

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019
OR

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

For the transition period from _____ to _____
Commission file number 000-56050

KBS GROWTH & INCOME REIT, INC.

(Exact Name of Registrant as Specified in Its Charter)

<p style="text-align: center;">Maryland (State or Other Jurisdiction of Incorporation or Organization)</p> <p style="text-align: center;">800 Newport Center Drive, Suite 700 Newport Beach, California</p> <p style="text-align: center;">(Address of Principal Executive Offices)</p>	<p style="text-align: center;">47-2778257 (I.R.S. Employer Identification No.)</p> <p style="text-align: center;">92660 (Zip Code)</p>
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(949) 417-6500
(Registrant's Telephone Number, Including Area Code)

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

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

Trading Symbol(s)

None

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

Class A common stock, \$0.01 par value per share
Class T common stock, \$0.01 par value per share

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check 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 Securities Exchange Act). Yes No

There is no established market for the Registrant's shares of common stock. On December 7, 2018, the board of directors of the Registrant approved an estimated value per share of its common stock as of September 30, 2018 of \$9.20. For a full description of the methodologies used to value the Registrant's assets and liabilities in connection with the calculation of the estimated value per share as of December 7, 2018, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information" of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018. On December 4, 2019, the board of directors of the Registrant approved an estimated value per share of its common stock as of September 30, 2019 of \$8.43. For a full description of the methodologies used to value the Registrant's assets and liabilities in connection with the calculation of the estimated value per share as of December 4, 2019, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information" in this Annual Report on Form 10-K. Until the suspension of the Registrant's private offering in December 2019, shares were sold at the estimated value per share.

There were approximately 9,659,687 shares of Class A common stock and 299,406 of Class T common stock held by non-affiliates as of June 30, 2019, the last business day of the Registrant's most recently completed second fiscal quarter.

As of March 2, 2020, there were 9,863,500 outstanding shares of Class A common stock and 308,138 outstanding shares of Class T common stock of the Registrant.

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FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS 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.
- All of our executive officers, our affiliated director 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 director, 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.
- We have a limited portfolio of three real estate investments and one investment in an unconsolidated joint venture, which may cause the value of an investment in us to vary more widely with the performance of specific assets in our portfolio and cause our general and administrative expenses to constitute a greater percentage of our revenue.
- We may fund distributions from any source, including, without limitation, offering proceeds or borrowings. Distributions paid through December 31, 2019 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 from October 2017 through December 2019. If our advisor determines to no longer waive or defer certain fees owed to them, our ability to fund our operations may be adversely affected. While we consider strategic alternatives, we have reduced the distribution rate beginning January 2020 in order to set the distribution rate at a level that is fully supportable with cash flows from operations and to preserve our cash on hand.
- 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.
- We depend on tenants for the revenue generated by our real estate investments and, accordingly, the revenue generated by our real estate investments is dependent upon the success and economic viability of our tenants. Revenues from our properties could decrease due to a reduction in occupancy 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.

- Our real estate investments 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; 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.
- Our share redemption program only provides for redemptions sought upon a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program, and collectively "special redemptions"). The dollar amounts available for such redemptions are determined by the board of directors and may be adjusted from time to time. The dollar amount limitation for such redemptions for the calendar year 2020 is \$1.0 million in the aggregate, none of which was used for such special redemptions in January and February 2020. Our share redemption program does not provide for ordinary redemptions and can provide no assurances, when, if ever, we will provide for redemptions other than special redemptions.

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

PART I

ITEM 1. BUSINESS

Overview

KBS 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 and it intends to continue to operate in such a manner. As used herein, the terms “we,” “our” and “us” refer to the Company and as required by context, KBS Growth & Income Limited Partnership, a Delaware limited partnership, which we refer to as our “Operating Partnership,” and to their subsidiaries. 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 also 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.

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 December 31, 2019, we had sold 825,964 and 36,348 shares of Class A and Class T common stock under our distribution reinvestment plan, respectively, for aggregate gross offering proceeds of \$8.0 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 offered 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 into 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. In December 2019, in connection with its consideration of strategic alternatives for us, our board of directors determined to suspend the second private offering. As of December 31, 2019, we had sold 612,272 shares of Class A common stock in the second private offering for aggregate gross offering proceeds of \$5.5 million.

As of December 31, 2019, we had redeemed 422,286 and 2,245 Class A and Class T shares, respectively, for \$3.5 million.

We have used substantially all of the net proceeds from our offerings to invest in a portfolio of core real estate properties. We consider core properties to be existing properties with at least 80% occupancy. As of December 31, 2019, we owned four office buildings (one of which was held for sale) and had made an investment in an unconsolidated joint venture.

In December 2019, we announced that our board of directors has formed a special committee composed of all of our independent directors to evaluate strategic alternatives for us and has engaged a financial advisor to assist with this evaluation. Although the special committee engaged a financial advisor to assist us and the special committee with the exploration of strategic alternatives for us, we are not obligated to enter into any particular transaction or any transaction at all.

Objectives and Strategies

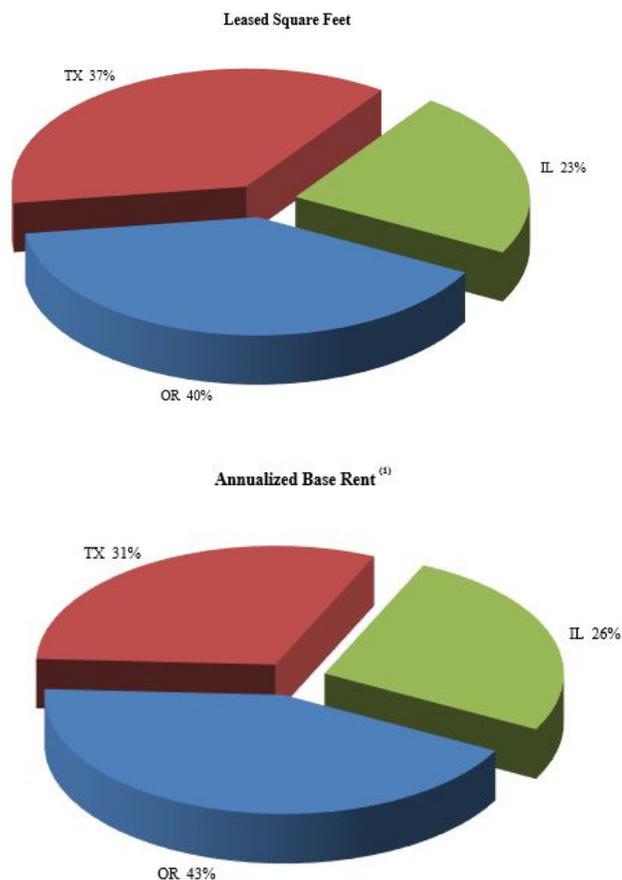
Our primary investment objectives are to preserve and return our stockholders' capital contributions and to provide our stockholders with attractive and stable cash distributions. We will also seek to realize growth in the value of our investments by timing asset sales to maximize asset value.

Real Estate Portfolio

We have invested in core real estate properties. We consider core properties to be existing properties with at least 80% occupancy. Based on the market outlook, our core focus in the U.S. office sector has reflected a value-creating core strategy, which is also known as a core-plus strategy. In many cases, these core properties have slightly higher (10% to 20%) vacancy rates and/or higher near-term lease rollover at acquisition than more conservative value-maintaining core properties. These characteristics provide us with opportunities to lease space at higher rates, especially in markets with increasing absorption, or to re-lease space in these properties at higher rates, bringing below-market rates of in-place expiring leases up to market rates. Many of these properties will require a moderate level of additional investment for capital expenditures and tenant improvement costs in order to improve or rebrand the properties and increase rental rates. Thus, we believe these properties provide an opportunity for us to achieve more significant capital appreciation by increasing occupancy, negotiating new leases with higher rental rates and/or executing enhancement projects.

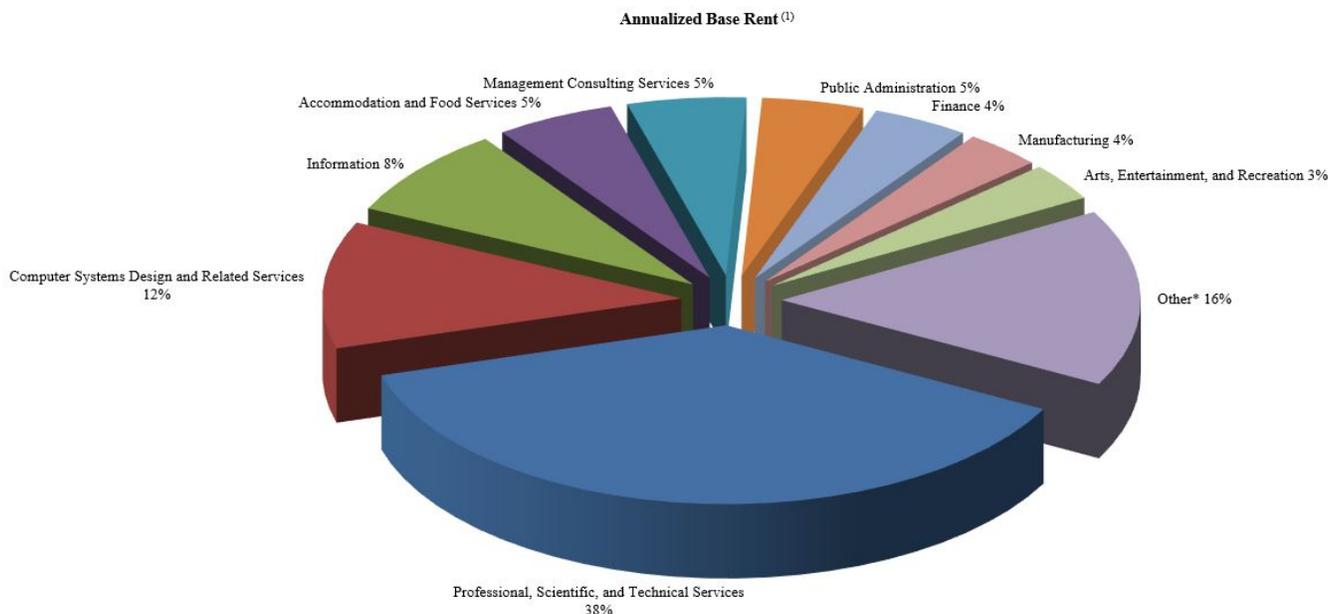
We acquired our first real estate property on August 12, 2015. As of December 31, 2019, our real estate portfolio held for investment was composed of three office buildings containing 582,791 rentable square feet, which were collectively 96% occupied. For more information on our real estate investments, including tenant information, see Part 1, Item 2, "Properties."

The following charts illustrate the geographic diversification of our real estate properties held for investment, excluding our investment in an unconsolidated joint venture, based on total leased square feet and total annualized base rent as of December 31, 2019:



⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, 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.

We have a stable tenant base and we have tried to diversify our tenant base in order to limit exposure to any one tenant or industry. Our top ten tenants leasing space in our real estate portfolio represented approximately 58% of our total annualized base rent as of December 31, 2019. The chart below illustrates the diversity of tenant industries in our real estate portfolio held for investment, excluding our investment in an unconsolidated joint venture, based on total annualized base rent as of December 31, 2019:



⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, 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.

* "Other" includes any industry less than 3% of total.

Financing Objectives

We financed our real estate acquisitions with proceeds raised in our offerings and debt. We may use proceeds from borrowings to pay for capital improvements, repairs or tenant build-outs to properties; to refinance existing indebtedness; to pay distributions; or to provide working capital. Careful use of debt will help us to achieve our goals because we will have more funds available for investment. Our investment strategy is to utilize primarily secured and possibly unsecured debt to finance our investment portfolio.

We expect to borrow funds at fixed and variable rates. As of December 31, 2019, we had debt obligations in the aggregate principal amount of \$118.5 million, with a weighted-average remaining term of 1.72 years. We have a total of \$118.5 million of variable rate notes payable. Of the variable rate debt outstanding, approximately \$78.5 million was effectively fixed through the use of interest rate swap agreements. The weighted-average interest rate of our variable rate debt as of December 31, 2019 was 4.1%. The weighted-average interest rate represents the actual interest rate in effect as of December 31, 2019 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of December 31, 2019, where applicable.

We have tried to spread the maturity dates of our debt to minimize maturity and refinance risk in our portfolio. In addition, a majority of our debt allows us to extend the maturity dates, subject to certain conditions contained in the applicable loan documents. Although we believe we will satisfy the conditions to extend the maturity of our debt obligations, we can give no assurance in this regard. The following table shows the current maturities, including principal amortization payments, of our debt obligations as of December 31, 2019 (in thousands):

2020	\$	72,800
2021		—
2022		—
2023		45,681
2024		—
Thereafter		—
	\$	<u>118,481</u>

We expect 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), or effectively 75% of the cost of our tangible assets, 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 December 31, 2019, our aggregate borrowings were approximately 67% of our net assets before deducting depreciation and other non-cash reserves.

Economic Dependency

We are dependent on our advisor for certain services that are essential to us, including management of the daily operations, leasing and disposition of our portfolio; and other general and administrative responsibilities. In the event that our advisor is unable to provide these services, we will be required to obtain such services from other sources.

Competitive Market Factors

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

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

Although we believe that we are well-positioned to compete effectively in each facet of our business, there is enormous competition in our market sector and there can be no assurance that we will compete effectively or that we will not encounter increased competition in the future that could limit our ability to conduct our business effectively.

Compliance with Federal, State and Local Environmental Law

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

Employees

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

Principal Executive Office

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

Industry Segments

As of December 31, 2019, we had invested in four office buildings (one of which was held for sale) and had made an investment in an unconsolidated joint venture. Substantially all of our revenue and net income (loss) is from real estate, and therefore, we currently operate in one business segment.

Available Information

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

ITEM 1A. RISK FACTORS

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

Risks Related to an Investment in Our Common Stock

No public trading market for our shares currently exists. In addition, shares purchased in our private placement offering are subject to restrictions on transferability and resale. Therefore, it will be difficult for our stockholders to sell their shares and, if our stockholders are able to sell their shares, they will likely sell them at a loss.

No public market currently exists for our shares, and we have no plans to list our shares on a national securities exchange. In addition, shares purchased in our private placement offering are not freely transferable and stockholders must bear the economic risk of investment in us for an indefinite period of time because the shares have not been registered under the Securities Act or certain applicable state and federal securities laws, and such shares cannot be sold unless they are subsequently registered or an exemption from such registration is available. Our charter does not require our directors to seek stockholder approval to liquidate our assets and dissolve by a specified date or at all, nor does our charter require our directors to list our shares for trading on a national securities exchange by a specified date or at all. Our charter prohibits the ownership of more than 9.8% of our stock by any person, unless exempted by our board of directors, which may inhibit large investors from purchasing our stockholders' shares. Moreover, our share redemption program is only available for special redemptions, subject to an annual dollar limitation of \$1.0 million for 2020, includes numerous restrictions that limit our stockholders' ability to sell their shares to us, and our board of directors may amend, suspend or terminate our share redemption program upon 10 business days' notice to our stockholders. Therefore, it will be difficult for our stockholders to sell their shares promptly or at all. If our stockholders are able to sell their shares, they will likely have to sell them at a loss. It is also likely that our stockholders' shares will not be accepted as the primary collateral for a loan. In addition, certain KBS-sponsored non-traded REITs have amended their share redemptions programs to limit redemptions to special redemptions or provide a dollar limit on the amount of redemptions that may be honored and these REITs have been unable to honor redemption requests received in certain periods due to limits adopted by their respective board of directors. Investors should purchase our shares only as a long-term investment and be prepared to hold them for an indefinite period of time because of the illiquid nature of our shares.

Our share redemption program only provides for redemptions sought upon a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program, and collectively "special redemptions"), subject to an annual dollar limitation. We can provide no assurances, when, if ever, we will provide for redemptions other than special redemptions.

Our share redemption program only provides for special redemptions. Such special redemptions are subject to an annual dollar limitation. On December 4, 2019, our board of directors approved an annual dollar limitation of \$1.0 million in the aggregate for the calendar year 2020, none of which was used for such special redemptions in January and February 2020. Such redemptions are further subject to the other limitations described in the share redemption program. During each calendar year, the annual dollar limitation for the share redemption program will be reviewed and may be adjusted from time to time.

We can provide no assurances, when, if ever, we will provide for redemptions other than special redemptions. Thus, until further notice, and except with respect to special redemptions, stockholders will not be able to sell any of their shares back to us pursuant to our share redemption program. In addition, even if we were to resume ordinary redemptions, our share redemption program includes numerous restrictions that would limit a stockholder's ability to sell his or her shares. In its sole discretion, our board of directors may amend, suspend or terminate our share redemption program upon 10 business days' notice.

We face significant competition for real estate investment opportunities, which may limit our ability to acquire suitable investments. If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay distributions.

Our ability to achieve our investment objectives and to pay distributions will depend upon the performance of our advisor in the acquisition of our investments, including the determination of any financing arrangements. We face competition from various entities for real estate investment opportunities, including other REITs, pension funds, banks and insurance companies, investment funds and companies, partnerships and developers. Competition from these entities may reduce the number of suitable investment opportunities offered to us or increase the bargaining power of property owners seeking to sell. Additionally, disruptions and dislocations in the credit markets could impact the cost and availability of debt to finance real estate investments, which is a key component of our acquisition strategy. A downturn in the credit markets and a potential lack of available debt could result in a further reduction of suitable investment opportunities and create a competitive advantage for other entities that have greater financial resources than we do. If we acquire investments at higher prices and/or by using less-than-ideal capital structures, our returns will be lower and the value of our assets may not appreciate or may decrease significantly below the amount we paid for such assets.

We also depend upon the performance of our property managers, including our affiliated property manager, in the selection of tenants and negotiation of leasing arrangements. The highly competitive U.S. commercial real estate industry has created increased pressure on real estate investors and their property managers to find new tenants and keep existing tenants. In order to do so, we may have to offer inducements, such as free rent and tenant improvements, to compete for attractive tenants. The more shares we sell during our offering stage, the greater our challenge will be to invest the net offering proceeds on attractive terms. We can give no assurance that our advisor will be successful in obtaining suitable investments on financially attractive terms or that, if our advisor makes investments on our behalf, our objectives will be achieved.

We have a limited portfolio of three real estate investments and one investment in an unconsolidated joint venture which may cause the value of our stockholders' investment in us to fluctuate with the performance of these specific assets and cause our general and administrative expenses to constitute a greater percentage of our revenue.

We have a limited real estate portfolio of three office buildings and as a result, it is likely that any single property's performance will adversely affect our profitability. Our stockholders' investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of investments. We have certain fixed operating expenses which will constitute a greater percentage of gross income, reducing our net income and cash flow and limiting our ability to pay distributions to our stockholders.

Our investment portfolio has limited diversification and downturns relating to certain industries or business sectors or affecting certain tenants may have a more significant adverse impact on our assets and our ability to pay distributions than if we had a more diversified investment portfolio.

We are not required to observe specific diversification criteria. We may rely on a limited number of tenants which may be concentrated in a limited number of industries or business sectors. One of our tenants in the engineering industry represented 21% of our annualized base rent, and 23% of the total rentable square feet of our real estate portfolio held for investment, as of December 31, 2019. Because our portfolio is concentrated in limited industries or business sectors, downturns relating generally to such region, industry or business sector specifically affecting significant tenants may result in defaults on our investments, which may reduce our net income and the value of our common stock and accordingly limit our ability to pay distributions to our stockholders.

We may be unable to renew leases, lease vacant space or re-lease space as leases expire, which could adversely affect or business and our ability to pay distributions to our stockholders.

We seek to renew our leases in the ordinary course of our business. However, we cannot assure our stockholders that we will be able to renew leases or re-lease space at rates equal to or above the current lease rate or at all. Approximately 8.5% of our annualized base rent and 7.4% of the total leased square feet of our real estate portfolio held for investment, each as of December 31, 2019, is expiring in 2020. Our inability to renew or re-lease our space could adversely impact our financial condition, results of operations, cash flow and our ability to pay distributions to our stockholders.

There can be no assurance that we can or will achieve any targeted return objectives disclosed as estimating such returns involves significant judgment by management as well as numerous estimates and assumptions.

We sought to invest in core real estate properties that we believed could produce a property-level return of between 10% and 14% over the life of the investment. Property-level return objectives do not take into account corporate-level fees and expenses, including corporate general and administrative expenses and asset management fees. Investor returns will be lower than our property-level returns. In particular, general and administrative expenses may constitute a significant portion of our revenue and may significantly reduce investor-level returns below property-level return. There can be no assurance that our objectives can or will be achieved as estimating property-level returns involves significant judgment by management as well as numerous estimates and assumptions that may later prove to be false. For example, we may make incorrect assumptions regarding our ability to increase rental rates or occupancy at a property; property level expenses may exceed those at which we underwrote the property or a key tenant may default on its lease obligations. If we are incorrect in our assumptions regarding the performance of a property, property-level returns will be lower than anticipated.

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 flow from operations, the overall return to our stockholders may be reduced and subsequent investors will experience dilution.

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 December 31, 2019 have been paid from cash flows from operations, 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, borrowings or 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, 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 year ended December 31, 2019, we paid aggregate distributions of \$5.4 million, including \$3.6 million of distributions paid in cash and \$1.8 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 \$4.0 million of current period cash flows from operations, \$1.2 million of cash flows from operations in excess of distributions paid during 2018 and \$0.2 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. Our estimated value per share as of September 30, 2019 was diluted as a result of distributions declared in excess of operating cash flows and the deferral of asset management fee, which resulted in an overall decrease in estimated value per share of \$0.30 relative to our previously disclosed estimated value per share as of September 30, 2018.

We depend on our advisor and its affiliates to conduct our operations. Adverse changes in the financial health of our advisor or the loss of or the inability of our advisor to retain or obtain key real estate and debt finance professionals could delay or hinder implementation of our investment strategies, which could limit our ability to make distributions and decrease the value of an investment in our shares.

Our success depends to a significant degree upon our advisor and the contributions of Mr. Schreiber, who would be difficult to replace. Neither we nor our affiliates have employment agreements with Mr. Schreiber and he may not remain associated with us, our advisor or its affiliates. If Mr. Schreiber were to cease his association with us, our advisor or its affiliates, we may be unable to find a suitable replacement and our operating results could suffer as a result. We believe that our future success depends, in large part, upon our advisor's and its affiliates' financial health and ability to attract and retain highly skilled managerial, operational and marketing professionals. Competition for such professionals is intense, and our advisor and its affiliates may be unsuccessful in attracting and retaining such skilled professionals. Further, our sponsor has established and intends to establish strategic relationships with firms that have special expertise in certain services or detailed knowledge regarding real properties in certain geographic regions. Maintaining such relationships will be important for us to effectively compete with other investors for properties and tenants in such regions. We may be unsuccessful in growing and retaining such relationships. If we lose or are unable to obtain the services of highly skilled professionals or do not establish or maintain appropriate strategic relationships, our ability to implement our investment strategies could be delayed or hindered.

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

Maryland law provides that a director has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter provides that none of our independent directors shall be liable to us or our stockholders for monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct. As a result, our stockholders and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce our stockholders' and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees (if we ever have employees) and agents) in some cases, which would decrease the cash otherwise available for distribution to our stockholders.

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 beginning October 2017 through December 2019, 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. While we consider strategic alternatives, we have reduced the distribution rate beginning January 2020 in order to set the distribution rate at a level that is fully supportable with cash flows from operations and to preserve our cash on hand.

We may experience adverse business developments or conditions similar to that which affected one of the programs sponsored by our sponsor, which could limit our ability to make distributions and decrease the value of your investment.

One of the programs sponsored by our sponsor experienced lower than originally expected returns. In particular, the disruptions in the financial markets from 2008 to 2011 adversely affected the fair values and recoverability of certain investments of KBS Real Estate Investment Trust, Inc. ("KBS REIT I") and KBS REIT I sold at a discount, restructured or received discounted payoffs or wrote off approximately 17 real estate-related assets. In addition, KBS REIT I disclosed fair values below its book values for certain assets in its financial statements and recognized impairments related to certain assets. Because of these adverse business developments, investors in KBS REIT I experienced an average annualized rate of return on investment of (2.4)%, including all distributions. Similarly, unforeseen adverse business conditions may affect us and, as a result, your overall return may be reduced.

Risks Related to Conflicts of Interest

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

All of our executive officers and our affiliated director 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. Subject to limitations in our charter and approval by our conflicts committee, KBS Capital Advisors and its affiliates receive fees from us. These fees could influence our advisor's advice to us as well as the judgment of its affiliates. Among other matters, these compensation arrangements could affect their judgment with respect to:

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

Our advisor and its affiliates face potential conflicts of interest relating to the leasing of properties due to their relationship with other KBS-sponsored programs and/or KBS-advised investors, which could result in decisions that are not in our best interest or the best interests of our stockholders.

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

Further, existing and future KBS-sponsored programs and KBS-advised investors and Mr. Schreiber generally are not and will not be prohibited from engaging, directly or indirectly, in any business or from possessing interests in any other business venture or ventures, including businesses and ventures involved in the acquisition, origination, development, ownership, leasing or sale of real estate-related investments.

Our advisor and its affiliates face potential conflicts of interest relating to joint ventures that we may form with affiliates of our advisor, which conflicts could result in a disproportionate benefit to other venture partners at our expense.

If approved by a majority of our independent directors, we may enter into joint venture agreements with other KBS-sponsored programs or affiliated entities for the acquisition, development or improvement of properties or other investments. KBS Capital Advisors, our advisor, and KBS Realty Advisors and its affiliates, the advisors to the other KBS-sponsored programs and the investment advisers to institutional investors in real estate and real estate-related assets, have some of the same executive officers, affiliated director and other key real estate and debt finance professionals; and these persons face potential conflicts of interest in determining which KBS program or investor should enter into any particular joint venture agreement. These persons may also face a potential conflict in structuring the terms of the relationship between our interests and the interests of the KBS-affiliated co-venturer and in managing the joint venture. Any joint venture agreement or transaction between us and a KBS-affiliated co-venturer will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers. The KBS-affiliated co-venturer may have economic or business interests or goals that are or may become inconsistent with our business interests or goals. These co-venturers may thus benefit to our and our stockholders' detriment.

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

All of our executive officers, our affiliated director and the key real estate and debt finance professionals assembled by our advisor are also executive officers, directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor and/or other KBS-affiliated entities. Through KBS-affiliated entities, some of these persons also serve as the investment advisors to KBS-advised investors and, through KBS Capital Advisors and KBS Realty Advisors, these persons serve as the advisor to KBS REIT II, KBS REIT III, and other KBS-sponsored programs. In addition, KBS Realty Advisors serves as the U.S. asset manager for Prime U.S. REIT, a new real estate investment trust affiliated with Mr. Schreiber. As a result, they owe fiduciary duties to each of these entities, their members and limited partners and these investors, which fiduciary duties may from time to time conflict with the duties that they owe to us and our stockholders. Their loyalties to these other entities and investors could result in action or inaction that is detrimental to our business, which could harm the implementation of our business strategy and our investment and leasing opportunities. Further, Mr. Schreiber and existing and future KBS-sponsored programs and KBS-advised investors generally are not and will not be prohibited from engaging, directly or indirectly, in any business or from possessing interests in any other business venture or ventures, including businesses and ventures involved in the acquisition, development, ownership, leasing or sale of real estate investments. If we do not successfully implement our business strategy, we may be unable to generate the cash needed to make distributions to our stockholders and to maintain or increase the value of our assets.

