 2017 were calculated at a rate of $0.00131849 per share per day. Distributions for the period from January 1, 2018 through April 30, 2018 and from May 1, 2018 through September 30, 2018 were calculated at a rate of $0.00132452 per share per day and $0.00144493 per share per day, respectively. Each day during the nine months ended September 30, 2018 and 2017 was a record date for distributions.

In accordance with FASB ASC Topic 260-10-45, *Earnings Per Share*, the Company uses the two-class method to calculate earnings per share. Basic earnings per share is calculated based on dividends declared ("distributed earnings") and the rights of common shares and participating securities in any undistributed earnings, which represents net income remaining after deduction of dividends declared during the period. The undistributed earnings are allocated to all outstanding common shares based on the relative percentage of each class of shares to the total number of outstanding shares. The Company does not have any participating securities outstanding other than Class A Common Stock and Class T Common Stock during the periods presented.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

The Company's calculated earnings per share for the three and nine months ended September 30, 2018 and 2017 were as follows (in thousands, except share and per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$ (299)	$ (783)	$ (1,229)	$ (1,404)
Less: Class A Common Stock cash distributions declared	1,231	1,136	3,479	3,362
Less: Class T Common Stock cash distributions declared	39	34	109	77
Undistributed net loss	$ (1,569)	$ (1,953)	$ (4,817)	$ (4,843)
Class A Common Stock:				
Undistributed net loss	$ (1,521)	$ (1,896)	$ (4,671)	$ (4,720)
Class A Common Stock cash distributions declared	1,231	1,136	3,479	3,362
Net loss	$ (290)	$ (760)	$ (1,192)	$ (1,358)
Net loss per common share, basic and diluted	$ (0.03)	$ (0.08)	$ (0.13)	$ (0.15)
Weighted-average number of common shares outstanding, basic and diluted	9,270,850	9,134,823	9,154,854	9,059,187
Class T Common Stock:				
Undistributed net loss	$ (48)	$ (57)	$ (146)	$ (123)
Class T Common Stock cash distributions declared	39	34	109	77
Net loss	$ (9)	$ (23)	$ (37)	$ (46)
Net loss per common share, basic and diluted	$ (0.03)	$ (0.08)	$ (0.13)	$ (0.19)
Weighted-average number of common shares outstanding, basic and diluted	290,153	277,331	286,846	235,372

Square Footage, Occupancy and Other Measures

Square footage, occupancy, number of tenants and other measures, including annualized base rent and annualized base rent per square foot, or amounts derived from such measures, used to describe real estate investments included in these condensed notes to consolidated financial statements are presented on an unaudited basis and outside the scope of the Company's independent registered public accounting firm's review of the Company's financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Recently Issued Accounting Standards Update

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02"). The amendments in ASU No. 2016-02 change the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of ASU No. 2016-02 as of its issuance is permitted. ASU No. 2016-02 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. Upon adoption of ASU No. 2016-02, the Company expects to adopt the package of practical expedients for all leases that commenced before the effective date of January 1, 2019. Accordingly, the Company will 1) not reassess whether any expired or existing contracts are or contain leases, 2) not reassess the lease classification for any expired or existing lease, and 3) not reassess initial direct costs for any existing leases. The Company does not expect to elect the practical expedient related to using hindsight to reevaluate the lease term. In addition, the Company expects to adopt the practical expedient for land easements to not assess whether existing or expired land easements that were not previously accounted for as leases under the current lease accounting standards of Topic 840 are or contain a lease under Topic 842.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements* ("ASU No. 2018-11"), which provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue recognition standard (Topic 606) and if certain conditions are met. Upon adoption of the lease accounting standard under Topic 842, the Company expects to adopt this practical expedient, specifically related to its tenant reimbursements which would otherwise be accounted for under the new revenue recognition standard. The Company believes the two conditions have been met for tenant reimbursements as 1) the timing and pattern of transfer of the nonlease components and associated lease components are the same and 2) the lease component would be classified as an operating lease. In addition. ASU No. 2018-11, provides an additional optional transition method to allow entities to apply the new lease accounting standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. An entity's reporting for the comparative periods presented in the financial statements in which it adopts the new lease accounting standard will continue to be reported under the current lease accounting standards of Topic 840. The Company expects to adopt this transition method upon adoption of the lease accounting standard of Topic 842 on January 1, 2019.

The Company is currently evaluating the impact of adopting the new lease accounting standards on its consolidated financial statements. The Company is in process of creating an inventory of its leases where the Company may be a lessee to assess the potential impact to the Company's financial statements upon adoption of the new lease accounting standards.

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

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU No. 2018-13"). The primary focus of ASU 2018-13 is to improve the effectiveness of the disclosure requirements for fair value measurements. ASU No. 2018-13 removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for the timing of transfers between levels and the valuation processes for Level 3 fair value measurements. It also adds a requirement to disclose changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and to dislcose the range and weighted average of significant unobservable inputs used to develop recurring and nonrecurring Level 3 fair value measurements. For certain unobservable inputs, entities may disclose other quantitative information in lieu of the weighted average if the other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop the Level 3 fair value measurements. In addition, public entities are required to provide information about the measurement uncertainty of recurring Level 3 fair value measurements from the use of significant unobservable inputs if those inputs reasonably could have been different at the reporting date. ASU No. 2018-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company is still evaluating the impact of adopting ASU No. 2018-13 on its financial statements, but does not expect the adoption of ASU No. 2018-13 to have a material impact on its financial statements.

3. REAL ESTATE

As of September 30, 2018, the Company owned four office properties containing 683,952 rentable square feet, which were collectively 94% occupied. The following table provides summary information regarding the properties owned by the Company as of September 30, 2018 (in thousands):

Property	Date Acquired	City	State	Property Type	Total Real Estate at Cost	Accumulated Depreciation and Amortization	Total Real Estate, Net
Von Karman Tech Center	08/12/2015	Irvine	CA	Office	$ 20,797	$ (2,110)	$ 18,687
Commonwealth Building	06/30/2016	Portland	OR	Office	76,657	(7,033)	69,624
The Offices at Greenhouse	11/14/2016	Houston	TX	Office	47,242	(4,547)	42,695
Institute Property	11/09/2017	Chicago	IL	Office	45,755	(1,867)	43,888
					$ 190,451	$ (15,557)	$ 174,894

As of September 30, 2018, the following properties represented more than 10% of the Company's total assets:

Property	Location	Rentable Square Feet	Total Real Estate, Net (in thousands)	Percentage of Total Assets	Annualized Base Rent (in thousands)[1]	Average Annualized Base Rent per sq. ft.	Occupancy
Von Karman Tech Center	Irvine, CA	101,161	$ 18,687	10.0%	$ 2,249	$ 22.90	97.1%
Commonwealth Building	Portland, OR	224,122	69,624	37.2%	5,761	26.82	95.8%
The Offices at Greenhouse	Houston, TX	203,284	42,695	22.8%	4,201	20.66	100.0%
Institute Property	Chicago, IL	155,385	43,888	23.5%	3,317	25.69	83.1%

[1] Annualized base rent represents annualized contractual base rental income as of September 30, 2018, 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.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

Operating Leases

The Company's real estate properties are leased to tenants under operating leases for which the terms and expirations vary. As of September 30, 2018, the leases had remaining terms, excluding options to extend, of up to 8.7 years with a weighted-average remaining term of 4.1 years. Some of the 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, 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 $1.1 million and $1.2 million as of September 30, 2018 and December 31, 2017, respectively.

During the nine months ended September 30, 2018 and 2017, the Company recognized deferred rent from tenants, net of lease incentive amortization, of $0.9 million and $0.5 million, respectively. As of September 30, 2018 and December 31, 2017, the cumulative deferred rent balance was $2.7 million and $1.8 million, respectively, and is included in rents and other receivables on the accompanying balance sheets. The cumulative deferred rent balance included $0.2 million and $0.2 million of unamortized lease incentives as of September 30, 2018 and December 31, 2017, respectively.

As of September 30, 2018, the future minimum rental income from the Company's properties under its non-cancelable operating leases was as follows (in thousands):

October 1, 2018 through December 31, 2018	$	3,659
2019		14,391
2020		14,378
2021		13,023
2022		11,205
Thereafter		16,728
	$	73,384

As of September 30, 2018, the Company had a concentration of credit risk related to AECOM, one of the tenants in The Offices at Greenhouse in the engineering industry, which represented 19% of the Company's annualized base rent. The tenant individually occupied 140,922 rentable square feet or approximately 21% of the total rentable square feet of the Company's real estate portfolio. Of the 140,922 rentable square feet, 5,195 rentable square feet expires on July 24, 2019, with two three-year extension options, and 135,727 rentable square feet expires on December 31, 2024, with two five-year extension options. As of September 30, 2018, the annualized base rent for this tenant was approximately $3.0 million or $21.39 per square foot. No other tenant represented more than 10% of the Company's annualized base rent.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

As of September 30, 2018, the Company's real estate properties were leased to approximately 78 tenants over a diverse range of industries. 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
Professional, scientific and technical	13	$ 5,862	37.8%
Information technology	8	1,828	11.8%

[1] Annualized base rent represents annualized contractual base rental income as of September 30, 2018, 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 September 30, 2018, no other tenant industries accounted for more than 10% of annualized base rent. No material tenant credit issues have been identified at this time.

