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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020
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 000-54687

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

Maryland	**27-1627696**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
800 Newport Center Drive, Suite 700 **Newport Beach, California**	**92660**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Trading Symbol(s)

None

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

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

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

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

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

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

As of May 11, 2020, there were 182,385,129 outstanding shares of common stock of KBS Real Estate Investment Trust III, Inc.

KBS REAL ESTATE INVESTMENT TRUST III, INC.

FORM 10-Q

March 31, 2020

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2020 (unaudited)	December 31, 2019
Assets		
Real estate:		
Land	$ 306,871	$ 308,920
Buildings and improvements	2,098,848	2,092,928
Tenant origination and absorption costs	90,017	95,808
Total real estate held for investment, cost	2,495,736	2,497,656
Less accumulated depreciation and amortization	(460,609)	(444,299)
Total real estate held for investment, net	2,035,127	2,053,357
Real estate held for sale, net	123,215	122,264
Total real estate, net	2,158,342	2,175,621
Cash and cash equivalents	46,653	43,984
Restricted cash	5,288	5,288
Investment in an unconsolidated entity	240,309	253,371
Rents and other receivables, net	86,682	83,446
Above-market leases, net	529	566
Prepaid expenses and other assets	83,675	76,651
Total assets	$ 2,621,478	$ 2,638,927
Liabilities and equity		
Notes payable, net	$ 1,497,349	$ 1,459,879
Accounts payable and accrued liabilities	58,768	71,381
Due to affiliate	10,130	7,886
Distributions payable	9,064	9,392
Below-market leases, net	9,089	9,849
Other liabilities	77,261	43,526
Total liabilities	1,661,661	1,601,913
Commitments and contingencies (Note 11)		
Redeemable common stock	60,584	51,704
Equity:		
KBS Real Estate Investment Trust III, Inc. stockholders' equity		
Preferred stock, $.01 par value per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value per share; 1,000,000,000 shares authorized, 181,784,482 and 180,970,743 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	1,818	1,810
Additional paid-in capital	1,600,382	1,600,416
Cumulative distributions in excess of net income	(703,223)	(617,171)
Total KBS Real Estate Investment Trust III, Inc. stockholders' equity	898,977	985,055
Noncontrolling interest	256	255
Total equity	899,233	985,310
Total liabilities and equity	$ 2,621,478	$ 2,638,927

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2020	**2019**
Revenues:		
Rental income	$ 71,618	$ 103,007
Other operating income	6,084	8,371
Total revenues	77,702	111,378
Expenses:		
Operating, maintenance and management	18,257	23,735
Real estate taxes and insurance	14,103	17,446
Asset management fees to affiliate	5,174	6,872
General and administrative expenses	1,677	2,035
Depreciation and amortization	27,392	41,408
Interest expense	48,789	37,947
Impairment charges on real estate	19,896	8,706
Total expenses	135,288	138,149
Other (loss) income:		
Other income	—	13
Other interest income	33	72
Equity in loss of an unconsolidated entity	(1,161)	—
Loss from extinguishment of debt	(188)	—
Total other (loss) income, net	(1,316)	85
Net loss	(58,902)	(26,686)
Net (income) loss attributable to noncontrolling interest	(1)	8
Net loss attributable to common stockholders	$ (58,903)	$ (26,678)
Net loss per common share attributable to common stockholders, basic and diluted	$ (0.32)	$ (0.15)
Weighted-average number of common shares outstanding, basic and diluted	181,587,779	175,529,147

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONSOLIDATED STATEMENTS OF EQUITY

For the Three Months Ended March 31, 2020 and 2019 (unaudited)

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amounts					
Balance, December 31, 2019	180,970,743	$ 1,810	$ 1,600,416	$ (617,171)	$ 985,055	$ 255	$ 985,310
Net (loss) income	—	—	—	(58,903)	(58,903)	1	(58,902)
Issuance of common stock	1,075,449	11	11,893	—	11,904	—	11,904
Transfers to redeemable common stock	—	—	(8,880)	—	(8,880)	—	(8,880)
Redemptions of common stock	(261,710)	(3)	(3,046)	—	(3,049)	—	(3,049)
Distributions declared	—	—	—	(27,149)	(27,149)	—	(27,149)
Other offering costs	—	—	(1)	—	(1)	—	(1)
Balance, March 31, 2020	181,784,482	$ 1,818	$ 1,600,382	$ (703,223)	$ 898,977	$ 256	$ 899,233

	Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amounts					
Balance, December 31, 2018	177,523,853	$ 1,775	$ 1,555,380	$ (626,543)	$ 930,612	$ 283	$ 930,895
Net loss	—	—	—	(26,678)	(26,678)	(8)	(26,686)
Issuance of common stock	1,181,823	12	13,485	—	13,497	—	13,497
Transfers from redeemable common stock	—	—	34,108	—	34,108	—	34,108
Redemptions of common stock	(4,594,982)	(46)	(52,560)	—	(52,606)	—	(52,606)
Distributions declared	—	—	—	(28,523)	(28,523)	—	(28,523)
Other offering costs	—	—	(2)	—	(2)	—	(2)
Balance, March 31, 2019	174,110,694	$ 1,741	$ 1,550,411	$ (681,744)	$ 870,408	$ 275	$ 870,683

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(in thousands)

	Three Months Ended March 31,	
	2020	2019
Cash Flows from Operating Activities:		
Net loss	$ (58,902)	$ (26,686)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,392	41,408
Impairment charges on real estate	19,896	8,706
Equity in loss of an unconsolidated entity	1,161	—
Distribution of operating cash flow from an unconsolidated entity	11,901	—
Deferred rents	(1,628)	(1,874)
Amortization of above- and below-market leases, net	(723)	(948)
Amortization of deferred financing costs	1,050	1,615
Unrealized losses on derivative instruments	33,991	14,619
Loss from extinguishment of debt	188	—
Changes in operating assets and liabilities:		
Rents and other receivables	(2,083)	(3,072)
Prepaid expenses and other assets	(10,718)	(19,321)
Accounts payable and accrued liabilities	(7,218)	1,662
Other liabilities	892	(1,094)
Due to affiliates	2,211	(7)
Net cash provided by operating activities	17,410	15,008
Cash Flows from Investing Activities:		
Improvements to real estate	(29,448)	(13,713)
Payments for construction in progress	(2,111)	(5,041)
Payments of post-closing acquisition costs	—	(338)
Insurance proceeds received for property damage	—	519
Net cash used in investing activities	(31,559)	(18,573)
Cash Flows from Financing Activities:		
Proceeds from notes payable	104,510	111,398
Principal payments on notes payable	(66,901)	(33,971)
Payments of deferred financing costs	(1,429)	(2,401)
Payments to redeem common stock	(3,049)	(52,578)
Payments of prepaid other offering costs	(739)	—
Payments of other offering costs	(1)	(2)
Distributions paid to common stockholders	(15,573)	(15,390)
Net cash provided by financing activities	16,818	7,056
Net increase in cash, cash equivalents and restricted cash	2,669	3,491
Cash, cash equivalents and restricted cash, beginning of period	49,272	76,038
Cash, cash equivalents and restricted cash, end of period	$ 51,941	$ 79,529
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of capitalized interest of $475 for the three months ended March 31, 2019	$ 13,761	$ 20,774
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Distributions payable	$ 9,064	$ 9,437
Redeemable common stock payable	$ —	$ 3,518
Accrued improvements to real estate	$ 23,075	$ 20,596
Construction in progress payable	$ —	$ 8,118
Acquisition fee related to construction in progress due to affiliate	$ 33	$ 961
Distributions paid to common stockholders through common stock issuances pursuant to the dividend reinvestment plan	$ 11,904	$ 13,497

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020

(unaudited)

1. ORGANIZATION

KBS Real Estate Investment Trust III, Inc. (the "Company") was formed on December 22, 2009 as a Maryland corporation that elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2011 and it intends to continue to operate in such manner. Substantially all of the Company's business is conducted through KBS Limited Partnership III (the "Operating Partnership"), a Delaware limited partnership. The Company is the sole general partner of and owns a 0.1% partnership interest in the Operating Partnership. KBS REIT Holdings III LLC ("REIT Holdings III"), the limited partner of the Operating Partnership, owns the remaining 99.9% interest in the Operating Partnership and is its sole limited partner. The Company is the sole member and manager of REIT Holdings III.

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 the Company entered into with the Advisor (the "Advisory Agreement"). On January 26, 2010, the Company issued 20,000 shares of its common stock to the Advisor at a purchase price of $10.00 per share. As of March 31, 2020, the Advisor owned 20,857 shares of the Company's common stock.

The Company owns a diverse portfolio of real estate investments. As of March 31, 2020, the Company owned 18 office properties and one mixed-use office/retail property and had entered into a consolidated joint venture to develop a multifamily apartment complex, which was completed and held for sale as of March 31, 2020. In addition, the Company owned an investment in the equity securities of Prime US REIT, a Singapore real estate investment trust (the "SREIT"), which is accounted for as an investment in an unconsolidated entity under the equity method of accounting.

The Company commenced its initial public offering (the "Offering") on October 26, 2010. Upon commencing the Offering, the Company retained KBS Capital Markets Group LLC (the "Dealer Manager"), an affiliate of the Company, to serve as the dealer manager of the Offering pursuant to a dealer manager agreement, as amended and restated (the "Dealer Manager Agreement"). The Company ceased offering shares of common stock in the primary Offering on May 29, 2015 and terminated the primary Offering on July 28, 2015.

The Company sold 169,006,162 shares of common stock in the primary Offering for gross proceeds of $1.7 billion. As of March 31, 2020, the Company had also sold 33,529,451 shares of common stock under its dividend reinvestment plan for gross offering proceeds of $344.5 million. Also as of March 31, 2020, the Company had redeemed or repurchased 28,750,807 shares sold in the Offering for $314.5 million.