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

Our affiliated director is also an affiliated director of KBS REIT II, KBS REIT III and the external manager of Prime US REIT. The loyalties of our director serving on the boards of directors of KBS REIT II, KBS REIT III and the external manager of Prime US REIT, or possibly on the boards of directors of future KBS-sponsored programs, may influence the judgment of our board of directors when considering issues for us that also may affect other KBS-sponsored and advised programs, such as the following:

- The conflicts committee of our board of directors must evaluate the performance of our advisor with respect to whether our advisor is presenting to us our fair share of investment opportunities. If our advisor is not presenting a sufficient number of investment opportunities to us because it is presenting many opportunities to other KBS-sponsored programs or if our advisor is giving preferential treatment to other KBS-sponsored programs in this regard, our conflicts committee may not be well-suited to enforce our rights under the terms of the advisory agreement or to seek a new advisor.
- We could enter into transactions with other KBS-sponsored programs, such as property sales, acquisitions or financing arrangements. Such transactions might entitle our advisor or its affiliates to increased fees and other compensation from either or both parties to the transaction. Decisions of our board or the conflicts committee regarding the terms of those transactions may be influenced by our board's or the conflicts committee's loyalties to such other KBS-sponsored programs.
- A decision of our board or the conflicts committee regarding the timing of a debt or equity offering could be influenced by concerns that the offering would compete with offerings of other KBS-sponsored programs.
- A decision of our board or the conflicts committee regarding the timing of property sales could be influenced by concerns that the sales would compete with those of other KBS-sponsored programs.
- A decision of our board regarding whether we pursue a liquidity event such as a listing of our shares of common stock on a national securities exchange, a sale of the company or a liquidation of our assets, which could positively or negatively affect the sales efforts for other KBS-sponsored programs.

Risks Related to Our Corporate Structure

Our charter limits the number of shares a person may own, which may discourage a takeover that could otherwise result in a premium price to our stockholders.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. To help us comply with the REIT ownership requirements of the Internal Revenue Code, our charter prohibits a person from directly or constructively owning more than 9.8% of our outstanding shares, unless exempted by our board of directors. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

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

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

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

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

If funds are not available from our distribution reinvestment plan offering for general corporate purposes, then we may have to use a greater proportion of our cash flow from operations to meet our general cash requirements, which would reduce cash available for distributions and could limit our ability to redeem shares under our share redemption program.

We depend on the proceeds from our distribution reinvestment plan offering 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 our real estate properties; reserves required by any financings of our real estate investments; the acquisition of real estate investments; and the repayment of debt. We cannot predict with any certainty how much, if any, distribution reinvestment plan proceeds will be available for general corporate purposes. 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 our general cash requirements, which would reduce cash available for distributions and could limit our ability to redeem shares under our share redemption program.

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

On December 4, 2019, our board of directors approved an estimated NAV per share of our common stock of \$8.43 based on the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares outstanding, all as of September 30, 2019, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information." This valuation was designed to follow the prescribed methodologies of Practice Guideline 2013-01, Valuations of Publicly Registered Non-Listed REITs, issued by the Institute for Portfolio Alternatives (formerly known as the Investment Program Association) ("IPA") in April 2013 (the "IPA Valuation Guidelines").

As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated NAV per share, and these differences could be significant. The estimated NAV per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to GAAP.

Accordingly, with respect to our estimated NAV per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at our estimated NAV per share;
- a stockholder would ultimately realize distributions per share equal to our estimated NAV per share upon liquidation of our assets and settlement of our liabilities or a sale of the company;
- our shares of common stock would trade at our estimated NAV per share on a national securities exchange;
- a third party would offer our estimated NAV per share in an arm's-length transaction to purchase all or substantially all of our shares of common stock;
- another independent third-party appraiser or third-party valuation firm would agree with our estimated NAV per share; or
- the methodology used to determine our estimated NAV per share would be acceptable to the Financial Industry Regulatory Authority or for compliance with ERISA reporting requirements.

Further, our estimated NAV per share is based on the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares outstanding, all as of September 30, 2019. As of September 30, 2019, we had 9,788,922 and 302,823 shares of common stock issued and outstanding of Class A and Class T common stock, respectively. We did not make any other adjustments to our estimated NAV subsequent to September 30, 2019, including, adjustments relating to the following, among others: (i) the issuance of common stock; (ii) net operating income earned and distributions declared; and (iii) the redemption of shares. The value of our shares will fluctuate over time in response to developments related to future investments, the performance of individual assets in our portfolio and the management of those assets and the real estate and finance markets. Our estimated NAV per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. Our estimated NAV per share does not take into account estimated disposition costs and fees for real estate properties, debt prepayment penalties that could apply upon the prepayment of certain of our debt obligations or, the impact of restrictions on the assumption of debt. The estimated NAV per share does not take into consideration acquisition-related costs and financing costs related to future acquisitions. We currently expect to utilize our advisor and/or an independent valuation firm to update our estimated NAV per share annually in December. We cannot assure our stockholders that our estimated NAV per share will increase or that it will not decrease.

For a full description of the methodologies and assumptions used to value our assets and liabilities in connection with the calculation of the estimated NAV per share, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information."

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

Our common stockholders do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 1,010,000,000 shares of capital stock, of which 1,000,000,000 shares are designated as common stock with 500,000,000 shares being designated as Class A common stock and 500,000,000 shares being designated as Class T common stock, and 10,000,000 shares are designated as preferred stock. Our board of directors may increase the number of authorized shares of capital stock without stockholder approval. After our investors purchase shares, our board may elect to (i) sell additional shares; (ii) issue shares to our advisor, or its successors or assigns, in payment of an outstanding fee obligation; (iii) issue shares of our common stock to sellers of properties or assets we acquire in connection with an exchange of limited partnership interests of our Operating Partnership; or (iv) otherwise issue additional shares of our capital stock. To the extent we issue additional equity interests after our investors purchase shares, whether in our current offering or future primary offerings, pursuant to our distribution reinvestment plan or otherwise, our investors' percentage ownership interest in us would be diluted. In addition, depending upon the terms and pricing of any additional issuances of shares, the use of the proceeds and the value of our real estate investments, our investors may also experience dilution in the book value and fair value of their shares and in the earnings and distributions per share.

Payment of fees to KBS Capital Advisors and its affiliates reduces cash available for distribution to stockholders.

For providing services to us in connection with the management and leasing of our real estate properties and the disposition of our real estate investments, we pay KBS Capital Advisors fees, which will reduce the amount of cash available for distribution to stockholders. Subject to limitations in our charter and approval by our conflicts committee, compensation to be paid to our advisor and its affiliates may be increased without stockholder approval, which would reduce the amount of cash available for distribution to stockholders. For a discussion of our fee arrangement with KBS Capital Advisors and its affiliates, see Part III, Item 13, "Certain Relationships and Related Transactions and Director Independence – Certain Transactions with Related Persons."

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

Because of our focus on more value-creating core properties, we may make investments in core properties that have an occupancy rate of less than 95%, higher near term lease rollover at acquisition than more conservative value maintaining core properties, or other characteristics that could provide an opportunity for us to achieve appreciation by increasing occupancy, negotiating new leases with higher rental rates and/or executing enhancement projects. We likely will need to fund reserves or maintain capacity under credit facilities to fund capital expenditures, tenant improvements and other improvements in order to attract new tenants to these properties. In addition, when tenants do not renew their leases or otherwise vacate their space, we will often need to expend substantial funds for improvements to the vacated space in order to attract replacement tenants. Even when tenants do renew their leases we may agree to make improvements to their space as part of our negotiations. If we need additional capital in the future to improve or maintain our properties or for any other reason, we may have to obtain funding from sources other than our cash flow from operations or proceeds from our distribution reinvestment plan, such as borrowings or future equity offerings. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both, which would limit our ability to make distributions to our stockholders and could reduce the value of our stockholders' investment.

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

Our sponsor and its affiliates have not made a significant investment in us. Our advisor acquired 20,000 shares of our Class A common stock for an initial investment of \$200,000. On August 11, 2015, Charles J. Schreiber, Jr., our chief executive officer, the chairman of the board and one of our directors, and one of the indirect owners of our advisor, purchased 21,181.2380 shares of our Class A common stock for an aggregate purchase price of \$172,500 or \$8.144 per share. The purchase price reflected an 8.5% discount to the \$8.90 initial offering price in our initial private offering for our Class A common stock because selling commissions and dealer manager fees were not paid in connection with the sales. On October 4, 2017, Charles J. Schreiber purchased an additional 11,428.57 shares of our Class A common stock for an aggregate purchase price of \$100,000 or \$8.75 per share. The purchase price was our estimated NAV per share as established by our board of directors on August 9, 2017 and the offering price in our second private offering as of their date of purchase. Therefore, our sponsor and its affiliates will have little exposure to loss in the value of our shares. With this limited exposure, our investors may be at a greater risk of loss because our sponsor does not have as much to lose from a decrease in the value of our shares as do those sponsors who make more significant equity investments in their companies.

Although we will not currently be afforded the protection of the Maryland General Corporation Law relating to deterring or defending hostile takeovers, our board of directors could opt into these provisions of Maryland law in the future, which may discourage others from trying to acquire control of us and may prevent our stockholders from receiving a premium price for their stock in connection with a business combination.

Under Maryland law, "business combinations" between a Maryland corporation and certain interested stockholders or affiliates of interested stockholders are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Also under Maryland law, control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, an officer of the corporation or an employee of the corporation who is also a director of the corporation are excluded from the vote on whether to accord voting rights to the control shares. Should our board of directors opt into these provisions of Maryland law, it may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. Similarly, provisions of Title 3, Subtitle 8 of the Maryland General Corporation Law could provide similar anti-takeover protection.

Our charter includes an anti-takeover provision that may discourage a stockholder from launching a tender offer for our shares.

Our charter provides that any tender offer made by a stockholder, including any "mini-tender" offer, must comply with most provisions of Regulation 14D of the Exchange Act. The offering stockholder must provide our company notice of such tender offer at least 10 business days before initiating the tender offer. If the offering stockholder does not comply with these requirements, all tendering stockholders will have the ability to rescind the tender of their shares. In addition, the noncomplying stockholder shall be responsible for all of our company's expenses in connection with that stockholder's noncompliance. This provision of our charter may discourage a stockholder from initiating a tender offer for our shares and prevent our stockholders from receiving a premium price for our stockholders' shares in such a transaction.

Our charter designates the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our charter provides that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on our behalf, (b) any action or proceeding asserting a claim of breach of any duty owed by any of our directors or officers or other employees to us or to our shareholders, (c) any action or proceeding asserting a claim arising pursuant to any provision of the Maryland General Corporation Law or our charter or our bylaws, or (d) any action or proceeding asserting a claim that is governed by the internal affairs doctrine, and any of our record or beneficial shareholders who is a party to such an action or proceeding shall cooperate in any request that we may make that the action or proceeding be assigned to the Court's Business and Technology Case Management Program. We note we currently have no employees. This choice of forum provision may limit a shareholder's ability to bring a claim in a judicial forum that the shareholder believes is favorable for disputes with us or our directors, officers or employees, which may discourage meritorious claims from being asserted against us and our directors, officers and employees. Alternatively, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations. We adopted this provision because we believe it makes it less likely that we will be forced to incur the expense of defending duplicative actions in multiple forums and less likely that plaintiffs' attorneys will be able to employ such litigation to coerce us into otherwise unjustified settlements, and we believe the risk of a court declining to enforce this provision is remote, as the General Assembly of Maryland has specifically amended the Maryland General Corporation Law to authorize the adoption of such provisions. The exclusive forum provision of our charter does not establish exclusive jurisdiction in the Circuit Court for Baltimore City, Maryland for claims that arise under the Securities Act, the Exchange Act or other federal securities laws if there is exclusive or concurrent jurisdiction in the federal courts.

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

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

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

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

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

General Risks Related to Investments in Real Estate

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

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

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

Any of the above factors, or a combination thereof, could result in a decrease in our cash flow from operations and a decrease in the value of our real estate properties, which would have an adverse effect on our operations, on our ability to pay distributions to our stockholders and on the value of our stockholders' investment.

Properties that have significant vacancies could be difficult to sell, which could diminish the return on these properties and adversely affect our ability to pay distributions to our stockholders.

A property may incur vacancies either by the expiration and non-renewal of tenant leases or the continued default of tenants under their leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash available for distribution to our stockholders. In addition, the resale value of the property could be diminished because the market value of the core real estate properties, which we intend to target depends principally upon the value of the cash flow generated by the leases associated with that property. Such a reduction in the resale value of a property could also reduce the value of our stockholders' investment.

Further, some of our assets may be outfitted to suit the particular needs of the tenants. We may have difficulty replacing the tenants of these properties if the outfitted space limits the types of businesses that could lease that space without major renovation. If a tenant does not renew a lease or, terminates or defaults on a lease, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss. Because the market value of a particular property depends principally upon the value of the cash flow generated by the leases associated with such property, we may incur a loss upon the sale of a property with significant vacant space. These events could cause us to reduce distributions to stockholders.

Based on the market outlook, our core focus in the U.S. office sector has reflected a value-creating core strategy, which is also known as a core-plus strategy. In many cases, these core properties will have slightly higher (10% to 20%) vacancy rates and/or higher near-term lease rollover at acquisition than more conservative value maintaining core properties. We may incur significant costs for capital expenditures and tenant improvement costs to lease up the properties, which increases the risk of loss associated with these properties compared to other properties.

Our core focus in the U.S. office sector reflects a value-creating core strategy or core-plus strategy. In many cases, these core properties will have slightly higher (10% to 20%) vacancy rates, higher near-term lease rollover at acquisition than more conservative value maintaining core properties, and/or other characteristics that could provide an opportunity for us to achieve appreciation by increasing occupancy, negotiating new leases with higher rental rates and/or executing enhancement projects. We likely will need to fund reserves or maintain capacity under our credit facilities to fund capital expenditures, tenant improvements and other improvements in order to attract new tenants to these properties. To the extent we do not maintain adequate reserves to fund these costs, we may use our cash flow from operating activities or borrowings to fund such costs. If we are unable to execute our business plan for these investments, the overall return on these investments will decrease.

We may enter into long-term leases with tenants in certain properties, which may not result in fair market rental rates over time.

We may enter into long-term leases with tenants of certain of our properties, or include renewal options that specify a maximum rate increase. These leases would provide for rent to increase over time; however, if we do not accurately judge the potential for increases in market rental rates, we may set the terms of these long-term leases at levels such that, even after contractual rent increases, the rent under our long-term leases is less than then-current market rates. Further, we may have no ability to terminate those leases or to adjust the rent to then-prevailing market rates. As a result, our cash available for distribution could be lower than if we did not enter into long-term leases.

We may be adversely affected by trends in the office real estate industry.

Some businesses are rapidly evolving to make employee telecommuting, flexible work schedules, open workplaces and teleconferencing increasingly common. These practices enable businesses to reduce their space requirements. A continuation of the movement towards these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations, each of which could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our stockholders.

Certain property types that we may acquire, such as industrial properties, may not have efficient alternative uses and we may have difficulty leasing them to new tenants and/or have to make significant capital expenditures to them to do so.

Certain property types, particularly industrial properties, can be difficult to lease to new tenants, should the current tenant terminate or choose not to renew its lease. These properties generally have received significant tenant-specific improvements and only very specific tenants may be able to use such improvements, making the properties very difficult to re-lease in their current condition. Additionally, an interested tenant may demand that, as a condition of executing a lease for the property, we finance and construct significant improvements so that the tenant could use the property. This expense may decrease cash available for distribution, as we likely would have to (i) pay for the improvements up-front or (ii) finance the improvements at potentially unattractive terms.

We depend on tenants for our revenue generated by our real estate properties and, accordingly, our revenue generated by our real estate properties and our ability to make distributions to our stockholders are partially dependent upon the success and economic viability of our tenants and our ability to retain and attract tenants. Non-renewals, terminations, lease defaults or tenant bankruptcies could reduce our net income and limit our ability to make distributions to our stockholders.

The success of our real estate properties materially depends upon the financial stability of the tenants leasing the properties we own. The inability of a single major tenant or a significant number of smaller tenants to meet their rental obligations would significantly lower our net income. A non-renewal after the expiration of a lease term, termination or default by a tenant on its lease payments to us would cause us to lose the revenue associated with such lease and require us to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord of a property and may incur substantial costs in protecting our investment and re-leasing the property. Tenants may have the right to terminate their leases upon the occurrence of certain customary events of default and, in other circumstances, may not renew their leases or, because of market conditions, may only be able to renew their leases on terms that are less favorable to us than the terms of their initial leases.

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

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

Our inability to sell a property at the time and on the terms we want could limit our ability to pay distributions to our stockholders and could reduce the value of our stockholders' investment in us.

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

Actions of our potential future joint venture partners could reduce the returns on joint venture investments and decrease our stockholders' overall return.

We may enter into joint ventures with third parties or affiliates to acquire assets. We may also purchase and develop properties in joint ventures or in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present with other methods of investment, including, for example, the following risks:

- that our co-venturer, co-tenant or partner in an investment could become insolvent or bankrupt;
- that such co-venturer, co-tenant or partner may at any time have economic or business interests or goals that are or that become inconsistent with our business interests or goals;
- that such co-venturer, co-tenant or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; or
- that disputes between us and our co-venturer, co-tenant or partner may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our operations.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce our returns on that investment and the value of our stockholders' investment in us. In addition, see the risks discussed under the heading "Our advisor and its affiliates will face conflicts of interest relating to joint ventures that we may form with affiliates of our advisor, which conflicts could result in a disproportionate benefit to other venture partners at our expense" with respect to joint ventures with affiliates.

Costs imposed pursuant to laws and governmental regulations may reduce our net income and our cash available for distribution to our stockholders.

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

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

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

The costs of defending against claims of environmental liability, of complying with environmental regulatory requirements, of remediating any contaminated property or of paying personal injury or other damage claims could reduce our cash available for distribution to our stockholders.

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

Risks Associated with Debt Financing and the Use of Derivatives to Hedge Interest Rate Risk

We have obtained and in the future are likely to obtain lines of credit, mortgage indebtedness and other borrowings, which may increase our risk of loss due to potential foreclosure.

We have obtained and in the future plan to obtain lines of credit and long-term financing that may be secured by our real estate investments. In some instances, we may acquire real properties by financing a portion of the price of the properties and mortgaging or pledging some or all of the properties purchased as security for that debt. We may also incur mortgage debt on properties that we already own in order to obtain funds to acquire additional properties, to fund property improvements and other capital expenditures, to pay distributions and for other purposes. In addition, we may borrow as necessary or advisable to ensure that we maintain our qualification as a REIT for U.S. federal income tax purposes, including borrowings to satisfy the REIT requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders (computed without regard to the dividends-paid deduction and excluding net capital gain). However, we can give our stockholders no assurance that we will be able to obtain such borrowings on satisfactory terms or at all.

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

We may also obtain recourse debt to finance our acquisitions and meet our REIT distribution requirements. If we have insufficient income to service our recourse debt obligations, our lenders could institute proceedings against us to foreclose upon our assets. If a lender successfully forecloses upon any of our assets, our ability to pay cash distributions to our stockholders will be reduced and our stockholders may lose part of their investment.

High mortgage rates or changes in underwriting standards may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our cash flow from operations and the amount of cash available for distribution to our stockholders.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on a property, we run the risk of being unable to refinance part or all of the debt when it becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance properties subject to mortgage debt, our income could be reduced. We may be unable to refinance or may only be able to partly refinance properties if underwriting standards, including loan to value ratios and yield requirements, among other requirements, are stricter than when we originally financed the properties. If any of these events occurs, our cash flow could be reduced and/or we might have to pay down existing mortgages. This, in turn, would reduce cash available for distribution to our stockholders, could cause us to require additional capital and may hinder our ability to raise capital by issuing more stock or by borrowing more money.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to pay distributions to our stockholders.

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan agreements into which we enter may contain covenants that limit our ability to further mortgage a property or that prohibit us from discontinuing insurance coverage or replacing our advisor. These or other limitations would decrease our operating flexibility and our ability to achieve our operating objectives and limit our ability to pay distributions to our stockholders.

Increases in interest rates and changes to the LIBOR settling process and potential phasing out of LIBOR after 2021 could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

As of December 31, 2019, we had total outstanding debt of approximately \$118.5 million, including approximately \$39.9 million of debt subject to variable interest rates, and we expect that we will incur additional indebtedness in the future. Interest we pay reduces our cash available for distributions. Since we have incurred and may continue to incur variable rate debt, increases in interest rates raise our interest costs, which reduces our cash flows and our ability to make distributions to you. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to sell one or more of our properties at times which may not permit realization of the maximum return on such investments.

Additionally, we pay interest under certain of our notes payable based on the London Interbank Offered Rate (“LIBOR”). LIBOR and certain other interest “benchmarks” may be subject to regulatory guidance and/or reform that could cause interest rates under our current or future debt agreements to perform differently than in the past or cause other unanticipated consequences. The United Kingdom’s Financial Conduct Authority, which regulates LIBOR, has announced that it intends to stop encouraging or requiring banks to submit rates for the calculation of LIBOR rates after 2021, and it is unclear whether new methods of calculating LIBOR will be established, such that LIBOR may continue to exist after 2021. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, the Alternative Reference Rates Committee, a steering committee comprised of U.S. financial market participants, selected the Secured Overnight Finance Rate (“SOFR”) as an alternative to LIBOR. SOFR is a broad measure of the cost of borrowing cash in the overnight U.S. treasury repo market, and the Federal Reserve Bank of New York started to publish the SOFR in May 2018. At this time, it is impossible to predict whether the SOFR or another reference rate will become an accepted alternative to LIBOR. The discontinuation, reform or replacement of LIBOR or any other benchmark rates may have an unpredictable impact on contractual mechanics in the credit markets or cause disruption to the broader financial markets, and could have an adverse effect on LIBOR-based interest rates on our current or future debt obligations.

We have broad authority to incur debt and high debt levels could hinder our ability to make distributions and may decrease the value of our stockholders’ investment.

We are not limited in the amount of debt we may incur. Although we expect that 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), our debt financing and other liabilities may exceed this level. High debt levels would cause us to incur higher interest charges and higher debt service payments and could also be accompanied by restrictive covenants. These factors could limit the amount of cash we have available to distribute and may decrease the value of our stockholders’ investment.

Hedging against interest rate exposure may adversely affect our earnings, limit our gains or result in losses, which could adversely affect cash available for distribution to our stockholders.

We have entered into and in the future may enter into interest rate swap agreements or pursue other interest rate hedging strategies. Our hedging activity will vary in scope based on the level of interest rates, the type of investments we hold, and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedging products may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability or asset;
- the amount of income that a REIT may earn from hedging transactions to offset losses due to fluctuations in interest rates is limited by federal tax provisions governing REITs;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the party owing money in the hedging transaction may default on its obligation to pay; and
- we may purchase a hedge that turns out not to be necessary, i.e., a hedge that is out of the money.

Any hedging activity we engage in may adversely affect our earnings, which could adversely affect cash available for distribution to our stockholders. Therefore, while we may enter into such transactions to seek to reduce interest rate risks, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the investments being hedged or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the interest rate risk sought to be hedged. Any such imperfect correlation may prevent us from achieving the intended accounting treatment and may expose us to risk of loss.

We will face risks associated with hedging transactions including the credit risk of our counterparties.

We may enter into derivative contracts for risk management purposes to hedge our exposure to cash flow variability caused by changing interest rates on our future variable rate notes payable. These derivative contracts generally are entered into with bank counterparties and are not traded on an organized exchange or guaranteed by a central clearing organization. We would therefore assume the credit risk that our counterparties will fail to make periodic payments when due under these contracts or become insolvent. We may not receive any collateral from a counterparty, or we may receive collateral that is insufficient to satisfy the counterparty's obligation to make a termination payment. If a counterparty is the subject of a bankruptcy case, we will be an unsecured creditor in such case unless the counterparty has pledged sufficient collateral to us to satisfy the counterparty's obligations to us. If we fail to make a required payment or otherwise default under the terms of a derivative contract, the counterparty would have the right to terminate all outstanding derivative transactions between us and that counterparty and settle them based on their net market value or replacement cost. In certain circumstances, the counterparty may have the right to terminate derivative transactions early even if we are not defaulting. If our derivative transactions are terminated early, it may not be possible for us to replace those transactions with another counterparty, on as favorable terms or at all. In addition, the use of derivative transactions will be subject to additional, unique risks associated with such instruments including a lack of sufficient asset correlation, heightened volatility in reference to interest rates or prices of reference instruments and duration/term mismatch, each of which may create additional risk of loss.

There can be no assurance that the direct or indirect effects of the Dodd-Frank Act and other applicable non-U.S. regulations will not have an adverse effect on our interest rate hedging activities.

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") imposed additional regulations on derivatives markets and transactions. Such regulations and, to the extent we trade with counterparties organized in non-US jurisdictions, any applicable regulations in those jurisdictions, are still being implemented, and will affect our interest rate hedging activities. While the full impact of the regulation on our interest rate hedging activities cannot be fully assessed until all final rules and regulations are implemented, such regulation may affect our ability to enter into hedging or other risk management transactions, may increase our costs in entering into such transactions, and/or may result in us entering into such transactions on less favorable terms than prior to implementation of such regulation. The imposition of, or the failure to comply with, the requirements under the Dodd-Frank Act and equivalent non-U.S. regulations may have an adverse effect on our business and our stockholders' return.

There may be uncertainty as to the value of the derivative instruments used.

Our investments in derivatives will be recorded at fair value but have limited liquidity and are not publicly traded. The fair value of our derivatives may not be readily determinable. We will estimate the fair value of any such investments. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on numerous estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these investments existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments are materially higher than the values that we ultimately realize upon their disposal or maturity.

Federal Income Tax Risks

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

Our qualification as a REIT will depend upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Internal Revenue Code. If we fail to qualify as a REIT for any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at corporate rates (a maximum rate of 35% applies through 2017 and 21% for subsequent years). In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we lost our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends-paid deduction and we would no longer be required to pay distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

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

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

The taxation of distributions to our stockholders can be complex; however, distributions that we make to our stockholders generally will be taxable as ordinary income, which may reduce our stockholders' anticipated return from an investment in us.

Distributions that we make to our taxable stockholders to the extent of our current and accumulated earnings and profits (and not designated as capital gain dividends or qualified dividend income) generally will be taxable as ordinary income. However, a portion of our distributions may (i) be designated by us as capital gain dividends generally taxable as long-term capital gain to the extent that they are attributable to net capital gain recognized by us, (ii) be designated by us as qualified dividend income generally to the extent they are attributable to dividends we receive from non-REIT corporations, such as our TRSs, if any, or (iii) constitute a return of capital generally to the extent that they exceed our current and accumulated earnings and profits as determined for U.S. federal income tax purposes. A return of capital distribution is not taxable, but has the effect of reducing the basis of a stockholder's investment in our common stock.

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

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

- In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.
- If we elect to treat property that we acquire in connection with certain leasehold terminations as “foreclosure property,” we may avoid the 100% tax on the gain from a resale of that property, but the income from the sale or operation of that property may be subject to corporate income tax at the highest applicable rate.
- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% “prohibited transaction” tax unless such sale were made by one of our taxable REIT subsidiaries or the sale met certain “safe harbor” requirements under the Internal Revenue Code.

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

We generally must distribute annually at least 90% of our REIT taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We also may decide to retain net capital gain we earn from the sale or other disposition of our property and pay U.S. federal income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability unless they file U.S. federal income tax returns and thereon seek a refund of such tax. We also will be subject to corporate tax on any undistributed taxable income. We also may decide to retain net capital gain we earn from the sale or other disposition of our property and pay U.S. federal income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability unless they file U.S. federal income tax returns and thereon seek a refund of such tax. We also will be subject to corporate tax on any undistributed taxable income. We intend to pay distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

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

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

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

Early investors may receive tax benefits from our election to accelerate depreciation expense deductions of certain components of our investments, including land improvements and fixtures, from which later investors may not benefit.