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

As of September 30, 2018 and December 31, 2017, 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	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Cost	$ 16,270	$ 17,047	$ 213	$ 213	$ (7,119)	$ (7,838)
Accumulated Amortization	(5,409)	(3,480)	(55)	(33)	2,870	1,928
Net Amount	$ 10,861	$ 13,567	$ 158	$ 180	$ (4,249)	$ (5,910)

Increases (decreases) in net income as a result of amortization of the Company's tenant origination and absorption costs, above-market lease assets and below-market lease liabilities for the three and nine months ended September 30, 2018 and 2017 were as follows (in thousands):

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	For the Three Months Ended September 30,		For the Three Months Ended September 30,		For the Three Months Ended September 30,	
	2018	2017	2018	2017	2018	2017
Amortization	$ (758)	$ (766)	$ (7)	$ (8)	$ 403	$ 335

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	For the Nine Months Ended September 30,		For the Nine Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017	2018	2017
Amortization	$ 2,706	$ (2,102)	$ (22)	$ (23)	$ 1,661	$ 1,109

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

5. NOTES PAYABLE

As of September 30, 2018, the Company's notes payable consisted of the following (dollars in thousands):

	Book Value as of September 30, 2018	Book Value as of December 31, 2017	Contractual Interest Rate as of September 30, 2018 [1]	Effective Interest Rate at September 30, 2018 [1]	Payment Type	Maturity Date [2]
Commonwealth Building Mortgage Loan [3]	$ 45,000	$ 41,000	One-month LIBOR + 1.80%	3.91%	Interest Only	02/01/2023
Term Loan [4]	72,800	72,800	One-month LIBOR + 2.00%	4.11%	Interest Only	11/09/2020
Notes payable principal outstanding	$ 117,800	$ 113,800				
Deferred financing costs, net	(1,031)	(1,020)				
Notes payable, net	$ 116,769	$ 112,780				

[1] Contractual interest rate represents the interest rate in effect under the loan as of September 30, 2018. Effective interest rate is calculated as the actual interest rate in effect as of September 30, 2018 (consisting of the contractual interest rate), using interest rate indices as of September 30, 2018, where applicable.

[2] Represents the maturity date as of September 30, 2018; subject to certain conditions, the maturity dates of certain loans may be extended beyond the dates shown.

[3] On January 18, 2018, the Company, through an indirect wholly owned subsidiary, closed the refinancing of the initial Commonwealth Building mortgage loan with an unaffiliated lender (the "Refinancing") for a maximum loan amount of up to $51.4 million. With the proceeds from the Refinancing, the Company repaid $41.0 million of principal in satisfaction of the initial Commonwealth Building mortgage loan. Under the Refinancing, monthly payments are interest-only with the remaining principal balance, all accrued and unpaid interest and all other sums due under the loan documents payable at maturity. If the LIBOR rate is equal to or greater than 2.90% for five consecutive business days, the Company has 30 days to enter into an interest rate cap agreement with a LIBOR strike rate of 3.90% or less. The Company has the right to prepay all or a portion of the loan under the Refinancing commencing on February 1, 2019, subject to certain fees and conditions contained in the loan documents. As of September 30, 2018, $45.0 million of the Commonwealth Building Mortgage Loan was outstanding and $6.4 million remained available for future disbursements, subject to certain terms and conditions set forth in the loan documents.

[4] As of September 30, 2018, the outstanding balance under the Term Loan consisted of $48.5 million of term commitment and $24.3 million of revolving commitment, which bears interest at a rate per annum equal to 2.0% over one-month LIBOR. The Term Loan is secured by The Offices at Greenhouse, Von Karman Tech Center and Institute Property.

During the three and nine months ended September 30, 2018, the Company incurred $1.0 million and $2.7 million of interest expense, respectively. During the three and nine months ended September 30, 2017, the Company incurred $0.8 million and $2.3 million of interest expense, respectively. As of September 30, 2018 and December 31, 2017, $0.4 million and $0.3 million of interest expense were payable, respectively. Included in interest expense during the three and nine months ended September 30, 2018 were $0.1 million and $0.3 million of amortization of deferred financing costs, respectively. Also included in interest expense during the nine months ended September 30, 2018 was $0.2 million of debt refinancing costs. Included in interest expense during the three and nine months ended September 30, 2017 were $0.1 million and $0.4 million of amortization of deferred financing costs, respectively. Interest expense was reduced by $0.3 million and $1.1 million as a result of a change in fair value of the Company's derivative instruments for the three and nine months ended September 30, 2018, respectively.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of September 30, 2018 (in thousands):

October 1, 2018 through December 31, 2018	$ —
2019	—
2020	72,800
2021	—
2022	—
Thereafter	45,000
	$ 117,800

6. DERIVATIVE INSTRUMENTS

The Company enters into derivative instruments for risk management purposes to hedge its exposure to cash flow variability caused by changing interest rates. The primary goal of the Company's risk management practices related to interest rate risk is to prevent changes in interest rates from adversely impacting the Company's ability to achieve its investment return objectives. The Company does not enter into derivatives for speculative purposes.

The Company enters into interest rate swaps as a fixed rate payer to mitigate its exposure to rising interest rates on its variable rate notes payable. The value of interest rate swaps is primarily impacted by interest rates, market expectations about interest rates, and the remaining life of the instrument. In general, increases in interest rates, or anticipated increases in interest rates, will increase the value of the fixed rate payer position and decrease the value of the variable rate payer position. As the remaining life of the interest rate swap decreases, the value of both positions will generally move towards zero.

The following table summarizes the notional amount and other information related to the Company's interest rate swaps as of September 30, 2018 and December 31, 2017. The notional amount is an indication of the extent of the Company's involvement in each instrument at that time, but does not represent exposure to credit, interest rate or market risks (dollars in thousands):

	September 30, 2018		December 31, 2017				
Derivative Instruments	Number of Instruments	Notional Amount	Number of Instruments	Notional Amount	Reference Rate as of September 30, 2018	Weighted-Average Fix Pay Rate	Weighted-Average Remaining Term in Years
Derivative instruments not designated as hedging instruments							
Interest Rate Swaps [1]	2	$ 78,533	1	$ 48,533	One-month LIBOR/ Fixed at 2.07% - 2.82%	2.36%	3.23

[1] Includes a forward interest rate swap in the amount of $48.5 million, which will become effective on November 1, 2018 and maturing on November 1, 2021 and a forward interest rate swap in the amount of $30.0 million, which will become effective on April 1, 2019 and maturing on November 1, 2022.

The following table sets forth the fair value of the Company's derivative instruments as well as their classification on the consolidated balance sheets as of September 30, 2018 and December 31, 2017 (dollars in thousands):

		September 30, 2018		December 31, 2017	
Derivative Instruments	Balance Sheet Location	Number of Instruments	Fair Value	Number of Instruments	Fair Value
Derivative instruments not designated as hedging instruments					
Interest Rate Swaps	Prepaid expenses and other assets, at fair value	2	$ 1,314	1	$ 178

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

The change in fair value of a derivative instrument that is not designated as a cash flow hedge is included in interest expense in the accompanying consolidated statements of operations. The following table summarizes the effects of derivative instruments on the Company's consolidated statements of operations (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Income statement related				
Derivatives not designated as hedging instruments				
Unrealized gain on interest rate swaps	$ (325)	$ —	$ (1,136)	$ —
Decrease in interest expense as a result of derivatives	$ (325)	$ —	$ (1,136)	$ —

7. FAIR VALUE DISCLOSURES

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other non-financial and financial assets at fair value on a non-recurring basis (e.g., carrying value of long-lived assets). Fair value, as defined under GAAP, is 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 financial instrument for which it is practicable to estimate the fair value:

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

Derivative instruments: The Company's derivative instruments are presented at fair value on the accompanying consolidated balance sheets. The valuation of these instruments is determined using a proprietary model that utilizes observable inputs. As such, the Company classifies these inputs as Level 2 inputs. The proprietary model uses the contractual terms of the derivatives, including the period to maturity, as well as observable market-based inputs, including interest rate curves and volatility. The fair values of interest rate swaps are estimated using the market standard methodology of netting the discounted fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of interest rates (forward curves) derived from observable market interest rate curves. In addition, credit valuation adjustments, which consider the impact of any credit risks to the contracts, are incorporated in the fair values to account for potential nonperformance risk.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

Notes payable: The fair value of the Company's notes payable is 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 liabilities 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 notes payable as of September 30, 2018 and December 31, 2017, which carrying amounts generally do not approximate the fair values (in thousands):

	September 30, 2018			December 31, 2017		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial liabilities:						
Notes payable	$ 117,800	$ 116,769	$ 118,981	$ 113,800	$ 112,780	$ 114,327

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 could be materially different from the Company's estimate of value.

As of September 30, 2018, the Company measured the following assets at fair value (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)
Recurring Basis:				
Asset derivatives - interest rate swaps	$ 1,314	$ —	$ 1,314	$ —

8. RELATED-PARTY TRANSACTIONS

Pursuant to the Advisory Agreement, the Initial Private Offering Dealer Manager Agreement and the Public Offering Dealer Manager Agreement, the Company is or was obligated to pay the Advisor and the Dealer Manager specified fees upon the provision of certain services related to the Initial Private Offering and the Public Offering, the investment of funds in real estate, management of the Company's investments and for other services (including, but not limited to, the disposition of investments). The Company was also obligated to reimburse the Advisor and Dealer Manager for certain organization and offering costs incurred by the Advisor and the Dealer Manager on behalf of the Company, and the Company is obligated to reimburse the Advisor for acquisition and origination expenses and certain operating expenses incurred on behalf of the Company or incurred in connection with providing services to the Company. The Advisor is entitled to certain other fees, including an incentive fee upon achieving certain performance goals, as detailed in the Advisory Agreement. In addition, the Advisor will pay all offering expenses related to the Second Private Offering without reimbursement by the Company.

In addition, in connection with certain property acquisitions, the Company, through indirect wholly owned subsidiaries, has entered into separate Property Management Agreements (defined below) with KBS Management Group, LLC, an affiliate of the Advisor (the "Co-Manager").

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

The Company has also entered into a fee 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 as the advisor for KBS Real Estate Investment Trust, Inc. ("KBS REIT I"), KBS Real Estate Investment Trust II, Inc. ("KBS REIT II"), KBS Real Estate Investment Trust III, Inc. ("KBS REIT III"), KBS Strategic Opportunity REIT, Inc. ("KBS Strategic Opportunity REIT"), KBS Legacy Partners Apartment REIT, Inc. ("KBS Legacy Partners Apartment REIT") and KBS Strategic Opportunity REIT II, Inc. ("KBS Strategic Opportunity REIT II"). The Dealer Manager also serves or served as the dealer manager for KBS REIT I, KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT and KBS Strategic Opportunity REIT II.

The Company, together with KBS REIT I, KBS REIT II, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, KBS REIT III, KBS Strategic Opportunity REIT II, 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 2018, the Company renewed its participation in the program. At renewal, KBS Strategic Opportunity REIT, KBS Strategic Opportunity REIT II and KBS Legacy Partners Apartment REIT elected to cease participation in the program and obtain separate insurance coverage. The program is effective through June 30, 2019. KBS REIT I elected to cease participation in the program at the June 2017 renewal and obtained separate insurance coverage.