Additionally, on October 3, 2014, the Company issued 258,462 shares of common stock for $2.4 million in private transactions exempt from the registration requirements pursuant to Section 4(a)(2) of the Securities Act of 1933.

The Company continues to offer shares of common stock under its dividend reinvestment plan. In some states, the Company will need to renew the registration statement annually or file a new registration statement to continue its dividend reinvestment plan offering. The Company may terminate its dividend reinvestment plan offering at any time.

COVID-19 Pandemic

Currently, one of the most significant risks and uncertainties facing the Company and the real estate industry generally is the potential adverse effect of the ongoing public health crisis of the novel coronavirus disease ("COVID-19") pandemic. The extent to which the COVID-19 pandemic impacts the Company's operations and those of its tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others. See Note 12, "Subsequent Events" for a further discussion on the COVID-19 pandemic.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2019. For further information about the Company's accounting policies, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC").

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

The consolidated financial statements include the accounts of the Company, REIT Holdings III, the Operating Partnership, their direct and indirect wholly owned subsidiaries, and a joint venture in which the Company has a controlling interest. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

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

Per Share Data

Basic net income (loss) per share of common stock is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock issued and outstanding during such period. Diluted net income (loss) per share of common stock equals basic net income (loss) per share of common stock as there were no potentially dilutive securities outstanding during the three months ended March 31, 2020 and 2019, respectively.

Distributions declared per common share were $0.149 and $0.163 in the aggregate for the three months ended March 31, 2020 and 2019, respectively. Distributions declared per common share assumes each share was issued and outstanding each date that was a record date for distributions and were based on a monthly record date for each month during the periods commencing January 1, 2020 through March 31, 2020 and January 2019 through March 31, 2019. For each monthly record date for distributions during the period from January 1, 2020 through March 31, 2020, distributions were calculated at a rate of $0.04983333 per share. For each monthly record date for distributions during the period from January 1, 2019 through March 31, 2019, distributions were calculated at a rate of $0.05416667 per share.

Segments

The Company has invested in core real estate properties and real estate-related investments with the goal of acquiring a portfolio of income-producing investments. The Company's real estate properties exhibit similar long-term financial performance and have similar economic characteristics to each other. Accordingly, the Company aggregated its investments in real estate properties into one reportable business segment.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

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, used to describe real estate investments included in these condensed notes to the consolidated financial statements are unaudited and outside the scope of the Company's independent registered public accounting firm's review of the Company's financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Recently Issued Accounting Standards Update

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU No. 2020-04") to provide temporary optional expedients and exceptions to the guidance in GAAP on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate (SOFR). Modified contracts that meet the following criteria are eligible for relief from the modification accounting requirements under GAAP: (1) the contract references LIBOR or another rate that is expected to be discontinued due to reference rate reform, (2) the modified terms directly replace or have the potential to replace the reference rate that is expected to be discontinued due to reference rate reform, and (3) any contemporaneous changes to other terms (i.e., those that do not directly replace or have the potential to replace the reference rate) that change or have the potential to change the amount and timing of contractual cash flows must be related to the replacement of the reference rate. For a contract that meets the criteria, the guidance generally allows an entity to account for and present modifications as an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. That is, the modified contract is accounted for as a continuation of the existing contract. In addition, ASU No. 2020-04 provides various optional expedients for hedging relationships affected by reference rate reform, if certain criteria are met. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic, the amendments in this Update must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. An entity may elect to apply the amendments in ASU No. 2020-04 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020.

For the period from January 1, 2020 (the earliest date the Company may elect to apply ASU No. 2020-04) through March 31, 2020, the Company did not have any contract modifications that meet the criteria described above, specifically contract modifications that have been modified from LIBOR to an alternative reference rate. The Company's loan agreements, derivative instruments, and certain lease agreements use LIBOR as the current reference rate. For eligible contract modifications, the Company expects to adopt the temporary optional expedients described in ASU No. 2020-04. The optional expedients for hedging relationships described in ASU No. 2020-04 are not expected to have an impact to the Company as the Company has elected to not designate its derivative instruments as a hedge.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

In April 2020, the FASB issued a FASB Staff Q&A related to *Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic* (the "Topic 842 Q&A"). The Company adopted the lease accounting standards of Topic 842 beginning January 1, 2019. Under Topic 842, subsequent changes to lease payments that are not stipulated in the original lease contract are generally accounted for as lease modifications. Some contracts may contain explicit or implicit enforceable rights and obligations that require lease concessions if certain circumstances arise that are beyond the control of the parties to the contract. If a lease contract provides enforceable rights and obligations for concessions in the contract and no changes are made to that contract, the concessions are not accounted for under the lease modification guidance in Topic 842. If concessions granted by lessors are beyond the enforceable rights and obligations in the contract, entities would generally account for those concessions in accordance with the lease modification guidance in Topic 842. Because of the unprecedented and global nature of the COVID-19 pandemic, the FASB staff is aware that it may be exceedingly challenging for entities to determine whether existing contracts provide enforceable rights and obligations for lease concessions and whether those concessions are consistent with the terms of the contract or are modifications to the contract. As such, the FASB staff believes that it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 as though enforceable rights and obligations for those concessions existed (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract). Consequently, for concessions related to the effects of the COVID-19 pandemic, an entity will not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance in Topic 842 to those contracts. This election is available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. For example, this election is available for concessions that result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract. The FASB staff expects that reasonable judgment will be exercised in making those determinations. Some concessions will provide a deferral of payments with no substantive changes to the consideration in the original contract. A deferral affects the timing, but the amount of the consideration is substantially the same as that required by the original contract. The staff expects that there will be multiple ways to account for those deferrals, none of which the staff believes are more preferable than the others. Two of those methods are: (1) Account for the concessions as if no changes to the lease contract were made. Under that accounting, a lessor would increase its lease receivable, and a lessee would increase its accounts payable as receivables/payments accrue. In its income statement, a lessor would continue to recognize income, and a lessee would continue to recognize expense during the deferral period and (2) Account for the deferred payments as variable lease payments.

The Company is evaluating the accounting elections available under Topic 842 Q&A for lease concessions related to the effects of the COVID-19 pandemic and its impact to the Company's financial statements. The Company has created an inventory of tenants which have or are expected to request lease concessions. The Company did not have any material lease concessions related to the effects of the COVID-19 pandemic that had a material impact to the Company's consolidated balance sheet as of March 31, 2020 or consolidated statement of operations for the three months ended March 31, 2020. Subsequent to March 31, 2020, several tenants have requested lease concessions or deferrals for future periods, which may have an impact on the Company's business, financial condition and results of operations, but the ultimate impact will largely depend on future developments with respect to the continued spread and treatment of the virus, which the Company cannot accurately predict.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

3. REAL ESTATE

Real Estate Held for Investment

As of March 31, 2020, the Company's real estate portfolio held for investment was composed of 18 office properties and one mixed-use office/retail property encompassing in the aggregate approximately 7.8 million rentable square feet. As of March 31, 2020, the Company's real estate portfolio held for investment was collectively 89% occupied. The following table summarizes the Company's investments in real estate as of March 31, 2020 (in thousands):

Property	Date Acquired	City	State	Property Type	Total Real Estate, at Cost [1]	Accumulated Depreciation and Amortization [1]	Total Real Estate, Net [1]
Domain Gateway	09/29/2011	Austin	TX	Office	$ 53,906	$ (11,298)	$ 42,608
Town Center	03/27/2012	Plano	TX	Office	128,209	(33,506)	94,703
McEwen Building	04/30/2012	Franklin	TN	Office	37,505	(9,305)	28,200
Gateway Tech Center	05/09/2012	Salt Lake City	UT	Office	28,892	(8,096)	20,796
RBC Plaza	01/31/2013	Minneapolis	MN	Office	153,431	(46,061)	107,370
Preston Commons	06/19/2013	Dallas	TX	Office	122,153	(24,874)	97,279
Sterling Plaza	06/19/2013	Dallas	TX	Office	82,564	(17,885)	64,679
201 Spear Street	12/03/2013	San Francisco	CA	Office	149,225	(21,579)	127,646
Accenture Tower	12/16/2013	Chicago	IL	Office	450,871	(88,644)	362,227
Anchor Centre	05/22/2014	Phoenix	AZ	Office	97,493	(20,149)	77,344
Ten Almaden	12/05/2014	San Jose	CA	Office	126,278	(22,360)	103,918
Towers at Emeryville	12/23/2014	Emeryville	CA	Office	209,270	(35,461)	173,809
3003 Washington Boulevard	12/30/2014	Arlington	VA	Office	151,371	(26,757)	124,614
Park Place Village	06/18/2015	Leawood	KS	Office/Retail	76,679	—	76,679
201 17th Street	06/23/2015	Atlanta	GA	Office	103,893	(20,122)	83,771
515 Congress	08/31/2015	Austin	TX	Office	125,342	(18,442)	106,900
The Almaden	09/23/2015	San Jose	CA	Office	180,856	(24,594)	156,262
3001 Washington Boulevard	11/06/2015	Arlington	VA	Office	60,848	(7,508)	53,340
Carillon	01/15/2016	Charlotte	NC	Office	156,950	(23,968)	132,982
					$ 2,495,736	$ (460,609)	$ 2,035,127

[1] Amounts presented are net of impairment charges and write-offs of fully depreciated/amortized assets.