For U.S. federal income tax purposes, distributions received by our investors generally will be considered ordinary dividends to the extent that the distributions are paid out of our current and accumulated earnings and profits (excluding distributions of amounts either attributable to income subject to corporate-level taxation or designated as a capital gain dividend). However, depreciation expenses, among other deductible items, reduce taxable income and earnings and profits but do not reduce cash available for distribution. To the extent that a portion of any distributions to our investors exceed our current and accumulated earnings and profits, that portion will be considered a return of capital (a non-taxable distribution) for U.S. federal income tax purposes up to the amount of their tax basis in their shares (and any excess over their tax basis in their shares will result in capital gain from the deemed disposition of the investors' shares). The amount of distributions considered a return of capital for U.S. federal income tax purposes will not be subject to tax immediately but will instead reduce the tax basis of our investors' investments, generally deferring any tax on that portion of the distribution until they sell their shares or we liquidate. Because we may choose to increase depreciation expense deductions in the earlier years after acquisition of an asset, for U.S. federal income tax purposes, of certain components of our investments, including land improvements and fixtures through the use of cost segregation studies, our early investors may benefit to the extent that increased depreciation causes all or a portion of the distributions they receive to be considered a return of capital for U.S. federal income tax purposes thereby deferring tax on those distributions, while later investors may not benefit to the extent that the depreciation of these components has already been deducted.

If we fail to invest a sufficient amount of the net proceeds from our offerings in real estate assets within one year from the receipt of the proceeds, we could fail to qualify as a REIT.

Temporary investment of the net proceeds from our offerings in securities that are not treated as real estate assets for REIT qualification purposes and income from these investments generally will allow us to satisfy various REIT income and asset requirements, but only during the one-year period beginning on the date we receive the net proceeds. In order to satisfy these requirements, we may invest in one or more assets on terms and conditions that are not otherwise favorable to us, which ultimately could materially and adversely affect our financial condition and operating results. Alternatively, if we are unable to invest a sufficient amount of the net proceeds from sales of our stock in qualifying real estate assets within the one-year period, we could fail to satisfy one or more of the gross income or asset tests and we could be limited to investing all or a portion of any remaining funds in cash or certain cash equivalents. If we fail to satisfy any such income or asset test, unless we are entitled to relief under certain provisions of the Internal Revenue Code, we could fail to qualify as a REIT.

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

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

Liquidation of assets may jeopardize our REIT qualification.

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

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

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

Our ownership of and relationship with our taxable REIT subsidiaries will be limited and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a taxable REIT subsidiary. A corporation of which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a taxable REIT subsidiary. Overall, no more than 20% (25% for taxable years before 2018) of the value of a REIT's assets may consist of stock or securities of one or more taxable REIT subsidiaries. A domestic taxable REIT subsidiary will pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the taxable REIT subsidiary rules limit the deductibility of interest paid or accrued by a taxable REIT subsidiary to its parent REIT to assure that the taxable REIT subsidiary is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm's-length basis. We cannot assure our stockholders that we will be able to comply with the 20% value limitation on ownership of taxable REIT subsidiary stock and securities on an ongoing basis so as to maintain REIT status or to avoid application of the 100% excise tax imposed on certain non-arm's length transactions.

We may be required to pay some taxes due to actions of a taxable REIT subsidiary which would reduce our cash available for distribution to our stockholders.

Any net taxable income earned directly by a taxable REIT subsidiary, or through entities that are disregarded for U.S. federal income tax purposes as entities separate from our taxable REIT subsidiaries, will be subject to federal and possibly state corporate income tax. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct certain interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives or on some deductions taken by a taxable REIT subsidiary if the economic arrangements between the REIT, the REIT's customers, and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to federal income tax on that income because not all states and localities follow the federal income tax treatment of REITs. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our stockholders.

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

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

Changes recently made to the U.S. tax laws could have a negative impact on our business.

The President signed a tax reform bill into law on December 22, 2017 (the “Tax Cuts and Jobs Act”). Among other things, the Tax Cuts and Jobs Act:

- Reduces the corporate income tax rate from 35% to 21% (including with respect to our taxable REIT subsidiary);
- Reduces the rate of U.S. federal withholding tax on distributions made to non-U.S. stockholders by a REIT that are attributable to gains from the sale or exchange of U.S. real property interests from 35% to 21%;
- If elected, allows an immediate 100% deduction of the cost of certain capital asset investments (generally excluding real estate assets), subject to a phase-down of the deduction percentage over time;
- Changes the recovery periods for certain real property and building improvements (for example, to 15 years for qualified improvement property under the modified accelerated cost recovery system if a technical correction is passed, and to 30 years (previously 40 years) for residential real property and 20 years (previously 40 years) for qualified improvement property under the alternative depreciation system);
- Restricts the deductibility of interest expense by businesses (generally, to 30% of the business’ adjusted taxable income) except, among others, real property businesses electing out of such restriction; we have not yet determined whether we and/or our subsidiaries can and/or will make such an election;
- Requires the use of the less favorable alternative depreciation system to depreciate real property in the event a real property business elects to avoid the interest deduction restriction above;
- Restricts the benefits of like-kind exchanges that defer capital gains for tax purposes to exchanges of real property;
- Permanently repeals the “technical termination” rule for partnerships, meaning sales or exchanges of the interests in a partnership will be less likely to, among other things, terminate the taxable year of, and restart the depreciable lives of assets held by, such partnership for tax purposes;
- Requires accrual method taxpayers to take certain amounts in income no later than the taxable year in which such income is taken into account as revenue in an applicable financial statement prepared under GAAP, which, with respect to certain leases, could accelerate the inclusion of rental income;
- Eliminates the federal corporate alternative minimum tax;
- Reduces the highest marginal income tax rate for individuals to 37% from 39.6% (excluding, in each case, the 3.8% Medicare tax on net investment income);
- Generally allows a deduction for individuals equal to 20% of certain income from pass-through entities, including ordinary dividends distributed by a REIT (excluding capital gain dividends and qualified dividend income), generally resulting in a maximum effective federal income tax rate applicable to such dividends of 29.6% compared to 37% (excluding, in each case, the 3.8% Medicare tax on net investment income); and
- Limits certain deductions for individuals, including deductions for state and local income taxes, and eliminates deductions for miscellaneous itemized deductions (including certain investment expenses).

Many of the provisions in the Tax Cuts and Jobs Act, in particular those affecting individual taxpayers, expire at the end of 2025.

As a result of the changes to U.S. federal tax laws implemented by the Tax Cuts and Jobs Act, our taxable income and the amount of distributions to our stockholders required in order to maintain our REIT status, and our relative tax advantage as a REIT, could change. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders annually.

The Tax Cuts and Jobs Act is a complex revision to the U.S. federal income tax laws with various impacts on different categories of taxpayers and industries, and will require subsequent rulemaking and interpretation in a number of areas. The long-term impact of the Tax Cuts and Jobs Act on the overall economy, government revenues, our tenants, us, and the real estate industry cannot be reliably predicted at this time. Furthermore, the Tax Cuts and Jobs Act may negatively impact certain of our tenants’ operating results, financial condition, and future business plans. The Tax Cuts and Jobs Act may also result in reduced government revenues, and therefore reduced government spending, which may negatively impact some of our tenants that rely on government funding. There can be no assurance that the Tax Cuts and Jobs Act will not negatively impact our operating results, financial condition, and future business operations.

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

In general, the maximum tax rate for dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for this reduced rate; provided under current law, individuals may be able to deduct 20% of income received as ordinary REIT dividends, thus reducing the maximum effective U.S. federal income tax rate on such dividend. In addition, Treasury Regulations impose a minimum holding period for the 20% deduction that was not set forth in the Code. Under the Treasury Regulations, in order for a REIT dividend with respect to a share of REIT stock to be treated as a qualified REIT dividend, the U.S. stockholder (i) must have held the share for more than 45 days during the 91-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend and (ii) cannot have been under an obligation to make related payments with respect to positions in substantially similar or related property, e.g., pursuant to a short sale. While this tax treatment does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts or estates to perceive investments in REITs to be relatively less attractive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Non-U.S. stockholders will be subject to U.S. federal withholding tax and may be subject to U.S. federal income tax on distributions received from us and upon the disposition of our shares.

Subject to certain exceptions, distributions received from us will be treated as dividends of ordinary income to the extent of our current or accumulated earnings and profits. Such dividends ordinarily will be subject to U.S. withholding tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty, unless the distributions are treated as “effectively connected” with the conduct by the non-U.S. stockholder of a U.S. trade or business. Pursuant to the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, capital gain distributions attributable to sales or exchanges of “U.S. real property interests,” or USRPIs, generally (subject to certain exceptions for “qualified foreign pension funds” and certain “qualified shareholders”) will be taxed to a non-U.S. stockholder (other than a qualified foreign pension plan, entities wholly owned by a qualified foreign pension plan and certain publicly traded foreign entities) as if such gain were effectively connected with a U.S. trade or business unless FIRPTA provides an exemption. However, a capital gain dividend will not be treated as effectively connected income if (i) the distribution is received with respect to a class of stock that is regularly traded on an established securities market located in the United States and (ii) the non-U.S. stockholder does not own more than 10% of the class of our stock at any time during the one-year period ending on the date the distribution is received. We do not anticipate that our shares will be “regularly traded” on an established securities market for the foreseeable future, and therefore, this exception is not expected to apply.

Gain recognized by a non-U.S. stockholder upon the sale or exchange of our common stock generally will not be subject to U.S. federal income taxation unless such stock constitutes a USRPI under FIRPTA (subject to specific FIRPTA exemptions for certain non-U.S. stockholders). Our common stock will not constitute a USRPI so long as we are a “domestically-controlled qualified investment entity.” A domestically-controlled qualified investment entity includes a REIT if at all times during a specified testing period, less than 50% in value of such REIT’s stock is held directly or indirectly by non-U.S. stockholders. We believe, but cannot assure our stockholders, that we will be a domestically-controlled qualified investment entity.

Even if we do not qualify as a domestically-controlled qualified investment entity at the time a non-U.S. stockholder sells or exchanges our common stock, gain arising from such a sale or exchange would not be subject to U.S. taxation under FIRPTA as a sale of a USRPI if: (a) our common stock is “regularly traded,” as defined by applicable Treasury Regulations, on an established securities market, and (b) such non-U.S. stockholder owned, actually and constructively, 10% or less of our common stock at any time during the five-year period ending on the date of the sale. However, it is not anticipated that our common stock will be “regularly traded” on an established market. We encourage our stockholders to consult their tax advisor to determine the tax consequences applicable to our stockholders if they are a non-U.S. stockholder.

Investments in other REITs and real estate partnerships could subject us to the tax risks associated with the tax status of such entities.

We may invest in the securities of other REITs and real estate partnerships. Such investments are subject to the risk that any such REIT or partnership may fail to satisfy the requirements to qualify as a REIT or a partnership, as the case may be, in any given taxable year. In the case of a REIT, such failure would subject such entity to taxation as a corporation, may require such REIT to incur indebtedness to pay its tax liabilities, may reduce its ability to make distributions to us, and may render it ineligible to elect REIT status prior to the fifth taxable year following the year in which it fails to so qualify. In the case of a partnership, such failure could subject such partnership to an entity level tax and reduce the entity’s ability to make distributions to us. In addition, such failures could, depending on the circumstances, jeopardize our ability to qualify as a REIT.

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

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

If we were considered to actually or constructively pay a “preferential dividend” to certain of our stockholders, our status as a REIT could be adversely affected.

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our annual REIT taxable income (excluding net capital gain), determined without regard to the deduction for dividends paid. In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT level tax deduction, the distribution must not constitute a “preferential dividend. A distribution is not a preferential dividend if the distribution is pro rata among all outstanding shares of stock within a particular class, and in accordance with the preferences among different classes of stock as set forth in our organizational documents. There is no de minimis exception with respect to preferential dividends; therefore, if the IRS were to take the position that we paid a preferential dividend, we may be deemed to have failed the 90% distribution test, and our status as a REIT could be terminated for the year in which such determination is made if we were unable to cure such failure. The preferential dividend rules described above do not apply to distributions by publicly offered REITs, which we were as of April 28, 2016. Prior to our status as a publicly offered REIT, the preferential dividend rules did apply to our distributions, thus potentially affecting both our 2015 and 2016 taxable years.

Retirement Plan Risks

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

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

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

With respect to the annual valuation requirements described above, we will provide an estimated value for our shares annually. We can make no claim whether such estimated value will satisfy the applicable annual valuation requirements under ERISA and the Internal Revenue Code. The Department of Labor or the IRS may determine that a plan fiduciary or an IRA custodian is required to take further steps to determine the value of our common stock. In the absence of an appropriate determination of value, a plan fiduciary or an IRA custodian may be subject to damages, penalties or other sanctions.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved staff comments.

ITEM 2. PROPERTIES

As of December 31, 2019, we owned four office buildings (one of which was held for sale). Our three office buildings held for investment contain 582,791 rentable square feet, which were collectively 95.7% occupied with a weighted-average remaining lease term of 3.6 years. The following table provides summary information regarding the properties held for investment as of December 31, 2019:

Property Location of Property	Date Acquired	Property Type	Rentable Square Feet	Total Real Estate at Cost ⁽¹⁾ (in thousands)	Annualized Base Rent ⁽²⁾ (in thousands)	Average Annualized Base Rent per Square Foot ⁽³⁾	Average Remaining Lease Term in Years	% of Total Assets	Occupancy
Commonwealth Building Portland, OR	06/30/2016	Office	224,122	\$ 78,794	\$ 5,984	\$ 26.70	2.5	37.1 %	100.0 %
The Offices at Greenhouse Houston, TX	11/14/2016	Office	203,284	47,166	4,206	20.69	4.4	21.8 %	100.0 %
Institute Property Chicago, IL	11/09/2017	Office	155,385	47,171	3,619	27.79	4.1	23.7 %	83.8 %
			<u>582,791</u>	<u>\$ 173,131</u>	<u>\$ 13,809</u>	<u>\$ 24.76</u>	<u>3.6</u>		<u>95.7 %</u>

⁽¹⁾ Total real estate at cost represents the total cost of real estate net of write-offs of fully depreciated/amortized assets.

⁽²⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, 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.

⁽³⁾ Average annualized base rent per square foot is calculated as the annualized base rent divided by the leased square feet.

Portfolio Lease Expirations

The following table sets forth a schedule of expiring leases for our real estate portfolio held for investment by square footage and by annualized base rent as of December 31, 2019:

Year of Expiration	Number of Leases Expiring	Annualized Base Rent Expiring ⁽¹⁾ (in thousands)	% of Portfolio Annualized Base Rent Expiring	Leased Square Feet Expiring	% of Portfolio Leased Square Feet Expiring
Month to Month	2	\$ 134	1.0 %	20,013	3.6 %
2020	11	1,171	8.5 %	41,126	7.4 %
2021	11	1,954	14.2 %	78,608	14.1 %
2022	8	1,193	8.6 %	43,045	7.7 %
2023	15	2,692	19.5 %	113,626	20.4 %
2024	7	4,570	33.1 %	192,132	34.5 %
2025	4	432	3.1 %	13,865	2.5 %
2026	5	737	5.4 %	22,071	4.0 %
2027	2	690	5.0 %	25,275	4.5 %
2028	—	—	— %	—	— %
2029	1	236	1.6 %	7,838	1.3 %
Total	<u>66</u>	<u>\$ 13,809</u>	<u>100.0 %</u>	<u>557,599</u>	<u>100.0 %</u>

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

As of December 31, 2019, we had a concentration of credit risk related to AECOM, one of the tenants in The Offices at Greenhouse in the engineering industry, which represented 21% of our annualized base rent. The tenant individually occupied 135,727 rentable square feet or approximately 23% of the total rentable square feet of our real estate portfolio held for investment, which expires on December 31, 2024, with two five-year extension options. As of December 31, 2019, the annualized base rent for this tenant was approximately \$2.9 million or \$21.37 per square foot. No other tenant represented more than 10% of our annualized base rent.

As of December 31, 2019, the highest tenant industry concentration of our portfolio of real estate properties held for investment (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	11	\$ 5,211	37.7 %
Computer Systems Design and Related Services	3	1,590	11.5 %

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

As of December 31, 2019, no other tenant industries accounted for more than 10% of annualized base rent. No material tenant credit issues have been identified at this time

For more information about our real estate portfolio, see Part I, Item 1, "Business."

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Stockholder Information

As of March 2, 2020, we had 9,863,500 shares of Class A common stock and 308,138 shares of Class T common stock outstanding held by a total of 886 and 71 stockholders, respectively. The number of stockholders is based on the records of DST Systems, Inc., which serves as our transfer agent.

Market Information

No public market currently exists for our shares of common stock, and we currently have no plans to list our shares on a national securities exchange. In addition, shares purchased in our private offering are subject to restrictions on transferability and resale. Further, our charter prohibits the ownership of more than 9.8% of our stock by a single person, unless exempted by our board of directors. Consequently, there is the risk that our stockholders may not be able to sell their shares at a time or price acceptable to them.

We provide an estimated value per share to assist broker-dealers that participated in our initial public offering in meeting their customer account statement reporting obligations under FINRA Conduct Rule 2231, as required by FINRA. This valuation was performed in accordance with the provisions of and also to comply with the IPA Valuation Guidelines. For this purpose, we estimated the net asset value ("NAV") per share of our common stock as \$8.43 as of December 31, 2019. This estimated NAV per share is based on our board of directors' approval on December 4, 2019 of an estimated NAV per share of our common stock of \$8.43 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, 2019. There were no other material changes between September 30, 2019 and December 4, 2019 that impacted the overall estimated NAV per share.

Our conflicts committee, composed solely of all of our independent directors, is responsible for the oversight of the valuation process used to determine the estimated NAV per share of our common stock, including the review and approval of the valuation and appraisal process and methodology used to determine our estimated NAV per share, the consistency of the valuation and appraisal methodologies with real estate industry standards and practices, and the reasonableness of the assumptions used in the valuations and appraisals. With the approval of our conflicts committee, we engaged Duff & Phelps, LLC ("Duff & Phelps"), an independent third-party real estate valuation firm, to provide a calculation of the range in estimated NAV per share of our common stock as of September 30, 2019. Duff & Phelps based this range in estimated NAV per share upon (i) appraisals of our four real estate properties owned as of September 30, 2019 (the "Consolidated Properties") and an investment in an office property held through an unconsolidated joint venture as of September 30, 2019 (together with the Consolidated Properties, the "Appraised Properties") performed by Duff & Phelps, and (ii) valuations performed by our advisor, with respect to our cash, other assets, mortgage debt and other liabilities, which are disclosed in our Quarterly Report on Form 10-Q for the period ended September 30, 2019. The appraisal reports Duff & Phelps prepared summarized the key inputs and assumptions involved in the appraisal of each of the Appraised Properties. Duff & Phelps' valuation was designed to follow the prescribed methodologies of the IPA Valuation Guidelines. The methodologies and assumptions used to determine the estimated value of our assets and the estimated value of our liabilities are described further below.

Upon the conflicts committee's receipt and review of Duff & Phelps' valuation report, which included the appraised value of each of the Appraised Properties as noted in the appraisal reports prepared by Duff & Phelps and a summary of the estimated value of each of our other assets and liabilities as determined by our advisor and reviewed by Duff & Phelps, and in light of other factors considered by the conflicts committee and the conflicts committee's own extensive knowledge of our assets and liabilities, the conflicts committee: (i) concluded that the range in estimated NAV per share of \$7.51 to \$9.43, with an approximate mid-range value of \$8.43 per share, as indicated in Duff & Phelps' valuation report and recommended by our advisor, which mid-range value was based on Duff & Phelps' appraisals of the Appraised Properties and valuations performed by our advisor of our cash, other assets, mortgage debt and other liabilities, was reasonable and (ii) recommended to our board of directors that it adopt \$8.43 as the estimated NAV per share of our common stock, which mid-range value was determined by Duff & Phelps and recommended by our advisor and which was based on Duff & Phelps' appraisals of the Appraised Properties and valuations performed by our advisor of our cash, other assets, mortgage debt and other liabilities. Our board of directors unanimously agreed to accept the recommendation of the conflicts committee and approved \$8.43 as the estimated NAV per share of our common stock, which determination is ultimately and solely the responsibility of our board of directors.

The table below sets forth the calculation of our estimated NAV per share as of December 4, 2019 as well as the calculation of our prior estimated value per share as of December 7, 2018. Duff & Phelps was not responsible for establishing the estimated NAV per share as of December 4, 2019 or December 7, 2018.

	December 4, 2019 Estimated Value per Share	December 7, 2018 Estimated Value per Share ⁽¹⁾	Change in Estimated Value per Share
Real estate properties ⁽²⁾	\$ 20.69	\$ 21.48	\$ (0.79)
Cash	0.49	0.59	(0.10)
Investment in unconsolidated joint venture	0.08	—	0.08
Other assets ⁽³⁾	0.08	0.25	(0.17)
Mortgage debt ⁽⁴⁾	(11.83)	(12.40)	0.57
Other liabilities ⁽³⁾	(1.08)	(0.72)	(0.36)
Estimated NAV per share	\$ 8.43	\$ 9.20	\$ (0.77)
Estimated enterprise value premium	None assumed	None assumed	None assumed
Total estimated NAV per share	\$ 8.43	\$ 9.20	\$ (0.77)

⁽¹⁾ The December 7, 2018 estimated value per share was based upon a calculation of the range in estimated NAV per share of our common stock as of September 30, 2018 by Duff & Phelps and the recommendation of our advisor. Duff & Phelps based this range in estimated NAV per share upon appraisals of our four real estate properties performed by Duff & Phelps, and valuations performed by our advisor with respect to our cash, other assets, mortgage debt and other liabilities. For more information relating to the December 7, 2018 estimated value per share and the assumptions and methodologies used by Duff & Phelps and our advisor, see our Current Report on Form 8-K filed with the SEC on December 10, 2018.

⁽²⁾ The decrease in the estimated value of real estate properties per share was primarily due to decreases in the appraised values of the real estate properties after taking into consideration of capital expenditures.

⁽³⁾ The decrease in the estimated value of other assets per share and the increase in the estimated value of other liabilities per share were primarily related to changes in the fair value of our interest rate swaps.

⁽⁴⁾ The decrease in the estimated value of mortgage debt per share was primarily due to the increase in outstanding shares as of September 30, 2019 compared to September 30, 2018.

The decrease in our estimated value per share from the previous estimate was primarily due to the items noted in the table below, which reflect the significant contributors to the decrease in the estimated value per share from \$9.20 to \$8.43. The changes are not equal to the change in values of each asset and liability group presented in the table above due to changes in the amount of shares outstanding, capital expenditures and related financings and other factors, which caused the value of certain asset or liability groups to change with no impact to our fair value of equity or the overall estimated value per share.

	Change in Estimated Value per Share
December 7, 2018 estimated value per share	\$ 9.20
<i>Changes to estimated value per share</i>	
Real estate	
Real estate and investment in unconsolidated joint venture	0.24
Capital expenditures on real estate	(0.40)
Total change related to real estate	(0.16)
Distributions declared in excess of operating cash flows ⁽¹⁾	(0.11)
Interest rate swaps	(0.31)
Deferral of asset management fee liability	(0.19)
Total change in estimated value per share	(0.77)
December 4, 2019 estimated value per share	\$ 8.43

⁽¹⁾ Operating cash flow reflects modified funds from operations (“MFFO”) adjusted to add back the amortization of deferred financing costs and deferral of asset management fee. We compute MFFO in accordance with the definition included in the practice guideline issued by IPA in November 2010.

As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties using different assumptions and estimates could derive a different estimated NAV per share of our common stock, and these differences could be significant. In particular, due in part to our relatively small asset base and the number of shares of our common stock outstanding, even modest changes in key assumptions made in appraising our real estate properties could have a very significant impact on the estimated value of our shares. See the discussion under “Real Estate - Real Estate Valuation” below. The estimated NAV per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to U.S. generally accepted accounting principles (“GAAP”), nor does it represent a liquidation value of our assets and liabilities or the price at which our shares of common stock would trade on a national securities exchange. The estimated NAV per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated NAV per share also does not take into account estimated disposition costs and fees for real estate properties, debt prepayment penalties that could apply upon the prepayment of certain of our debt obligations and the impact of restrictions on the assumption of debt. The estimated NAV per share does not take into consideration acquisition-related costs and financing costs related to future acquisitions. As of September 30, 2019, we had no potentially dilutive securities outstanding that would impact the estimated NAV per share of its common stock.

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

Methodology

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

Real Estate

Independent Valuation Firm: Duff & Phelps⁽¹⁾ was selected by our advisor and approved by our conflicts committee and board of directors to appraise each of the Appraised Properties and to provide a calculation of the range in estimated NAV per share of our common stock as of December 4, 2019. Duff & Phelps is engaged in the business of appraising commercial real estate properties and is not affiliated with us or our advisor. The compensation we paid to Duff & Phelps is based on the scope of work and not on the appraised values of the Appraised Properties. The appraisals were performed in accordance with the Code of Ethics and the Uniform Standards of Professional Appraisal Practice, or USPAP, the real estate appraisal industry standards created by The Appraisal Foundation, as well as the requirements of the state where each real property is located. Each appraisal was reviewed, approved and signed by an individual with the professional designation of MAI (Member of the Appraisal Institute). The use of the reports is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

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

⁽¹⁾ Duff & Phelps is actively engaged in the business of appraising commercial real estate properties similar to those owned by us in connection with public securities offerings, private placements, business combinations and similar transactions. We engaged Duff & Phelps to prepare appraisal reports for each of the Appraised Properties and to provide a calculation of the range in estimated NAV per share of our common stock and Duff & Phelps received fees upon the delivery of such reports and the calculation of the range in estimated NAV per share of our common stock. In addition, we have agreed to indemnify Duff & Phelps against certain liabilities arising out of this engagement. In the two years prior to the date of this filing, Duff & Phelps and its affiliates have provided a number of commercial real estate, appraisal, valuation and financial advisory services for our affiliates and have received fees in connection with such services. Duff & Phelps and its affiliates may from time to time in the future perform other commercial real estate, appraisal, valuation and financial advisory services for us and our affiliates in transactions related to the properties that are the subjects of the appraisals, so long as such other services do not adversely affect the independence of the applicable Duff & Phelps appraiser as certified in the applicable appraisal report.

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

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

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

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

Real Estate Valuation- Consolidated Properties: Duff & Phelps appraised each of the Consolidated Properties using various methodologies including the direct capitalization approach, discounted cash flow analyses and sales comparison approach and relied primarily on 10-year discounted cash flow analyses for the final appraisal of each of the Consolidated Properties. Duff & Phelps calculated the discounted cash flow value of each of the Consolidated Properties using property-level cash flow estimates, terminal capitalization rates and discount rates that fall within ranges it believes would be used by similar investors to value the Consolidated Properties, based on recent comparable market transactions adjusted for unique properties and market-specific factors.

As of September 30, 2019, the Consolidated Properties consisted of four office buildings, which were acquired for a total purchase price of \$179.5 million, exclusive of acquisition fees and acquisition expenses of \$3.8 million, in which we had invested \$10.9 million in capital and tenant improvements. As of September 30, 2019, the total appraised value of the Consolidated Properties as provided by Duff & Phelps using the appraisal methods described above was \$208.7 million.