During the nine months ended September 30, 2018 and 2017, no other business transactions occurred between the Company and KBS REIT I, KBS REIT II, KBS REIT III, KBS Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT and KBS Strategic Opportunity REIT II.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

Pursuant to the terms of these agreements, summarized below are the related-party costs incurred by the Company for the three and nine months ended September 30, 2018 and 2017, respectively, and any related amounts payable as of September 30, 2018 and December 31, 2017 (in thousands).

	Incurred				Payable as of	
	Three Months Ended September 30,		Nine Months Ended September 30,			
	2018	2017	2018	2017	September 30, 2018	December 31, 2017
Expensed						
Asset management fees [1]	$ 468	$ —	$ 1,386	$ 214	$ 1,804	$ 418
Reimbursement of operating expenses [2]	38	40	144	144	19	18
Property management fees [3]	45	30	129	91	19	13
Other Arrangement						
Advisor advance for cash distributions [4]	—	—	—	—	1,338	1,338
Additional Paid-in Capital						
Selling commissions	—	—	—	78	—	—
Dealer manager fees	—	1	—	51	—	—
Stockholder servicing fees [5]	—	—	—	(26)	—	—
Reimbursable other offering costs [6]	—	—	—	14	—	—
	$ 551	$ 71	$ 1,659	$ 566	$ 3,180	$ 1,787

[1] Through August 8, 2017, the asset management fee payable to the Advisor was a monthly fee equal to one-twelfth of 1.6% of the cost of the Company's investments, less any debt secured by or attributable to the investments. Beginning on August 9, 2017, the asset management fee is a monthly fee payable to the Advisor in an amount equal to one-twelfth of 1.0% of the cost of the Company's investments including the portion of the investment that is debt financed. As of September 30, 2018, the Company had accrued and deferred payment of $1.8 million of asset management fees related to the fourth quarter of 2017 through the third quarter of 2018.

[2] See "Reimbursable Operating Expenses" below.

[3] See "Real Estate Property Co-Management Agreements" below.

[4] See "Advance from the Advisor" below.

[5] The Public Offering was terminated effective June 30, 2017. Pursuant to the terms of the Class T shares as set forth in the Articles Supplementary and Multiple Class Plan of the Company, the Company ceased accruing for stockholder servicing fees after June 30, 2017 and reversed the amounts previously accrued.

[6] See "Organization and Offering Costs" below.

During the nine months ended September 30, 2018, the Advisor reimbursed the Company $10,655 for property insurance rebates.

Reimbursable Operating Expenses

Reimbursable operating expenses primarily related to directors and officers liability insurance, legal fees, state and local taxes, accounting software and cybersecurity related expenses incurred by the Advisor under the Advisory Agreement. 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. These amounts totaled $38,519 and $141,731 for the three and nine months ended September 30, 2018, respectively, and $40,071 and $141,812 for the three and nine months ended September 30, 2017, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement for the three and nine months ended September 30, 2018 and 2017, respectively. The Company does not reimburse for employee costs in connection with services for which the Advisor earned or earns acquisition, origination or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers. In addition to the amounts above, the Company reimburses the Advisor for certain of the Company's direct costs incurred from third parties that were initially paid by the Advisor on behalf of the Company.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

Effective September 29, 2017, the Company eliminated its obligation to reimburse expenses incurred by the Advisor in connection with providing services pursuant to the Advisory Agreement, other than (i) the allocable portion of the costs of the internal audit department and (ii) promotional costs and expenses related to the leasing of properties.

Commencing with the quarter ended December 31, 2016, the Advisor must reimburse the Company the amount by which the Company's aggregate total operating expenses for the four fiscal quarters then ended exceed the greater of 2% of the Company's average invested assets or 25% of the Company's net income, 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 September 30, 2018 did not exceed the charter-imposed limitation.

Advance from the Advisor

The Advisor advanced funds to the Company, which are non-interest bearing, for distribution record dates through the period ended May 31, 2016. As of September 30, 2018, the total advanced funds due to the Advisor from the Company was approximately $1.3 million. The Company is only obligated to repay the Advisor for its advance if and to the extent that:

(i) the Company's modified funds from operations ("MFFO"), as such term is defined by the Institute for Portfolio Alternatives and interpreted by the Company, for the immediately preceding month exceeds the amount of cash distributions declared for record dates of such prior month (an "MFFO Surplus"), and the Company will pay the Advisor the amount of the MFFO Surplus to reduce the principal amount outstanding under the advance, provided that such payments shall only be made if management in its sole discretion expects an MFFO Surplus to be recurring for at least the next two calendar quarters, determined on a quarterly basis; or

(ii) Excess proceeds from third-party financings are available ("Excess Proceeds"), provided that the amount of any such Excess Proceeds that may be used to repay the principal amount outstanding under the advance shall be determined by the conflicts committee in its sole discretion.

In determining whether Excess Proceeds are available to repay the advance, the Company's conflicts committee will consider whether cash on hand could have been used to reduce the amount of third-party financing provided to us. If such cash could have been used instead of third-party financing, the third-party financing proceeds will be available to repay the advance.

Real Estate Property Co-Management Agreements

In connection with its property acquisitions, the Company, through separate, indirect, wholly-owned subsidiaries, entered into separate property management agreements (each, a "Property Management Agreement") with the Co-Manager for each of its properties. Under each Property Management Agreement, the Co-Manager will provide certain management services related to these properties in addition to those provided by the third-party property managers. In exchange for these services, the Company will pay the Co-Manager a monthly fee equal to a percentage of the rent, payable and actually collected for the month from each of the properties. Each Property Management Agreement has an initial term of one year and will be deemed renewed for successive one-year periods provided it is not terminated. Each party may terminate the Property Management Agreement without cause on 30 days' written notice to the other party and may terminate each Property Management Agreement for cause on 5 days' written notice to the other party upon the occurrence of certain events as detailed in each Property Management Agreement.

Property Name	Effective Date	Annual Fee Percentage
Von Karman Tech Center	07/31/2015	1.50%
Commonwealth Building	07/01/2016	1.25%
The Offices at Greenhouse	11/14/2016	0.25%
Institute Property	11/09/2017	1.00%

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

Organization and Offering Costs

Offering costs include all expenses incurred in connection with the offerings of securities by the Company. Organization costs include all expenses incurred in connection with the formation of the Company, including but not limited to legal fees and other costs to incorporate the Company.

With respect to the Public Offering, the Advisor and the Dealer Manager generally paid the organization and offering expenses of the Company incurred in the Primary Offering (other than selling commissions, dealer manager fees and stockholder servicing fees) directly.

The Company reimbursed the Advisor, the Dealer Manager and its affiliates up to 1% of gross proceeds raised in the Primary Offering for commercially reasonable organization and offering expenses (other than selling commissions, dealer manager fees and stockholder servicing fees). The Advisor, the Dealer Manager and their affiliates were responsible for all organization and other offering expenses (which excludes selling commissions, dealer manager fees and stockholder servicing fees) paid related to the Primary Offering to the extent they exceeded 1% of gross proceeds raised in the Primary Offering. The Company did not reimburse the Dealer Manager for wholesaling compensation expenses.

During the Initial Private Offering, the Company was obligated to reimburse the Advisor and its affiliates for all organization and offering costs (excluding wholesaling compensation expenses) paid by them on behalf of the Company.

The Advisor has agreed to pay directly all offering expenses related to the Second Private Offering without reimbursement by the Company.

Through September 30, 2018, the Advisor and its affiliates had incurred organization and other offering costs (which exclude selling commissions, dealer manager fees and stockholder servicing fees) on the Company's behalf in connection with the Public Offering of approximately $4.4 million. As of September 30, 2018, the Company had recorded $39,358 of organization and other offering expenses related to the Public Offering, which amounts represent the Company's maximum liability for organization and other offering costs as of September 30, 2018 based on the limitations described above. As of September 30, 2018, the Company had recorded $1.5 million of organization and other offering costs related to the Initial Private Offering. Organization costs were expensed as incurred and offering costs are deferred and charged to stockholders' equity as such amounts were reimbursed to the Advisor, the Dealer Manager or their affiliates from the gross proceeds of the applicable offering.

As of September 30, 2018, the Advisor had incurred $3.9 million in offering expenses related to the Second Private Offering.

9. COMMITMENTS AND CONTINGENCIES

Economic Dependency

The Company depends on the Advisor for certain services that are essential to the Company, including the identification, evaluation, negotiation, acquisition and disposition of investments; management of the daily operations of the Company's investment portfolio; and other general and administrative responsibilities. In the event that the Advisor is unable to provide such services, the Company will be required to obtain such services from other sources.

Legal Matters

From time to time, the Company may become party to legal proceedings that arise in the ordinary course of its business. Management is not aware of any legal proceedings of which the outcome 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.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS GROWTH & INCOME REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2018

(unaudited)

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 property, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to the property could result in future environmental liabilities.

10. SUBSEQUENT EVENTS

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

Cash Distributions Paid

On October 1, 2018, the Company paid cash distributions of $0.4 million, which related to distributions on the Company's common stock, declared for daily record dates for each day in the period from September 1, 2018 through September 30, 2018. On November 1, 2018, the Company paid cash distributions of $0.4 million, which related to distributions on the Company's common stock, declared for daily record dates for each day in the period from October 1, 2018 through October 31, 2018.