As of March 31, 2020, the following property 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
Accenture Tower	Chicago, IL	1,457,724	$ 362,227	13.8 %	$ 32,315	$ 27.64	80.2 %

[1] Annualized base rent represents annualized contractual base rental income as of March 31, 2020, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

Operating Leases

The Company's office and office/retail properties are leased to tenants under operating leases for which the terms and expirations vary. As of March 31, 2020, the leases had remaining terms, excluding options to extend, of up to 17.3 years with a weighted-average remaining term of 4.8 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 $8.8 million and $8.8 million as of March 31, 2020 and December 31, 2019, respectively. During the three months ended March 31, 2020 and 2019, the Company recorded an adjustment to rental income of $2.2 million and $0.7 million, respectively, for lease payments that were deemed not probable of collection. During the three months ended March 31, 2019, the Company recorded bad debt recovery of $0.3 million, which was included in operating, maintenance and management expense in the accompanying consolidated statements of operations. No bad debt expense or recovery was recorded during the three months ended March 31, 2020.

During the three months ended March 31, 2020 and 2019, the Company recognized deferred rent from tenants of $1.6 million and $1.9 million, respectively. As of March 31, 2020 and December 31, 2019, the cumulative deferred rent balance was $82.1 million and $80.0 million, respectively, and is included in rents and other receivables on the accompanying balance sheets. The cumulative deferred rent balance included $21.4 million and $21.0 million of unamortized lease incentives as of March 31, 2020 and December 31, 2019, respectively.

As of March 31, 2020, the future minimum rental income from the Company's properties held for investment under its non-cancelable operating leases was as follows (in thousands):

April 1 through December 31, 2020	$	167,261
2021		218,483
2022		195,162
2023		165,737
2024		145,856
Thereafter		608,519
	$	1,501,018

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

As of March 31, 2020, the Company's office and office/retail properties were leased to approximately 660 tenants over a diverse range of industries and geographic areas. The Company's highest tenant industry concentrations (greater than 10% of annualized base rent) were as follows:

Industry	Number of Tenants	Annualized Base Rent [1] (in thousands)	Percentage of Annualized Base Rent
Finance	130	$ 42,970	18.4 %
Real Estate	61	26,532	11.4 %
Professional, Scientific and Technical Services	43	24,583	10.5 %
		$ 94,085	40.3 %

[1] Annualized base rent represents annualized contractual base rental income as of March 31, 2020, 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 March 31, 2020, no other tenant industries accounted for more than 10% of annualized base rent and no tenant accounted for more than 10% of annualized base rent.

Geographic Concentration Risk

As of March 31, 2020, the Company's net investments in real estate in California, Texas and Illinois represented 21.4%, 15.5% and 13.8% of the Company's total assets, respectively. As a result, the geographic concentration of the Company's portfolio makes it particularly susceptible to adverse economic developments in the California, Texas and Illinois real estate markets. Any adverse economic or real estate developments in these markets, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics and other factors, or any decrease in demand for office space resulting from the local business climate, could adversely affect the Company's operating results and its ability to pay distributions to stockholders.

Impairment of Real Estate

During the three months ended March 31, 2020 and 2019, the Company recorded impairment charges of $19.9 million and $8.7 million, respectively, to write down the carrying value of an office/retail property to its estimated fair value as a result of changes in cash flow estimates, including a change to the anticipated hold period of the property, which triggered the future estimated undiscounted cash flows to be lower than the net carrying value of the property at March 31, 2020 and 2019, respectively. The decrease in cash flow projections was primarily due to the continued lack of demand for the property's retail component resulting in longer than estimated lease-up periods and lower projected rental rates, mostly due to the impact of the COVID-19 pandemic with respect to the three months ended March 31, 2020. As a result, many retail tenants have requested rent concessions as their businesses have been severely impacted.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

4. REAL ESTATE HELD FOR SALE

As of March 31, 2020, the Company had classified a multifamily apartment complex held through a consolidated joint venture as held for sale. During the year ended December 31, 2019, the Company, through 12 wholly owned subsidiaries, sold 11 of its properties (the "Singapore Portfolio") to various subsidiaries of the SREIT, which was listed on the Singapore Stock Exchange ("SGX") on July 19, 2019 (the "Singapore Transaction"). The Company sold the Singapore Portfolio to the SREIT on July 18, 2019. The sale price of the Singapore Portfolio was $1.2 billion, before third-party closing costs, closing credits and other costs of approximately $20.0 million and excluding disposition fees paid to the Advisor of $9.5 million.

The following summary presents the components of real estate held for sale, net as of March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020	December 31, 2019
Real estate held for sale, net:		
Total real estate, at cost	$ 128,297	$ 127,346
Accumulated depreciation and amortization	(5,082)	(5,082)
Total real estate held for sale, net	$ 123,215	$ 122,264

The results of operations for the multifamily apartment complex held through a consolidated joint venture and the Singapore Portfolio are included in continuing operations on the Company's consolidated statements of operations. The following table summarizes certain revenues and expenses related to the Singapore Portfolio and the multifamily apartment complex held through a consolidated joint venture for the three months ended March 31, 2020 and 2019 (in thousands):

	For the Three Months Ended March 31,	
	2020	2019
Revenues		
Rental income	$ 1,070	$ 28,551
Other operating income	236	3,198
Total revenues	$ 1,306	$ 31,749
Expenses		
Operating, maintenance, and management	$ 846	$ 6,894
Real estate taxes and insurance	117	3,899
Asset management fees to affiliate	129	2,001
General and administrative expenses	50	—
Depreciation and amortization	—	12,639
Interest expense	—	7,409
Total expenses	$ 1,142	$ 32,842

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

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

As of March 31, 2020 and December 31, 2019, 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	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Cost	$ 90,017	$ 95,808	$ 1,168	$ 2,661	$ (25,402)	$ (25,630)
Accumulated Amortization	(54,804)	(56,886)	(639)	(2,095)	16,313	15,781
Net Amount	$ 35,213	$ 38,922	$ 529	$ 566	$ (9,089)	$ (9,849)

Increases (decreases) in net income as a result of amortization of the Company's tenant origination and absorption costs, above-market lease assets and below-market lease liabilities for the three months ended March 31, 2020 and 2019 were as follows (in thousands):

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	For the Three Months Ended March 31,		For the Three Months Ended March 31,		For the Three Months Ended March 31,	
	2020	2019	2020	2019	2020	2019
Amortization	$ (2,775)	$ (7,210)	$ (37)	$ (377)	$ 760	$ 1,325

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

6. INVESTMENT IN AN UNCONSOLIDATED ENTITY

Investment in Prime US REIT

In connection with the Singapore Transaction, on July 19, 2019, the Company, through an indirect wholly owned subsidiary ("REIT Properties III"), acquired 307,953,999 units in the SREIT at a price of $271.0 million, or $0.88 per unit, representing a 33.3% ownership interest in the SREIT. On August 21, 2019, REIT Properties III sold 18,392,100 of its units in the SREIT for $16.2 million pursuant to an over-allotment option granted to the underwriters of the SREIT's offering, reducing REIT Properties III's ownership in the SREIT to 31.3% of the outstanding units of the SREIT as of that date. As of March 31, 2020, REIT Properties III held 289,561,899 units of the SREIT which represented 27.5% of the outstanding units of the SREIT. As of March 31, 2020, the aggregate value of the Company's investment in the units of the SREIT was $181.0 million, which was based on the closing price of the SREIT units on the SGX of $0.63 per unit as of March 31, 2020.

The Company, the Operating Partnership, REIT Holdings III and REIT Properties III (collectively, the "REIT III Entities") entered into lock-up letter agreements with the underwriters whereby each of the REIT III Entities agreed to hold 100% of REIT Properties III's units in the SREIT for six months following the listing of the SREIT on the SGX and to hold 50% of REIT Properties III's units in the SREIT for 12 months following the listing of the SREIT on the SGX.

The Company has concluded that based on its 27.5% ownership interest as of March 31, 2020, it exercises significant influence over the operations, financial policies and decision making with respect to its investment in the SREIT. Accordingly, the Company has accounted for its investment in the SREIT under the equity method of accounting as of March 31, 2020. Income is allocated according to the Company's ownership interest at each month-end and recorded as equity income (loss) from unconsolidated entity. Any dividends received from the SREIT reduces the carrying amount of the investment.

As of March 31, 2020, the carrying value of the Company's investment in the SREIT was $240.3 million. During the three months ended March 31, 2020, the Company recorded equity in loss from an unconsolidated entity of $1.2 million related to its investment in the SREIT, which includes $3.3 million related to its share of net losses from the SREIT offset by a gain of $2.1 million to reflect the net effect to the Company's investment as a result of the net proceeds raised by the SREIT in a private offering in February 2020.