The following table summarizes the key assumptions that were used in the discounted cash flow analyses to arrive at the appraised value of the Consolidated Properties:

	Range in Values	Weighted-Average Basis
Terminal capitalization rate	5.75% to 7.50%	6.42%
Discount rate	7.50% to 8.50%	7.89%
Net operating income compounded annual growth rate ⁽¹⁾	3.12% to 7.24%	4.83%

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

While we believe that Duff & Phelps’ assumptions and inputs are reasonable, a change in these assumptions and inputs would significantly impact the appraised value of the Consolidated Properties and thus, our estimated NAV per share. The table below illustrates the impact on our estimated NAV per share if the terminal capitalization rates or discount rates Duff & Phelps used to appraise the Consolidated Properties were adjusted by 25 basis points, assuming all other factors remain unchanged. Additionally, the table below illustrates the impact on our estimated NAV per share if these terminal capitalization rates or discount rates were adjusted by 5% in accordance with the IPA Valuation Guidelines, assuming all other factors remain unchanged:

	Increase (Decrease) on the Estimated NAV per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Terminal capitalization rate	\$ 0.55	\$ (0.53)	\$ 0.71	\$ (0.65)
Discount Rate	0.40	(0.41)	0.62	(0.63)

Finally, a 1% increase in the appraised value of the Consolidated Properties would result in a \$0.21 increase in our estimated NAV per share and a 1% decrease in the appraised value of the Consolidated Properties would result in a decrease of \$0.20 to our estimated NAV per share, assuming all other factors remain unchanged.

Investment in Unconsolidated Joint Venture

As of September 30, 2019, we held an investment in an unconsolidated joint venture, which represented a 50% equity interest in an office property. The contractual purchase price of the property was \$5.4 million plus closing costs. As of September 30, 2019, the appraised value of the office property held through an unconsolidated joint venture provided by Duff & Phelps was \$5.4 million. The appraised value of the real estate was provided by Duff & Phelps and was calculated using a discounted cash flow analysis. As of September 30, 2019, the fair value and the carrying value of our investment in this unconsolidated joint venture was \$0.8 million and \$0.9 million, respectively.

Duff & Phelps relied on a 10-year discounted cash flow analysis for the final valuation of the property. The terminal capitalization rate, discount rate and CAGR used in the discounted cash flow model to arrive at the appraised value were 6.25%, 9.25% and 2.11%, respectively.

The table below illustrates the impact on our estimated NAV per share if the terminal capitalization rate or discount rate were adjusted by 25 basis points, and assuming all other factors remain unchanged, with respect to the property. Additionally, the table below illustrates the impact on our estimated NAV per share if the terminal capitalization rate or discount rate for the property were adjusted by 5% in accordance with the IPA Valuation Guidelines:

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

Notes Payable

The estimated values of our notes payable are equal to the GAAP fair values disclosed in our Quarterly Report on Form 10-Q for the period ended September 30, 2019, but do not equal the book value of the loans in accordance with GAAP. Our advisor estimated the values of our notes payable using a discounted cash flow analysis. The discounted cash flow analysis was based on projected cash flow over the remaining loan terms, including extensions we expect to exercise, and management’s estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio and type of collateral.

As of September 30, 2019, the GAAP fair value and carrying value (excluding unamortized deferred financing costs of \$0.7 million) of our notes payable were \$119.3 million and \$118.5 million, respectively. The weighted-average discount rate applied to the future estimated debt payments, which have a weighted-average remaining term of 2.0 years, was approximately 3.05%.

The table below illustrates the impact on our estimated NAV per share if the discount rates our advisor used to value our notes payable were adjusted by 25 basis points, assuming all other factors remain unchanged. Additionally, the table below illustrates the impact on our estimated NAV per share if these discount rates were adjusted by 5% in accordance with the IPA Valuation Guidelines, assuming all other factors remain unchanged:

	Increase (Decrease) on the Estimated NAV per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Discount Rate	\$ (0.06)	\$ 0.06	\$ (0.03)	\$ 0.03

Other Assets and Liabilities

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

Limitations of Estimated NAV per Share

As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated NAV per share, and these differences could be significant. The estimated NAV per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to GAAP.

Accordingly, with respect to our estimated NAV per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at our estimated NAV per share;
- a stockholder would ultimately realize distributions per share equal to our estimated NAV per share upon liquidation of our assets and settlement of the its liabilities or a sale of our company;
- our shares of common stock would trade at its estimated NAV per share on a national securities exchange;
- a third party would offer our estimated NAV per share in an arm’s-length transaction to purchase all or substantially all of our shares of common stock;
- another independent third-party appraiser or third-party valuation firm would agree with our estimated NAV per share; or
- the methodology used to determine our estimated NAV per share would be acceptable to the Financial Industry Regulatory Authority or for compliance with ERISA reporting requirements.

Further, our estimated NAV per share is based on the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares outstanding, all as of September 30, 2019. As of September 30, 2019, we had 9,788,922 and 302,823 shares of common stock issued and outstanding of Class A and Class T common stock, respectively. We did not make any adjustments to our estimated NAV subsequent to September 30, 2019, including, adjustments relating to the following, among others: (i) the issuance of common stock; (ii) net operating income earned and distributions declared; and (iii) the redemption of shares. The value of our shares will fluctuate over time in response to developments related to future investments, the performance of individual assets in our portfolio and the management of those assets and the real estate and finance markets. Our estimated NAV per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. Our estimated NAV per share does not take into account estimated disposition costs and fees for real estate properties, debt prepayment penalties that could apply upon the prepayment of certain of our debt obligations or, the impact of restrictions on the assumption of debt. The estimated NAV per share does not take into consideration acquisition-related costs and financing costs related to future acquisitions. We currently expect to utilize our advisor and/or an independent valuation firm to update the offering price per share in December 2020 and annually thereafter. We cannot assure you that our estimated NAV per share will increase or that it will not decrease.

Historical Estimated Values per Share

The historical reported estimated value per share of our common stock approved by the board of directors is set forth below:

Estimated Value per Share	Effective Date of Valuation	Filing with the Securities and Exchange Commission
\$9.20	December 7, 2018	Current Report on Form 8-K, filed December 10, 2018
\$8.79	December 8, 2017	Current Report on Form 8-K, filed December 11, 2017
\$8.75	August 9, 2017	Current Report on Form 8-K, filed August 10, 2017

Distribution Information

We have authorized and declared, and expect to continue to authorize and declare, distributions based on monthly record dates, and we have paid, and expect to continue to pay, such distributions on a monthly basis. The rate is 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 range of return for distributions to stockholders. We have not established a minimum distribution level, and our charter does not require that we make distributions to our stockholders.

Generally, our policy is to pay distributions from cash flow from operations. However, we may not be able to pay distributions solely from our cash flow from operations. Because we may receive income from interest or rents at various times during our fiscal year and because we may need cash flow from operations during a particular period to fund capital expenditures and other expenses, we expect that, at least during the early stages of our development and from time to time during our operational stage, we will declare distributions in anticipation of cash flow that we expect to receive during a later period and we will pay these distributions in advance of our actual receipt of these funds. In these instances, we have funded our distributions in part with an advance from our advisor and debt financing and we expect to utilize debt financing in the future, if necessary, to fund at least a portion of our distributions. We may also fund such distributions with proceeds from the sale of assets. We may fund distributions from any source, including, without limitation, offering proceeds or borrowings, and our charter does not limit the amount of funds we may use from any source to pay such distributions. Our distribution policy is generally not to use the proceeds from an offering to pay distributions. If we pay distributions from sources other than our cash flow from operations, we will have less funds available for investment in other assets, the overall return to our stockholders may be reduced and subsequent investors will experience dilution.

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” and the risks discussed in Part I, Item 1A, “Risk Factors.” Those factors include: the future operating performance of our current and future real estate investments in the existing real estate and financial environment; 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 operating activities 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.

We have elected to be taxed as a REIT under the Internal Revenue Code and have operated as such beginning with our taxable year ended December 31, 2015. To maintain our qualification as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our REIT taxable income (computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant.

During 2018, we declared distributions based on daily record dates for each day during the period commencing January 1, 2018 through December 31, 2018. During 2019, we declared distributions based on daily record dates for each day during the period commencing January 1, 2019 through May 31, 2019. Beginning June 2019 and through December 2019, we declared monthly distributions based on monthly record dates. We paid distributions for all record dates of a given month on or about the first business day of the following month. Distributions declared during 2019 and 2018, aggregated by quarter, are as follows (dollars in thousands, except per share amounts):

	2019				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total Distributions Declared	\$ 1,328	\$ 1,378	\$ 1,388	\$ 1,398	\$ 5,492
Total Per Class A Share Distribution ⁽¹⁾	\$ 0.136	\$ 0.138	\$ 0.138	\$ 0.138	\$ 0.550
Total Per Class T Share Distribution ⁽¹⁾	\$ 0.136	\$ 0.138	\$ 0.138	\$ 0.138	\$ 0.550

	2018				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total Distributions Declared	\$ 1,118	\$ 1,200	\$ 1,270	\$ 1,284	\$ 4,872
Total Per Class A Share Distribution ⁽¹⁾	\$ 0.119	\$ 0.128	\$ 0.133	\$ 0.133	\$ 0.513
Total Per Class T Share Distribution ⁽¹⁾	\$ 0.119	\$ 0.128	\$ 0.133	\$ 0.133	\$ 0.513

⁽¹⁾ Distributions for the periods from January 1, 2018 through April 30, 2018 and from May 1, 2018 through December 31, 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. Distributions for the periods from January 1, 2019 through May 31, 2019 were based on daily record dates and were calculated based on stockholders of record each day during these periods at a rate of \$0.00151233 per share per day. Distributions for each month commencing June 2019 through December 2019 were based on monthly record dates and calculated at a monthly rate of \$0.046 per share. Total distribution per class of share assumes the share was issued and outstanding each date that was a record date for distributions during the period.

The tax composition of our distributions declared for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Ordinary Income	— %	— %
Capital Gain	— %	— %
Return of Capital	100 %	100 %
Total	100 %	100 %

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

On January 21, 2020, our board of directors authorized a January 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on January 23, 2020, which we paid on February 3, 2020 and a February 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on February 20, 2020, which we paid on March 2, 2020. On March 4, 2020, the Company’s board of directors authorized a March 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on March 20, 2020, which the Company expects to pay in April 2020 and a April 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on April 20, 2020, which the Company expects to pay in May 2020. Investors may choose to receive cash distributions or purchase additional shares through the Company’s distribution reinvestment plan.

Use of Proceeds from Sales of Registered Securities and Unregistered Sales of Equity Securities

- (a) During the year ended December 31, 2019, 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 conducted 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 was available to us because the shares were offered and sold solely to accredited investors and we verified 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 paid NCPS, without reimbursement from us, selling commissions of 0.5% of the gross offering proceeds. Through December 3, 2019, shares were sold in the private offering at \$9.20 per share. Effective December 4, 2019, we offered shares in the private offering at \$8.43 per share. Through December 31, 2019, we had raised approximately \$5.5 million related to the sale of 612,272 shares of our Class A common stock in the private offering. Through December 31, 2019, our advisor had paid underwriting commissions of approximately \$43,000 related to this private offering. In December 2019, in connection with its consideration of strategic alternatives for us, our board of directors determined to suspend the private offering.

- (b) Not applicable.

Share Redemption Program

Our share redemption program provides that stockholders may sell their shares to us in limited circumstances and is only available for redemptions sought upon a stockholder’s death, “qualifying disability” or “determination of incompetence” (each as defined in the share redemption program, and collectively “special redemptions”).

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

- During each calendar year, special redemptions are limited to an annual dollar amount determined by the board of directors, which may be reviewed during the year and increased or decreased upon ten business days’ notice to our stockholders. We may provide notice by including such information (a) in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC or (b) in a separate mailing to our stockholders. The annual dollar amount limitation for special redemptions for the calendar year 2019 was \$1.0 million. On December 4, 2019, our board of directors approved the same annual dollar amount limitation for special redemptions for calendar year 2020 of \$1.0 million in the aggregate, as may be reviewed and adjusted from time to time by the board of directors.
- 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.

Special redemptions are redeemed at a price equal to the most recent estimated NAV per share as of the applicable redemption date.

On December 7, 2018, our board of directors approved an estimated NAV per share of our common stock of \$9.20 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, 2018. For a full description of the methodologies used to value our assets and liabilities in connection with the calculation of the December 2018 estimated value per share, see the Current Report on Form 8-K filed with the SEC on December 10, 2018. The estimated NAV per share of \$9.20 became effective for the January 2019 redemption date, which was January 31, 2019.

On December 4, 2019, our board of directors approved an estimated NAV per share of our common stock of \$8.43 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, 2019. For a full description of the methodologies used to value our assets and liabilities in connection with the calculation of the estimated value per share, see Part II, Item 5, “Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information.” The estimated NAV per share of \$8.43 became effective for the December 2019 redemption date, which was December 31, 2019.

We may amend, suspend or terminate our share redemption program upon 10 business days’ notice. We redeem shares on the last business day of each month. For a stockholder’s shares to be eligible for redemption in a given month or to withdraw a redemption request, we must receive a written notice from the stockholder or from an authorized representative of the stockholder in good order and on a form approved by us at least five business days before the redemption date.

During the year ended December 31, 2019, redemptions under our share redemption program were funded with existing cash on hand, and shares were redeemed pursuant to our share redemption program as follows in the table below.

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 2019	—	\$ —	(2)
February 2019	—	\$ —	(2)
March 2019	2,245	\$ 9.20	(2)
April 2019	—	\$ —	(2)
May 2019	—	\$ —	(2)
June 2019	—	\$ —	(2)
July 2019	—	\$ —	(2)
August 2019	—	\$ —	(2)
September 2019	—	\$ —	(2)
October 2019	—	\$ —	(2)
November 2019	—	\$ —	(2)
December 2019	—	\$ —	(2)
Total	2,245		

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

⁽²⁾ We limited the dollar value of shares that could be redeemed under the program in 2019 as described above. Of the \$1.0 million available for special redemptions for the calendar year 2020, none of which was used to redeem special redemption shares in January and February 2020.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of and for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 and should be read in conjunction with the accompanying consolidated financial statements and related notes thereto and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (in thousands, except share and per share amounts):

	December 31,				
	2019	2018	2017	2016	2015
Balance sheet data					
Total real estate, net	\$ 169,037	\$ 173,635	\$ 181,129	\$ 138,580	\$ 21,080
Total assets	182,241	185,662	187,140	155,913	34,340
Total notes payable, net	117,861	116,833	112,780	81,375	16,057
Total liabilities	133,963	130,071	125,407	91,492	18,180
Redeemable common stock	1,000	1,000	2,314	1,791	54
Total stockholders’ equity	47,278	54,591	59,419	62,630	16,106

	For the Years Ended December 31,				For the Period from January 27, 2015 to December 31, 2015
	2019	2018	2017	2016	
Operating data					
Total revenues	\$ 20,912	\$ 22,180	\$ 16,961	\$ 6,855	\$ 948
Net loss	(6,102)	(3,601)	(2,199)	(4,089)	(776)
Class A Common Stock:					
Net loss	(5,918)	(3,492)	(2,131)	(4,080)	(773)
Net loss per common share - basic and diluted	(0.61)	(0.38)	(0.23)	(0.55)	(1.29)
Class T Common Stock:					
Net loss	(184)	(109)	(68)	(9)	(3)
Net loss per common share - basic and diluted	(0.61)	(0.38)	(0.28)	(0.68)	(1.62)
Other data					
Cash flows provided by (used in) operating activities	4,034	4,279	4,259	(35)	(114)
Cash flows used in investing activities	(3,899)	(1,654)	(47,431)	(115,158)	(21,277)
Cash flows (used in) provided by financing activities	(496)	1,500	30,029	117,966	34,084
Distributions declared	(5,492)	(4,872)	(4,583)	(3,655)	(195)
Distributions declared per common share - Class A ⁽¹⁾	0.550	0.513	0.493	0.500	0.167
Distributions declared per common share - Class T ⁽¹⁾	0.550	0.513	0.444	0.175	—
Stock dividends declared per common share ⁽²⁾	—	—	0.007	0.010	0.003
Weighted-average number of common shares outstanding, basic and diluted - Class A	9,677,794	9,205,952	9,080,826	7,393,983	598,123
Weighted-average number of common shares outstanding, basic and diluted - Class T	300,531	288,586	246,737	13,718	1,774

⁽¹⁾ For more information related to distributions declared per common share for the years ended December 31, 2019 and 2018, see Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Distribution Information.”

⁽²⁾ Our board of directors authorized stock dividends on our outstanding shares of common stock for each month from September 2015 through August 31, 2017. Our stock dividends to date have been declared based on monthly record dates in an amount that would equal a 1% annualized stock dividend per share of common stock if paid each month for a year. Assumes share was issued and outstanding each day that was a record date for stock dividends during the period presented. We ceased issuing stock dividends to all stockholders on September 5, 2017. Our board of directors does not expect to authorize any additional stock dividends.

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

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

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.

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 December 31, 2019, we had sold 825,964 and 36,348 shares of Class A and Class T common stock under our distribution reinvestment plan, respectively, for aggregate gross offering proceeds of \$8.0 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 offered 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. In December 2019, in connection with its consideration of strategic alternatives for us, our board of directors determined to suspend the second private offering. As of December 31, 2019, we had sold 612,272 shares of Class A common stock in the second private offering for aggregate gross offering proceeds of \$5.5 million.

As of December 31, 2019, we had redeemed 422,286 and 2,245 Class A and Class T shares, respectively, 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 December 31, 2019, we owned four office buildings (one of which was held for sale) and had made an investment in an unconsolidated joint venture.

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. To the extent there are increases in the cost of financing due to higher interest rates, this may cause difficulty in refinancing debt obligations 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.

Liquidity and Capital Resources

Our principal demands for funds during the short and long-term are and will be for operating expenses, capital expenditures and general and administrative expenses; payments under debt obligations; redemptions of common stock; capital commitments; and payments of distributions to stockholders. Our primary sources of capital for meeting our cash requirements are as follows:

- Cash flow generated by our real estate investments;
- Debt financings (including amounts currently available under an existing term loan);
- Proceeds from the sale of our real estate properties; and
- Proceeds from common stock issued under our dividend reinvestment plan.

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 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 December 31, 2019, our aggregate borrowings were approximately 67% of our net assets before deducting depreciation and other non-cash reserves.

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 December 2019. 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 may be adversely affected. While we consider strategic alternatives, we have reduced the distribution rate beginning January 2020 in order to set the distribution rate at a level that is fully sustainable with cash flows from operations and to preserve our NAV per share of \$8.43.

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 December 31, 2019 did not exceed the charter-imposed limitation.

Cash Flows from Operating Activities

As of December 31, 2019, we owned four office properties (one of which was held for sale) and had made an investment in an unconsolidated joint venture. During the year ended December 31, 2019, net cash provided by operating activities was \$4.0 million, compared to net cash provided by operating activities of \$4.3 million during the year ended December 31, 2018. We expect that our cash flows from operating activities will decrease due to the sale of Von Karman Tech Center on January 17, 2020. See “- Subsequent Events - Disposition of Von Karman Tech Center.”

Cash Flows from Investing Activities

Net cash used in investing activities was \$3.9 million for the year ended December 31, 2019 and consisted of the following:

- \$3.9 million of cash used for improvements to real estate;
- \$1.0 million of cash used for the acquisition of a real estate property through a joint venture with an unaffiliated entity; and
- \$1.0 million escrow proceeds received related to the sale of Von Karman Tech Center on January 17, 2020.

Cash Flows from Financing Activities

During the year ended December 31, 2019, net cash used in financing activities was \$0.5 million and consisted primarily of the following:

- \$3.6 million of net cash distributions, after giving effect to distributions reinvested by stockholders of \$1.8 million;
- \$2.4 million of net cash provided by offering proceeds related to our second private offering; and
- \$0.7 million of net cash provided by debt financing as a result of proceeds from notes payable.

Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2019 (in thousands).

Contractual Obligations	Total	Payments Due During the Years Ending December 31,			
		2020	2021-2022	2023-2024	Thereafter
Outstanding debt obligations ⁽¹⁾	\$ 118,481	\$ 72,800	\$ —	\$ 45,681	\$ —
Interest payments on outstanding debt obligations ⁽²⁾	7,701	4,363	3,198	140	—

⁽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 December 31, 2019 (consisting of the contractual interest rate). We incurred interest expense of \$5.0 million, excluding amortization of deferred financing costs totaling \$0.4 million and unrealized losses on derivative instruments of \$1.6 million during the year ended December 31, 2019.

Results of Operations

In this section, we discuss the results of our operations for the year ended December 31, 2019 compared to the year ended December 31, 2018. For a discussion of the year ended December 31, 2018 compared to the year ended December 31, 2017, please refer to [Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”](#) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which was filed with the SEC on March 8, 2019.

As of December 31, 2018, we owned four office properties. Subsequent to December 31, 2018, we had made an investment in an unconsolidated joint venture. The following table provides summary information about our results of operations for the year ended December 31, 2019 and 2018 (dollar amounts in thousands):

Comparison of the year ended December 31, 2019 versus the year ended December 31, 2018

	For the Years Ended December 31,		Increase (Decrease)	Percentage Change
	2019	2018		
Rental income	\$ 20,621	\$ 21,855	\$ (1,234)	(6)%
Other operating income	291	325	(34)	(10)%
Operating, maintenance and management costs	4,664	4,734	(70)	(1)%
Property management fees and expenses to affiliate	165	170	(5)	(3)%
Real estate taxes and insurance	2,946	2,786	160	6 %
Asset management fees to affiliate	1,898	1,855	43	2 %
General and administrative expenses	1,755	1,452	303	21 %
Depreciation and amortization	8,660	9,529	(869)	(9)%
Interest expense	7,032	5,302	1,730	33 %
Interest and other income	61	47	14	30 %
Equity in income of unconsolidated joint venture	45	—	45	100 %

Rental income decreased from \$21.9 million for the year ended December 31, 2018 to \$20.6 million for the year ended December 31, 2019, primarily as a result of tenant lease expirations and a \$0.5 million adjustment to rental income recorded during the year ended December 31, 2019 for lease payments due from one tenant that were deemed not probable of collection. We expect rental income to decrease in future periods due to the sale of Von Karman Tech Center on January 17, 2020 and to fluctuate based on the occupancy at our existing properties.

Operating, maintenance, and management costs remained consistent at \$4.7 million for the year ended December 31, 2019 and 2018. Included in operating, maintenance, and management costs for the for the year ended December 31, 2019 was \$0.1 million of legal fees related to leasing. Upon adoption of the lease accounting standards of Topic 842, beginning January 1, 2019, as a lessor, we recorded legal costs incurred to negotiate an operating lease as an expense, as these costs are no longer capitalizable under the definition of initial direct costs under Topic 842. Prior to January 1, 2019, these legal costs were capitalized and included in real estate, cost. We expect operating, maintenance, and management costs to decrease in future periods due to the sale of Von Karman Tech Center on January 17, 2020 and to fluctuate based on the occupancy at our existing properties.

Real estate taxes and insurance increased slightly from \$2.8 million for the year ended December 31, 2018 to \$2.9 million for the year ended December 31, 2019, primarily due to higher property tax assessed value for a property in 2019. We expect real estate taxes and insurance to decrease in future periods due to the sale of Von Karman Tech Center on January 17, 2020.

Asset management fees to affiliate remained consistent at \$1.9 million for the year ended December 31, 2019 and 2018. Asset management fees beginning October 2017 through December 31, 2019 were accrued but payment was deferred by our advisor. We expect asset management fees to decrease in future periods due to the sale of Von Karman Tech Center on January 17, 2020. As of December 31, 2019, we had accrued and deferred payment of \$4.2 million of asset management fees related to October 2017 through December 31, 2019.

General and administrative expenses increased from \$1.5 million for the year ended December 31, 2018 to \$1.8 million for the year ended December 31, 2019. This increase was primarily due to professional fees incurred related to the assessment of strategic alternatives.

Depreciation and amortization decreased from \$9.5 million for the year ended December 31, 2018 to \$8.7 million for the year ended December 31, 2019, primarily as a result of a decrease in amortization of tenant origination and absorption costs related to tenant lease expirations subsequent to the second quarter of 2018. We expect depreciation and amortization to decrease in future periods due to the sale of Von Karman Tech Center on January 17, 2020.

Interest expense increased from \$5.3 million for the year ended December 31, 2018 to \$7.0 million for the year ended December 31, 2019. Included in interest expense is the amortization of deferred financing costs of \$0.4 million and \$0.3 million for the years ended December 31, 2019 and 2018, respectively. Also included in interest expense during the year ended December 31, 2018 was \$0.2 million of debt refinancing costs. During the years ended December 31, 2019 and 2018, we recorded \$1.6 million and \$0.1 million of unrealized loss on interest rate swaps, respectively. The increase in interest expense is primarily due to changes in fair values with respect to our interest rate swaps that are not accounted for as cash flow hedges. In general, we expect interest expense to decrease in the future as a result of principal pay downs in connection with the sale of Von Karman Tech Center on January 17, 2020. Our interest expense in future periods will also vary based on fluctuations in one-month LIBOR (for our unhedged variable rate debt) and our level of future borrowings, which will depend on the availability and cost of debt financing, draws on our debts and any debt repayments we make.

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, loss from extinguishment of debt and unrealized gain on derivative instruments 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;
- *Loss from extinguishment of debt.* A loss from extinguishment of debt represents the difference between the carrying value of any consideration transferred to the lender in return for the extinguishment of a debt and the net carrying value of the debt at the time of settlement. We have excluded the loss from extinguishment of debt in our calculation of MFFO because these losses do not impact the current operating performance of our investments and do not provide an indication of future operating performance; and
- *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.

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 years ended December 31, 2019, 2018 and 2017, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Years Ended December 31,		
	2019	2018	2017
Net loss	\$ (6,102)	\$ (3,601)	\$ (2,199)
Depreciation of real estate assets	4,318	3,913	2,723
Amortization of lease-related costs	4,342	5,616	4,895
Adjustment for investment in unconsolidated joint venture ⁽¹⁾	99	—	—
FFO	2,657	5,928	5,419
Straight-line rent and amortization of above- and below-market leases, net	(1,824)	(3,062)	(2,302)
Unrealized loss (gain) on derivative instruments	1,595	86	(178)
Loss from extinguishment of debt	—	—	206
Adjustment for investment in unconsolidated joint venture ⁽¹⁾	(9)	—	—
MFFO	\$ 2,419	\$ 2,952	\$ 3,145

⁽¹⁾ Reflects adjustments to add back our noncontrolling interest share of the adjustments to convert our net loss attributable to common stockholders to FFO and MFFO for our equity investment in unconsolidated joint venture.

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 second private placement offering directly on our behalf without reimbursement by us.

Through December 31, 2019, 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 December 31, 2019, we recorded \$39,000 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 December 31, 2019, KBS Capital Advisors had incurred \$5.5 million in offering expenses on our behalf related to the second private placement offering. Our advisor has agreed to pay these expenses on our behalf without reimbursement by us.

Distributions

During our offering stage, 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 during 2019 (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 2019	\$ 1,328	\$ 0.136	\$ 0.136	\$ 845	\$ 456	\$ 1,301	\$ (556)
Second Quarter 2019	1,378	0.138	0.138	914	463	1,377	1,673
Third Quarter 2019	1,388	0.138	0.138	924	461	1,385	988
Fourth Quarter 2019	1,398	0.138	0.138	949	446	1,395	1,929
	<u>\$ 5,492</u>	<u>\$ 0.550</u>	<u>\$ 0.550</u>	<u>\$ 3,632</u>	<u>\$ 1,826</u>	<u>\$ 5,458</u>	<u>\$ 4,034</u>

⁽¹⁾ Distributions for the periods from January 1, 2019 through May 31, 2019 were based on daily record dates and were calculated based on stockholders of record each day during these periods at a rate of \$0.00151233 per share per day. Distributions for each month commencing June 2019 through December 2019 were calculated at a monthly rate of \$0.046 per share.