Distributions Authorized

On October 9, 2018, the Company's board of directors authorized cash distributions on the outstanding shares of all classes of the Company's common stock based on daily record dates for the period from November 1, 2018 through November 30, 2018, which the Company expects to pay in December 2018. On November 7, 2018, the Company's board of directors authorized cash distributions on the outstanding shares of all classes of the Company's common stock based on daily record dates for the period from December 1, 2018 through December 31, 2018, which the Company expects to pay in January 2019. Investors may choose to receive cash distributions or purchase additional shares through the Company's distribution reinvestment plan. Distributions for these periods will be calculated based on stockholders of record each day during these periods at a rate of $0.00144493 per share per day.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Growth & Income REIT, 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 depend on our advisor and its affiliates to conduct our operations. We pay fees to our advisor and its affiliates in connection with the management of our investments that are based on the cost of the investment, not on the quality of the investment or services rendered to us. These fees decrease the amount of cash available for distribution to our stockholders.
- We commenced investment operations on August 12, 2015 in connection with the acquisition of an office property and we have a limited operating history. As of September 30, 2018, we owned four office buildings and we have not acquired or identified any additional real estate investments that it is reasonably probable we will acquire with the proceeds from our offering stage. As such, our stockholders will not have an opportunity to evaluate investments before we make them.
- All of our executive officers, our affiliated 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, and/or other KBS-affiliated entities. As a result, our executive officers, our affiliated directors, some of our key real estate and debt finance professionals, our advisor and its affiliates face conflicts of interest, including significant conflicts created by our advisor's and its affiliates' 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. Although we have adopted corporate governance measures to ameliorate some of the risks posed by these conflicts, these conflicts could result in action or inaction that is not in the best interests of our stockholders.
- Because investment opportunities that are suitable for us may also be suitable for other KBS-sponsored programs or KBS-advised investors, our advisor and its affiliates face conflicts of interest relating to the purchase of properties. Any such conflicts in directing investment opportunities may not be resolved in our favor.
- If we are unable to raise substantial funds in our offering stage, we may not be able to acquire a diverse portfolio of real estate investments, which may cause the value of an investment in us to vary more widely with the performance of specific assets and cause our general and administrative expenses to constitute a greater percentage of our revenue. Raising fewer proceeds in our offering stage, therefore, could increase the risk that our stockholders will lose money in their investment.
- We may fund distributions from any source, including, without limitation, offering proceeds or borrowings. Distributions paid through September 30, 2018 have been funded in part with debt financing, including advances from our advisor, and cash resulting from a waiver of asset management fees by our advisor. Distributions funded from sources other than our cash flow from operations will result in dilution to subsequent investors, reduce funds available for investment in assets and may reduce the overall return to our stockholders.
- Our advisor waived its asset management fee for the second and third quarters of 2017 and deferred its asset management fee for the fourth quarter of 2017 through the third quarter of 2018. If our advisor determines to no longer waive or defer certain fees owed to them, our ability to fund our operations and to fund our distributions may be adversely affected.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

- Our policies do not limit us from incurring debt until our aggregate borrowings would exceed 75% of the cost (before deducting depreciation or other non-cash reserves) of our tangible assets, and we may exceed this limit with the approval of the conflicts committee of our board of directors. High debt levels could limit the amount of cash we have available to distribute and could result in a decline in the value of our stockholders' investment.
- We have debt obligations with variable interest rates and may incur additional variable rate debt in the future. The interest and related payments will vary with the movement of LIBOR or other indexes. Increases in the indexes could increase the amount of our debt payments and limit our ability to pay distributions to our stockholders.
- If we are unable to locate investments with attractive yields while we are investing the proceeds raised in our offering stage, our distributions and the long-term returns of our investors may be lower.
- We depend on tenants for the revenue generated by any real estate investments we make and, accordingly, the revenue generated by our real estate investments is dependent upon the success and economic viability of our tenants. Revenues from any properties we acquire could decrease due to a reduction in occupancy and/or lower rental rates, making it more difficult for us to meet any debt service obligations we have incurred and limiting our ability to pay distributions to our stockholders.
- Any real estate investments we make 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. These events could make it more difficult for us to meet debt service obligations and limit our ability to pay distributions to our stockholders.
- We cannot predict with any certainty how much, if any, of our distribution reinvestment plan proceeds will be available for general corporate purposes including, but not limited to: the repurchase of shares under our share redemption program; capital expenditures, tenant improvement costs and leasing costs related to any real estate properties we acquire; reserves required by any financings of real estate investments; the acquisition of real estate investments; and the repayment of debt. If such funds are not available from our distribution reinvestment plan offering, then we may have to use a greater proportion of our cash flow from operations to meet these cash requirements, which would reduce cash available for distributions and could limit our ability to redeem shares under our share redemption program.
- In February 2018, we exhausted funds available for all redemptions under our share redemption program for the remainder of 2018, and we can provide no assurances as to when we will be able to honor all redemption requests submitted.

All forward-looking statements should be read in light of the risks identified herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, all filed with the Securities and Exchange Commission (the "SEC").

Overview

We were formed on January 12, 2015 as a Maryland corporation that elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2015 and we intend to continue to operate in such a manner. Substantially all of our business is conducted through our Operating Partnership, of which we are the sole general partner. Subject to certain restrictions and limitations, our business is externally managed by our advisor pursuant to an advisory agreement. KBS Capital Advisors manages our operations and our portfolio of core real estate properties. KBS Capital Advisors also provides asset-management, marketing, investor-relations and other administrative services on our behalf. Our advisor acquired 20,000 shares of our Class A common stock for an initial investment of $200,000. We have no paid employees.

We commenced a private placement offering exempt from registration pursuant to Rule 506(b) of Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), on June 11, 2015, pursuant to which we offered a maximum of $105,000,000 of shares of our Class A common stock for sale to accredited investors, of which $5,000,000 of Class A shares were offered pursuant to our distribution reinvestment plan. We ceased offering shares in the primary portion of our private offering on April 27, 2016 and processed subscriptions for the primary portion of the private offering dated on or prior to April 27, 2016 through May 30, 2016. KBS Capital Markets Group LLC, an affiliate of our advisor, served as the dealer manager of the offering pursuant to a dealer manager agreement.

We sold 8,548,972 shares of our Class A common stock for gross offering proceeds of $76.8 million in our initial private offering, including 74,744 shares of our Class A common stock under our distribution reinvestment plan for gross offering proceeds of $0.7 million.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

On February 4, 2015, we filed a registration statement on Form S-11 with the SEC to register an initial public offering to offer a maximum of $1,500,000,000 in shares of common stock for sale to the public in the primary offering, consisting of two classes of shares: Class A and Class T and a maximum of $800,000,000 in both classes of shares of our common stock pursuant to our distribution reinvestment plan. The SEC declared our registration statement effective on April 28, 2016 and we retained KBS Capital Markets Group LLC to serve as the dealer manager of the initial public offering. We terminated our primary initial public offering effective June 30, 2017. We are continuing to offer shares of common stock pursuant to our publicly registered distribution reinvestment plan offering.

We sold 122,721 and 270,415 shares of Class A and Class T common stock in the initial primary public offering, respectively, for aggregate gross offering proceeds of $3.9 million. As of September 30, 2018, we had sold 518,178 and 19,224 shares of Class A and Class T common stock under our distribution reinvestment plan, respectively, for aggregate gross offering proceeds of $5.0 million.

On October 3, 2017, we launched a second private placement offering exempt from registration pursuant to Rule 506(c) of Regulation D of the Securities Act pursuant to which we are currently offering a maximum of $1,000,000,000 in shares of our Class A common stock to accredited investors. Prior to the launch of the second private placement offering, on September 29, 2017, we entered a dealer manager agreement (the "NCPS Dealer Agreement") with KBS Capital Advisors and North Capital Private Securities Corporation ("NCPS") in connection with the second private placement offering. As of September 30, 2018, we sold 314,059 shares of Class A common stock in the second private offering for aggregate gross offering proceeds of $2.8 million.

As of September 30, 2018, we had redeemed 422,286 Class A shares for $3.5 million.

We intend to use substantially all of the net proceeds from our offerings to invest in a diverse portfolio of core real estate properties. We consider core properties to be existing properties with at least 80% occupancy. Based on the current market outlook, we expect our core focus in the U.S. office sector to reflect a value-creating core strategy, which is also known as a core-plus strategy. As of September 30, 2018, we owned four office buildings.

KBS Capital Advisors makes recommendations on all investments to our board of directors. All proposed real estate investments must be approved by at least a majority of our board of directors, including a majority of the conflicts committee. Unless otherwise provided by our charter, the conflicts committee may approve a proposed real estate investment without action by the full board of directors if the approving members of the conflicts committee constitute at least a majority of the board of directors.

We elected to be taxed as a REIT under the Internal Revenue Code, beginning with the taxable year ended December 31, 2015. If we meet the REIT qualification requirements, we generally will not be subject to federal income tax on the income that we distribute to our stockholders each year. If we fail to qualify for taxation as a REIT in any year after electing REIT status, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Such an event could materially and adversely affect our net income and cash available for distribution to our stockholders. However, we are organized and will operate in a manner that will enable us to qualify for treatment as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 2015, and we will continue to operate so as to remain qualified as a REIT for federal income tax purposes thereafter.

Market Outlook – Real Estate and Real Estate Finance Markets

Volatility in global financial markets and changing political environments can cause fluctuations in the performance of the U.S. commercial real estate markets. 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 from investment properties. Increases in the cost of financing due to higher interest rates may cause difficulty in refinancing debt obligations prior to or at maturity or at terms as favorable as the terms of existing indebtedness. Market conditions can change quickly, potentially negatively impacting the value of real estate investments. Management continuously reviews our investment and debt financing strategies to optimize our portfolio and the cost of our debt exposure.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Liquidity and Capital Resources

We are dependent upon the net proceeds from our offering stage to conduct our operations. We will obtain the capital required to make real estate investments and conduct our operations from the proceeds of our offering stage, from secured or unsecured financings from banks and other lenders and from any undistributed funds from our operations. As of September 30, 2018, we had raised approximately $88.5 million in gross offering proceeds from the sale of shares of our common stock in our initial private offering, second private offering and initial public offering. We terminated our primary initial public offering effective June 30, 2017 and launched a private offering solely to accredited investors pursuant to Rule 506(c) of Regulation D of the Securities Act on October 3, 2017. We continue to offer shares of common stock under our publicly registered distribution reinvestment plan.

If we are unable to raise substantial funds during our offering stage, we will make fewer investments resulting in less diversification in terms of the number and size of investments we make and the value of an investment in us will fluctuate more significantly with the performance of the specific assets we acquire. Further, we will have certain fixed operating expenses, including certain expenses as a publicly offered REIT, regardless of whether we are able to raise substantial funds during our offering stage. Our inability to raise substantial funds would increase our fixed operating expenses as a percentage of gross income, reducing our net income and cash flow and limiting our ability to make distributions to our stockholders. We expect to establish a modest working capital reserve from our offering proceeds for maintenance and repairs of real properties, as we expect the vast majority of leases for the properties we acquire will provide for tenant reimbursement of operating expenses. However, to the extent that we have insufficient funds for such purposes, we may establish additional reserves from gross offering proceeds, out of cash flow from operations or net cash proceeds from the sale of properties.