During the three months ended March 31, 2020, the Company received $11.9 million of dividends from its investment in the SREIT, which was recorded as a reduction of the Company's carrying value of the investment. The Company elected to apply the nature of the distribution approach for purposes of presentation of the dividend on the statement of consolidated cash flows and classified the dividend received in cash flow provided by operating activities on the statement of consolidated cash flows as of March 31, 2020. The nature of the distribution approach requires the Company to classify distributions from equity method investments on the basis of the nature of the activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow of operating activities) or a return of investment (classified as a cash inflow from investing activities) when such information is available.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

The SREIT reports its financial statements in accordance with the International Financial Reporting Standards and uses the US dollar as its reporting currency, as such, the Company must make certain adjustments to the SREIT's financial information to reflect U.S. GAAP before applying the equity method of accounting. Summarized financial information for the SREIT in accordance with U.S. GAAP follows (in thousands):

	As of	
	March 31, 2020	**December 31, 2019**
Assets:		
Real estate, net	$ 1,361,969	$ 1,201,050
Cash and cash equivalents	17,140	37,862
Other assets	27,051	21,628
Total assets:	$ 1,406,160	$ 1,260,540
Liabilities and equity		
Notes payable, net	$ 483,159	$ 432,824
Accounts payable and other liabilities	66,971	40,716
Equity	856,030	787,000
Total liabilities and equity	$ 1,406,160	$ 1,260,540

	Three Months Ended March 31,
	2020
Revenues	$ 35,462
Expenses:	
Operating, maintenance, and management	6,819
Real estate taxes and insurance	4,678
Asset management fees	1,796
General and administrative expenses	605
Depreciation and amortization	15,483
Interest expense	18,016
Total expenses	47,397
Other income	3
Net loss	$ (11,932)
Equity in loss of an unconsolidated entity [1]	$ (3,257)

[1] Excludes the $2.1 million gain recorded to reflect the net effect to the Company's investment as a result of the net proceeds raised by the SREIT in a private offering in February 2020, which was classified in equity in loss from an unconsolidated entity on the consolidated statement of operations.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

7. NOTES PAYABLE

As of March 31, 2020 and December 31, 2019, the Company's notes payable, including notes payable related to real estate held for sale, consisted of the following (dollars in thousands):

	Book Value as of March 31, 2020	Book Value as of December 31, 2019	Contractual Interest Rate as of March 31, 2020 [1]	Effective Interest Rate as of March 31, 2020 [1]	Payment Type	Maturity Date [2]
Anchor Centre Mortgage Loan [3]	$ 48,892	$ 49,043	One-month LIBOR + 1.50%	3.08%	Principal & Interest	06/01/2020
201 17th Street Mortgage Loan [4]	—	64,750	[4]	[4]	[4]	[4]
The Almaden Mortgage Loan	93,000	93,000	4.20%	4.20%	Interest Only	01/01/2022
201 Spear Street Mortgage Loan	125,000	125,000	One-month LIBOR + 1.45%	2.83%	Interest Only	01/05/2024
Carillon Mortgage Loan	111,000	111,000	One-month LIBOR +1.40%	3.04%	Interest Only	04/11/2024
Portfolio Loan Facility [5]	688,225	684,225	One-month LIBOR + 1.80%	3.91%	Interest Only	11/03/2020
Portfolio Revolving Loan Facility [6]	294,623	196,113	One-month LIBOR + 1.50%	3.08%	Interest Only	03/01/2023
3001 & 3003 Washington Mortgage Loan	143,245	143,245	One-month LIBOR + 1.45%	3.03%	Interest Only [7]	06/01/2024
Total notes payable principal outstanding	1,503,985	1,466,376				
Deferred financing costs, net	(6,636)	(6,497)				
Total Notes Payable, net	$ 1,497,349	$ 1,459,879				

[1] Contractual interest rate represents the interest rate in effect under the loan as of March 31, 2020. Effective interest rate is calculated as the actual interest rate in effect as of March 31, 2020 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of March 31, 2020, where applicable. For further information regarding the Company's derivative instruments, see Note 8, "Derivative Instruments."

[2] Represents the maturity date as of March 31, 2020; subject to certain conditions, the maturity dates of certain loans may be extended beyond the dates shown.

[3] Subsequent to March 31, 2020, the Company entered into a loan modification agreement with the lender which extended the maturity date of the Anchor Centre Mortgage Loan to December 1, 2020 and provided one six-month extension option to June 1, 2021, subject to conditions contained in the loan modification agreement.

[4] On January 23, 2020, the 201 17th Street Mortgage Loan was paid off and the 201 17th Street property was added to the collateral of the Portfolio Revolving Loan Facility. See below, "- Recent Financing Transaction - Modified Portfolio Revolving Loan Facility."

[5] As of March 31, 2020, the Portfolio Loan Facility was secured by RBC Plaza, Preston Commons, Sterling Plaza, Towers at Emeryville, Ten Almaden, Town Center and Accenture Tower. The face amount of the Portfolio Loan Facility is $912.3 million, of which $684.2 million is term debt and $228.1 million is revolving debt. As of March 31, 2020, the outstanding balance under the loan consisted of $684.2 million of term debt and $4.0 million of revolving debt. As of March 31, 2020, an additional $224.1 million of revolving debt remained available for immediate future disbursements, subject to certain conditions set forth in the loan agreement. During the remaining term of the Portfolio Loan Facility, the Company has an option to increase the loan amount by up to an additional $400.0 million in increments of $25.0 million, to a maximum of $1.31 billion, of which 75% would be term debt and 25% would be revolving debt, subject to certain conditions contained in the loan documents. As of March 31, 2020, there are two one-year extension options remaining on the Portfolio Loan Facility.

[6] See below, "- Recent Financing Transaction - Modified Portfolio Revolving Loan Facility."

[7] Represents the payment type required as of March 31, 2020. Certain future monthly payments due under the loan also include amortizing principal payments. For more information on the Company's contractual obligations under its notes payable, see the five-year maturity table below.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

During the three months ended March 31, 2020 and 2019, the Company incurred $48.8 million and $37.9 million of interest expense, respectively. Included in interest expense was: (i) the amortization of deferred financing costs of $1.1 million and $1.6 million for the three months ended March 31, 2020 and 2019, respectively, and (ii) interest expense (including gains and losses) incurred as a result of the Company's derivative instruments, which increased interest expense by $34.7 million and $13.2 million for the three months ended March 31, 2020 and 2019, respectively. Additionally, during the three months ended March 31, 2019, the Company capitalized $0.5 million of interest related to construction in progress. As of March 31, 2020 and December 31, 2019, $4.5 million and $4.5 million of interest expense were payable, respectively.

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of March 31, 2020 (in thousands):

April 1, 2020 through December 31, 2020	$	737,117
2021		—
2022		93,000
2023		294,623
2024		379,245
	$	1,503,985

The Company's notes payable contain financial debt covenants. As of March 31, 2020, the Company was in compliance with these debt covenants.

Recent Financing Transaction

Modified Portfolio Revolving Loan Facility

On October 17, 2018, the Company, through indirect wholly owned subsidiaries, entered into a three-year loan facility with U.S. Bank, N.A., as administrative agent (the "Agent"), for a committed amount of up to $215.0 million (the "Portfolio Revolving Loan Facility").

On January 23, 2020, the Company, through indirect wholly owned subsidiaries (collectively, the "Borrower"), entered into a first modification and additional advance agreement (the "Modified Portfolio Revolving Loan Facility") with the Agent and the Lenders (defined below) to (i) increase the committed amount by $110.0 million to $325.0 million, subject to certain conditions in the loan agreement, (ii) add 201 17th Street as collateral for the Modified Portfolio Revolving Loan Facility, and (iii) reset the loan term. The Modified Portfolio Revolving Loan Facility is composed of $162.5 million of term debt and $162.5 million of revolving debt. The lenders under the Modified Portfolio Revolving Loan Facility are U.S. Bank, N.A., Regions Bank, Citizens Bank, City National Bank and Associated Bank, N.A. (the "Lenders").

On January 23, 2020, the Company drew $66.5 million on the Modified Portfolio Revolving Loan Facility of which $64.9 million was used to pay off the 201 17th Street Mortgage Loan and the remaining amount was used to pay origination fees and accrued interest. As of March 31, 2020, a total of $294.6 million was funded under the Modified Portfolio Revolving Loan Facility, of which $162.5 million was term debt and $132.1 million was revolving debt. As of March 31, 2020, an additional $30.4 million of revolving debt is available upon satisfaction of certain conditions set forth in the loan documents. The Modified Portfolio Revolving Loan Facility may be used for working capital, capital expenditures, real property acquisitions and other corporate purposes.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

The initial maturity date of the Modified Portfolio Revolving Loan Facility is March 1, 2023, with two 12-month extension options, subject to certain terms, conditions and fees as described in the loan documents. The Modified Portfolio Revolving Loan Facility bears interest at a floating rate of 150 basis points over one-month LIBOR. Monthly payments are interest only with the entire balance and all outstanding interest and fees due at maturity. The Company will have the right to prepay all or a portion of the Modified Portfolio Revolving Loan Facility, subject to certain expenses potentially incurred by the Lender as a result of the prepayment and subject to certain conditions contained in the loan documents. During the term of the Modified Portfolio Revolving Loan Facility, the Company has an option to increase the committed amount of the Modified Portfolio Revolving Loan Facility up to four times with each increase of the committed amount to be at least $15.0 million but no greater than, in the aggregate, an additional $325.0 million so that the committed amount will not exceed $650.0 million, of which 50% would be term debt and 50% would be revolving debt, with the addition of one or more properties to secure the loan, subject to certain terms and conditions contained in the loan documents. In addition, the Modified Portfolio Revolving Loan Facility contains customary representations and warranties, financial and other covenants, events of default and remedies typical for this type of facility. The Modified Portfolio Revolving Loan Facility is secured by 515 Congress, Domain Gateway, the McEwen Building, Gateway Tech Center and 201 17th Street.

KBS REIT Properties III, LLC ("REIT Properties III"), the Company's wholly owned subsidiary, is providing a guaranty of (i) up to 25% of the committed amount under the Modified Portfolio Revolving Loan Facility, as such amount may be adjusted from time to time pursuant to the terms of the loan documents, (ii) payment of, and agrees to protect, defend, indemnify and hold harmless each Lender for, from and against, any liability, obligation, deficiency, loss, damage, costs and expenses (including reasonable attorney's fees), and any litigation which may at any time be imposed upon, incurred or suffered by any Lender because of (a) certain intentional acts committed by any Borrower, (b) fraud or intentional misrepresentations by Borrower or REIT Properties III in connection with the loan documents as described in the guaranty agreement, and (c) certain bankruptcy or liquidation proceedings under state or federal law, and (iii) payment for liability that is incurred and related to certain environmental matters.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

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.