⁽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 year ended December 31, 2019, we paid aggregate distributions of \$5.4 million, including \$3.6 million of distributions paid in cash and \$1.8 million of distributions reinvested through our distribution reinvestment plan. Our net loss for the year ended December 31, 2019 was \$6.1 million. FFO for the year ended December 31, 2019 was \$2.7 million and cash flows provided by operations for the year ended December 31, 2019 was \$4.0 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 \$4.0 million of current period cash flows from operations, \$1.2 million of cash flows from operations in excess of distributions paid during 2018 and \$0.2 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, the overall return to our stockholders may be reduced.

Going forward we expect our board of directors to continue to authorize and declare cash distributions based on monthly 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 Part I, Item 1A, "Risk Factors." Those factors include: the future operating performance of our current and future real estate investments in the existing real estate and financial environment; 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.

Critical Accounting Policies

Below is a discussion of the accounting policies that management believes are or will be critical to our operations. We consider these policies critical in that they involve significant management judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Revenue Recognition - Operating Leases

On January 1, 2019, we adopted the lease accounting standards under Topic 842 including the package of practical expedients for all leases that commenced before the effective date of January 1, 2019. Accordingly, we (i) did not reassess whether any expired or existing contracts are or contain leases, (ii) did not reassess the lease classification for any expired or existing lease, and (iii) did not reassess initial direct costs for any existing leases. We did not elect the practical expedient related to using hindsight to reevaluate the lease term. In addition, we adopted the practical expedient for land easements and did not assess whether existing or expired land easements that were not previously accounted for as leases under the lease accounting standards of Topic 840 are or contain a lease under Topic 842.

In addition, Topic 842 provides an optional transition method to allow entities to apply the new lease accounting standards at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. We adopted this transition method upon its adoption of the lease accounting standards of Topic 842, which did not result in a cumulative effect adjustment to the opening balance of retained earnings on January 1, 2019. Our comparative periods presented in the financial statements will continue to be reported under the lease accounting standards of Topic 840.

In accordance with Topic 842, tenant reimbursements for property taxes and insurance are included in the single lease component of the lease contract (the right of the lessee to use the leased space) and therefore are accounted for as variable lease payments and are recorded as rental income on our statement of operations beginning January 1, 2019. In addition, we adopted the practical expedient available under Topic 842 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, specifically related to tenant reimbursements for common area maintenance which would otherwise be accounted for under the revenue recognition standard. We believe the two conditions have been met for tenant reimbursements for common area maintenance as (i) the timing and pattern of transfer of the nonlease components and associated lease components are the same and (ii) the lease component would be classified as an operating lease. Accordingly, tenant reimbursements for common area maintenance are also accounted for as variable lease payments and recorded as rental income on our statement of operations beginning January 1, 2019.

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, *Revenue from Contracts with Customers (Topic 606)*. Under ASC 610-20, if we determine we do 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.

Real Estate

Depreciation and Amortization

Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the expected useful life of the asset on a straight-line basis. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. We consider the period of future benefit of an asset to determine its appropriate useful life.

Expenditures for tenant improvements are capitalized and amortized over the shorter of the tenant’s lease term or expected useful life. We anticipate the estimated useful lives of our assets by class to be generally as follows:

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

Real Estate Acquisition Valuation

As a result of our early adoption of ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, acquisitions of real estate beginning January 1, 2017 could qualify as asset acquisitions (as opposed to business combinations). We record the acquisition of income-producing real estate as a business combination or an asset acquisition. If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, then the set is not a business. For purposes of this test, land and buildings can be combined along with the intangible assets for any in-place leases and accordingly, most acquisitions of investment properties would not meet the definition of a business and would be accounted for as an asset acquisition. To be considered a business, a set must include an input and a substantive process that together significantly contributes to the ability to create an output. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. For asset acquisitions, the cost of the acquisition is allocated to individual assets and liabilities on a relative fair value basis. Acquisition costs associated with business combinations are expensed as incurred. Acquisition costs associated with asset acquisitions are capitalized.

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

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

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

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

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

Investments in Unconsolidated Joint Ventures

We account for investments in unconsolidated joint ventures over which we may exercise significant influence, but does not control, using the equity method of accounting. Under the equity method, the investment is initially recorded at cost and subsequently adjusted to reflect additional contributions or distributions and our proportionate share of equity in the joint venture's income (loss). We recognize our proportionate share of the ongoing income or loss of the unconsolidated joint venture as equity in income (loss) of unconsolidated joint venture on the consolidated statements of operations. On a quarterly basis, we evaluate our investment in an unconsolidated joint venture for other-than-temporary impairments. As of December 31, 2019, we did not identify any indicators of impairment related to our unconsolidated real estate joint venture accounted for under the equity method.

Impairment of Real Estate and Related Intangible Assets and Liabilities

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

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

Derivative Instruments

We enter into derivative instruments for risk management purposes to hedge our exposure to cash flow variability caused by changing interest rates on our variable rate notes payable. We record these derivative instruments at fair value on the accompanying consolidated balance sheets. Derivative instruments designated and qualifying as a hedge of the exposure to variability in expected future cash flows or other types of forecasted transactions are considered cash flow hedges. The change in fair value of the effective portion of a derivative instrument that is designated as a cash flow hedge is recorded as other comprehensive income (loss) on the accompanying consolidated statements of comprehensive income (loss) and consolidated statements of equity. The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria are recorded as gain or loss on derivative instruments and included as interest expense as presented in the accompanying consolidated statements of operations.

For those instruments designated as cash flow hedges, we formally document all relationships between hedging instruments and hedged items, as well as our risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivative instruments that are part of a hedging relationship to specific forecasted transactions or recognized obligations on the consolidated balance sheets. We also assess and document, both at the hedging instrument's inception and on a quarterly basis thereafter, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the respective hedged items. When we determine that a derivative instrument ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, we discontinue hedge accounting prospectively and reclassify amounts recorded to accumulated other comprehensive income (loss) to earnings.

Fair Value Measurements

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

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

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

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

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

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

Subsequent Events

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

Cash Distributions Paid

On January 2, 2020, we paid cash distributions of \$0.5 million, which related to a distribution declared for December 2019 in the amount of \$0.046 per share of common stock to stockholders of record as of the close of business on December 30, 2019. On February 3, 2020, we paid cash distributions of \$0.2 million, which related to a distribution declared for January 2020 in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on January 23, 2020. On March 2, 2020, we paid cash distributions of \$0.2 million, which related to a distribution declared for February 2020 in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on February 20, 2020.

Distributions Authorized

On March 4, 2020, our board of directors authorized a March 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on March 20, 2020, which we expect to pay in April 2020, and an April 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on April 20, 2020, which we expect to pay in May 2020.

Disposition of Von Karman Tech Center

On August 12, 2015, we, through an indirect wholly owned subsidiary, KBSGI Von Karman Tech, LLC (the “Owner”), acquired an office building containing 101,161 rentable square feet located in Irvine, California on approximately 4.6 acres of land (“Von Karman Tech Center”). On November 25, 2019, the Owner entered into an option agreement and escrow instructions for the sale of Von Karman Tech Center to a buyer, unaffiliated with us or our advisor (the “Purchaser”).

On January 17, 2020, we completed the sale of Von Karman Tech Center to the Purchaser for \$25.4 million, before third-party closing costs of approximately \$0.4 million and excluding the \$0.4 million disposition fee payable to our Advisor. In connection with the disposition of Von Karman Tech Center, we repaid \$13.7 million of the outstanding principal balance due under its term loan (the “Term Loan”) and Von Karman Tech Center was released as security from the Term Loan. In addition, pursuant to the terms of the Term Loan, we reduced the amount of the revolving commitment and term commitment to \$19.7 million and \$39.4 million, respectively.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the effects of interest rate changes as a result of borrowings used to 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.

The table below summarizes the outstanding principal balance, weighted-average interest rates and fair value for our notes payable; and the notional amounts, average pay and receive rates of our derivative instruments, based on maturity dates as of December 31, 2019 (dollars in thousands):

	Maturity Date						Total Value or Amount	Fair Value
	2020	2021	2022	2023	2024	Thereafter		
Liabilities								
<i>Notes payable, principal outstanding</i>								
Variable Rate	\$ 72,800	\$ —	\$ —	\$ 45,681	\$ —	\$ —	\$ 118,481	\$ 119,196
Weighted-average interest rate ⁽³⁾	4.4 %	—	—	3.5 %	—	—	4.1 %	
<i>Derivative Instruments</i>								
Interest rate swaps, notional amount	\$ —	\$ 48,533	\$ 30,000	\$ —	\$ —	\$ —	\$ 78,533	\$ 1,503
Average pay rate ⁽¹⁾	—	2.1 %	2.8 %	—	—	—	2.4 %	
Average receive rate ⁽²⁾	—	1.8 %	1.8 %	—	—	—	— %	

⁽¹⁾ The average pay rate is based on the interest rate swap fixed rate.

⁽²⁾ The average receive rate is based on the 30-day LIBOR rate as of December 31, 2019.

⁽³⁾ The weighted-average interest rate represents the actual interest rate in effect as of December 31, 2019 (consisting of the contractual interest rate and the effect of interest rate swaps), if applicable, using interest rate indices as of December 31, 2019, where applicable.

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 December 31, 2019, 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 December 31, 2019, we were exposed to market risks related to fluctuations in interest rates on \$39.9 million of variable rate debt outstanding, after giving consideration to the impact of interest rate swap agreements on approximately \$78.5 million of our variable debt. Based on interest rates as of December 31, 2019, if interest rates were 100 basis points higher or lower during the 12 months ending December 31, 2020, interest expense on our variable rate debt would increase or decrease by \$0.4 million.

The weighted average interest rate of our variable rate debt at December 31, 2019 was 4.1%. The interest rate represents the actual interest rate in effect at December 31, 2019 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of December 31, 2019 where applicable.

For a discussion of the interest rate risks related to the current capital and credit markets, see Part I, Item 1A, “Risk Factors.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting

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

In connection with the preparation of our Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making that assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on its assessment, our management believes that, as of December 31, 2019, our internal control over financial reporting was effective based on those criteria. There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

As of the quarter ended December 31, 2019, all items required to be disclosed under Form 8-K were reported under Form 8-K.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

Name	Position(s)	Age*
Charles J. Schreiber, Jr.	Chairman of the Board, Chief Executive Officer, President and Director	68
Jeffrey K. Waldvogel	Chief Financial Officer, Treasurer and Secretary	42
Stacie K. Yamane	Chief Accounting Officer and Assistant Secretary	55
George R. Bravante, Jr.	Independent Director	61
Jon D. Kline	Independent Director	52
Keith P. Russell	Independent Director	74

* As of March 1, 2020.

Charles J. Schreiber, Jr. is our Chairman of the Board, our Chief Executive Officer and one of our directors, positions he has held since January 2015. In August 2019, he was also elected as our President. He is also the Chief Executive Officer of our advisor, Chairman of the Board, Chief Executive Officer and a director of KBS REIT II, positions he has held for these entities since October 2004, August 2007, August 2007 and July 2007, respectively. Mr. Schreiber is Chairman of the Board, Chief Executive Officer and a director of KBS REIT III, positions he has held since January 2010, January 2010 and December 2009, respectively. In August 2019, Mr. Schreiber was also elected as President of KBS REIT II and KBS REIT III. Mr. Schreiber was Chairman of the Board, Chief Executive Officer and a director of KBS REIT I from June 2005 until its liquidation in December 2018. Other than de minimis amounts owned by family members or family trusts, Mr. Schreiber indirectly owns and controls a 33 1/3% interest in KBS Holdings LLC, which is the sole owner of our advisor and the entity that acted as our dealer manager. In addition, Mr. Schreiber controls the voting rights with respect to the 33 1/3% interest of KBS Holdings LLC held indirectly by the estate of Peter M. Bren (together with other family members). KBS Holdings is a sponsor of our company and is or was a sponsor of KBS REIT I, KBS REIT II, and KBS REIT III, Pacific Oak Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT and Pacific Oak Strategic Opportunity REIT II, which were formed in 2015, 2005, 2007, 2009, 2008, 2009, and 2013, respectively.

Mr. Schreiber is the Chief Executive Officer of KBS Realty Advisors LLC and is a principal of Koll Bren Schreiber Realty Advisors, Inc., each an active and nationally recognized real estate investment advisor. These entities are registered as investment advisers with the SEC. Messrs. Bren and Schreiber were the founding partners of the KBS-affiliated investment advisors. The first investment advisor affiliated with Messrs. Bren and Schreiber was formed in 1992. As of December 31, 2019, KBS Realty Advisors, together with KBS affiliates, including our advisor, had been involved in the investment in or management of approximately \$27.8 billion of real estate investments on behalf of institutional investors, including public and private pension plans, endowments and foundations, institutional and sovereign wealth funds, and the investors in us, KBS REIT I, KBS REIT III, Pacific Oak Strategic Opportunity REIT (advisory agreement terminated October 31, 2019), KBS Legacy Partners Apartment REIT, Pacific Oak Strategic Opportunity REIT II (advisory agreement terminated October 31, 2019). Through October 31, 2019 our advisor also served as the U.S. asset manager for Keppel Pacific Oak US REIT, and KBS Realty Advisors serves as the U.S. asset manager for Prime US REIT, both Singapore real estate investment trusts.

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

In addition, since July 2018, Mr. Schreiber has served as Chairman of the Board and a director for KBS US Prime Property Management Pte. Ltd., which is the external manager of Prime US REIT, a Singapore real estate investment trust that is listed on the Singapore Stock Exchange. Mr. Schreiber holds an indirect ownership interest in KBS US Prime Property Management Pte. Ltd. and KBS Asia Partners Pte. Ltd., which is the sponsor of Prime US REIT.

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

Mr. Schreiber graduated from the University of Southern California with a Bachelor's Degree in Finance with an emphasis in Real Estate. During his four years at USC, he did graduate work in the then newly formed Real Estate Department in the USC Graduate School of Business. He is currently an Executive Board Member for the USC Lusk Center for Real Estate at the University of Southern California Marshall School of Business/School of Policy, Planning and Development. Mr. Schreiber also serves as a member of the Executive Committee for the Public Non-Listed REIT Council for the National Association of Real Estate Investment Trusts. He is also a member of the National Council of Real Estate Investment Fiduciaries. Mr. Schreiber has served as a member of the board of directors and executive committee of The Irvine Company since August 2016, and since December 2016, Mr. Schreiber has served on the Board of Trustees of The Irvine Company.

The board of directors has concluded that Mr. Schreiber is qualified to serve as a director, Chairman of the Board and as our Chief Executive Officer and President for reasons including his extensive industry and leadership experience. With more than 40 years of experience in real estate development, management, acquisition and disposition and more than 30 years of experience with the acquisition, origination, management, disposition and financing of real estate-related debt investments, he has the depth and breadth of experience to implement our business strategy. He gained his understanding of the real estate and real estate-finance markets through hands-on experience with acquisitions, asset and portfolio management, asset repositioning and dispositions. As our Chief Executive Officer and a principal of our advisor, Mr. Schreiber is best-positioned to provide the board of directors with insights and perspectives on the execution of our business strategy, our operations and other internal matters. Further, as a principal of KBS-affiliated investment advisors, as Chief Executive Officer, President, Chairman of the Board and a director of KBS REIT III and KBS Growth & Income REIT, as a director and trustee of The Irvine Company, as Chairman of the Board and a director of KBS US Prime Property Management Pte. Ltd. and as former Chief Executive Officer, Chairman of the Board and a director of KBS REIT I, Mr. Schreiber brings to the board of directors demonstrated management and leadership ability.

Jeffrey K. Waldvogel is our Chief Financial Officer, a position he has held since June 2015. In April 2017, he was also elected our Treasurer and Secretary. He is also the Chief Financial Officer of our advisor, a position he has held since June 2015. Since June 2015, he has served as Chief Financial Officer of KBS REIT III, and in July 2018, he was elected Treasurer and Secretary of KBS REIT III. He is also the Chief Financial Officer, Treasurer and Secretary of KBS REIT II, positions he has held since June 2015, August 2018 and August 2018, respectively. From June 2015 until November 2019, he also served as the Chief Financial Officer, Treasurer and Secretary of Pacific Oak Strategic Opportunity REIT and Pacific Oak Strategic Opportunity REIT II. He was Chief Financial Officer of KBS REIT I and KBS Legacy Partners Apartment REIT from June 2015 until their respective liquidations in December 2018.

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

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

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

Stacie K. Yamane is our Chief Accounting Officer, a position she has held since January 2015. In August 2018, she was also elected our Assistant Secretary. Ms. Yamane is also the Chief Accounting Officer, Portfolio Accounting of our advisor and Chief Accounting Officer of KBS REIT II and KBS REIT III, positions she has held for these entities since October 2008, October 2008 and January 2010, respectively. From August 2009 until November 2019 and from February 2013 until November 2019 she served as Chief Accounting Officer of Pacific Oak Strategic Opportunity REIT and Pacific Oak Strategic Opportunity REIT II, respectively. From August 2009 until its liquidation in December 2018, she served as Chief Accounting Officer of KBS Legacy Partners Apartment REIT; from October 2008 until its liquidation in December 2018, she served as Chief Accounting Officer of KBS REIT I. From July 2007 to December 2008, Ms. Yamane served as the Chief Financial Officer of KBS REIT II and from July 2007 to October 2008, she served as Controller of KBS REIT II; from October 2004 to October 2008, Ms. Yamane served as Fund Controller of our advisor; from June 2005 to December 2008, she served as Chief Financial Officer of KBS REIT I and from June 2005 to October 2008, she served as Controller of KBS REIT I.

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

Prior to joining an affiliate of KBS Realty Advisors in 1995, Ms. Yamane was an audit manager at Kenneth Leventhal & Company, a CPA firm specializing in real estate. During her eight years at Kenneth Leventhal & Company, Ms. Yamane performed or supervised a variety of auditing, accounting and consulting engagements including the audit of financial statements presented in accordance with GAAP, as well as financial statements presented on a cash and tax basis, the valuation of asset portfolios and the review and analysis of internal control systems. Her experiences with various KBS-affiliated entities and Kenneth Leventhal & Company give her almost 30 years of real estate experience.

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

George R. Bravante, Jr. is one of our independent directors, a position he has held since March 2016. He is also a member of the conflicts committee and the chairman of the special committee. In 1996, Mr. Bravante founded Biltmore Advisors, LLC, the general partner of Bravante-Curci Investors, L.P., and since 1996, he has served as the Managing Member of Biltmore Advisors, LLC. Bravante-Curci Investors focuses on real estate and agricultural investments in California. Since 2005, Mr. Bravante has been the owner of Bravante Produce, which oversees agricultural land, and since July 2013, he has served as the Chief Executive Officer of Pacific Agriculture Realty, LP, an agricultural real estate fund.

Mr. Bravante has been in the real estate industry for over 30 years. Prior to founding Bravante-Curci Investors in 1996, Mr. Bravante served as: President and Chief Operating Officer of Colony Advisors, where he oversaw all aspects of the firm's operations, including financial and asset management and property management and dispositions; President and Chief Operating Officer of the American Realty Group, where he was responsible for the strategic management, restructuring and disposition of more than \$20 billion in real estate-related assets; Chief Financial Officer of RMB Realty, where he was extensively involved with all aspects of numerous commercial real estate transactions; and Manager of Ernst & Whinney (now Ernst & Young LLP), where he advised real estate developers and financial institutions as a member of the real estate consulting group. Since December 2014, Mr. Bravante has served on the board of directors and audit committee of Sabre Corp, and from 2004 through 2010, Mr. Bravante served on the board of directors of ExpressJet Holdings, Inc., serving as non-executive chairman from 2005 to 2010. Mr. Bravante also served on the board of directors of Sunkist Growers, Inc. from January 2011 through January 2014 and of American Real Estate Group from 1990 to 1993. Mr. Bravante received a Bachelor of Arts in Accounting from the University of South Carolina in 1982.

The board of directors has concluded that Mr. Bravante is qualified to serve as an independent director for reasons including his 30 years of experience in the real estate industry and his financial, strategic business and investment strategy abilities. Mr. Bravante's broad executive experience provides him with key skills in working with directors, understanding board processes and functions, responding to our business's financial, strategic and operational challenges and opportunities and overseeing management. The board of directors believes that these attributes and the depth and breadth of Mr. Bravante's exposure to complex real estate, financial and strategic issues throughout his career make him a valuable asset to the board of directors. Further, his service as a director and member of the audit committee of Sabre Corp and as a director of ExpressJet Holdings, both public companies, gives him additional perspective and insight into public companies such as ours.

Jon D. Kline is one of our independent directors and is the chair of the conflicts committee, positions he has held since March 2016. He is also a member of the audit committee and the special committee. Mr. Kline is the founder and Chief Executive Officer of Clearview Hotel Capital, LLC, a privately-held hotel investment and advisory company focused on acquiring and providing asset management for hotels in urban and unique locations. Mr. Kline has led Clearview Hotel Capital since its founding in 2007. From 2006 through 2007, he served as President and, from 2003 to 2006, as Chief Financial Officer of Sunstone Hotel Investors, Inc., a public hotel REIT (NYSE:SHO). Prior to joining Sunstone in 2003, Mr. Kline oversaw the U.S. hospitality and leisure investment banking practice at Merrill Lynch & Co., with responsibility for lodging, gaming, restaurants and other leisure industries. Prior to joining Merrill Lynch, Mr. Kline was a real estate investment banker at Smith Barney, focused on lodging and other real estate asset classes, and an attorney with Sullivan & Cromwell LLP. Mr. Kline has served on the board of directors of CareTrust REIT, Inc. (NASDAQ: CTRE), a public REIT, since June 2014, and he is currently the chair of the audit committee and a member of the nominating and corporate governance committee. Mr. Kline holds a Bachelor of Arts in Economics from Emory University and a J.D. from New York University School of Law.

The board of directors has concluded that Mr. Kline is qualified to serve as an independent director and as chair of the conflicts committee for reasons including executive leadership experience in a public REIT, his professional and educational background, his network of relationships with real estate professionals and his extensive background and experience in public markets and in real estate and finance transactions. As the founder of Clearview Hotel Capital, Mr. Kline is acutely aware of the operational challenges we will encounter. In addition, his service as a director and chair of the audit committee of CareTrust REIT provide him an understanding of the requirements of serving on the board of, and the issues facing, a public real estate company such as ours.

Keith P. Russell is one of our independent directors and is the chair of the audit committee, positions he has held since March 2016. He is also a member of the conflicts committee and the special committee. Since June 2001, Mr. Russell has been President of Russell Financial, Inc., a strategic and financial consulting firm serving businesses and high net worth individuals. In March 2001, Mr. Russell retired as Chairman of Mellon West and Vice Chairman of Mellon Financial Corporation, in which capacities he had served since 1996. From 1991 through 1996, Mr. Russell served in various positions at Mellon, including Vice Chairman and Chief Risk Officer of Mellon Bank Corporation and Chairman of Mellon Bank Corporation's Credit Policy Committee. From 1983 to 1991, Mr. Russell served as President and Chief Operating Officer, and a director, of Glenfed/ Glendale Federal Bank.

Mr. Russell has served on the board of directors of Sunstone Hotel Investors, Inc. (NYSE: SHO), a public REIT, since 2004, and he is currently the chair of the audit committee and a member of the nominating and corporate governance committee. Mr. Russell has served on the board of directors of Hawaiian Electric Industries, Inc. (NYSE: HEI) since May 2011, and he is currently a member of the HEI audit and risk committee and the executive committee. Since 2010, Mr. Russell has also served on the board of directors of American Savings Bank, a subsidiary of Hawaiian Electric Industries, and he is currently a member of the audit committee and is the chair of the risk committee. In addition, from 2002 to July 2011, Mr. Russell served on the board of directors of Nationwide Health Properties, Inc., where he served as chair of the audit committee and as a member of the corporate governance and nominating committee. Mr. Russell has been a panelist at various conferences and seminars, addressing topics such as corporate governance and the audit committee's role. Mr. Russell holds a Bachelor of Arts in Economics from the University of Washington and a Master of Arts in Economics from Northwestern University.

The board of directors has concluded that Mr. Russell is qualified to serve as an independent director and as chair of the audit committee for reasons including his expertise in the areas of risk management and financial analysis and his general investment experience. As a leading executive with several large financial institutions, Mr. Russell has extensive experience in assessing risks and reserves for companies in a wide range of financial situations, which contributes invaluable expertise to the board of directors. In addition, his service as a director and chair of the audit committee of Sunstone Hotel Investors, as a director and member of the audit and risk committee of Hawaiian Electric Industries, Inc. and as a former director and chair of the audit committee of Nationwide Health Properties provides him an understanding of the requirements of serving on the board of, and the issues facing, a public real estate company such as ours.

The Audit Committee

Our board of directors has established an audit committee. The audit committee's function is to assist our board of directors in fulfilling its responsibilities by overseeing (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditors' qualifications and independence, and (iv) the performance of the independent auditors and our internal audit function. The members of the audit committee are Keith P. Russell (chairman), George R. Bravante, Jr. and Jon D. Kline. All of the members of the audit committee are "independent" as defined by the New York Stock Exchange. All members of the audit committee have significant financial and/or accounting experience, and our board of directors has determined that all members of the audit committee satisfy the SEC's requirements for an "audit committee financial expert."

Code of Conduct and Ethics

We have adopted a Code of Conduct and Ethics that applies to all of our executive officers and directors, including but not limited to, our principal executive officer, principal financial officer and principal accounting officer. Our Code of Conduct and Ethics can be found at <http://www.kbsgireit.com>. If, in the future, we amend, modify or waive a provision in the Code of Conduct and Ethics, we may, rather than filing a Current Report on Form 8-K, satisfy the disclosure requirement by promptly posting such information on the website maintained for us as necessary.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Executive Officers

We currently do not have any paid employees and our executive officers do not receive any compensation directly from us. Our executive officers are officers and/or employees of, or hold an indirect ownership interest in, our advisor, and/or its affiliates, and our executive officers are compensated by these entities, in part, for their services to us or our subsidiaries. If, in the future, we were to compensate our executive officers directly, our conflicts committee, which is composed of all of our independent directors, would discharge our board of directors’ responsibilities relating to the compensation of our executives. See Part III, Item 13, “Certain Relationships and Related Transactions, and Director Independence — Report of the Conflicts Committee — Certain Transactions with Related Persons” for a discussion of the fees paid to our advisor and its affiliates.

Compensation of Directors

If a director is also one of our executive officers, we do not pay any compensation to that person for services rendered as a director. The amount and form of compensation payable to our independent directors for their service to us is determined by our conflicts committee, based upon recommendations from our advisor. Mr. Schreiber, our chief executive officer and president, manages and controls our advisor, and through our advisor, is involved in recommending the compensation to be paid to our independent directors.

We have provided below certain information regarding compensation earned by or paid to our directors during fiscal year 2019.