As of September 30, 2018, we owned four office properties that were 94% occupied. We acquired these investments with the proceeds from the sale of our common stock in the private offering and debt financing, including a bridge loan from our advisor that we have since repaid. Operating cash needs during the nine months ended September 30, 2018 were met through cash flow generated by our real estate investments and with proceeds from our offerings.

Our investments in real estate generate cash flow in the form of rental revenues and tenant reimbursements, which are reduced by operating expenditures, capital expenditures, debt service payments, the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from real estate investments will be 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.

Our advisor advanced funds to us, which are non-interest bearing, for distribution record dates through the period ended May 31, 2016. We are only obligated to repay our advisor for its advance if and to the extent that:

(i) Our modified funds from operations ("MFFO"), as such term is defined by the Institute for Portfolio Alternatives and interpreted by us, for the immediately preceding month exceeds the amount of distributions declared for record dates of such prior month (an "MFFO Surplus"), and we will pay our advisor the amount of the MFFO Surplus to reduce the principal amount outstanding under the advance, provided that such payments shall only be made if management in its sole discretion expects an MFFO Surplus to be recurring for at least the next two calendar quarters, determined on a quarterly basis; or

(ii) Excess proceeds from third-party financings are available ("Excess Proceeds"), provided that the amount of any such Excess Proceeds that may be used to repay the principal amount outstanding under the advance shall be determined by the conflicts committee in its sole discretion.

In determining whether Excess Proceeds are available to repay the advance, our conflicts committee will consider whether cash on hand could have been used to reduce the amount of third-party financing provided to us. If such cash could have been used instead of third-party financing, the third-party financing proceeds will be available to repay the advance.

We expect that once we have fully invested the proceeds raised during our offering stage, our debt financing and other liabilities will be between 45% and 65% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves). Though this is our target leverage, our charter does not limit us from incurring debt until our aggregate borrowings would exceed 300% of our net assets (before deducting depreciation and other non-cash reserves), which is effectively 75% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves), though we may exceed this limit under certain circumstances. To the extent financing in excess of this limit is available at attractive terms, the conflicts committee may approve debt in excess of this limit. As of September 30, 2018, our aggregate borrowings were approximately 66% of our net assets before deducting depreciation and other non-cash reserves.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

In addition to making investments in accordance with our investment objectives, we have used a portion of our capital resources to make certain payments to our advisor, the affiliated dealer manager of our initial private offering and initial public offering and our affiliated property manager. These payments include payments to our dealer manager for selling commissions, the dealer manager fee and the stockholder servicing fee, and payments to the dealer manager and our advisor for reimbursement of certain organization and other offering expenses. See "—Organization and Offering Costs" below.

We make payments to our advisor in connection with the management of our assets and costs incurred by our advisor in providing certain services to us. Through August 8, 2017, the asset management fee payable to our advisor was a monthly fee equal to one-twelfth of 1.6% of the cost of our investments, less any debt secured by or attributable to our investments. As of August 9, 2017, the asset management fee is a monthly fee payable to our advisor in an amount equal to one-twelfth of 1.0% of the cost of our investments including the portion of the investment that is debt financed. The cost of our real property investments is calculated as the amount paid or allocated to acquire the real property, plus budgeted capital improvement costs for the development, construction or improvements to the property once such funds are disbursed pursuant to a final approved budget and fees and expenses related to the acquisition, but excluding acquisition fees paid or payable to our advisor. In the case of investments made through joint ventures, the asset management fee is determined based on our proportionate share of the underlying investment. Our advisor waived asset management fees for the second and third quarters of 2017 and deferred payment of asset management fees related to the periods from October 2017 through September 2018. Our advisor's waiver and deferral of its asset management fees resulted in additional cash being available to fund our operations. If our advisor chooses to no longer waive or defer such fees, our ability to fund our operations and our distributions at the current rate may be adversely affected.

We also pay fees to KBS Management Group, LLC (the "Co-Manager"), an affiliate of our advisor, pursuant to property management agreements with the Co-Manager, for certain property management services at our properties.

We elected to be taxed as a REIT and to operate as a REIT beginning with our taxable year ended December 31, 2015. To maintain our qualification as a REIT, we will be required to make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income (computed without regard to the dividends-paid deduction and excluding net capital gain). 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. Provided we have sufficient available cash flow, we intend to authorize and declare cash distributions based on daily record dates and pay cash distributions on a monthly basis. We have not established a minimum distribution level.

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 September 30, 2018 did not exceed the charter-imposed limitation.

Cash Flows from Operating Activities

As of September 30, 2018, we owned four office properties. During the nine months ended September 30, 2018, net cash provided by operating activities was $2.2 million, compared to net cash provided by operating activities of $2.9 million during the nine months ended September 30, 2017. We expect that our cash flows from operating activities will increase in future periods to the extent we make additional acquisitions of real estate and the related operations of such investments.

Cash Flows from Investing Activities

Net cash used in investing activities was $1.1 million for the nine months ended September 30, 2018 and consisted of cash used for improvements to real estate.

Cash Flows from Financing Activities

During the nine months ended September 30, 2018, net cash provided by financing activities was $2.1 million and consisted primarily of the following:

- $4.0 million of net cash provided by debt financing as a result of proceeds from notes payable of $45.0 million, offset by principal payments on notes payable of $41.0 million;
- $2.4 million of net cash provided by offering proceeds related to our second private offering;
- $2.3 million of cash used for redemptions of common stock; and
- $2.0 million of net cash distributions, after giving effect to distributions reinvested by stockholders of $1.5 million.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of September 30, 2018 (in thousands).

		Payments Due During the Years Ending December 31,			
Contractual Obligations	**Total**	**Remainder of 2018**	**2019-2020**	**2021-2022**	**Thereafter**
Outstanding debt obligations [1]	$ 117,800	$ —	$ 72,800	$ —	$ 45,000
Interest payments on outstanding debt obligations [2]	13,961	1,198	9,090	3,519	154

[1] Amounts include principal payments only.

[2] Projected interest payments are based on the outstanding principal amount, maturity date and contractual interest rate in effect as of September 30, 2018 (consisting of the contractual interest rate). We incurred interest expense of $3.3 million, excluding amortization of deferred financing costs totaling $0.3 million, debt refinancing costs of $0.2 million and unrealized gains on derivative instruments of $1.1 million during the nine months ended September 30, 2018.

Results of Operations

Overview

We conducted a primary initial public offering from April 28, 2016 through June 30, 2017 and are continuing to offer shares in our publicly registered distribution reinvestment plan offering. On October 3, 2017 we launched a private placement offering exempt from registration pursuant to Rule 506(c) of Regulation D of the Securities Act. Prior to our initial public offering, we conducted a private placement offering exempt from registration pursuant to Rule 506(b) of Regulation D of the Securities Act, that commenced on June 11, 2015. Our results of operations as of September 30, 2018 are not indicative of those expected in future periods as we commenced investment operations on August 12, 2015 in connection with our first investment and have since been raising money in and investing the proceeds from our offerings. As of September 30, 2017, we owned three office properties. We acquired one office property after September 30, 2017 and owned four office properties as of September 30, 2018. The results of operations presented for the three and nine months ended September 30, 2018 and 2017 are not directly comparable due to our acquisition activity. In general, we expect that our income and expenses related to our portfolio will increase in future periods to the extent we make additional acquisitions of real estate investments.

Comparison of the three months ended September 30, 2018 versus the three months ended September 30, 2017

	For the Three Months Ended September 30,					
	2018	**2017**	**Increase (Decrease)**	**Percentage Change**	**$ Change Due to Acquisition [1]**	**$ Change Due to Property Held Throughout Both Periods [2]**
Rental income	$ 4,463	$ 3,188	$ 1,275	40 %	$ 1,135	$ 140
Tenant reimbursements	1,054	821	233	28 %	138	95
Other operating income	44	19	25	132 %	25	—
Operating, maintenance and management costs	1,207	983	224	23 %	147	77
Property management fees and expenses to affiliate	45	30	15	50 %	11	4
Real estate taxes and insurance	628	537	91	17 %	252	(161)
Asset management fees to affiliate	468	—	468	100 %	111	357
General and administrative expenses	333	461	(128)	(28)%	n/a	n/a
Depreciation and amortization	2,221	2,031	190	9 %	555	(365)
Interest expense	974	776	198	26 %	188	10
Interest and other income	16	7	9	129 %	—	9

[1] Represents the dollar amount increase for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 related to a real estate investment acquired on or after July 1, 2017.

[2] Represents the dollar amount increase (decrease) for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 with respect to the real estate investment owned by us throughout both periods presented.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Rental income and tenant reimbursements increased from $4.0 million for the three months ended September 30, 2017 to $5.5 million for the three months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio. We expect rental income and tenant reimbursements to increase in future periods to the extent we make additional acquisitions of real estate investments.

Operating, maintenance, and management costs increased from $1.0 million for the three months ended September 30, 2017 to $1.2 million for the three months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio and costs relating to legal fees incurred in connection with a water intrusion claim at Von Karman Tech Center. We expect operating, maintenance, and management costs to increase in future periods to the extent we make additional acquisitions of real estate investments.

Property management fees and expenses to affiliate increased from $30,000 for the three months ended September 30, 2017 to $45,000 for the three months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio. We expect property management fees to increase in future periods to the extent we make additional acquisitions of real estate investments.

Real estate taxes and insurance increased from $0.5 million for the three months ended September 30, 2017 to $0.6 million for the three months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio, partially offset by a property tax refund of $0.1 million due to the reassessment of property value at The Offices at Greenhouse. We expect real estate taxes and insurance to increase in future periods to the extent we make additional acquisitions of real estate investments.

Asset management fees to affiliate for the three months ended September 30, 2018 was $0.5 million. Asset management fees to affiliate for the three months ended September 30, 2017 was $0.3 million, all of which were waived by our advisor. The overall increase in asset management fees before factoring any fees waived was due to the growth in our real estate portfolio as well as an amendment to our advisory agreement on August 9, 2017, which amended the terms of the asset management fees. We expect asset management fees to increase in future periods to the extent we make additional real estate investments.