As of March 31, 2020, the Company has entered into 11 interest rate swaps, which were not designated as hedging instruments. The following table summarizes the notional amount and other information related to the Company's interest rate swaps as of March 31, 2020 and December 31, 2019. 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):

	March 31, 2020		December 31, 2019				
Derivative Instruments	Number of Instruments	Notional Amount	Number of Instruments	Notional Amount	Reference Rate as of March 31, 2020	Weighted-Average Fix Pay Rate	Weighted-Average Remaining Term in Years
Derivative instruments not designated as hedging instruments							
Interest rate swaps [1]	11	$ 1,189,803	11	$ 960,963	One-month LIBOR/ Fixed at 1.16% - 2.15%	1.86%	2.5

[1] Includes two forward interest rate swaps in the total amount of $115.0 million, which will become effective in August 2020 and November 2020 and mature in 2023.

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 March 31, 2020 and December 31, 2019 (dollars in thousands):

		March 31, 2020		December 31, 2019	
Derivative Instruments	Balance Sheet Location	Number of Instruments	Fair Value	Number of Instruments	Fair Value
Derivative instruments not designated as hedging instruments					
Interest rate swaps	Prepaid expenses and other assets, at fair value	—	$ —	3	$ 1,553
Interest rate swaps	Other liabilities, at fair value	11	$ (43,841)	8	$ (11,404)

The following table summarizes the effects of derivative instruments on the Company's consolidated statements of operations (in thousands):

	For the Three Months Ended March 31,	
	2020	2019
Derivatives not designated as hedging instruments		
Realized loss (gain) recognized on interest rate swaps	$ 747	$ (1,389)
Unrealized loss on interest rate swaps	33,991	14,619
Increase in interest expense as a result of derivatives	$ 34,738	$ 13,230

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

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 impaired real estate loans receivable and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

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

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

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

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

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

The following were the face values, carrying amounts and fair values of the Company's notes payable as of March 31, 2020 and December 31, 2019, which carrying amounts generally do not approximate the fair values (in thousands):

	March 31, 2020			December 31, 2019		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial liabilities:						
Notes payable	$ 1,503,985	$ 1,497,349	$ 1,486,917	$ 1,466,376	$ 1,459,879	$ 1,469,293

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

As of March 31, 2020, the Company measured the following derivative instruments at fair value (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Liability derivatives - interest rate swaps	$ (43,841)	$ —	$ (43,841)	$ —

As of March 31, 2020, the Company measured the following asset at fair value on a nonrecurring basis (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Nonrecurring Basis:				
Impaired real estate	$ 80,500	$ —	$ —	$ 80,500

During the three months ended March 31, 2020, one of the Company's real estate properties was measured at its estimated fair value based on a discounted cash flow approach. The significant unobservable inputs the Company used in measuring the estimated fair value of this property include a discount rate of 9.00% and a terminal cap rate of 8.25%. See Note 3, "Real Estate – Impairment of Real Estate" for further discussion on the impaired real estate property.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

10. RELATED PARTY TRANSACTIONS

The Company has entered into the Advisory Agreement with the Advisor and the Dealer Manager Agreement with the Dealer Manager. These agreements entitled the Advisor and/or the Dealer Manager to specified fees upon the provision of certain services with regard to the Offering and reimbursement of organization and offering costs incurred by the Advisor and the Dealer Manager on behalf of the Company and entitle the Advisor to specified fees upon the provision of certain services with regard to the investment of funds in real estate investments, the management of those investments, among other services, and the disposition of investments, as well as entitle the Advisor and/or the Dealer Manager to reimbursement of offering costs related to the dividend reinvestment plan incurred by the Advisor and the Dealer Manager on behalf of the Company and certain costs incurred by the Advisor in providing services to the Company. In addition, the Advisor is entitled to certain other fees, including an incentive fee upon achieving certain performance goals, as detailed in the Advisory Agreement. The Company has also entered into a fee reimbursement agreement with the Dealer Manager pursuant to which the Company agreed to reimburse the Dealer Manager for certain fees and expenses it incurs for administering the Company's participation in the DTCC Alternative Investment Product Platform with respect to certain accounts of the Company's investors serviced through the platform. The Advisor and Dealer Manager also serve or served as the advisor and dealer manager, respectively, for KBS Real Estate Investment Trust II, Inc. ("KBS REIT II"), 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 and the dealer manager agreement terminated as of December 31, 2019), 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 and the dealer manager agreement terminated as of December 31, 2019) and KBS Growth & Income REIT, Inc. ("KBS Growth & Income REIT").

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, 2019, the Company, together with KBS REIT II, KBS Growth & Income REIT, 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. In June 2019, the Company renewed its participation in the program. The program is effective through June 30, 2020.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

Pursuant to the terms of these agreements, summarized below are the related-party costs incurred by the Company for the three months ended March 31, 2020 and 2019, respectively, and any related amounts payable as of March 31, 2020 and December 31, 2019 (in thousands):

	Incurred		Payable as of	
	Three Months Ended March 31,		March 31,	December 31,
	2020	2019	2020	2019
Expensed				
Asset management fees [1]	$ 5,174	$ 6,872	$ 8,878	$ 6,674
Reimbursement of operating expenses [2] [3]	109	527	86	79
Capitalized				
Acquisition fee on development project	33	45	1,166	1,133
	$ 5,316	$ 7,444	$ 10,130	$ 7,886

[1] See “Deferral of Asset Management Fees” below.

[2] Reimbursable operating expenses primarily consists of internal audit personnel costs, accounting software and cybersecurity related expenses incurred by the Advisor under the Advisory Agreement. The Company 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 $91,000 and $70,000 for the three months ended March 31, 2020 and 2019, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement for the three months ended March 31, 2020 and 2019, respectively. The Company will not reimburse for employee costs in connection with services for which the Advisor earns acquisition or origination fees 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.

[3] Prior to the Singapore Transaction closing on July 19, 2019, the Company and the Advisor had agreed to evenly divide certain costs and expenses related to the Singapore Transaction. During the three months ended March 31, 2019, the Company incurred approximately $0.4 million of costs related to the Singapore Transaction, which were reimbursable by the SREIT upon a successful closing. These costs included legal, audit, tax, printing and other out-of-pocket costs that the Company incurred related to the Singapore Transaction. In October 2019, all of these costs had been reimbursed to the Company from the Advisor upon the Advisor receiving the reimbursement from the SREIT.

In connection with the Offering, Messrs. Bren, Hall, McMillan and Schreiber agreed to provide additional indemnification to one of the participating broker-dealers. The Company agreed to add supplemental coverage to its directors’ and officers’ insurance coverage to insure Messrs. Bren, Hall, McMillan and Schreiber’s obligations under this indemnification agreement in exchange for reimbursement by Messrs. Bren, Hall, McMillan and Schreiber to the Company for all costs, expenses and premiums related to this supplemental coverage. During the three months ended March 31, 2020 and 2019, the Advisor did not incur any costs for the supplemental coverage obtained by the Company.

Deferral of Asset Management Fees

Pursuant to the Advisory Agreement, with respect to asset management fees accruing from March 1, 2014, the Advisor has agreed to defer, without interest, the Company’s obligation to pay asset management fees for any month in which the Company’s modified funds from operations (“MFFO”) for such month, as such term is defined in the practice guideline issued by the Institute for Portfolio Alternatives (formerly known as the Investment Program Association) in November 2010 and interpreted by the Company, excluding asset management fees, does not exceed the amount of distributions declared by the Company for record dates of that month. The Company remains obligated to pay the Advisor an asset management fee in any month in which the Company’s MFFO, excluding asset management fees, for such month exceeds the amount of distributions declared for the record dates of that month (such excess amount, an “MFFO Surplus”); however, any amount of such asset management fee in excess of the MFFO Surplus will also be deferred under the Advisory Agreement. If the MFFO Surplus for any month exceeds the amount of the asset management fee payable for such month, any remaining MFFO Surplus will be applied to pay any asset management fee amounts previously deferred in accordance with the Advisory Agreement.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

However, notwithstanding the foregoing, any and all deferred asset management fees that are unpaid will become immediately due and payable at such time as the Company's stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) an 8.0% per year cumulative, noncompounded return on such net invested capital (the "Stockholders' 8% Return") and (ii) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to the Company's share redemption program. The Stockholders' 8% Return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of the Company's stockholders to have received any minimum return in order for the Advisor to receive deferred asset management fees.

As of March 31, 2020 and December 31, 2019, the Company had accrued and deferred payment of $8.9 million and $6.7 million of asset management fees under the Advisory Agreement, respectively.

Lease to Affiliate

On May 29, 2015, the indirect wholly owned subsidiary (the "Lessor") of the Company that owns 3003 Washington Boulevard entered into a lease with an affiliate of the Advisor (the "Lessee") for 5,046 rentable square feet, or approximately 2.4% of the total rentable square feet, at 3003 Washington Boulevard. The lease commenced on October 1, 2015 and was to terminate on August 31, 2019. The annualized base rent, which represents annualized contractual base rental income, adjusted to straight-line any contractual tenant concessions (including free rent) and rent increases from the lease's inception through the balance of the initial lease term, for this lease was approximately $0.2 million, and the average annual rental rate (net of rental abatements) over the lease term was $46.38 per square foot.

On March 14, 2019, the Lessor entered into a First Amendment to Deed of Lease with the Lessee to extend the lease period commencing on September 1, 2019 and terminating on August 31, 2024 (the "Amended Lease") and set the annual base rent during the extension period. The annualized base rent from the commencement of the Amended Lease is approximately $0.3 million, and the average annual rental rate (net of rental abatements) over the term of the Amended Lease through its termination is $62.55 per square foot.

During the three months ended March 31, 2020 and 2019, the Company recognized $81,000 and $60,000 of revenue related to this lease, respectively.