Name	Fees Earned in 2019 or Paid in Cash ⁽¹⁾	All Other Compensation	Total
George R. Bravante, Jr.	\$ 96,829	\$ —	\$ 96,829
Jon D. Kline	97,829	—	97,829
Keith P. Russell	95,829	—	95,829
Charles J. Schreiber, Jr. ⁽²⁾	—	—	—

⁽¹⁾ Fees Earned in 2019 or Paid in Cash include meeting fees earned in: (i) 2018 but paid or reimbursed in the first quarter of 2019 as follows: Mr. Bravante \$7,333, Mr. Kline \$8,333, and Mr. Russell \$7,333; and (ii) 2019 but paid or to be paid in 2020 as follows: Mr. Bravante \$7,333, Mr. Kline \$8,333, and Mr. Russell \$7,333.

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

Cash Compensation

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

- \$2,500 in cash for each board meeting attended.
- \$2,500 in cash for each committee meeting attended, except that the chairman of the committee is paid \$3,000 for each meeting attended.
- \$2,000 in cash for each teleconference meeting of the board.
- \$2,000 in cash for each teleconference meeting of any committee, except that the chairman of the committee is paid \$3,000 for each teleconference meeting of the committee.

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

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

Stock Ownership

The following table shows, as of March 2, 2020, the amount of our Class A common stock and Class T common stock beneficially owned (unless otherwise indicated) by (i) any person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of our Class A common stock or Class T common stock, respectively (ii) our directors, (iii) our executive officers, and (iv) all of our directors and executive officers as a group.

Name and Address of Beneficial Owner of Class A and Class T Shares, as indicated ⁽¹⁾	Amount and Nature of Beneficial Ownership of Class A Shares	Percent of all Class A Shares	Amount and Nature of Beneficial Ownership of Class T Shares	Percent of all Class T Shares
Burns Family Trust	—	—	23,778	7.72%
Burnell D. & Shirley Kraft Revocable Trust	—	—	18,308	5.94%
Julie W. Lorenzen Trust	—	—	17,923	5.82%
Comrit Investments I, Limited Partnership ⁽²⁾	1,755,752	17.80%	—	—
Charles J. Schreiber, Jr. ⁽³⁾	59,518	0.60% ⁽⁴⁾	—	—
Jeffrey K. Waldvogel	—	—	—	—
Stacie K. Yamane	—	—	—	—
George R. Bravante, Jr.	—	—	—	—
Jon D. Kline	—	—	—	—
Keith P. Russell	—	—	—	—

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

⁽²⁾ Decisions regarding the voting or disposition of the shares of our common stock held by Comrit Investments I, Limited Partnership are made by the majority vote of the board of directors of Comrit Investments Ltd., the sole general partner of the limited partnership. The current members of the board of directors of Comrit Investments Ltd. are David Lubetzky and Iddo Kook. Comrit Investments I, Limited Partnership owns only shares of the Company’s Class A common stock and does not have an ownership interest in KBS Capital Advisors.

⁽³⁾ None of the shares is pledged as security.

⁽⁴⁾ Includes 20,404,0430 shares of our Class A common stock owned by KBS Capital Advisors. Other than de minimis amounts owned by family members or family trusts, Mr. Schreiber indirectly owns and controls a 33 1/3% interest in KBS Holdings LLC, which is the sole owner of KBS Capital Advisors LLC and KBS Capital Markets Group LLC. In addition, Mr. Schreiber controls the voting rights with respect to the 33 1/3% interest of KBS Holdings LLC held indirectly by the estate of Peter M. Bren (together with other family members).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Director Independence

A majority of our board of directors, Messrs. Bravante, Kline and Russell, meet the independence criteria as specified in our charter, as set forth on Appendix A attached hereto. In addition, although our shares are not listed for trading on any national securities exchange, a majority of our directors, and all of the members of the audit committee and the conflicts committee, are “independent” as defined by the New York Stock Exchange. The New York Stock Exchange standards provide that to qualify as an independent director, in addition to satisfying certain bright-line criteria, our board of directors must affirmatively determine that a director has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us). Our board of directors has affirmatively determined that George R. Bravante, Jr., Jon D. Kline and Keith P. Russell each satisfies the New York Stock Exchange independence standards. None of these directors has ever served as (or is related to) an employee of ours or any of our predecessors or acquired companies or received or earned any compensation from us or any such entities except for compensation directly related to service as a director of us. Therefore, we believe that all of these directors are independent directors.

Report of the Conflicts Committee

Review of Our Policies

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

Offering Policy. Since June 2015 we have continuously offered shares of our common stock. Initially pursuant to a private offering exempt from registration pursuant to Rule 506(b) of Regulation D of the Securities Act that launched in June 2015 and terminated in May 2016. Then pursuant to an initial primary and distribution reinvestment plan (“DRP”) public offering we commenced in April 2016, the primary portion of which terminated in June 2017. Finally pursuant to a second private offering exempt from registration pursuant to Rule 506(c) of Regulation D of the Securities Act that commenced in October 2017 and is currently suspended while we consider strategic alternatives available to us.

We are continuing to offer shares pursuant to our publicly registered DRP. In some states, we will need to renew the registration statement annually or file a new registration statement to continue our distribution reinvestment plan offering. We may terminate our DRP offering at any time. For the year ended December 31, 2019, the costs of raising capital in our DRP offering represented less than 1% of the capital raised. We had no costs associated with raising capital for the second private offering as our advisor has agreed to pay all offering related expenses on our behalf without reimbursement by us.

We have been unable to raise substantial funds in our offering stage and our second private offering is currently suspended while we consider strategic alternative available to us. As of December 31, 2019, we had sold 10,035,185 shares of Class A common stock and 306,763 shares of Class T common stock in our offerings for aggregate gross offering proceeds of \$93.5 million.

Portfolio Management and Distribution Policies. Our board of directors has engaged a financial advisor to assist us while we evaluate strategic alternative available to us. Our focus in 2020 is to evaluate strategic alternatives; improve property cash flow through strategic leasing renewals with existing tenants and new leases for current vacant space; and continue value enhancing capital projects to maintain the high level of occupancy. We have determined to reduce the monthly distribution rate in 2020 in order to set the distribution at a sustainable level and preserve our net asset value per share.

Acquisition and Investment Policies. We have used all of the net proceeds from our offerings to invest in a portfolio of core real estate properties. We do not currently expect to make any additional investments.

Our portfolio consists of core properties which we consider to be existing properties with at least 80% occupancy. Based on the market outlook, our core focus in the U.S. office sector has reflected a value-creating core strategy, which is also known as a core-plus strategy. As of January 31, 2020, we owned three office buildings and had made an invested in an unconsolidated joint venture.

Borrowing Policies. In order to execute our investment strategy, we primarily utilized secured debt to finance a portion of our investment portfolio. In the future we may use proceeds from borrowings to pay for capital improvements, repairs or tenant build-outs to properties; to refinance existing indebtedness; to pay distributions; or to provide working capital.

We expect that 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, we may exceed that limit if a majority of the conflicts committee approves each borrowing in excess of our charter limitation and we disclose such borrowing to our common stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing.

As of January 31, 2020, our borrowings and other liabilities were approximately 60% of the cost (before deducting depreciation and other noncash reserves) and book value (before deducting depreciation) of our tangible assets.

Disposition Policies. We generally intend to hold our core real estate properties for three to seven years, which we believe is a reasonable period to enable us to capitalize on the potential for increased income and capital appreciation of the properties. However, economic and market conditions may influence us to hold our properties for different periods of time. We may sell an asset before the end of the expected holding period if we believe that market conditions and asset positioning have maximized its value to us or the sale of the asset would otherwise be in the best interests of our stockholders.

Our advisor develops a well-defined exit strategy for each investment we make and periodically performs a hold-sell analysis on each asset. These periodic analyses focus on the remaining available value enhancement opportunities for the asset, the demand for the asset in the marketplace, market conditions and our overall portfolio objectives to determine if the sale of the asset, whether via an individual sale or as part of a portfolio sale or merger, would generate a favorable return to our stockholders.

We did not dispose of any real estate assets during the year ended December 31, 2019 and 2018, respectively. On January 17, 2020, we sold one office property.

Policy Regarding Working Capital Reserves. We establish an annual budget for capital requirements and working capital reserves each year that we update periodically during the year. We expect to establish a modest working capital reserve from our offering proceeds for maintenance and repairs of real properties. We may also use debt proceeds, our cash flow from operations and proceeds from the DRP to meet our needs for working capital and to build a moderate level of cash reserves. In addition, contractual obligations may require us to maintain a minimum working capital reserve related to our properties.

Policies Regarding Operating Expenses. Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the four most recently completed fiscal quarters, as these terms are defined in our charter, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expenses for the four fiscal quarters ended December 31, 2019 did not exceed the charter-imposed limitation. For the four consecutive quarters ended December 31, 2019, total operating expenses represented approximately 1.9% and 116% of our average invested assets and our net income, respectively.

Policy Regarding Transactions with Related Persons

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

Transactions with Related Persons

The conflicts committee has reviewed the material transactions between our affiliates and us since the beginning of 2018 as well as any such currently proposed transactions. Set forth below is a description of such transactions and the conflicts committee's report on their fairness.

We have entered into agreements with certain affiliates pursuant to which they provide services to us. All of our executive officers and our affiliated director are also officers, directors, managers, or key professionals of and/or holders of a direct or indirect controlling interest in our advisor, KBS Capital Markets Group LLC (our dealer manager for our distribution reinvestment plan offering), and other affiliated KBS entities. Charles J. Schreiber, Jr. is the Chairman of our Board, our Chief Executive Officer, our President and our affiliated director. Our advisor and KBS Capital Markets Group LLC are owned and controlled by KBS Holdings, our sponsor. Charles J. Schreiber, Jr. indirectly controls our sponsor and our advisor.

Our Relationship with KBS Capital Advisors. Our advisor provides day-to-day management of our business. Among the services provided by our advisor under the terms of our advisory agreement are the following:

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

Our advisor is subject to the supervision of our board of directors and only has such authority as we may delegate to it as our agent. We initially entered our advisory agreement with our advisor on June 11, 2015 in connection with our initial private offering. On April 28, 2016, we entered an amended and restated advisory agreement in connection with the launch of our initial public offering which has been amended and renewed at various times thereafter. For the period from January 1, 2018 through the most recent date practicable, which was January 31, 2020, we compensated our advisor as set forth below.

Our advisor or its affiliates have paid, and will pay in the future, certain of our organization and offering expenses as described below. 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.

- In our public offering our advisor and its affiliates were responsible for any organization and offering expenses (excluding selling commissions, the dealer manager fee and the stockholder servicing fee) related to the primary initial public offering to the extent they exceeded 1.0% of gross primary initial public offering proceeds as of the termination of the primary initial public offering. We paid selling commissions, the dealer manager fee and the stockholder servicing fee directly. From the inception of the initial public offering through December 31, 2016 and from January 1, 2017 through the termination of our initial public offering, our advisor incurred approximately \$3.7 million and \$0.6 million, respectively, of organization and offering expenses related to the initial public offering on our behalf, all of which was outstanding as of January 31, 2020. 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.
- Our advisor or its affiliates have paid, and in the future may pay, some of the offering costs related to our DRP, including, but not limited to, our legal, accounting, printing, mailing and filing fees. We are responsible for reimbursing our advisor for these costs. No reimbursements made by us to our advisor may cause total organization and offering expenses incurred by us to exceed 15% of the aggregate gross offering proceeds as of the date of reimbursement. From January 1, 2018 through January 31, 2020, with respect to our DRP, our advisor did not incur any organization and offering expenses on our behalf.
- Our advisor has agreed to pay all organization and offering expenses related to our second private offering that launched in October 2017, including selling commissions directly on our behalf without reimbursement by us. From the inception of the offering through January 31, 2020, our advisor incurred approximately \$5.6 million of organization and offering expenses related to the offering on our behalf.

We pay our advisor a monthly fee for asset management services. As of August 9, 2017, the fee is 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 the real property investments is calculated as the amount paid or allocated to acquire the real property, plus the 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 will be determined based on our proportionate share of the underlying investment. From January 1, 2018 through December 31, 2018, our asset management fees totaled \$1.9 million. From January 1, 2019 through January 31, 2020, our asset management fees totaled \$2.0 million. Asset management fees of \$0.5 million relating to the second and third quarters of 2017 were waived and \$4.3 million relating to the period from October 1, 2017 to January 31, 2020 was accrued but payment was deferred by our advisor.

Under our advisory agreement, we reimburse our advisor and its affiliates for certain expenses they incur in connection with their provision of services to us, including our allocable share of the salaries, benefits and overhead of internal audit department personnel providing services to us and promotional costs and expenses related to the leasing of properties. We do not reimburse our advisor or its affiliates for the salaries and benefits our advisor or its affiliates may pay to our executive officers. From January 1, 2018 through December 31, 2018, we had reimbursed our advisor for \$197,000 of operating expenses, including \$190,000 of employee costs. From January 1, 2019 through January 31, 2020, we had reimbursed our advisor for \$221,000 of operating expenses, all of which was related to employee costs. As of January 31, 2020, we had \$43,000 of operating expenses outstanding.

Our Relationship with KBS Capital Markets Group. We initially entered into a dealer manager agreement with KBS Capital Markets Group on June 11, 2015 in connection with the launch of our initial private offering. On April 28, 2016, we launched our initial public offering and entered a new dealer manager agreement with our dealer manager with respect to the public offering. Our primary public offering terminated in June 2017 and no dealer manager fees, selling commissions or stockholder servicing fees have been paid to KBS Capital Markets Group since its termination. KBS Capital Markets continues to act as the dealer manager for our DRP.

Subject to the limitations on organization and offering expenses described above, we were also obligated to reimburse our dealer manager and its affiliates for certain offering-related expenses that they incurred on our behalf. These expenses included, among others, the cost of bona fide training and education meetings held by us (primarily the travel, meal and lodging costs of registered representatives of broker-dealers), attendance and sponsorship fees and travel, and meal and lodging costs for registered persons associated with our dealer manager and officers and employees of our affiliates to attend retail seminars conducted by broker-dealers. We reimbursed our dealer manager for such underwriting compensation incurred as discussed in our documents. We also directly paid or reimbursed our dealer manager for bona fide invoiced due diligence expenses of broker-dealers. From January 1, 2018 through January 31, 2020, our dealer manager had incurred \$79,000 of expenses outstanding related to the public offering.

We have also entered into a fee reimbursement agreement (the “AIP Reimbursement Agreement”) with our dealer manager pursuant to which we agreed to reimburse our dealer manager for certain fees and expenses it incurs for administering our participation in the DTCC Alternative Investment Product Platform with respect to certain accounts of our stockholders serviced through the platform. From January 1, 2018 through December 31, 2018, and from January 1, 2019 through January 31, 2020, we incurred and paid \$1,000 and \$1,100, respectively, of costs and expenses related to the AIP Reimbursement Agreement.

Our Relationship with KBS Management Group, LLC. For property management services, we pay KBS Management Group, LLC, our property co-manager and an affiliate of our advisor, a monthly fee equal to a percentage of the rent (to be determined on a property by property basis, consistent with current market rates), payable and actually collected for the month. From January 1, 2018 through December 31, 2018, our property management fees totaled \$170,000. From January 1, 2019 through January 31, 2020, our property management fees totaled \$176,000, of which \$12,000 was outstanding as of January 31, 2020.

Insurance Program. As of January 1, 2017, we, together with KBS Real Estate Investment Trust, Inc. (“KBS REIT I”), KBS Real Estate Investment Trust II (“KBS REIT II”), KBS Real Estate Investment Trust III (“KBS REIT III”), Pacific Oak Strategic Opportunity REIT, Inc., formerly KBS Strategic Opportunity REIT, Inc. (“Pacific Oak Strategic Opportunity REIT”) (advisory agreement terminated as of October 31, 2019), KBS Legacy Partners Apartment REIT, Inc. (“KBS Legacy Partners Apartment REIT”), Pacific Oak Strategic Opportunity REIT II, Inc., formerly KBS Strategic Opportunity REIT II, Inc. (“Pacific Oak Strategic Opportunity REIT II”) (advisory agreement terminated as of October 31, 2019), our dealer manager, our advisor and other KBS-affiliated entities, had entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage were shared. The cost of these lower tiers is allocated by our advisor and its insurance broker among each of the various entities covered by the program, and is billed directly to each entity. At the June 2017 renewal, KBS REIT I elected to cease participation in the program and obtain separate insurance coverage. At the June 2018 renewal, Pacific Oak Strategic Opportunity REIT, Pacific Oak Strategic Opportunity REIT II and KBS Legacy Partners Apartment REIT elected to cease participation in the program and obtained separate insurance coverage. In June 2019, we renewed our participation in the program. The program is effective through June 30, 2020.

Allocation Policy. Our advisor and KBS Realty Advisors proposed that our conflicts committee and board of directors adopt an asset allocation policy (the “Allocation Process”) among us, KBS REIT II and KBS REIT III (collectively, the “Core Strategy REITs”) and a new real estate investment trust affiliated with Mr. Schreiber (the “New REIT”). The board of directors and conflicts committee adopted the Allocation Process as proposed. The Allocation Process provides that, in order to mitigate potential conflicts of interest that may arise among the Core REITs and the New REIT, upon the listing of the New REIT (which occurred on July 19, 2019), potential asset acquisitions that meet all of the following criteria would be offered first to the New REIT:

- Class A office building;
- Purchase price of at least \$125.0 million;
- Average occupancy of at least 90% for the first two years based on contractual in-place leases; and
- Stabilized property investment yield that is generally supportive of the distributions per unit of the New REIT.

To the extent the New REIT does not have the funds to acquire the asset or to the extent the manager of the New REIT decides to forego the acquisition opportunity, such asset may then be offered to the Core Strategy REITs at the discretion of our advisor.

From January 1, 2018 through December 31, 2018 and from January 1, 2019 through January 31, 2020, no other transactions occurred between us and KBS REIT I (which liquidated in December 2018), KBS REIT II, KBS REIT III, Pacific Oak Strategic Opportunity REIT, Pacific Oak Strategic Opportunity REIT II, KBS Legacy Partners Apartment REIT (which liquidated in December 2018), our dealer manager, our advisor or other KBS-affiliated entities.

Effective October 31, 2019, Pacific Oak Strategic Opportunity REIT and Pacific Oak Strategic Opportunity REIT II transferred the management of the companies to a new external advisor, Pacific Oak Capital Advisors LLC. The transfer of management allows KBS Capital Advisors to focus on its core asset portfolios, while the Pacific Oak group of companies focuses primarily on opportunistic portfolios. Pacific Oak Capital Advisors, LLC is owned and managed by Keith D. Hall and Peter McMillan III. Together, through GKP Holding LLC, Messrs. Hall and McMillan, continue to indirectly own a 33 1/3% interest in KBS Capital Advisors and KBS Capital Markets Group.

Currently Proposed Transactions. There are no currently proposed material transactions with related persons other than those covered by the terms of the agreements described above

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

March 4, 2020

The Conflicts Committee of the Board of Directors:
Jon D. Kline (chair), George R. Bravante, Jr. and Keith P. Russell

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm

During the year ended December 31, 2019, Ernst & Young LLP served as our independent registered public accounting firm and provided certain tax and other services. Ernst & Young has served as our independent registered public accounting firm since our formation.

Pre-Approval Policies

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

For the years ended December 31, 2019 and 2018 all services rendered by Ernst & Young were pre-approved in accordance with the policies and procedures described above.

Principal Independent Registered Public Accounting Firm Fees

The audit committee reviewed the audit and non-audit services performed by Ernst & Young, as well as the fees charged by Ernst & Young for such services. In its review of the non-audit service fees, the audit committee considered whether the provision of such services is compatible with maintaining the independence of Ernst & Young. The aggregate fees billed to us for professional accounting services, including the audit of our annual financial statements by Ernst & Young for the years ended December 31, 2019 and 2018, are set forth in the table below.

	2019	2018
Audit fees	\$ 335,500	\$ 325,000
Audit-related fees	—	—
Tax fees	30,100	34,553
All other fees	1,100	1,412
Total	\$ 366,700	\$ 360,965

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

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statement Schedules

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

The following financial statement schedule is included herein at pages F-36 through F-37 of this report:

Schedule III - Real Estate Assets and Accumulated Depreciation and Amortization

(b) 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 on 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 on 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
4.5	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
10.1	Real Estate Property Co-Management Agreement (related to The Offices at Greenhouse), by and between KBSGI Offices at Greenhouse, LLC and KBS Management Group, LLC dated as of November 21, 2016, incorporated by reference to Exhibit 10.37 to Post-Effective Amendment no. 2 to the Company's Registration Statement (Form S-11 No. 333-207471), filed December 20, 2016
10.2	Office Lease Agreement between Greenhouse Office Investors I, LLC and URS Corporation dated as of May 23, 2013, incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 9, 2017
10.3	First Amendment to Office Lease Agreement between Greenhouse Office Investors I, LLC and URS Corporation dated as of September 13, 2013, incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 9, 2017
10.4	Second Amendment to Office Lease Agreement between Greenhouse Office Investors I, LLC and URS Corporation dated as of November 26, 2013, incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 9, 2017

Ex.	Description
10.5	Third Amendment to Office Lease Agreement between Greenhouse Office Investors I, LLC and URS Corporation dated as of November 24, 2014, incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 9, 2017
10.6	Fourth Amendment to Office Lease Agreement between Greenhouse Office Investors I, LLC and URS Corporation dated as of April 30, 2016, incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 9, 2017
10.7	Commencement Letter between URS Corporation and Greenhouse Office Investors I, LLC dated as of January 30, 2015, incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 9, 2017
10.8	Commencement Letter to Fourth Amendment to Office Lease Agreement between Greenhouse Office Investors I, LLC and AECOM dated as of September 2, 2016, incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 9, 2017
10.9	Loan Agreement, by and between KBSGI 421 SW 6th Avenue, LLC and Metropolitan Life Insurance Company, dated as of January 18, 2018, incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.10	Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing by KBSGI 421 SW 6th Avenue, LLC to Chicago Tile Insurance Company for the benefit of Metropolitan Life Insurance Company, dated as of January 18, 2018, incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.11	Guaranty of Recourse Obligations, by and between KBSGI REIT Properties, LLC and Metropolitan Life Insurance Company, dated as of January 18, 2018, incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.12	Promissory Note, by and between KBSGI 421 SW 6th Avenue, LLC and Metropolitan Life Insurance Company, dated as of January 18, 2018, incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.13	Real Estate Property Co-Management Agreement, by and between and KBS Management Group LLC dated as of November 9, 2017, incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.14	Amended and Restated Promissory Note with J.P. Morgan Chase Bank, N.A. dated November 9, 2017, incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.15	Amended and Restated Term Loan and Security Agreement with J.P. Morgan Chase Bank, N.A. dated November 9, 2017, incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.16	Amended and Restated Guaranty in favor of J.P. Morgan Chase Bank, N.A. dated November 9, 2017, incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed March 12, 2018
10.17	Advisory Agreement, by and between the Company and KBS Capital Advisors LLC, dated June 6, 2019, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed June 7, 2019
10.18	Option Agreement and Escrow Instructions, by and between KBSGI Von Karman Tech, LLC and Hooman Dayani, H. Sean Dayani and Hank H Dayani, dated November 25, 2019
21.1	Subsidiaries of the Company
23.1	Consent of Ernst & Young LLP
23.2	Consent of Duff & Phelps

Ex.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as 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	Second Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed December 10, 2018
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

Appendix A

Capitalized terms used herein shall have the meaning set forth in our charter.

Independent Directors. The directors of the Corporation who are not associated and have not been associated within the last two years, directly or indirectly, with the Sponsor or Advisor of the Corporation.

- (a) A director shall be deemed to be associated with the Sponsor or Advisor if he or she:
 - (i) owns an interest in the Sponsor, Advisor or any of their Affiliates;
 - (ii) is employed by the Sponsor, Advisor or any of their Affiliates;
 - (iii) is an officer or director of the Sponsor, Advisor or any of their Affiliates;
 - (iv) performs services, other than as a director, for the Corporation;
 - (v) is a director for more than three REITs organized by the Sponsor or advised by the Advisor; or
 - (vi) has any material business or professional relationship with the Sponsor, Advisor or any of their Affiliates.
- (b) For purposes of determining whether or not a business or professional relationship is material pursuant to (a)(vi) above, the annual gross revenue derived by the director from the Sponsor, Advisor and their Affiliates shall be deemed material per se if it exceeds 5% of the director's:
 - (i) annual gross revenue, derived from all sources, during either of the last two years; or
 - (ii) net worth, on a fair market value basis.
- (c) An indirect relationship shall include circumstances in which a director's spouse, parent, child, sibling, mother- or father-in-law, son- or daughter-in-law or brother- or sister-in-law is or has been associated with the Sponsor, Advisor any of their Affiliates or the Corporation.

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Financial Statement Schedule

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
KBS Growth & Income REIT, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of KBS Growth & Income REIT, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a), Schedule III - Real Estate Assets and Accumulated Depreciation and Amortization (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2015.

Irvine, California
March 5, 2020

KBS GROWTH & INCOME REIT, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31,	
	2019	2018
Assets		
Real estate:		
Land	\$ 20,709	\$ 20,709
Buildings and improvements	138,600	135,009
Tenant origination and absorption costs	13,822	14,653
Total real estate, cost	173,131	170,371
Less accumulated depreciation and amortization	(22,688)	(15,428)
Total real estate held for investment, net	150,443	154,943
Real estate held for sale, net	18,594	18,692
Total real estate, net	169,037	173,635
Cash and cash equivalents	6,287	6,648
Investment in unconsolidated joint venture	1,000	—
Rents and other receivables	3,284	2,668
Above-market leases, net	120	150
Assets related to real estate held for sale	760	465
Prepaid expenses and other assets	1,753	2,096
Total assets	\$ 182,241	\$ 185,662
Liabilities and stockholders' equity		
Notes payable:		
Notes payable, net	\$ 103,913	\$ 102,912
Notes payable related to real estate held for sale, net	13,948	13,921
Total notes payable, net	117,861	116,833
Accounts payable and accrued liabilities	2,728	3,239
Due to affiliates	5,552	3,641
Distributions payable	467	433
Below-market leases, net	2,533	3,802
Liabilities related to real estate held for sale	1,057	66
Other liabilities	3,765	2,057
Total liabilities	133,963	130,071
Commitments and contingencies (Note 12)		
Redeemable common stock	1,000	1,000
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, 9,841,004 and 9,386,908 shares issued and outstanding as of December 31, 2019 and December 31, 2018, respectively	98	94
Class T common stock, \$.01 par value per share; 500,000,000 shares authorized, 306,292 and 294,963 shares issued and outstanding as of December 31, 2019 and December 31, 2018, respectively	3	3
Additional paid-in capital	84,184	79,907
Cumulative distributions and net losses	(37,007)	(25,413)
Total stockholders' equity	47,278	54,591
Total liabilities and stockholders' equity	\$ 182,241	\$ 185,662

See accompanying notes to consolidated financial statements.