General and administrative expenses decreased from $0.5 million for the three months ended September 30, 2017 to $0.3 million for the three months ended September 30, 2018. During the three months ended September 30, 2017, we incurred $0.1 million in legal fees relating the acquisition of the Institute Property in November 2017. There were no such costs during the three months ended September 30, 2018.

Depreciation and amortization increased from $2.0 million for the three months ended September 30, 2017 to $2.2 million for the three months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio, offset by the acceleration of amortization of tenant improvement costs and tenant origination and absorption costs in connection with a tenant default at Von Karman Tech Center in September 2017. We expect depreciation and amortization to increase in future periods to the extent we make additional acquisitions of real estate investments.

Interest expense increased from $0.8 million for the three months ended September 30, 2017 to $1.0 million for the three months ended September 30, 2018. Included in interest expense is the amortization of deferred financing costs of $0.1 million and $0.1 million for the three months ended September 30, 2018 and 2017, respectively. The increase in interest expense is primarily due to increased borrowings in connection with the acquisition of real estate, resulting in an increase in the average loan balance, offset by $0.3 million of unrealized gains on interest rate swaps. We expect interest expense to increase in the future as a result of anticipated borrowings in future periods to the extent we make additional acquisitions of real estate investments.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Comparison of the nine months ended September 30, 2018 versus the nine months ended September 30, 2017

	For the Nine Months Ended September 30,		Increase (Decrease)	Percentage Change	$ Change Due to Acquisition [1]	$ Change Due to Property Held Throughout Both Periods [2]
	2018	2017				
Rental income	$ 13,702	$ 9,714	$ 3,988	41 %	$ 3,798	$ 190
Tenant reimbursements	3,049	2,478	571	23 %	345	226
Other operating income	120	56	64	114 %	66	(2)
Operating, maintenance and management costs	3,412	2,606	806	31 %	617	189
Property management fees and expenses to affiliate	129	91	38	42 %	31	7
Real estate taxes and insurance	2,058	1,507	551	37 %	747	(196)
Asset management fees to affiliate	1,386	214	1,172	548 %	328	844
General and administrative expenses	1,088	1,224	(136)	(11)%	n/a	n/a
Depreciation and amortization	7,314	5,571	1,743	31 %	2,249	(506)
Interest expense	2,742	2,275	467	21 %	436	31
Interest and other income	29	42	(13)	(31)%	—	(13)
Loss from extinguishment of debt	—	(206)	206	(100)%	—	206

[1] Represents the dollar amount increase for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 related to a real estate investment acquired on or after January 1, 2017.

[2] Represents the dollar amount increase (decrease) for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 with respect to the real estate investment owned by us throughout both periods presented.

Rental income and tenant reimbursements increased from $12.2 million for the nine months ended September 30, 2017 to $16.8 million for the nine months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio. We expect rental income and tenant reimbursements to increase in future periods to the extent we make additional acquisitions of real estate investments.

Operating, maintenance, and management costs increased from $2.6 million for the nine months ended September 30, 2017 to $3.4 million for the nine months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio and $0.2 million of costs relating to legal fees incurred in connection with a water intrusion damage claim at Von Karman Tech Center. We expect operating, maintenance, and management costs to increase in future periods to the extent we make additional acquisitions of real estate investments.

Property management fees and expenses to affiliate increased from $91,000 for the nine months ended September 30, 2017 to $129,000 for the nine months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio. We expect property management fees to increase in future periods to the extent we make additional acquisitions of real estate investments.

Real estate taxes and insurance increased from $1.5 million for the nine months ended September 30, 2017 to $2.1 million for the nine months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio, partially offset by a property tax refund of $0.1 million due to the reassessment of property value at The Offices at Greenhouse. We expect real estate taxes and insurance to increase in future periods to the extent we make additional acquisitions of real estate investments.

Asset management fees to affiliate for the nine months ended September 30, 2018 was $1.4 million. Asset management fees to affiliate for the nine months ended September 30, 2017 was $0.7 million, of which $0.5 million was waived by our advisor. The overall increase in asset management fees before factoring any fees waived was due to the growth in our real estate portfolio as well as an amendment to our advisory agreement on August 9, 2017, which amended the terms of the asset management fees. We expect asset management fees to increase in future periods to the extent we make additional real estate investments.

General and administrative expenses decreased from $1.2 million for the nine months ended September 30, 2017 to $1.1 million for the nine months ended September 30, 2018. During the nine months ended September 30, 2017, we incurred $0.1 million in legal fees relating the acquisition of the Institute Property in November 2017. There were no such costs during the nine months ended September 30, 2018.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Depreciation and amortization increased from $5.6 million for the nine months ended September 30, 2017 to $7.3 million for the nine months ended September 30, 2018, primarily as a result of the growth in our real estate portfolio, offset by the acceleration of amortization of tenant improvement costs and tenant origination and absorption costs in connection with a tenant default at Von Karman Tech Center in September 2017 and a tenant relocation at Commonwealth Building in May 2017. We expect depreciation and amortization to increase in future periods to the extent we make additional acquisitions of real estate investments.

Interest expense increased from $2.3 million for the nine months ended September 30, 2017 to $2.7 million for the nine months ended September 30, 2018. Included in interest expense is the amortization of deferred financing costs of $0.3 million and $0.4 million for the nine months ended September 30, 2018 and 2017, respectively. Also included in interest expense during the nine months ended September 30, 2018 was $1.1 million of unrealized gains on interest rate swaps as a result of a change in fair value of a derivative instrument that is not designated as a cash flow hedge and $0.2 million of debt refinancing costs. The increase in interest expense is primarily due to increased borrowings in connection with the acquisition of real estate, resulting in an increase in the average loan balance. We expect interest expense to increase in the future as a result of anticipated borrowings in future periods to the extent we make additional acquisitions of real estate investments.

During the nine months ended September 30, 2017, we recognized a loss from extinguishment of debt of $0.2 million related to the write-off of unamortized deferred financing costs as a result of the pay-off of the Von Karman Tech Center Mortgage Loan on May 9, 2017.

Funds from Operations and Modified Funds from Operations

We believe that funds from operations ("FFO") is a beneficial indicator of the performance of an equity REIT. We compute FFO in accordance with the current National Association of Real Estate Investment Trusts ("NAREIT") definition. FFO represents net income, excluding gains and losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), impairment losses on real estate assets, depreciation and amortization of real estate assets, and adjustments for unconsolidated partnerships and joint ventures. 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 NAREIT definition or that interpret the current NAREIT definition differently than we do. Our management believes that historical cost accounting for real estate assets in accordance with U.S. generally accepted accounting principles ("GAAP") implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provides a more complete understanding of our performance relative to our competitors and provides a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

Changes in accounting rules have resulted in a substantial increase in the number of non-operating and non-cash items included in the calculation of FFO. As a result, our management also uses MFFO as an indicator of our ongoing performance as well as our dividend sustainability. MFFO excludes from FFO: acquisition fees and expenses (to the extent that such fees and expenses have been recorded as operating 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 costs that management considers more reflective of investing activities and other non-operating items included in FFO. Management believes that, by excluding acquisition costs (to the extent such costs have been recorded as operating expenses) as well as non-cash items such as straight line rental revenue, 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.

Although MFFO includes other adjustments, the exclusion of adjustments for straight-line rent, the amortization of above- and below-market leases, unrealized gain on derivative instruments and loss from extinguishment of debt are the most significant adjustments for the periods presented. 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 realized economics of the real estate;
- *Unrealized (gains) losses on derivative instruments.* These adjustments include unrealized (gains) losses from mark-to-market adjustments on interest rate swaps. The change in fair value of interest rate swaps not designated as a hedge are non-cash adjustments recognized directly in earnings and are included in interest expense. We have excluded these adjustments in our calculation of MFFO to more appropriately reflect the economic impact of our interest rate swap agreements; and
- *Loss from extinguishment of debt*. A loss from extinguishment of debt represents the difference between the carrying value of any consideration transferred to the lender in return for the extinguishment of a debt and the net carrying value of the debt at the time of settlement. We have excluded the loss from extinguishment of debt in our calculation of MFFO because these losses do not impact the current operating performance of our investments and do not provide an indication of future operating performance.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Our calculation of FFO, which we believe is consistent with the calculation of FFO as defined by NAREIT, is presented in the following table, along with our calculation of MFFO, for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$ (299)	$ (783)	$ (1,229)	$ (1,404)
Depreciation of real estate assets	964	644	2,905	1,891
Amortization of lease-related costs	1,257	1,387	4,409	3,680
FFO	1,922	1,248	6,085	4,167
Straight-line rent and amortization of above- and below-market leases, net	(574)	(408)	(2,505)	(1,482)
Unrealized gain on derivative instruments	(325)	—	(1,136)	—
Loss from extinguishment of debt	—	—	—	206
MFFO	$ 1,023	$ 840	$ 2,444	$ 2,891

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

Organization and Offering Costs

Offering costs include all expenses incurred in connection with our offerings of securities. Organization costs include all expenses incurred in connection with our formation, including but not limited to legal fees and other costs to incorporate.

With respect to our public offering, our advisor and dealer manager generally paid our organization and offering expenses incurred in the primary portion of our initial public offering (other than selling commissions, dealer manager fees and stockholder servicing fees) directly.

We reimbursed our advisor, our affiliated dealer manager and their affiliates up to 1.0% of gross primary offering proceeds raised in our initial public offering for commercially reasonable organization and offering expenses. Our advisor, our affiliated dealer manager, and their affiliates were responsible for all organization and other offering expenses (which excludes selling commissions, dealer manager fees and stockholder servicing fees) related to the primary portion of our initial public offering to the extent they exceeded 1.0% of gross proceeds raised in the primary portion of our initial public offering. We did not reimburse our affiliated dealer manager for wholesaling compensation expenses.

During our initial private offering, we were obligated to reimburse our advisor, our affiliated dealer manager or their affiliates, as applicable, for organization and offering costs (excluding wholesaling compensation expenses) paid by them on our behalf. We recorded $1.5 million of offering costs (other than selling commissions and dealer manager fees) related to our initial private offering, all of which have been reimbursed to our advisor or its affiliates.