Prior to their approval of the lease and the Amended Lease, the Company's conflicts committee and board of directors determined the lease to be fair and reasonable to the Company.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

Portfolio Sale

On July 18, 2019, the Company sold the Singapore Portfolio to the SREIT, which is affiliated with Charles J. Schreiber, Jr., the Company's Chief Executive Officer, President, Chairman of the Board and one of the Company's directors. See Note 6, "Investment in an Unconsolidated Entity" for information related to the investment the Company made in the SREIT in connection with the Singapore Transaction. The SREIT is externally managed by a joint venture (the "Manager") among KBS Asia Partners Pte. Ltd. ("KAP"), an entity in which Charles J. Schreiber, Jr. currently holds an indirect 50% ownership interest, and other entities unaffiliated with the Company. The SREIT is expected to pay the Manager an annual base fee of 10% of annual distributable income and an annual performance fee of 25% of the increase in distributions per unit of the SREIT from the preceding year; however, there would not be any performance fee for 2019, and in 2020 such fee will be based on an increase over projected distributions per unit. In addition, for future acquisitions, the SREIT will pay the Manager an acquisition fee of 1% of the acquisition price of any real estate acquired. No acquisition fee was paid with respect to the SREIT's acquisition of the Singapore Portfolio. The SREIT will also pay the Manager a divestment fee of 0.5% of the sale price of any real estate sold or divested and a development management fee of 3% of the total project costs incurred for development projects, to the extent the SREIT acquires a development project. A portion of these fees paid to the Manager will be paid to KBS Realty Advisors LLC, an affiliate of the Advisor and an entity controlled by Mr. Schreiber, for sub-advisory services. The Schreiber Trust, a trust whose beneficiaries are Charles J. Schreiber, Jr. and his family members, and the Linda Bren 2017 Trust also acquired units in the SREIT. The Schreiber Trust agreed that for the benefit of the Company it will not sell any portion of its respective units in the SREIT unless and until it has received the Company's prior written consent, including the consent of the Company's conflicts committee. The Linda Bren 2017 Trust has agreed for the benefit of the Company that it will not sell $5.0 million of its $10.0 million aggregate investment in the SREIT unless and until it has received the Company's prior written consent, including the consent of the Company's conflicts committee. Linda Bren is the spouse of our former director and president, who passed away in April 2019. In addition, Barbara R. Cambon, one of the Company's former directors, accepted the positions of Chief Executive Officer and Chief Investment Officer of the Manager and will receive compensation for her services. In connection with her acceptance of these positions, Ms. Cambon resigned from the Company's board of directors effective June 26, 2019.

During the three months ended March 31, 2020 and 2019, no other business transactions occurred between the Company and KBS REIT II, Pacific Oak Strategic Opportunity REIT, Pacific Oak Strategic Opportunity REIT II, KBS Growth & Income REIT, the Advisor, the Dealer Manager or other KBS-affiliated entities. See Note 11 "Commitments and Contingencies - Participation Fee Liability".

11. COMMITMENTS AND CONTINGENCIES

Economic Dependency

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

Legal Matters

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

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. Compliance with existing environmental laws is not expected to have a material adverse effect on the Company's financial condition and results of operations as of March 31, 2020.

Participation Fee Liability

In accordance with the Advisory Agreement with the Advisor, the Advisor is entitled to receive a participation fee equal to 15.0% of the Company's net cash flows, whether from continuing operations, net sale proceeds or otherwise, after the Company's stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to the share redemption program, and (ii) an 8.0% per year cumulative, noncompounded return on such net invested capital. Net sales proceeds means the net cash proceeds realized by the Company after deduction of all expenses incurred in connection with a sale, including disposition fees paid to the Advisor. The 8.0% per year cumulative, noncompounded return on net invested capital is calculated on a daily basis. In making this calculation, the net invested capital is reduced to the extent distributions in excess of a cumulative, noncompounded, annual return of 8.0% are paid (from whatever source), except to the extent such distributions would be required to supplement prior distributions paid in order to achieve a cumulative, noncompounded, annual return of 8.0% (invested capital is only reduced as described in this sentence; it is not reduced simply because a distribution constitutes a return of capital for federal income tax purposes). The 8.0% per year cumulative, noncompounded return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of the Company's stockholders to have received any minimum return in order for the Advisor to participate in the Company's net cash flows. In fact, if the Advisor is entitled to participate in the Company's net cash flows, the returns of the Company's stockholders will differ, and some may be less than an 8.0% per year cumulative, noncompounded return. This fee is payable only if the Company is not listed on an exchange.

On January 9, 2020, the Company filed a definitive proxy statement with the SEC seeking approval from its stockholders of, among other proposals, two proposals related to the Company's pursuit of conversion to a non-listed, perpetual-life "NAV REIT", both of which were approved by the Company's stockholders at the Company's annual meeting of stockholders on May 7, 2020. With respect to the incentive fee structure currently in effect with the Advisor, the triggering events for payment of the incentive fee are generally expected to occur, if ever, upon a listing of the Company's shares of stock on a national securities exchange or a significant distribution of cash in connection with a sale of all or a substantial amount of the Company's assets. These triggering events are inconsistent with a perpetual-life NAV REIT that intends to provide liquidity to its stockholders through a share redemption program and/or periodic self-tender offers. Therefore, in order to properly align the Advisor's and its affiliates' incentive fee compensation structure with the Company's proposed perpetual-life strategy, the Company intends to revise its incentive fee structure. With respect to the historical performance period from inception through conversion to an NAV REIT, the Company sought and obtained stockholder approval to accelerate the payment of the incentive compensation upon conversion to a perpetual life NAV REIT, subject to certain conditions. Such accelerated payment is subject to further approval of the conflicts committee of the Company's board of directors, after the proposed amount of the accelerated payment of the incentive fee has been determined. In connection with the determination of the December 2019 estimated value per share of the Company's common stock, the Advisor estimated the fair value of the potential liability related to the subordinated participation in net cash flows to be approximately $30 million as of the valuation date, based on a hypothetical liquidation of the assets and liabilities at their estimated fair values, after considering the impact of any potential closing costs and fees related to the disposition of real estate properties. The fair value of the potential incentive fee liability is based on the estimated fair values of the Company's assets and liabilities as of that date and changes to the fair values of assets and liabilities could have a material impact to the incentive fee calculation. The incentive fee is not currently payable to the Advisor, as it remains subject to further approval by the conflicts committee as well as the Company's conversion to a perpetual-life NAV REIT, and there is no guarantee that it will ever be payable.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

12. SUBSEQUENT EVENTS

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

Disposition of Hardware Village and Entering into a Financing Arrangement with Purchaser

On May 9, 2012, the Company, through an indirect wholly owned subsidiary, acquired an office building containing 198,565 rentable square feet located on approximately 9.0 acres of land in Salt Lake City, Utah ("Gateway Tech Center"). At acquisition, a portion of the land at Gateway Tech Center was designated as multi-use with the potential for development (the "Excess Land").

On August 26, 2016, the Company, through an indirect wholly owned subsidiary, and an unaffiliated developer (the "Developer Partner") entered into an agreement to form a joint venture (the "Hardware Village Joint Venture"). The Hardware Village Joint Venture was formed to participate in the development and subsequent operation of a two building multi-family apartment complex ("Hardware Village"). In July 2018, one of the two buildings consisting of 267 units was placed into service. In October 2019, the development was completed and the second building consisting of 186 units was placed into service.

Through May 7, 2020, the Company owned a 99.24% equity interest in the Hardware Village Joint Venture. The Company partially funded its initial capital contribution to the Hardware Village Joint Venture by contributing the Excess Land valued, pursuant to the joint venture agreement, at $13.5 million with a historical cost basis of $4.2 million. At March 31, 2020, the cost basis of Hardware Village, including the cost basis of the Excess Land and excluding accumulated depreciation, was $128.3 million. The project was primarily funded with capital contributions from the Company and proceeds from a loan facility with an unaffiliated lender, which was paid off by the Company on September 25, 2019.

On December 6, 2019, the Hardware Village Joint Venture, through a wholly owned subsidiary, entered into a purchase and sale agreement and escrow instructions for the sale of Hardware Village to a buyer (the "Purchaser"). The Purchaser is not affiliated with the Hardware Village Joint Venture, the Company or the Advisor.

On May 7, 2020, the Hardware Village Joint Venture completed the sale of Hardware Village to the Purchaser for a purchase price of $178.0 million, before third-party closing costs, credits and the disposition fee payable to the Advisor. The purchase price was paid in a combination of approximately $27.8 million in cash and approximately $150.2 million in seller financing provided by an indirect wholly owned subsidiary of the Company (the "Lender"), as described below. The Developer Partner received a distribution of $6.4 million of the proceeds from the sale, assigned its interest in the Hardware Village Joint Venture to the Company and ceased to be a member of the Hardware Village Joint Venture effective May 7, 2020.

In connection with the sale and seller financing, on May 7, 2020, the Purchaser entered into a promissory note with the Lender for $150.2 million. The promissory note is secured by a first mortgage on Hardware Village. For the period commencing on May 7, 2020 through July 31, 2020, interest on the promissory note will accrue based on the higher of 2.95% and 250 basis points plus one-month LIBOR. For the period commencing on August 1, 2020 and until the maturity date, interest on the promissory note will accrue based on the higher of 3.95% and 350 basis points plus one-month LIBOR. Monthly payments are interest only, with the outstanding principal due and payable at maturity on May 6, 2021; however, the Purchaser can prepay the outstanding principal and any unpaid accrued interest at any time without fee, premium or penalty.