KBS GROWTH & INCOME REIT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Years Ended December 31,		
	2019	2018	2017
Revenues:			
Rental income	\$ 20,621	\$ 21,855	\$ 16,749
Other operating income	291	325	212
Total revenues	<u>20,912</u>	<u>22,180</u>	<u>16,961</u>
Expenses:			
Operating, maintenance, and management	4,664	4,734	3,783
Property management fees and expenses to affiliate	165	170	124
Real estate taxes and insurance	2,946	2,786	2,087
Asset management fees to affiliate	1,898	1,855	632
General and administrative expenses	1,755	1,452	1,471
Depreciation and amortization	8,660	9,529	7,618
Interest expense	7,032	5,302	3,287
Total expenses	<u>27,120</u>	<u>25,828</u>	<u>19,002</u>
Other income (loss):			
Interest and other income	61	47	48
Equity in income of unconsolidated joint venture	45	—	—
Loss from extinguishment of debt	—	—	(206)
Total other income (loss)	<u>106</u>	<u>47</u>	<u>(158)</u>
Net loss	<u>\$ (6,102)</u>	<u>\$ (3,601)</u>	<u>\$ (2,199)</u>
Class A Common Stock:			
Net loss	<u>\$ (5,918)</u>	<u>\$ (3,492)</u>	<u>\$ (2,131)</u>
Net loss per common share, basic and diluted	<u>\$ (0.61)</u>	<u>\$ (0.38)</u>	<u>\$ (0.23)</u>
Weighted-average number of common shares outstanding, basic and diluted	<u>9,677,794</u>	<u>9,205,952</u>	<u>9,080,826</u>
Class T Common Stock:			
Net loss	<u>\$ (184)</u>	<u>\$ (109)</u>	<u>\$ (68)</u>
Net loss per common share, basic and diluted	<u>\$ (0.61)</u>	<u>\$ (0.38)</u>	<u>\$ (0.28)</u>
Weighted-average number of common shares outstanding basic and diluted	<u>300,531</u>	<u>288,586</u>	<u>246,737</u>

See accompanying notes to consolidated financial statements.

KBS GROWTH & INCOME REIT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands)

	Common Stock				Additional Paid-in Capital	Cumulative Distributions and Net Losses	Total Stockholders' Equity
	Class A		Class T				
	Shares	Amounts	Shares	Amounts			
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, dealer manager fees and stockholder servicing fees to affiliate	—	—	—	—	(103)	—	(103)
Other offering costs	—	—	—	—	(14)	—	(14)
Balance, December 31, 2017	9,149,100	91	281,537	3	76,265	(16,940)	59,419
Net loss	—	—	—	—	—	(3,601)	(3,601)
Issuance of common stock	514,880	6	13,426	—	4,639	—	4,645
Transfers from redeemable common stock	—	—	—	—	1,314	—	1,314
Redemptions of common stock	(277,072)	(3)	—	—	(2,311)	—	(2,314)
Distributions declared	—	—	—	—	—	(4,872)	(4,872)
Balance, December 31, 2018	9,386,908	94	294,963	3	79,907	(25,413)	54,591
Net loss	—	—	—	—	—	(6,102)	(6,102)
Issuance of common stock	454,096	4	13,574	—	4,298	—	4,302
Redemptions of common stock	—	—	(2,245)	—	(21)	—	(21)
Distributions declared	—	—	—	—	—	(5,492)	(5,492)
Balance, December 31, 2019	<u>9,841,004</u>	<u>\$ 98</u>	<u>306,292</u>	<u>\$ 3</u>	<u>\$ 84,184</u>	<u>\$ (37,007)</u>	<u>\$ 47,278</u>

See accompanying notes to consolidated financial statements.

KBS GROWTH & INCOME REIT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net loss	\$ (6,102)	\$ (3,601)	\$ (2,199)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	8,660	9,529	7,618
Equity in income of unconsolidated joint venture	(45)	—	—
Deferred rents	(576)	(1,083)	(898)
Bad debt expense	—	54	161
Amortization of above- and below-market leases, net	(1,248)	(2,012)	(1,484)
Amortization of deferred financing costs	357	344	725
Unrealized loss (gain) on derivative instrument	1,595	86	(178)
Loss from extinguishment of debt	—	—	206
Changes in operating assets and liabilities:			
Rents and other receivables	(226)	(109)	(159)
Prepaid expenses and other assets	(482)	(877)	(812)
Accounts payable and accrued liabilities	(229)	274	289
Due to affiliates	1,911	1,854	416
Other liabilities	419	(180)	574
Net cash provided by operating activities	<u>4,034</u>	<u>4,279</u>	<u>4,259</u>
Cash Flows from Investing Activities:			
Acquisitions of real estate	—	—	(43,659)
Improvements to real estate	(3,944)	(1,654)	(3,772)
Investment in unconsolidated joint venture	(955)	—	—
Escrow deposit received for future real estate sale	1,000	—	—
Net cash used in investing activities	<u>(3,899)</u>	<u>(1,654)</u>	<u>(47,431)</u>
Cash Flows from Financing Activities:			
Proceeds from notes payable	681	45,000	42,250
Principal payments on notes payable	—	(41,000)	(11,260)
Payments of deferred financing costs	—	(7)	(417)
Proceeds from issuance of common stock	2,476	2,670	3,107
Payments to redeem common stock	(21)	(2,314)	(1,210)
Payments of commissions on stock sales and related dealer manager fees	—	—	(103)
Other offering costs paid to affiliates	—	—	(63)
Payments of other offering costs	—	—	(14)
Distributions paid to common stockholders	(3,632)	(2,849)	(2,261)
Net cash (used in) provided by financing activities	<u>(496)</u>	<u>1,500</u>	<u>30,029</u>
Net (decrease) increase in cash and cash equivalents	(361)	4,125	(13,143)
Cash and cash equivalents, beginning of period	6,648	2,523	15,666
Cash and cash equivalents, end of period	<u>\$ 6,287</u>	<u>\$ 6,648</u>	<u>\$ 2,523</u>
Supplemental Disclosure of Cash Flow Information:			
Interest paid	<u>\$ 5,090</u>	<u>\$ 4,807</u>	<u>\$ 2,605</u>
Supplemental Disclosure of Noncash Investing and Financing Activities:			
Stock dividends issued	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 707</u>
Distributions payable	<u>\$ 467</u>	<u>\$ 433</u>	<u>\$ 385</u>
Accrued improvements to real estate	<u>\$ 460</u>	<u>\$ 743</u>	<u>\$ 476</u>
Dividends paid to common stockholders through common stock issuances pursuant to the distribution reinvestment plan	<u>\$ 1,826</u>	<u>\$ 1,975</u>	<u>\$ 2,314</u>

See accompanying notes to consolidated financial statements.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

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 December 31, 2019, the Company had invested in four office properties (one of which was held for sale) and had made an investment in an unconsolidated joint venture. The Company has invested in a portfolio of core real estate properties. The Company considers core properties to be existing properties with at least 80% occupancy. Based on the market outlook, the Company’s core focus in the U.S. office sector reflects 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 offered 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. In December 2019, in connection with its consideration of strategic alternatives for the Company, the Company’s board of directors determined to suspend the Second Private Offering.

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.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

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 December 31, 2019, the Company had sold 825,964 and 36,348 shares of Class A and Class T common stock, respectively, in the DRP Offering for aggregate gross offering proceeds of \$8.0 million.

As of December 31, 2019, the Company had sold 612,272 shares of Class A common stock in the Second Private Offering for aggregate gross offering proceeds of \$5.5 million.

As of December 31, 2019, the Company had redeemed 422,286 and 2,245 Class A and Class T shares, respectively, for \$3.5 million.

Additionally, on August 11, 2015, the Company issued 46,362 shares of Class A common stock to the Company's affiliates, for an aggregate of \$0.3 million, in private transactions exempt from the registration requirements pursuant to Section 4(a)(2) of the Securities Act of 1933.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

The accompanying consolidated financial statements and notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and the rules and regulations of the SEC.

Use of Estimates

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

Revenue Recognition - Operating Leases

Real Estate

On January 1, 2019, the Company adopted the lease accounting standards under Topic 842 including the package of practical expedients for all leases that commenced before the effective date of January 1, 2019. Accordingly, the Company (i) did not reassess whether any expired or existing contracts are or contain leases, (ii) did not reassess the lease classification for any expired or existing lease, and (iii) did not reassess initial direct costs for any existing leases. The Company did not elect the practical expedient related to using hindsight to reevaluate the lease term. In addition, the Company adopted the practical expedient for land easements and did not assess whether existing or expired land easements that were not previously accounted for as leases under the lease accounting standards of Topic 840 are or contain a lease under Topic 842.

In addition, Topic 842 provides an optional transition method to allow entities to apply the new lease accounting standards at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. The Company adopted this transition method upon its adoption of the lease accounting standards of Topic 842, which did not result in a cumulative effect adjustment to the opening balance of retained earnings on January 1, 2019. The Company's comparative periods presented in the financial statements will continue to be reported under the lease accounting standards of Topic 840.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

In accordance with Topic 842, tenant reimbursements for property taxes and insurance are included in the single lease component of the lease contract (the right of the lessee to use the leased space) and therefore are accounted for as variable lease payments and are recorded as rental income on the Company's statement of operations beginning January 1, 2019. In addition, the Company adopted the practical expedient available under Topic 842 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, specifically related to tenant reimbursements for common area maintenance which would otherwise be accounted for under the revenue recognition standard. The Company believes the two conditions have been met for tenant reimbursements for common area maintenance as (i) the timing and pattern of transfer of the nonlease components and associated lease components are the same and (ii) the lease component would be classified as an operating lease. Accordingly, tenant reimbursements for common area maintenance are also accounted for as variable lease payments and recorded as rental income on the Company's statement of operations beginning January 1, 2019.

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

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

In accordance with Topic 842, the Company makes a determination of whether the collectibility of the lease payments in an operating lease is probable. If the Company determines the lease payments are not probable of collection, the Company would fully reserve for any contractual lease payments, deferred rent receivable, and variable lease payments and would recognize rental income only if cash is received. Beginning January 1, 2019, these changes to the Company's collectibility assessment are reflected as an adjustment to rental income. Prior to January 1, 2019, bad debt expense related to uncollectible accounts receivable and deferred rent receivable was included in operating, maintenance, and management expense in the statement of operations. Any subsequent changes to the collectibility of the allowance for doubtful accounts as of December 31, 2018, which was recorded prior to the adoption of Topic 842, are recorded in operating, maintenance, and management expense in the statement of operations.

Beginning January 1, 2019, the Company, as a lessor, records costs to negotiate or arrange a lease that would have been incurred regardless of whether the lease was obtained, such as legal costs incurred to negotiate an operating lease, as an expense and classifies such costs as operating, maintenance, and management expense on the Company's consolidated statement of operations, as these costs are no longer capitalizable under the definition of initial direct costs under Topic 842.

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.

KBS GROWTH & INCOME REIT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2019

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 years ended December 31, 2019 and 2018 since the Company did not sell any real estate properties for those periods.

Cash and Cash Equivalents

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

Real Estate***Depreciation and Amortization***

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

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

Real Estate Acquisition Valuation

As a result of the Company's early adoption of ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, acquisitions of real estate beginning January 1, 2017 could qualify as asset acquisitions (as opposed to business combinations). The Company records the acquisition of income-producing real estate or real estate that will be used for the production of income as a business combination or an asset acquisition. If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, then the set is not a business. For purposes of this test, land and buildings can be combined along with the intangible assets for any in-place leases and accordingly, most acquisitions of investment properties would not meet the definition of a business and would be accounted for as an asset acquisition. To be considered a business, a set must include an input and a substantive process that together significantly contributes to the ability to create an output. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. For asset acquisitions, the cost of the acquisition is allocated to individual assets and liabilities on a relative fair value basis. Acquisition costs associated with business combinations are expensed as incurred. Acquisition costs associated with asset acquisitions are capitalized.

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

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

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

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

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

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require the Company to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment.

Impairment of Real Estate and Related Intangible Assets and Liabilities

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

Projecting future cash flows involves estimating expected future operating income and expenses related to the real estate and its related intangible assets and liabilities as well as market and other trends. Using inappropriate assumptions to estimate cash flows or the expected hold period until the eventual disposition could result in incorrect conclusions on recoverability and incorrect fair values of the real estate and its related intangible assets and liabilities and could result in the overstatement of the carrying values of the Company's real estate and related intangible assets and liabilities and an overstatement of the Company's net income.

Real Estate Held for Sale

The Company generally considers real estate to be "held for sale" when the following criteria are met: (i) management commits to a plan to sell the property, (ii) the property is available for sale immediately, (iii) the property is actively being marketed for sale at a price that is reasonable in relation to its current fair value, (iv) the sale of the property within one year is considered probable and (v) significant changes to the plan to sell are not expected. Real estate that is held for sale and its related assets are classified as "real estate held for sale" and "assets related to real estate held for sale," respectively, for all periods presented in the accompanying consolidated financial statements. Notes payable and other liabilities related to real estate held for sale are classified as "notes payable related to real estate held for sale" and "liabilities related to real estate held for sale," respectively, for all periods presented in the accompanying consolidated financial statements. Real estate classified as held for sale is no longer depreciated and is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell. Operating results of properties and related gains on sales of properties that were disposed of or classified as held for sale in the ordinary course of business during the years ended December 31, 2019, 2018 and 2017 are included in continuing operations on the Company's consolidated statements of operations.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents may include cash and short-term investments. Cash and cash equivalents are stated at cost, which approximates fair value. The Company's cash and cash equivalents balance exceeds federally insurable limits as of December 31, 2019. The Company intends to mitigate this risk by depositing funds with a major financial institution; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. There were no restrictions on the use of the Company's cash and cash equivalents as of December 31, 2019.

Investments in Unconsolidated Joint Ventures

The Company accounts for investments in unconsolidated joint ventures over which the Company may exercise significant influence, but does not control, using the equity method of accounting. Under the equity method, the investment is initially recorded at cost and subsequently adjusted to reflect additional contributions or distributions and the Company's proportionate share of equity in the joint venture's income (loss). The Company recognizes its proportionate share of the ongoing income or loss of the unconsolidated joint venture as equity in income (loss) of unconsolidated joint venture on the consolidated statements of operations. On a quarterly basis, the Company evaluates its investment in an unconsolidated joint venture for other-than-temporary impairments. As of December 31, 2019, the Company did not identify any indicators of impairment related to its unconsolidated real estate joint venture accounted for under the equity method.

Rents and Other Receivables

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

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 on its variable rate notes payable. The Company records these derivative instruments at fair value on the accompanying consolidated balance sheets. Derivative instruments designated and qualifying as a hedge of the exposure to variability in expected future cash flows or other types of forecasted transactions are considered cash flow hedges. The change in fair value of the effective portion of a derivative instrument that is designated as a cash flow hedge is recorded as other comprehensive income (loss) on the accompanying consolidated statements of comprehensive income (loss) and consolidated statements of stockholders' equity. The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria are recorded as gain or loss on derivative instruments and included in interest expense as presented in the accompanying consolidated statements of operations.

For those instruments designated as cash flow hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivative instruments that are part of a hedging relationship to specific forecasted transactions or recognized obligations on the consolidated balance sheets. The Company also assesses and documents, both at the hedging instrument's inception and on a quarterly basis thereafter, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the respective hedged items. When the Company determines that a derivative instrument ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, the Company discontinues hedge accounting prospectively and reclassifies amounts recorded to accumulated other comprehensive income (loss) to earnings.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

Deferred Financing Costs

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

Fair Value Measurements

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

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

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

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

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

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

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

Redeemable Common Stock

The Company's share redemption program provides that stockholders may sell their shares to the Company in limited circumstances. Commencing with redemptions in 2019, the Company's share redemption program is only available for redemptions sought upon a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program, and collectively "special redemptions"). Previously, ordinary redemptions were available under the terms of the Company's share redemption program.

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

- During each calendar year, special redemptions are limited to an annual dollar amount determined by the board of directors, which may be reviewed during the year and increased or decreased upon ten business days' notice to the Company's stockholders. The Company may provide notice by including such information (a) in a Current Report on Form 8-K or in its annual or quarterly reports, all publicly filed with the SEC or (b) in a separate mailing to its stockholders. The annual dollar limitation for special redemptions for the calendar year 2019 was \$1.0 million. On December 4, 2019, the Company's board of directors approved the same annual dollar amount limitation for special redemptions for calendar year 2020 of \$1.0 million in the aggregate, as may be reviewed and adjusted from time to time by the board of directors.
- During any calendar year, the Company may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- The Company has no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

During 2018, the Company's ability to redeem shares in connection with a special redemption or ordinary redemption was limited to the number of shares that the Company could purchase with the amount of net proceeds from the sale of shares under its distribution reinvestment plan during the prior calendar year. In addition, except for special redemptions, the Company could not redeem shares unless the stockholder had held his or her shares for one year.

Special redemptions are redeemed at a price equal to the most recent estimated NAV per share as of the applicable redemption date. Ordinary redemptions were redeemed at 95.0% of the Company's most recent estimated NAV per share as of the applicable redemption date.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

On December 7, 2018, the Company's board of directors approved an estimated value per share of the Company's common stock of \$9.20 (unaudited) based on the estimated value of the Company's assets less the estimated value of the Company's liabilities, divided by the number of shares outstanding, all as of September 30, 2018. The change in the redemption price was effective for the December 2018 through November 2019 redemption dates.

On December 4, 2019, the Company's board of directors approved an estimated value per share of the Company's common stock of \$8.43 (unaudited) based on the estimated value of the Company's assets less the estimated value of the Company's liabilities, divided by the number of shares outstanding, all as of September 30, 2019. The change in the redemption price became effective for the December 2019 redemption date, which was December 31, 2019, and will be effective until the estimated value per share is updated.

The Company records amounts that are redeemable under the share redemption program as redeemable common stock liability in its consolidated balance sheets because the shares will be mandatorily redeemable at the option of the holder and therefore their redemption is outside the control of the Company. For the years prior to 2019, the maximum amount redeemable under the Company's share redemption program was limited to the number of shares the Company could redeem with the amount of the net proceeds from the sale of shares under the distribution reinvestment plan during the prior calendar year. Commencing January 1, 2019, the maximum amount redeemable under the Company's share redemption program during a calendar year is limited to an annual dollar amount determined by the board of directors, which was \$1.0 million for the year ended December 31, 2019. However, because the amounts that can be redeemed are determinable and only contingent on an event that is likely to occur (e.g., the passage of time), the Company presents the amounts available for redemptions in future periods as redeemable common stock in the accompanying balance sheets.

The Company will classify as liabilities financial instruments that represent a mandatory obligation of the Company to redeem shares. The Company's redeemable common shares are contingently redeemable at the option of the holder. When the Company determines it has a mandatory obligation to repurchase shares under the share redemption program, it will reclassify such obligations from temporary equity to a liability based upon their respective settlement values.

Related Party Transactions

Pursuant to the Advisory 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 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. See Note 10, "Related Party Transactions." 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 (each, a "Property Management Agreement") with KBS Management Group, LLC (the "Co-Manager"), an affiliate of the Advisor.

The Company records all related party fees as incurred, subject to any limitations described in the respective agreements. The Company had not incurred any disposition fees, subordinated participation in net cash flows or subordinated incentive fees payable to the Advisor through December 31, 2019.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

Selling Commissions and Dealer Manager Fees

In the Public Offering, the Company paid selling commissions to the Dealer Manager in amounts up to 6.5% of the price per share of Class A common stock sold in the primary portion of the Public Offering and up to 3.0% of the price per share of Class T common stock sold in the primary portion of the Public Offering. Additionally, in the Public Offering, the Company paid dealer manager fees to the Dealer Manager in an amount up to 2.0% of the price per share of Class A and Class T common stock sold in the primary portion of the Public Offering. The Dealer Manager reallocated all selling commissions to participating broker dealers and could generally reallocate (from its dealer manager fee) to any participating broker dealer up to 1.0% of the gross proceeds from the primary portion of the Public Offering attributable to that participating broker dealer as a marketing fee and in select cases up to 1.5% of the gross proceeds from the primary portion of the Public Offering was reallocated. No selling commissions or dealer manager fees were payable on shares of common stock sold under the distribution reinvestment plan.

The Advisor has agreed to pay selling commissions to NCPS of 0.5% of the price per share of Class A common stock sold in the Second Private Offering on behalf of the Company without reimbursement by the Company.

Acquisition Fees

Through August 8, 2017, the Company paid the Advisor 2.0% of the cost of investments acquired by the Company, including acquisition expenses and any debt attributable to such investments, plus significant capital expenditures budgeted as of the date of acquisition related to the development, construction or improvement of a real estate property. Acquisition fees calculated based on capital expenditures budgeted as of the date of acquisition were paid at the time funds were disbursed pursuant to a final approved budget upon receipt of an invoice by the Company. On August 9, 2017, the Company entered into an amended and restated advisory agreement with the Advisor, which, among other changes, eliminated the payment of acquisition fees to the Advisor.

Acquisition Expenses

The Company reimburses the Advisor for customary acquisition expenses (including expenses relating to potential investments that the Company does not close), such as legal fees and expenses (including fees of independent contractor in-house counsel that are not employees of the Advisor), costs of due diligence (including, as necessary, updated appraisals, surveys and environmental site assessments), travel and communications expenses, accounting fees and expenses and other closing costs and miscellaneous expenses relating to the acquisition of real estate properties.

Stockholder Servicing Fee

During the Public Offering, the Company paid the Dealer Manager an annual stockholder servicing fee of 1.0% of the purchase price per share (ignoring any discounts available to certain categories of purchasers) of Class T common stock sold in the Primary Offering solely to the extent there was a broker dealer of record with respect to such Class T share that had entered into a currently effective selected dealer agreement or servicing agreement that provided for the payment to such broker dealer of the stockholder servicing fee with respect to such Class T share, and such broker dealer of record was in compliance with the applicable terms of such selected dealer agreement or servicing agreement related to such payment. To the extent payable, the stockholder servicing fee accrued daily and was paid monthly in arrears, and the Dealer Manager reallocated 100% of the stockholder servicing fee to such broker dealer of record for services provided to Class T stockholders after the initial sale of the Class T share. No stockholder servicing fee was paid with respect to Class T shares purchased through the distribution reinvestment plan or issued pursuant to a stock dividend.

The Company recorded the stockholder servicing fee as a reduction to additional paid-in capital and the related liability in an amount equal to the maximum stockholder servicing fee payable in relation to the Class T share on the date the share was issued. For each share of Class T common stock in the Primary Offering, the maximum stockholder servicing fee equaled 4% of the purchase price per share (ignoring any discounts available to certain categories of purchasers). 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.

Asset Management Fee

Through August 8, 2017, the Company paid the Advisor a monthly fee equal to one-twelfth of 1.6% of the cost of its investments, less any debt secured by or attributable to the investments. The cost of the real property investments was calculated as the amount paid or allocated to acquire the real property, plus the budgeted capital improvement costs for the development, construction or improvements to the property once such funds were disbursed pursuant to a final approved budget and fees and expenses related to the acquisition, but excluding acquisition fees paid or payable to the Advisor.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

Beginning August 9, 2017, pursuant to an amended and restated advisory agreement with the Advisor, a monthly fee is payable to the Advisor from the Company equal to one-twelfth of 1.0% of the cost of the real property investments, including any debt financing on the property. The cost of the 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 typical third-party expenses related to the acquisition.

Property Management Fee

The Company pays the Co-Manager a monthly fee equal to a percentage of the rent (determined on a property by property basis), payable and actually collected for the month, from certain property acquisitions for which the Company has entered a Property Management Agreement with the Co-Manager. See Note 10, "Related-Party Transactions — Real Estate Property Co-Management Agreements."

Disposition Fee

For substantial assistance in connection with the sale of the Company's assets, which includes the sale of a single asset or the sale of all or a portion of the Company's assets through a portfolio sale, merger or business combination transaction, the Company will pay the Advisor or its affiliates a percentage of the contract sales price of the assets sold. The disposition fee will equal 1.5% of the contract sales price. The disposition fee is determined on a per transaction basis and is not cumulative.

Reimbursement of Operating Expenses

Through September 28, 2017, the Company reimbursed the expenses incurred by the Advisor or its affiliates in connection with their provision of services to the Company, including the Company's allocable share of the Advisor's overhead, such as rent, employee costs, utilities and cybersecurity costs. The Company also reimbursed the Advisor for its allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company.

Effective September 29, 2017, the Company only reimburses the Advisor for the following expenses it incurs in connection with providing services to the Company under the Advisory Agreement: the Company's allocable portion of the costs of internal audit department personnel and promotional costs and expenses related to the leasing of properties.

The Company reimbursed the Dealer Manager for certain fees and expenses it incurred for administering the Company's participation in the DTCC Alternative Investment Product Platform, or the AIP Platform, with respect to certain accounts of the Company's investors serviced through the AIP Platform.

Income Taxes

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

The Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Neither the Company nor its subsidiaries have been assessed interest or penalties by any major tax jurisdictions. The Company's evaluations were performed for all open tax years through December 31, 2019. As of December 31, 2019, returns for the calendar years 2015 through 2018 remain subject to examination by major tax jurisdictions.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

Segments

The Company had invested in four office buildings (one of which was held for sale) and had made an investment in an unconsolidated joint venture as of December 31, 2019. Substantially all of the Company's revenue and net loss is from real estate, and therefore, the Company currently operates in one reportable segment.

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 years ended December 31, 2019, 2018 and 2017. 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.

The Company has declared and issued stock dividends on shares of the Company's common stock during the year ended December 31, 2017 as follows:

	Amount Declared per Share Outstanding ⁽¹⁾	Total Shares Issued
Year Ended December 31, 2017	0.00666664 shares	69,286

⁽¹⁾ Stock dividends were declared on a monthly basis and the amount declared per share outstanding assumes the share was issued and outstanding each date that was a record date for stock dividends during the periods presented. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend. The Company ceased issuing stock dividends to all stockholders on September 5, 2017. The Company's board of directors does not expect to authorize any additional stock dividends.

During the years ended December 31, 2019, 2018 and 2017, aggregate cash distributions declared per share of Class A common stock were \$0.55036183, \$0.51295025 and \$0.49373176, assuming the share was issued and outstanding each date that was a record date for distributions during the period. During the years ended December 31, 2019, 2018 and 2017, aggregate cash distributions declared per share of Class T common stock were \$0.55036183, \$0.51295025 and \$0.44464258, assuming the share was issued and outstanding each date that was a record date for distributions during the period. Distributions for the years ended December 31, 2019, 2018 and 2017 were calculated as follows:

- 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 December 31, 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 December 31, 2018 were calculated at a rate of \$0.00132452 per share per day and \$0.00144493 per share per day, respectively.
- Distributions for the period from January 1, 2019 through May 31, 2019 were calculated at a rate of \$0.00151233 per share per day.
- Distributions declared per share of common stock were \$0.046 per share for each month commencing June 2019 through December 2019.

Each day during the years ended December 31, 2018 and 2017 and the periods from January 1, 2019 through May 31, 2019 was a record date for distributions. Beginning June 2019 and through December 2019, distributions per common share were based on a monthly record date for each month.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

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.

The Company’s calculated earnings per share for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands, except share and per share amounts):

	Years Ended December 31,		
	2019	2018	2017
Net loss	\$ (6,102)	\$ (3,601)	\$ (2,199)
Less: Class A Common Stock cash distributions declared	5,327	4,724	4,472
Less: Class T Common Stock cash distributions declared	165	148	111
Undistributed net loss	<u>\$ (11,594)</u>	<u>\$ (8,473)</u>	<u>\$ (6,782)</u>
Class A Common Stock:			
Undistributed net loss	\$ (11,245)	\$ (8,216)	\$ (6,603)
Class A Common Stock cash distributions declared	5,327	4,724	4,472
Net loss	<u>\$ (5,918)</u>	<u>\$ (3,492)</u>	<u>\$ (2,131)</u>
Net loss per common share, basic and diluted	<u>\$ (0.61)</u>	<u>\$ (0.38)</u>	<u>\$ (0.23)</u>
Weighted-average number of common shares outstanding, basic and diluted	<u>9,677,794</u>	<u>9,205,952</u>	<u>9,080,826</u>
Class T Common Stock:			
Undistributed net loss	\$ (349)	\$ (257)	\$ (179)
Class T Common Stock cash distributions declared	165	148	111
Net loss	<u>\$ (184)</u>	<u>\$ (109)</u>	<u>\$ (68)</u>
Net loss per common share, basic and diluted	<u>\$ (0.61)</u>	<u>\$ (0.38)</u>	<u>\$ (0.28)</u>
Weighted-average number of common shares outstanding, basic and diluted	<u>300,531</u>	<u>288,586</u>	<u>246,737</u>

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 Notes to Consolidated Financial Statements are presented on an unaudited basis.