Our advisor has agreed to pay all offering expenses related to our recently launched second private placement offering directly on our behalf without reimbursement by us.

Through September 30, 2018, our advisor and its affiliates had incurred organization and other offering costs (which exclude selling commissions, dealer manager fees and stockholder servicing fees) on our behalf in connection with the initial public offering of approximately $4.4 million. As of September 30, 2018, we recorded $39,358 of organization and other offering expenses related to the initial public offering, which amounts represent our maximum liability for organization and other offering costs as of the termination of our primary initial public offering based on the limitation described above.

As of September 30, 2018, KBS Capital Advisors had incurred $3.9 million in offering expenses on our behalf related to the second private placement offering. The advisor has agreed to pay these expenses on our behalf without reimbursement by us.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Distributions

During our offering stage, when we may raise capital more quickly than we acquire income producing assets, and from time to time during our operational stage, we may not pay distributions solely from our cash flows from operations, in which case distributions may be paid in whole or in part from debt financing, including advances from our advisor, if necessary. Distributions declared, distributions paid and cash flows from operations were as follows for the first, second and third quarters of 2018 (in thousands, except per share amounts):

Period	Cash Distributions Declared [1]	Cash Distribution Declared Per Class A Share [1] [2]	Cash Distribution Declared Per Class T Share [1] [2]	Cash Distributions Paid [3]			Cash Flows (used in) provided by Operations
				Cash	Reinvested	Total	
First Quarter 2018	$ 1,118	$ 0.119	$ 0.119	$ 612	$ 511	$ 1,123	$ (574)
Second Quarter 2018	1,200	0.128	0.128	667	503	1,170	1,996
Third Quarter 2018	1,270	0.133	0.133	758	506	1,264	773
	$ 3,588	$ 0.380	$ 0.380	$ 2,037	$ 1,520	$ 3,557	$ 2,195

[1] Distributions for the periods from January 1, 2018 through April 30, 2018 and from May 1, 2018 through September 30, 2018 were based on daily record dates and were calculated based on stockholders of record each day during these periods at a rate of $0.00132452 per share per day and $0.00144493 per share per day, respectively.

[2] Assumes Class A and Class T shares were issued and outstanding each day that was a record date for distributions during the period presented.

[3] Distributions are paid on a monthly basis. In general, distributions for all record dates of a given month are paid on or about the first business day of the following month.

For the nine months ended September 30, 2018, we paid aggregate distributions of $3.5 million, including $2.0 million of distributions paid in cash and $1.5 million of distributions reinvested through our distribution reinvestment plan. Our net loss for the nine months ended September 30, 2018 was $1.2 million. FFO for the nine months ended September 30, 2018 was $6.1 million and cash flows provided by operations for the nine months ended September 30, 2018 was $2.2 million. See the reconciliation of FFO to net loss above. We funded our total distributions paid, which includes net cash distributions and distributions reinvested by stockholders, with $2.4 million of current period cash flows from operations, $0.7 million of cash flows from operations in excess of distributions paid during 2017 and $0.4 million of debt financing. In addition, our advisor waived and deferred certain of its asset management fees which resulted in more cash being available for distribution. To the extent that we pay distributions from sources other than our cash flows from operations, we will have less funds available for the acquisition of real estate investments, the overall return to our stockholders may be reduced and subsequent investors will experience dilution.

Going forward we expect our board of directors to continue to authorize and declare cash distributions based on daily record dates and to pay these distributions on a monthly basis. Cash distributions will be determined by our board of directors based on our financial condition and such other factors as our board of directors deems relevant. Our board of directors has not pre-established a percentage rate of return for cash distributions to stockholders. We have not established a minimum distribution level, and our charter does not require that we make distributions to our stockholders.

Over the long-term, we expect that a greater percentage of our distributions will be paid from cash flow from operations and FFO (except with respect to distributions related to sales of our assets. Our operating performance cannot be accurately predicted and may deteriorate in the future due to numerous factors, including those discussed under "Forward - Looking Statements," "Market Outlook - Real Estate and Real Estate Finance Markets," "Liquidity and Capital Resources" and "Results of Operations" herein and the risks discussed herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC. Those factors include: our ability to raise capital to make additional investments; the future operating performance of our current and future real estate investments in the existing real estate and financial environment; our advisor's ability to identify additional real estate investments that are suitable to execute our investment objectives; the success and economic viability of our tenants; our ability to refinance existing indebtedness at comparable terms; changes in interest rates on any variable rate debt obligations we incur; and the level of participation in our distribution reinvestment plan. In the event our FFO and/or cash flow from operations decrease in the future, the level of our distributions may also decrease. In addition, future distributions declared and paid may exceed FFO and/or cash flow from operations.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Critical Accounting Policies

Our consolidated interim financial statements and condensed notes thereto have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. A discussion of the accounting policies that management considers critical in that they involve significant management judgments, assumptions and estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC. There have been no significant changes to our policies during 2018, except for our adoption of the revenue recognition standards issued by the Financial Accounting Standards Board effective on January 1, 2018.

Revenue Recognition

Effective January 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09") using the modified retrospective approach, which requires a cumulative effect adjustment as of the date of our adoption. Under the modified retrospective approach, an entity may also elect to apply this standard to either (i) all contracts as of January 1, 2018 or (ii) only to contracts that were not completed as of January 1, 2018. A completed contract is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP that was in effect before the date of initial application. We elected to apply this standard only to contracts that were not completed as of January 1, 2018.

Based on our evaluation of contracts within the scope of ASU No. 2014-09, revenue that is impacted by ASU No. 2014-09 includes revenue generated by sales of real estate, other operating income and tenant reimbursements for substantial services earned at our properties. The recognition of such revenue will occur when the services are provided and the performance obligations are satisfied. For the three and nine months ended September 30, 2018, tenant reimbursements for substantial services accounted for under ASU No. 2014-09 were $34,000 and $98,000, respectively, and were included in tenant reimbursements on the accompanying statements of operations.

Sales of Real Estate

Effective January 1, 2018, we adopted the guidance of ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets ("ASC 610-20"),* which applies to sales or transfers to noncustomers of nonfinancial assets or in substance nonfinancial assets that do not meet the definition of a business. Generally, our sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20.

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-09. Under ASC 610-20, if we determine it does not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, we would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer. As a result of the adoption of ASU 610-20, there was no impact to our consolidated financial statements of operations for the nine months ended September 30, 2018 and 2017 since we did not sell any real estate properties for those periods.

Subsequent Events

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

Cash Distributions Paid

On October 1, 2018, we paid cash distributions of $0.4 million, which related to distributions on our common stock, declared for daily record dates for each day in the period from September 1, 2018 through September 30, 2018. On November 1, 2018, we paid cash distributions of $0.4 million, which related to distributions on our common stock, declared for daily record dates for each day in the period from October 1, 2018 through October 31, 2018.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Distributions Authorized

On October 9, 2018, our board of directors authorized cash distributions on the outstanding shares of all classes of our common stock based on daily record dates for the period from November 1, 2018 through November 30, 2018, which we expect to pay in December 2018. On November 7, 2018, our board of directors authorized cash distributions on the outstanding shares of all classes of our common stock based on daily record dates for the period from December 1, 2018 through December 31, 2018, which we expect to pay in January 2019. Investors may choose to receive cash distributions or purchase additional shares through our distribution reinvestment plan. Distributions for these periods will be calculated based on stockholders of record each day during these periods at a rate of $0.00144493 per share per day.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the acquisition, expansion and refinancing of our real estate investment portfolio and operations. Our profitability and the value of our real estate 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 may 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 or 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 funds available for the payment of distributions to our stockholders and that the losses may exceed the amount we invested in the instruments.

We expect to borrow funds and make investments at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect future earnings or cash flows on fixed rate debt unless such debt mature or is otherwise terminated. However, interest rate changes will affect the fair value of fixed rate instruments. At September 30, 2018, we did not have any fixed rate debt outstanding.

Conversely, movements in interest rates on variable rate debt would change future earnings and cash flows, but not significantly affect the fair value of the debt. However, changes in required risk premiums would result in changes in the fair value of variable rate instruments. At September 30, 2018, we were exposed to market risks related to fluctuations in interest rates on $117.8 million of variable rate debt outstanding. This amount does not take into account the impact of $78.5 million of two forward interest rate swap agreements that were not yet effective as of September 30, 2018. Based on interest rates as of September 30, 2018, if interest rates were 100 basis points higher or lower during the 12 months ending September 30, 2019, interest expense on our variable rate debt would increase or decrease by $1.2 million.

The weighted average interest rate of our variable rate debt at September 30, 2018 was 4.0%. The interest rate represents the actual interest rate in effect at September 30, 2018 (consisting of the contractual interest rate), using interest rate indices as of September 30, 2018 where applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Please see the risks discussed below and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

We have paid distributions from advances from our advisor and debt financing. In the future we may continue to pay distributions from financings, including an advance from our advisor, and we may not pay distributions solely from our cash flow from operations. To the extent we pay distributions from sources other than our cash flows from operations, we will have less funds available for investment in assets, the overall return to our stockholders may be reduced and subsequent investors will experience dilution.

We expect to have little, if any, cash flow from operations available for distribution until we make substantial investments, and we therefore expect that portions of distributions made during our first few years of operations will be considered a return of capital. During our offering stage, when we may raise capital more quickly than we acquire income-producing assets, and for some period after our offering stage, we may not be able to pay distributions solely from our cash flow from operations, in which case distributions may be paid in whole or in part from debt financing, including advances from our advisor. Our distributions paid through September 30, 2018 have been paid from cash flow from operating activities, advances from our advisor and debt financing and we expect that in the future we may not pay distributions solely from our cash flow from operations.

We may fund distributions from any source, including, without limitation, offering proceeds or borrowings (which may constitute a return of capital). We may also fund such distributions from the sale of assets. If we fund distributions from borrowings, our interest expense and other financing costs, as well as the repayment of such borrowings, will reduce our earnings and cash flow from operations available for distribution in future periods. If we fund distributions from the sale of assets, this will affect our ability to generate cash flow from operations in future periods. To the extent that we pay distributions from sources other than our cash flow from operations, we will have fewer funds available with which to make real estate investments, the overall return to our stockholders may be reduced and subsequent investors will experience dilution. In addition, to the extent distributions exceed cash flow from operations, 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. There is no limit on the amount of distributions we may fund from sources other than from cash flow from operations.