Distributions Paid

On April 1, 2020, the Company paid distributions of $9.1 million, which related to distributions in the amount of $0.04983333 per share of common stock to stockholders of record as of the close of business on March 20, 2020. On May 1, 2020, the Company paid distributions of $9.1 million, which related to distributions in the amount of $0.04983333 per share of common stock to stockholders of record as of the close of business on April 20, 2020.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2020

(unaudited)

COVID-19 Pandemic

The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how the pandemic will impact its tenants and its investment in the SREIT. While the Company did not incur significant disruptions from the COVID-19 pandemic during the three months ended March 31, 2020, the Company did recognize an impairment charge on an office/retail property due to the continued deterioration of retail demand at the property which was further impacted by the COVID-19 pandemic. Many of the Company's tenants have experienced disruptions in their business, some more severely than others. In general, the Company's retail tenants have been more severely impacted by the COVID-19 pandemic than the office tenants. In addition, since April 1, 2020, several tenants have requested rent relief as a result of the pandemic, and the Company is unable to predict the impact that the pandemic will have on its financial condition, results of operations and cash flows due to numerous uncertainties. The Company is evaluating each tenant rent relief request on an individual basis, considering a number of factors. Not all tenant requests will ultimately result in modified agreements, nor is the Company forgoing its contractual rights under its lease agreements.

The extent to which the COVID-19 pandemic impacts the Company's operations and those of its tenants and the Company's investment in the SREIT will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Real Estate Investment Trust III, 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. Moreover, you should interpret many of the risks identified in this report, as well as the risks set forth below, as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

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:

- The COVID-19 pandemic, together with the resulting restrictions on travel and quarantines imposed, has had a negative impact on the economy and business activity globally. The extent to which the COVID-19 pandemic impacts our operations and those of our tenants and our investment in the SREIT will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others.
- We are dependent on KBS Capital Advisors LLC ("KBS Capital Advisors"), our advisor, to identify investments, to manage our investments and for the disposition of our investments.
- All of our executive officers, our affiliated director and other key real estate and debt finance professionals are also officers, affiliated directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor, our dealer manager 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. Furthermore, these individuals may become employees of another KBS-sponsored program in an internalization transaction or, if we internalize our advisor, may not become our employees as a result of their relationship with other KBS-sponsored programs. These conflicts could result in action or inaction that is not in the best interests of our stockholders.
- Our advisor and its affiliates currently receive fees in connection with transactions involving the purchase or origination, management and disposition of our investments. Acquisition and asset management fees are based on the cost of the investment, and not based on the quality of the investment or the quality of the services rendered to us. This may influence our advisor to recommend riskier transactions to us. We may also pay significant fees during our listing/liquidation stage. Although most of the fees payable during our listing/liquidation stage are contingent on our stockholders first enjoying agreed-upon investment returns, the investment return thresholds may be reduced subject to approval by our conflicts committee and to other limitations in our charter. These payments increase the risk that our stockholders will not earn a profit on their investment in us and increase the risk of loss to our stockholders. As discussed herein, our board of directors has approved management's recommendation to pursue conversion to a non-listed perpetual-life net asset value "NAV" REIT. If we convert to an NAV REIT, we would implement a revised advisory fee structure.

- Our charter permits us to pay distributions from any source, including offering proceeds or borrowings (which may constitute a return of capital), and our charter does not limit the amount of funds we may use from any source to pay such distributions. From time to time during our operational stage, we may use proceeds from third party financings to fund at least a portion of distributions in anticipation of cash flow to be received in later periods. We may also fund such distributions from the sale of properties or from the sale, maturity, payoff or settlement of real estate-related investments. If we pay distributions from sources other than our cash flow from operations, the overall return to our stockholders may be reduced.
- We may incur debt until our total liabilities would exceed 75% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves), and we may exceed this limit with the approval of the conflicts committee of our board of directors. To the extent financing in excess of this limit is available on attractive terms, our conflicts committee may approve debt such that our total liabilities would exceed this limit. High debt levels could limit the amount of cash we have available to distribute and could result in a decline in the value of an investment in us.
- We depend on tenants for the revenue generated by our real estate investments and, accordingly, the revenue generated by our real estate investments is dependent upon the success and economic viability of our tenants. Revenues from our properties could decrease due to a reduction in occupancy (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases), rent deferrals or abatements, tenants becoming unable to pay their rent and/or lower rental rates, making it more difficult for us to meet our debt service obligations and limiting our ability to pay distributions to our stockholders. Since April 1, 2020, several tenants have requested rent relief, most in the form of rent deferrals or abatements, as a result of the pandemic, and therefore, we are unable to predict the impact that the pandemic will have on the financial condition, results of operations and cash flows of our tenants and us due to numerous uncertainties.
- Our significant investment in the equity securities of Prime US REIT, a traded Singapore real estate investment trust (the "SREIT"), is subject to the risks associated with real estate investments as well as the risks inherent in investing in traded securities, including, in this instance, risks related to blockage due to the quantity of units held by us and risks related to the trading volume of the units. The COVID-19 pandemic has caused significant negative pressure in the financial markets. Since mid-March 2020, the trading price of the common units of the SREIT has declined substantially and experienced substantial volatility.
- Because investment opportunities that are suitable for us may also be suitable for other KBS-sponsored programs or KBS-advised investors, our advisor and its affiliates face conflicts of interest relating to the purchase of properties and other investments and such conflicts may not be resolved in our favor, meaning that we could invest in less attractive assets, which could reduce the investment return to our stockholders.
- We cannot predict with any certainty how much, if any, of our dividend 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 our real estate properties; reserves required by any financings of our real estate investments; the acquisition or origination of real estate investments; and the repayment of debt. If such funds are not available from our dividend 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.
- Disruptions in the financial markets and uncertain economic conditions could adversely affect our ability to implement our business strategy and generate returns to stockholders. In addition, our real estate and real estate-related 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.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

- Our board of directors has approved management's recommendation to explore strategic alternatives in an effort to provide enhanced liquidity to stockholders. In an effort to further enhance stockholder liquidity, our board of directors has determined to pursue conversion to a non-listed perpetual-life NAV REIT. In connection with our pursuit of conversion to an NAV REIT, on January 10, 2020, we filed a registration statement on Form S-11 with the SEC to register a public offering. Pursuant to the registration statement, we propose to register up to $2,000,000,000 of shares of common stock, consisting of up to $1,700,000,000 in shares in a primary offering and up to $300,000,000 in shares pursuant to a dividend reinvestment plan. We can give no assurance that we will commence or complete this offering. Our conversion to an NAV REIT remains subject to further approval of our conflicts committee, composed of all of our independent directors, and our board of directors. Regulatory, market or business considerations, including the impact of the COVID-19 pandemic on the markets and our operations, may influence us to delay the implementation of the NAV REIT conversion and we can give no assurance that we will complete the conversion to an NAV REIT. Even if we convert to an NAV REIT, there is no assurance that we will successfully implement our strategy, and we can provide no assurance that our NAV REIT strategy will be able to provide additional liquidity to stockholders. Further, although we are exploring an NAV REIT strategy, there is no assurance that this process will provide a return to stockholders that equals or exceeds our estimated value per share.
- Our charter does not require us to liquidate our assets and dissolve by a specified date, nor does our charter require our directors to list our shares for trading by a specified date. No public market currently exists for our shares of common stock, and we have no plans at this time to list our shares on a national securities exchange. Until our shares are listed, if ever, our stockholders may not sell their shares unless the buyer meets the applicable suitability and minimum purchase standards. Any sale must comply with applicable state and federal securities laws. In addition, our charter prohibits the ownership of more than 9.8% of our stock, unless exempted by our board of directors, which may inhibit large investors from purchasing our shares. Our shares cannot be readily sold and, if our stockholders are able to sell their shares, they would likely have to sell them at a substantial discount from the price our stockholders paid to acquire the shares and from our estimated value per share.
- In connection with our pursuit of a NAV REIT strategy, in December 2019, the board of directors determined to temporarily suspend Ordinary Redemptions (defined below) under the share redemption program. Ordinary Redemptions are all redemptions that do not qualify for the special provisions for redemptions sought in connection with a stockholder's death, "Qualifying Disability" or "Determination of Incompetence" (each as defined in the share redemption program). Redemptions sought in connection with a stockholder's death, "Qualifying Disability" or "Determination of Incompetence" are "Special Redemptions." Upon suspension, all Ordinary Redemptions requests that had been received were cancelled and no Ordinary Redemptions requests will be accepted or collected during the suspension of the share redemption program. Under the current share redemption program, during any calendar year, we may redeem (i) only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year unless our board of directors authorizes additional funds for redemption, provided that once we have received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being $10.0 million or less, the last $10.0 million of available funds shall be reserved exclusively for Special Redemptions and (ii) no more than 5% of the weighted average number of shares outstanding during the prior calendar year. As of April 30, 2020, we had $47.5 million available for redemptions, including $10.0 million reserved for Special Redemptions for the remainder of 2020. We cannot predict future redemption demand with any certainty. If future redemption requests exceed the amount of funding available under our share redemption program and/or any additional funding made available under one or more self-tender offers, the number of rejected redemption or repurchase requests will increase over time.

All forward-looking statements should be read in light of the risks identified in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission (the "SEC"), and the risks identified in Part II, Item 1A herein.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Overview

We were formed on December 22, 2009 as a Maryland corporation that elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2011 and we intend to continue to operate in such a manner. We conduct our business primarily through our Operating Partnership, of which we are the sole general partner. Subject to certain restrictions and limitations, our business is managed by our advisor pursuant to an advisory agreement and our advisor conducts our operations and manages our portfolio of real estate investments. Our advisor owns 20,857 shares of our common stock. We have no paid employees.

We have invested in a diverse portfolio of real estate investments. As of March 31, 2020, we owned 18 office properties and one mixed-use office/retail property and had entered into a consolidated joint venture to develop a multifamily apartment complex, which was completed and held for sale as of March 31, 2020. In addition, we owned an investment in the equity securities of the SREIT, which is accounted for as an investment in an unconsolidated entity under the equity method of accounting.