Reclassifications

Certain amounts in the Company’s prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods. Upon adoption of the lease accounting standards of Topic 842 on January 1, 2019 (described above), the Company accounted for tenant reimbursements for property taxes, insurance and common area maintenance as variable lease payments and recorded these amounts as rental income on the statement of operations. For the years ended December 31, 2018 and 2017, the Company reclassified \$3.8 million and \$3.2 million, respectively, of tenant reimbursement revenue for property taxes, insurance, and common area maintenance to rental income for comparability purposes.

In addition, during the year ended December 31, 2019, the Company classified one office property as held for sale. As a result, certain assets and liabilities were reclassified to held for sale on the consolidated balance sheets for all periods presented.

KBS GROWTH & INCOME REIT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2019

Recently Issued Accounting Standards Update

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 assets 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. In November 2019, the FASB issued ASU No. 2019-10, which allowed certain entities, including smaller reporting companies, additional implementation time with the standard becoming effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect the adoption of ASU No. 2016-13 will have a material impact on its financial statements.

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 disclose 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 does not expect the adoption of ASU No. 2018-13 will have a material impact on its financial statements.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

3. REAL ESTATE HELD FOR INVESTMENT

As of December 31, 2019, the Company's portfolio of real estate held for investment was composed of three office buildings containing 582,791 rentable square feet, which were collectively 95.7% occupied. The following table provides summary information regarding the properties owned by the Company as of December 31, 2019 (in thousands):

Property	Date Acquired	City	State	Property Type	Total Real Estate at Cost	Accumulated Depreciation and Amortization	Total Real Estate, Net
Commonwealth Building	06/30/2016	Portland	OR	Office	78,794	(11,228)	67,566
The Offices at Greenhouse	11/14/2016	Houston	TX	Office	47,166	(7,468)	39,698
Institute Property	11/09/2017	Chicago	IL	Office	47,171	(3,992)	43,179
					<u>\$ 173,131</u>	<u>\$ (22,688)</u>	<u>\$ 150,443</u>

As of December 31, 2019, 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
Commonwealth Building	Portland, OR	224,122	67,566	37.1 %	5,984	26.70	100.0 %
The Offices at Greenhouse	Houston, TX	203,284	39,698	21.8 %	4,206	20.69	100.0 %
Institute Property	Chicago, IL	155,385	43,179	23.7 %	3,619	27.79	83.8 %

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, 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.

Operating Leases

The Company's real estate properties held for investment are leased to tenants under operating leases for which the terms and expirations vary. As of December 31, 2019, the leases had remaining terms, excluding options to extend, of up to 9.6 years with a weighted-average remaining term of 3.6 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 \$1.1 million as of December 31, 2019 and 2018, respectively.

During the years ended December 31, 2019, 2018 and 2017, the Company recognized deferred rent from tenants, net of lease incentive amortization, of \$0.6 million, \$1.1 million, and \$0.9 million, respectively. As of December 31, 2019 and 2018, the cumulative deferred rent balance was \$3.0 million and \$2.5 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 December 31, 2019 and 2018, respectively.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

As of December 31, 2019, the future minimum rental income from the Company's properties held for investment under its non-cancelable operating leases was as follows (in thousands):

2020	\$	13,540
2021		12,552
2022		10,932
2023		8,279
2024		7,164
Thereafter		4,738
	\$	57,205

As of December 31, 2019, 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 21% of the Company's annualized base rent. The tenant individually occupied 135,727 rentable square feet or approximately 23% of the total rentable square feet of the Company's real estate portfolio held for investment, which expires on December 31, 2024, with two five-year extension options. As of December 31, 2019, the annualized base rent for this tenant was approximately \$2.9 million or \$21.37 per square foot. No other tenant represented more than 10% of the Company's annualized base rent.

As of December 31, 2019, the Company's real estate properties held for investment were leased to 64 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	11	\$ 5,211	37.7 %
Computer Systems Design and Related Services	3	\$ 1,590	11.5 %

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

As of December 31, 2019, no other tenant industries accounted for more than 10% of annualized base rent. No material tenant credit issues have been identified at this time. During the year ended December 31, 2019, the Company recorded an adjustment to rental income of \$0.6 million for lease payments that were deemed not probable of collection. During the years ended December 31, 2019, 2018 and 2017, the Company recorded bad debt recovery of \$27,000 and bad debt expense of \$54,000 and \$161,000, respectively, which was included in operating, maintenance, and management expense in the accompanying consolidated statements of operations.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

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

As of December 31, 2019 and 2018, 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	
	2019	2018	2019	2018	2019	2018
Cost	\$ 13,822	\$ 14,653	\$ 213	\$ 213	\$ (6,213)	\$ (6,975)
Accumulated Amortization	(6,818)	(5,227)	(93)	(63)	3,680	3,173
Net Amount	\$ 7,004	\$ 9,426	\$ 120	\$ 150	\$ (2,533)	\$ (3,802)

Increases (decreases) in net income as a result of amortization of the Company's tenant origination and absorption costs, above-market lease assets and below-market lease liabilities for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands):

	Tenant Origination and Absorption Costs			Above-Market Lease Assets			Below-Market Lease Liabilities		
	For the Years Ended December 31,			For the Years Ended December 31,			For the Years Ended December 31,		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Amortization	\$ (2,576)	\$ (3,434)	\$ (2,826)	\$ (30)	\$ (30)	\$ (30)	\$ 1,278	\$ 2,042	\$ 1,514

The remaining unamortized balance for these outstanding intangible assets and liabilities as of December 31, 2019 is estimated to be amortized for the years ending December 31 as follows (in thousands):

	Tenant Origination and Absorption Costs	Above-Market Lease Assets	Below-Market Lease Liabilities
2020	\$ (2,080)	\$ (27)	\$ 1,023
2021	(1,637)	(21)	587
2022	(1,367)	(21)	441
2023	(888)	(21)	189
2024	(750)	(20)	118
Thereafter	(282)	(10)	175
	\$ (7,004)	\$ (120)	\$ 2,533
Weighted-Average Remaining Amortization Period	4.3 years	5.3 years	3.7 years

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

5. REAL ESTATE HELD FOR SALE

The Company had classified one office property as held for sale as of December 31, 2019. The results of operations for the property classified as held for sale as of December 31, 2019 are included in continuing operations on the Company's consolidated statements of operations. The following table summarizes certain revenue and expenses related to the property that was classified as held for sale as of December 31, 2019, which were included in continuing operations (in thousands):

	Years Ended December 31,		
	2019	2018	2017
Revenues			
Rental income	\$ 2,329	\$ 2,453	\$ 2,505
Other operating income	70	77	87
Total revenues	2,399	2,530	2,592
Expenses			
Operating, maintenance, and management	652	916	830
Property management fees and expenses to affiliate	33	38	36
Real estate taxes and insurance	301	298	296
Asset management fees to affiliate	219	218	193
General and administrative expenses	49	9	10
Depreciation and amortization	505	721	1,186
Interest expense	937	600	493
Total expenses	\$ 2,696	\$ 2,800	\$ 3,044

The following summary presents the major components of assets and liabilities related to real estate held for sale as of December 31, 2019 and 2018 (in thousands):

	December 31, 2019	December 31, 2018
Assets related to real estate held for sale		
Total real estate, at cost	\$ 20,602	\$ 20,380
Accumulated depreciation and amortization	(2,008)	(1,688)
Real estate held for sale, net	18,594	18,692
Other assets	760	465
Total assets related to real estate held for sale	\$ 19,354	\$ 19,157
Liabilities related to real estate held for sale		
Total notes payable, net	\$ 13,948	\$ 13,921
Other liabilities	1,057	66
Total liabilities related to real estate held for sale	\$ 15,005	\$ 13,987

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

As of December 31, 2019, the following property held for sale 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 ⁽²⁾	Irvine, CA	101,161	\$ 18,594	10.2 %	\$ 2,185	\$ 24.61	87.8 %

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2019, 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. Annualized base rent excludes leases that have been executed but have not commenced as of December 31, 2019.

⁽²⁾ Subsequent to December 31, 2019, the Company, through indirectly wholly owned subsidiary, sold Von Karman Tech Center to a purchaser unaffiliated with the Company or the Advisor. See Note 13, “Subsequent Events – Disposition of Von Karman Tech Center.”

6. INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

On June 28, 2019, the Company, through an indirect wholly owned subsidiary, and FGPH 210 W. Chicago LLC (the “JV Partner”), entered into a limited liability company agreement to form a joint venture (the “Joint Venture”). Prior to entering into the Joint Venture, an affiliate of the JV Partner entered into a purchase and sale agreement to acquire an office property containing 16,239 rentable square feet located on approximately 8,072 square feet of land in Chicago, Illinois (“210 W. Chicago”), and such affiliate of the JV Partner assigned the purchase and sale agreement to the Joint Venture and the Joint Venture acquired 210 W. Chicago on June 28, 2019.

The Company and the JV Partner each own a 50% equity interest in the Joint Venture, with the Company serving as the manager of the Joint Venture. Major decisions, as defined in the limited liability company agreement, require an affirmative unanimous written consent. Income, losses and distributions are generally allocated based on the members’ respective equity interests. Accordingly, the Company has accounted for its investment in the Joint Venture under the equity method of accounting.

The contractual purchase price of 210 W. Chicago was \$5.4 million plus closing costs. The Joint Venture funded the purchase of 210 W. Chicago with a \$3.8 million mortgage loan from an unaffiliated lender and with contributions from the Joint Venture members. During the year ended December 31, 2019, the Company recognized \$45,000 of equity income with respect to this investment. As of December 31, 2019, the book value of the Company’s investment in 210 W. Chicago was \$1.0 million which includes \$0.2 million in acquisition costs incurred directly by the Company.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

7. NOTES PAYABLE

As of December 31, 2019 and 2018, the Company's notes payable consisted of the following (dollars in thousands):

	Book Value as of December 31, 2019	Book Value as of December 31, 2018	Contractual Interest Rate as of December 31, 2019 ⁽¹⁾	Effective Interest Rate as of December 31, 2019 ⁽¹⁾	Payment Type	Maturity Date ⁽²⁾
Commonwealth Building Mortgage Loan ⁽³⁾	\$ 45,681	\$ 45,000	One-month LIBOR + 1.80%	3.50%	Interest Only	02/01/2023
Term Loan ⁽⁴⁾	72,800	72,800	One-month LIBOR + 2.00%	4.41%	Interest Only	11/09/2020
Notes payable principal outstanding	\$ 118,481	\$ 117,800				
Deferred financing costs, net	(620)	(967)				
Notes payable, net	<u>\$ 117,861</u>	<u>\$ 116,833</u>				

⁽¹⁾ Contractual interest rate represents the interest rate in effect under the loan as of December 31, 2019. Effective interest rate is calculated as the actual interest rate in effect as of December 31, 2019 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of December 31, 2019, where applicable.

⁽²⁾ Represents the maturity date as of December 31, 2019; subject to certain conditions, the maturity dates of certain loans may be extended beyond the dates shown.

⁽³⁾ As of December 31, 2019, there are two one-year extension options remaining on the Commonwealth Building Mortgage Loan. As of December 31, 2019, \$45.7 million of the Commonwealth Building mortgage loan was outstanding and \$5.7 million remained available for future disbursements, subject to certain terms and conditions set forth in the loan documents.

⁽⁴⁾ As of December 31, 2019, 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. As of December 31, 2019, there are two one-year extension options remaining on the Term Loan. The Term Loan was secured by The Offices at Greenhouse, Von Karman Tech Center and Institute Property. Subsequent to December 31, 2019, in connection with the disposition of Von Karman Tech Center, the Company repaid \$13.7 million of principal balance under the Term Loan and Von Karman Tech Center was released as a security from the Term Loan. See Note 13, "Subsequent Events – Disposition of Von Karman Tech Center."

During the years ended December 31, 2019, 2018 and 2017, the Company incurred \$7.0 million, \$5.3 million and \$3.3 million of interest expense. As of December 31, 2019 and 2018, \$0.4 million and \$0.4 million of interest expense were payable, respectively. Included in interest expense for the years ended December 31, 2019, 2018 and 2017 were \$0.4 million, \$0.3 million and \$0.7 million of amortization of deferred financing costs, respectively. Also included in interest expense during the year ended December 31, 2018 was \$0.2 million of debt refinancing costs. Interest expense (including gains and losses) incurred as a result of the Company's derivative instruments increased interest expense by \$1.6 million and \$0.1 million for the years ended December 31, 2019 and 2018, respectively, and reduced interest expense by \$0.2 million for the year ended December 31, 2017.

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of December 31, 2019 (in thousands):

2020	\$	72,800
2021		—
2022		—
2023		45,681
2024		—
Thereafter		—
	<u>\$</u>	<u>118,481</u>

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

8. 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 December 31, 2019 and 2018. 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):

Derivative Instruments	December 31, 2019		December 31, 2018		Reference Rate as of December 31, 2019	Weighted-Average Fix Pay Rate	Weighted-Average Remaining Term in Years
	Number of Instruments	Notional Amount	Number of Instruments	Notional Amount			
<i>Derivative instruments not designated as hedging instruments</i>							
Interest Rate Swaps	2	\$ 78,533	2	\$ 78,533	One-month LIBOR/ Fixed at 2.07% - 2.82%	2.36%	2.3

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 December 31, 2019 and 2018 (dollars in thousands):

Derivative Instruments	Balance Sheet Location	December 31, 2019		December 31, 2018	
		Number of Instruments	Fair Value	Number of Instruments	Fair Value
<i>Derivative instruments not designated as hedging instruments</i>					
Interest Rate Swaps	Prepaid expenses and other assets, at fair value	—	\$ —	1	\$ 501
Interest Rate Swaps	Other liabilities, at fair value	2	\$ (1,503)	1	\$ (409)

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 Years Ended December 31,		
	2019	2018	2017
Income statement related			
<i>Derivatives not designated as hedging instruments</i>			
Realized loss (gain) recognized on interest rate swaps	\$ 46	\$ (21)	\$ —
Unrealized loss (gain) on interest rate swaps	1,595	86	(178)
Increase (decrease) in interest expense as a result of derivatives	\$ 1,641	\$ 65	\$ (178)

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

9. FAIR VALUE DISCLOSURES

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other 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.

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.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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The following were the face values, carrying amounts and fair values of the Company’s notes payable as of December 31, 2019 and 2018, which carrying amounts generally do not approximate the fair values (in thousands):

	December 31, 2019			December 31, 2018		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial liabilities:						
Notes payable	\$ 118,481	\$ 117,861	\$ 119,196	\$ 117,800	\$ 116,833	\$ 118,911

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 December 31, 2019, the Company measured the following derivative instruments at fair value (in thousands):

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Liability derivative - interest rate swaps	\$ (1,503)	\$ —	\$ (1,503)	\$ —

10. 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”).

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.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

The Advisor also serves or served 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”), Pacific Oak Strategic Opportunity REIT, Inc., formerly KBS Strategic Opportunity REIT, Inc. (“Pacific Oak Strategic Opportunity REIT”), KBS Legacy Partners Apartment REIT, Inc. (“KBS Legacy Partners Apartment REIT”) and Pacific Oak Strategic Opportunity REIT II, Inc., formerly KBS Strategic Opportunity REIT II, Inc. (“Pacific Oak Strategic Opportunity REIT II”). Effective October 31, 2019, the respective advisory agreements between the Advisor and Pacific Oak Strategic Opportunity REIT and Pacific Oak Strategic Opportunity REIT II terminated. The Dealer Manager also serves or served as the dealer manager for KBS REIT I, KBS REIT II, KBS REIT III, Pacific Oak Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT and Pacific Oak Strategic Opportunity REIT II. Effective December 31, 2019, the respective dealer-manager agreements between the Dealer Manager and Pacific Oak Strategic Opportunity REIT and Pacific Oak Strategic Opportunity REIT II terminated.

On November 1, 2019, Pacific Oak Strategic Opportunity REIT and Pacific Oak Strategic Opportunity REIT II each entered into advisory agreements with a new external advisor, Pacific Oak Capital Advisors, LLC. Pacific Oak Capital Advisors, LLC is part of a group of companies formed, owned and managed by Keith D. Hall and Peter McMillan III. Together, through GKP Holding LLC, Messrs. Hall and McMillan, continue to indirectly own a 33 1/3% interest in the Advisor and the Dealer Manager.

As of January 1, 2017, the Company, together with KBS REIT I, KBS REIT II, KBS REIT III, Pacific Oak Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT, Pacific Oak Strategic Opportunity REIT II, the Dealer Manager, the Advisor and other KBS affiliated entities, had entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage were 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. At the June 2017 renewal, KBS REIT I elected to cease participation in the program and obtained separate insurance coverage. At the June 2018 renewal, Pacific Oak Strategic Opportunity REIT, Pacific Oak Strategic Opportunity REIT II and KBS Legacy Partners Apartment REIT elected to cease participation in the program and obtained separate insurance coverage. In June 2019, the Company renewed its participation in the program. The program is effective through June 30, 2020.

During the years ended December 31, 2019, 2018 and 2017, no other business transactions occurred between the Company and KBS REIT I, KBS REIT II, KBS REIT III, Pacific Oak Strategic Opportunity REIT, KBS Legacy Partners Apartment REIT and Pacific Oak Strategic Opportunity REIT II.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

Pursuant to the terms of these agreements, summarized below are the related-party costs incurred by the Company for the years ended December 31, 2019, 2018 and 2017, respectively, and any related amounts payable as of December 31, 2019 and 2018 (in thousands):

	Incurred Years Ended December 31,			Payable as of December 31,	
	2019	2018	2017	2019	2018
Expensed					
Asset management fees ⁽¹⁾	\$ 1,898	\$ 1,855	\$ 632	\$ 4,171	\$ 2,274
Reimbursement of operating expenses ⁽²⁾	198	197	185	29	16
Property management fees ⁽³⁾	165	170	124	14	13
Other Arrangement					
Advisor advance for cash distributions ⁽⁴⁾	—	—	—	1,338	1,338
Additional Paid-in Capital					
Selling commissions	—	—	78	—	—
Dealer manager fees	—	—	51	—	—
Stockholder servicing fees ⁽⁵⁾	—	—	(26)	—	—
Reimbursable other offering costs ⁽⁶⁾	—	—	14	—	—
	<u>\$ 2,261</u>	<u>\$ 2,222</u>	<u>\$ 1,058</u>	<u>\$ 5,552</u>	<u>\$ 3,641</u>

⁽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 December 31, 2019, the Company had accrued and deferred payment of \$4.2 million of asset management fees related to October 2017 through December 2019.

⁽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 years ended December 31, 2018 and 2017, the Advisor reimbursed the Company \$10,655 and \$8,932 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 \$0.2 million, \$0.2 million and \$0.2 million for the years ended December 31, 2019, 2018 and 2017, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement for the years ended December 31, 2019, 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.

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.

KBS GROWTH & INCOME REIT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2019

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 December 31, 2019 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 December 31, 2019, 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 ⁽¹⁾	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%

⁽¹⁾ On January 17, 2020, the Company sold Von Karman Tech Center.

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.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

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 December 31, 2019, 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 December 31, 2019, the Company had recorded \$39,000 of organization and other offering expenses related to the Public Offering, which amount represent the Company's maximum liability for organization and other offering costs as of December 31, 2019 based on the limitations described above. As of December 31, 2019, 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 December 31, 2019, the Advisor had incurred \$5.5 million in offering expenses related to the Second Private Offering.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

11. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Presented below is a summary of the unaudited quarterly financial information for the years ended December 31, 2019 and 2018 (in thousands, except per share amounts):

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 5,317	\$ 4,835	\$ 5,362	\$ 5,398
Class A Common Stock:				
Net loss	(1,533)	(2,606)	(1,171)	(608)
Net loss per common share, basic and diluted	(0.16)	(0.27)	(0.12)	(0.06)
Distributions declared per common share ⁽¹⁾	0.136	0.138	0.138	0.138
Class T Common Stock:				
Net loss	(48)	(80)	(36)	(20)
Net loss per common share, basic and diluted	(0.16)	(0.27)	(0.12)	(0.06)
Distributions declared per common share ⁽¹⁾	0.136	0.138	0.138	0.138
	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 5,581	\$ 5,729	\$ 5,561	\$ 5,309
Class A Common Stock:				
Net loss	(199)	(703)	(290)	(2,300)
Net loss per common share, basic and diluted	(0.02)	(0.08)	(0.03)	(0.25)
Distributions declared per common share ⁽¹⁾	0.119	0.128	0.133	0.133
Class T Common Stock:				
Net loss	(6)	(22)	(9)	(72)
Net loss per common share, basic and diluted	(0.02)	(0.08)	(0.03)	(0.25)
Distributions declared per common share ⁽¹⁾	0.119	0.128	0.133	0.133

⁽¹⁾ Distributions for the period from January 1, 2018 through April 30, 2018 and from May 1, 2018 through December 31, 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. Distributions for the periods from January 1, 2019 through May 31, 2019 were based on daily record dates and were calculated based on stockholders of record each day during these periods at a rate of \$0.00151233 per share per day. Distributions for each month commencing June 2019 through December 2019 were calculated at a monthly rate of \$0.046 per share.

12. COMMITMENTS AND CONTINGENCIES

Economic Dependency

The Company depends on the Advisor for certain services that are essential to the Company, including the management of the daily operations of the Company's investment portfolio, disposition of investments 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.

KBS GROWTH & INCOME REIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

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.

13. SUBSEQUENT EVENTS

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

Cash Distributions Paid

On January 2, 2020, the Company paid cash distributions of \$0.5 million, which related to a distribution declared for December 2019 in the amount of \$0.046 per share of common stock to stockholders of record as of the close of business on December 30, 2019. On February 3, 2020, the Company paid cash distributions of \$0.2 million, which related to a distribution declared for January 2020 in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on January 23, 2020. On March 2, 2020, the Company paid cash distributions of \$0.2 million, which related to a distribution declared for February 2020 in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on February 20, 2020.

Distributions Authorized

On March 4, 2020, the Company's board of directors authorized a March 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on March 20, 2020, which the Company expects to pay in April 2020, and an April 2020 distribution in the amount of \$0.02107500 per share of common stock to stockholders of record as of the close of business on April 20, 2020, which the Company expects to pay in May 2020.

Disposition of Von Karman Tech Center

On August 12, 2015, the Company, through an indirect wholly owned subsidiary, KBSGI Von Karman Tech, LLC (the "Owner"), acquired an office building containing 101,161 rentable square feet located in Irvine, California on approximately 4.6 acres of land ("Von Karman Tech Center"). On November 25, 2019, the Owner entered into an option agreement and escrow instructions for the sale of Von Karman Tech Center to a buyer, unaffiliated with the Company or the Advisor (the "Purchaser").

On January 17, 2020, the Company completed the sale of Von Karman Tech Center to the Purchaser for \$25.4 million, before third-party closing costs of approximately \$0.4 million and excluding the \$0.4 million disposition fee payable to the Advisor. In connection with the disposition of Von Karman Tech Center, the Company repaid \$13.7 million of the outstanding principal balance due under the Term Loan and Von Karman Tech Center was released as security from the Term Loan. In addition, pursuant to the terms of the Term Loan, the Company reduced the amount of the revolving commitment and term commitment to \$19.7 million and \$39.4 million, respectively.

KBS GROWTH & INCOME REIT, INC.

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION

December 31, 2019

(dollar amounts in thousands)

Description	Location	Ownership Percent	Encumbrances	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition ⁽²⁾	Gross Amount at which Carried at Close of Period			Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
				Land	Building and Improvements ⁽¹⁾	Total		Land	Building and Improvements ⁽¹⁾	Total ⁽³⁾			
Properties Held for Investment													
Commonwealth Building	Portland, OR	100%	\$ 45,681	\$ 7,300	\$ 66,544	\$ 73,844	\$ 4,950	\$ 7,300	\$ 71,494	\$ 78,794	\$ (11,228)	1948	06/30/2016
The Offices at Greenhouse	Houston, TX	100%	⁽⁴⁾	5,009	41,595	46,604	562	5,009	42,157	47,166	(7,468)	2014	11/14/2016
Institute Property	Chicago, IL	100%	⁽⁴⁾	8,400	37,654	46,054	1,117	8,400	38,771	47,171	(3,992)	1908	11/09/2017
Total Properties Held for Investment				20,709	145,793	166,502	6,629	20,709	152,422	173,131	(22,688)		
Properties Held for Sale													
Von Karman Tech Center	Irvine, CA	100%	⁽⁴⁾	10,600	10,799	21,399	(797)	10,600	10,002	20,602	(2,008)	1980	08/12/2015
Total Properties Held for Sale				10,600	10,799	21,399	(797)	10,600	10,002	20,602	(2,008)		
TOTAL				\$ 31,309	\$ 156,592	\$ 187,901	\$ 5,832	\$ 31,309	\$ 162,424	\$ 193,733	\$ (24,696)		

⁽¹⁾ Building and improvements includes tenant origination and absorption costs.

⁽²⁾ Costs capitalized subsequent to acquisition is net of write-offs of fully depreciated/amortized assets.

⁽³⁾ The aggregate cost of real estate for federal income tax purposes was \$193.3 million (unaudited) as of December 31, 2019.

⁽⁴⁾ As of December 31, 2019, these properties served as the security for the Term Loan, which had an outstanding principal balance of \$72.8 million as of December 31, 2019.

KBS GROWTH & INCOME REIT, INC.**SCHEDULE III****REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION (CONTINUED)**

December 31, 2019

(dollar amounts in thousands)

	2019	2018	2017
Real Estate:			
Balance at the beginning of the year	\$ 190,751	\$ 190,756	\$ 141,872
Acquisitions	—	—	46,054
Improvements	3,962	1,921	4,096
Write off of fully depreciated and fully amortized assets	(980)	(1,926)	(1,266)
Balance at the end of the year	<u>\$ 193,733</u>	<u>\$ 190,751</u>	<u>\$ 190,756</u>
Accumulated depreciation and amortization:			
Balance at the beginning of the year	\$ 17,116	\$ 9,627	\$ 3,292
Depreciation and amortization expense	8,560	9,415	7,601
Write off of fully depreciated and fully amortized assets	(980)	(1,926)	(1,266)
Balance at the end of the year	<u>\$ 24,696</u>	<u>\$ 17,116</u>	<u>\$ 9,627</u>

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newport Beach, State of California, on March 5, 2020.

KBS GROWTH & INCOME REIT, INC.

By: /s/ Charles J. Schreiber, Jr.

Charles J. Schreiber, Jr.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ CHARLES J. SCHREIBER, JR.</u> Charles J. Schreiber, Jr.	Chairman of the Board, Chief Executive Officer, President and Director (principal executive officer)	March 5, 2020
<u>/s/ JEFFREY K. WALDVOGEL</u> Jeffrey K. Waldvogel	Chief Financial Officer, Treasurer and Secretary (principal financial officer)	March 5, 2020
<u>/s/ STACIE K. YAMANE</u> Stacie K. Yamane	Chief Accounting Officer and Assistant Secretary (principal accounting officer)	March 5, 2020
<u>/s/ GEORGE R. BRAVANTE, JR.</u> George R. Bravante, Jr.	Director	March 5, 2020
<u>/s/ JON D. KLINE</u> Jon D. Kline	Director	March 5, 2020
<u>/s/ KEITH P. RUSSELL</u> Keith P. Russell	Director	March 5, 2020