For the nine months ended September 30, 2018, we paid aggregate distributions of $3.5 million, including $2.0 million of distributions paid in cash and $1.5 million of distributions reinvested through our distribution reinvestment plan. We funded our total distributions paid, which includes net cash distributions and distributions reinvested by stockholders, with $2.4 million of current period cash flows from operations, $0.7 million of cash flows from operations in excess of distributions paid during 2017 and $0.4 million of debt financing. In addition, our advisor waived and deferred certain of its asset management fees which resulted in more cash being available for distribution.

See Part I, Item II, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Distributions" herein.

If our advisor determines to no longer waive or defer certain fees due to them, our ability to fund our operations and our distributions at the current rate may be adversely affected.

From time to time, our advisor may agree to waive or defer all or a portion of the asset management or other fees, compensation or incentives due to it, pay general administrative expenses or otherwise supplement stockholder returns in order to increase the amount of cash available to fund our operations or make distributions to stockholders. Specifically, in the second and third quarters of 2017 our advisor waived its asset management fee and in the fourth quarter of 2017 through the third quarter of 2018, the advisor deferred its asset management fee. If our advisor chooses to no longer waive or defer such fees, our ability to fund our operations and our distributions at the current rate may be adversely affected.

PART II. OTHER INFORMATION (CONTINUED)

Item 1A. Risk Factors (continued)

In February 2018 we exhausted funds available for all redemptions under our share redemption program for the remainder of 2018. Therefore, our stockholders will be unable to sell their shares under our share redemption program until January 2019 when the dollar limitation resets. However, because of the amount of unfulfilled redemption requests, and limitations on the dollar amount of shares that may be redeemed and the number of shares that may be redeemed, it is likely that we will not be able to redeem all shares when the dollar limitation resets.

During any calendar year, we may redeem (i) only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our distribution reinvestment plan during the prior calendar year and (ii) no more than 5% of the weighted-average number of shares outstanding during the prior calendar year. In 2017, our net proceeds from the distribution reinvestment plan were $2.3 million. As of the February 2018 redemption date, we had exhausted this amount, and as of September 30, 2018, we had $4.8 million of outstanding and unfulfilled redemption requests representing 572,598 shares.

The annual limitation on the dollar amount of shares that may be redeemed under our share redemption program will be reset on January 1, 2019. Once we have funds available for redemption, if we cannot redeem all shares presented for redemption in any month because of the dollar limitation on redemptions or the limitation on the number of shares that we may redeem during the calendar year, each set forth in our share redemption program, then we will honor redemption requests on a pro rata basis, except that if a pro rata redemption would result in a stockholder owning less than the minimum purchase requirement described in our most recently effective registration statement, then we would redeem all of such stockholder's shares. Therefore, even once the annual limitation on the dollar amount of shares that may be redeemed is reset, it is likely that our stockholders will be unable to have all of their shares redeemed under our share redemption program because we will be forced to redeem our stockholders pro rata based on the amount of funds we have available for redemption and the limitation on the number of shares that may be redeemed.

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

a) During the period covered by this Form 10-Q, we sold the following equity securities that were not registered under the Securities Act of 1933 (the "Act").

   Pursuant to Rule 506(c) of Regulation D of the Act, we are currently conducting a private offering for the sale of a maximum of $1,000,000,000 of shares of our Class A common stock to accredited investors through a best efforts private placement offering which commenced on October 3, 2017. The exemption is available to us because the shares are being offered and sold solely to accredited investors and we are verifying accredited investor status. Prior to the launch of the private offering, on September 29, 2017, we engaged North Capital Private Securities Corporation ("NCPS") to act as dealer manager for the offering. For sales executed by NCPS, our advisor pays NCPS, without reimbursement from us, selling commissions of 0.5% of the gross offering proceeds. Through December 11, 2017, shares were sold in the private offering at $8.75 per share. Effective December 12, 2017, we are offering shares in the private offering at $8.79 per share. Through September 30, 2018, we had raised approximately $2.8 million related to the sale of 314,059 shares of our Class A common stock in the private offering. Through September 30, 2018, our advisor had paid underwriting commissions of approximately $21,000 related to this private offering.

b) Not applicable.

c) We have adopted a share redemption program that may enable stockholders to sell their shares to us in limited circumstances.

PART II. OTHER INFORMATION (CONTINUED)

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

Pursuant to the share redemption program, as amended to date, there are several limitations on our ability to redeem shares:

- Unless the shares are being redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined under the share redemption program), we may not redeem shares until the stockholder has held his or her shares for one year.
- During any calendar year, we may redeem only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our distribution reinvestment plan during the prior calendar year. However, we may increase or decrease the funding available for the redemption of shares pursuant to the program upon ten business days' notice to our stockholders.
- 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 redeem shares submitted in connection with an ordinary redemption at 95.0% of our most recent estimated NAV per share as of the applicable redemption date.

For purposes of determining whether a redeeming stockholder has held the share submitted for redemption for at least one year, the time period begins as of the date the stockholder acquired the share; provided, that shares purchased by the redeeming stockholder pursuant to the distribution reinvestment plan or received as a stock dividend will be deemed to have been acquired on the same date as the initial share to which the distribution reinvestment plan shares or stock dividend shares relate.

On December 8, 2017 our board of directors approved an estimated NAV per share of our common stock of $8.79 based on the estimated value of our assets less the estimated value of our liabilities, or NAV, divided by the number of shares outstanding, all as of September 30, 2017, with the exception of a reduction to our net asset value for acquisition and financing costs related to a real estate acquisition subsequent to September 30, 2017. For a full description of the methodologies used to value our assets and liabilities in connection with the calculation of our estimated NAV per share as of September 30, 2017, see the Current Report on Form 8-K filed with the SEC on December 11, 2017, and incorporated herein by reference. We expect to update the estimated NAV annually in December.

In several respects the Company treats redemptions sought upon a stockholder's death, qualifying disability or determination of incompetence differently from other redemptions:

- there is no one-year holding requirement; and
- the redemption price will be the estimated NAV per share as of the redemption date.

We may amend, suspend or terminate the program upon 30 days' notice to our stockholders, provided that we may increase or decrease the funding available for the redemption of shares pursuant to the share redemption program upon 10 business days' notice. 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.

PART II. OTHER INFORMATION (CONTINUED)

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

As of September 30, 2018, we had a total of $4.8 million outstanding and unfulfilled redemption requests representing 572,598 shares. During the nine months ended September 30, 2018, we funded redemptions under our share redemption program with the net proceeds from our distribution reinvestment plan, and we redeemed shares pursuant to our share redemption program as follows:

Month	Total Number of Shares Redeemed	Average Price Paid Per Share [1]	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2018	36,971	$ 8.35	[2]
February 2018	240,101	$ 8.35	[2]
March 2018	—	$ —	[2]
April 2018	—	$ —	[2]
May 2018	—	$ —	[2]
June 2018	—	$ —	[2]
July 2018	—	$ —	[2]
August 2018	—	$ —	[2]
September 2018	—	$ —	[2]
Total	277,072		

[1] The prices at which we redeem shares under the program are as set forth above.

[2] We limit the dollar value of shares that may be redeemed under the program as described above. One of these limitations is that during each calendar year, our share redemption program limits the number of shares we may redeem to those that we could purchase with the amount of the net proceeds from the sale of shares under our distribution reinvestment plan during the prior calendar year. However, we may increase or decrease the funding available for the redemption of shares upon ten business days' notice to our stockholders. Based on the amount of net proceeds raised from the sale of shares under our distribution reinvestment plan during 2017, we had $2.3 million available of shares eligible for redemption in 2018. In February 2018, we exhausted all shares eligible for redemption for 2018. As of September 30, 2018, we had a total of $4.8 million outstanding and unfulfilled redemption requests representing 572,598 shares. We recorded $1.5 million of redemptions payable in other liabilities on the accompanying consolidated balance sheets, which represents the amount available to be redeemed in 2019 based on net proceeds from the sale of shares under our distribution reinvestment plan as of September 30, 2018.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

PART II. OTHER INFORMATION (CONTINUED)

Item 6. Exhibits

Ex.	Description
3.1	Second Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-11 filed October 16, 2015
3.2	Second Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 filed October 16, 2015
3.3	Articles Supplementary for Class T Shares, incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-11 filed April 20, 2016
4.1	Statement regarding restrictions in transferability of shares of common stock issued in a private offering (to be sent upon request and without charge to stockholders), incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed November 9, 2017
4.2	Statement regarding restrictions on transferability of shares of common stock issued in a public offering (to be sent upon request and without charge to stockholders), incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed November 9, 2017
4.3	Third Amended and Restated Distribution Reinvestment Plan, dated August 9, 2017, incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed August 10, 2017
4.4	Multiple Class Plan, effective as of April 11, 2016, incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-11 filed April 20, 2016
10.1	Advisory Agreement, by and between the Company and KBS Capital Advisors LLC, dated as of August 6, 2018, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, filed August 7, 2018
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 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-11 filed March 25, 2016
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KBS GROWTH & INCOME REIT, INC.

Date: November 8, 2018

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

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

Date: November 8, 2018

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer
(principal financial officer)

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 quarterly report on Form 10-Q of KBS Growth & Income REIT, 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)) [language omitted in accordance with SEC transition instructions contained in SEC Release No. 34-47986] 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) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release No. 34‑47986];

   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: November 8, 2018

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 quarterly report on Form 10-Q of KBS Growth & Income REIT, 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)) [language omitted in accordance with SEC transition instructions contained in SEC Release No. 34-47986] 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) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release No. 34‑47986];

   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: November 8, 2018

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 Quarterly Report on Form 10-Q of KBS Growth & Income REIT, Inc. (the "Registrant") for the quarter ended September 30, 2018, 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: November 8, 2018

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 Quarterly Report on Form 10-Q of KBS Growth & Income REIT, Inc. (the "Registrant") for the quarter ended September 30, 2018, 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: November 8, 2018

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer
(principal financial officer)