On July 18, 2019, we, through 12 wholly owned subsidiaries, sold 11 of our properties (the "Singapore Portfolio") to the SREIT, which was listed on the Singapore Stock Exchange on July 19, 2019 (the "Singapore Transaction").

On February 4, 2010, we filed a registration statement on Form S-11 with the SEC to offer a minimum of 250,000 shares and a maximum of up to 280,000,000 shares, or up to $2,760,000,000 of shares, of common stock for sale to the public, of which up to 200,000,000 shares, or up to $2,000,000,000 of shares, were registered in our primary offering and up to 80,000,000 shares, or up to $760,000,000 of shares, were registered under our dividend reinvestment plan. We ceased offering shares of common stock in our primary offering on May 29, 2015 and terminated the primary offering on July 28, 2015.

We sold 169,006,162 shares of common stock in our now-terminated primary initial public offering for gross offering proceeds of $1.7 billion. As of March 31, 2020, we had also sold 33,529,451 shares of common stock under our dividend reinvestment plan for gross offering proceeds of $344.5 million. Also as of March 31, 2020, we had redeemed or repurchased 28,750,807 shares sold in our initial public offering for $314.5 million.

Additionally, on October 3, 2014, we issued 258,462 shares of common stock, for $2.4 million, in private transactions exempt from the registration requirements pursuant to Section 4(a)(2) of the Securities Act of 1933.

We continue to offer shares of common stock under our dividend reinvestment plan. In some states, we will need to renew the registration statement annually or file a new registration statement to continue the dividend reinvestment plan offering. We may terminate our dividend reinvestment plan offering at any time.

Our board of directors has approved management's recommendation to explore strategic alternatives in an effort to provide enhanced liquidity to stockholders. In an effort to further enhance stockholder liquidity, our board of directors has determined to pursue conversion to a non-listed perpetual-life NAV REIT that calculates the net asset value or "NAV" per share on a regular basis that is more frequent that annually (i.e., daily, monthly or quarterly) and seeks to provide increased liquidity to current and future stockholders through an expansion of our current share redemption program and/or periodic self-tender offers. In connection with our pursuit of conversion to an NAV REIT, on January 10, 2020, we filed a registration statement on Form S-11 with the SEC to register a public offering. Pursuant to the registration statement, we propose to register up to $2,000,000,000 of shares of common stock, consisting of up to $1,700,000,000 in shares in a primary offering and up to $300,000,000 in shares pursuant to a dividend reinvestment plan. We can give no assurance that we will commence or complete this offering. Our conversion to an NAV REIT remains subject to further approval of our conflicts committee, composed of all of our independent directors, and our board of directors. Regulatory, market or business considerations, including the impact of the COVID-19 pandemic on the markets and our operations, may influence us to delay the implementation of the NAV REIT conversion and we can give no assurance that we will complete the conversion to an NAV REIT. Although we are exploring an NAV REIT strategy, there is no assurance that we will successfully implement our strategy.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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. Further, revenues from our properties could decrease due to a reduction in occupancy (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases), rent deferrals or abatements, tenants being unable to pay their rent and/or lower rental rates. 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. Further, increases in interest rates would increase the amount of our debt payments on our variable rate debt to the extent the interest rates on such debt are not fixed through interest rate swap agreements or limited by interest rate caps. 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. Most recently, the outbreak of COVID-19 has had a negative impact on the real estate market as discussed below.

COVID-19 Pandemic and Portfolio Outlook

Since initially being reported in December 2019, COVID-19 has spread around the world, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. The COVID-19 pandemic has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the pandemic is rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures and restricting travel. As a result, the COVID-19 pandemic is negatively impacting almost every industry, including the real estate industry and the industries of our tenants, directly or indirectly. The rapid development and fluidity of the COVID-19 pandemic precludes any prediction as to the ultimate adverse impact the pandemic may have on our business, financial condition, results of operations and cash flows.

In the near term many of our tenants will suffer reductions in revenue and, depending upon the duration of quarantines and the corresponding economic slowdown, some of our tenants have or will seek rent deferrals or become unable to pay their rent. During April, we have seen an impact on our rental income. As of May 5, 2020, we had collected 93% of April rent charges, including billings related to tenant reimbursements, from approximately 95% of our tenants, which is a reduction in collections of 6% from the first quarter monthly average. Further, since April 1, 2020, we had received short-term rent relief requests from several tenants, in the form of rent deferral requests or abatements, which we are evaluating on an individual basis. Any rent relief arrangements are expected to be structured as temporary short-term deferrals of base rent that will be paid back over time, either through increased rental payments during subsequent periods of the current lease or through an extension of the current lease term. Not all tenant requests will ultimately result in modified agreements, nor are we forgoing our contractual rights under our lease agreements. In most cases, it is in our best interest to help our tenants remain in business and reopen when shelter-in-place orders or other mandated closures are lifted. If tenants default on their rent and vacate, the ability to re-lease this space is likely to be more difficult if the economic slowdown continues and any long term impact of this situation, even after an economic rebound, remains unclear. April collections and rent relief requests to-date may not be indicative of collections or requests in any future period. The impact of the COVID-19 pandemic on our rental revenue for the second quarter of 2020 and thereafter cannot, however, be determined at present.

In addition to the direct impact on our rental income, we may also need to recognize additional impairment charges at our properties to the extent rental projections continue to decline at our properties. During the three months ended March 31, 2020, we recognized impairment for an office/retail property due to the continued deterioration of retail demand at the property which was further impacted by the COVID-19 pandemic.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

We have also made a significant investment in the common units of the SREIT. In addition to the risks similar to above with respect to the SREIT's investments in US office properties, our investment in the units of the SREIT is subject to the risks inherent in investing in traded securities. Since mid-March 2020, the trading price of the common units of the SREIT has declined substantially and experienced substantial volatility. For purposes of the December 4, 2019 estimated value per share, we valued our investment in units of the SREIT at $257.8 million, based on the trading price of the units of the SREIT as of closing on December 3, 2019 less a discount for (i) transfer restrictions imposed by lock-up agreements then in effect on 100% of the units we held and (ii) blockage due to the quantity of units held by us relative to the normal level of trading volume in the SREIT units. As of May 14, 2020, the aggregate value of our investment in the units of the SREIT was $199.8 million, which was based solely on the closing price of the units on the SGX of $0.69 per unit as of May 14, 2020 and did not take into account the remaining lock-up restrictions on 50% of the units we hold and potential blockage due to the quantity of units we hold.

The COVID-19 pandemic or a future pandemic, epidemic or outbreak of infectious disease affecting states or regions in which we or our tenants operate could have material and adverse effects on our business, financial condition, results of operations and cash flows due to, among other factors: health or other government authorities requiring the closure of offices or other businesses or instituting quarantines of personnel as the result of, or in order to avoid, exposure to a contagious disease; disruption in supply and delivery chains; a general decline in business activity and demand for real estate; reduced economic activity, general economic decline or recession, which may impact our tenants' businesses, financial condition and liquidity and may cause tenants to be unable to make rent payments to us timely, or at all, or to otherwise seek modifications of lease obligations; difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions, which may affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis; and the potential negative impact on the health of personnel of our advisor, particularly if a significant number of our advisor's employees are impacted, which would result in a deterioration in our ability to ensure business continuity during a disruption.

The extent to which the COVID-19 pandemic or any other pandemic, epidemic or disease impacts our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others. Nevertheless, the COVID-19 pandemic (or a future pandemic, epidemic or disease) presents material uncertainty and risk with respect to our business, financial condition, results of operations and cash flows. We continue to evaluate the impact and uncertainty of the COVID-19 pandemic on our real estate portfolio's ongoing cash flows and monthly stockholder distributions. We can give no certainty to the amount of future monthly stockholder distributions which will depend in large part on the amount of tenant rent collections each month and the impact on our operating cash flows. In the near term, our board of directors will evaluate the payment of future distributions on a monthly basis.

As of March 31, 2020, we had $254.5 million of revolving debt available for immediate future disbursement under various loans, subject to certain conditions set forth in the loan agreements. We have $737.1 million of notes payable maturing during the twelve months ending March 31, 2021, which can be fully extended subject to certain conditions set forth in the loan agreements. Significant reductions in rental revenue in the future related to the impact of the COVID-19 pandemic may limit our ability to draw on our revolving credit facilities or exercise our extension options due to covenants described in our loan agreements. However, we believe that our cash flow from operations, cash on hand, proceeds from our dividend reinvestment plan, proceeds from asset sales and current and anticipated financing activities are sufficient to meet our liquidity needs for the foreseeable future.

Our business, like all businesses, is being impacted by the uncertainty regarding the COVID-19 pandemic, the effectiveness of policies introduced to neutralize the disease, and the impact of those policies on economic activity. While there are weakening macroeconomic conditions and some negative impact to our tenants, we believe with our diverse portfolio of core real estate properties with tenants across various industries, and with creditworthy tenants and limited retail exposure in our real estate portfolio, we are positioned to navigate this unprecedented period.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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; 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 and real estate-related investments;
- Debt financings (including amounts currently available under existing loan facilities);
- Proceeds from the sale of our real estate properties and real estate-related investments; and
- Proceeds from common stock issued under our dividend reinvestment plan.

Our real estate properties 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 our real estate properties is primarily dependent upon the occupancy level of our portfolio, the net effective rental rates on our leases, the collectability of rent and operating recoveries from our tenants and how well we manage our expenditures, all of which may be adversely affected by the impact of the COVID-19 pandemic as discussed above.

Our investment in an unconsolidated entity generates cash flow in the form of dividend income. As of March 31, 2020, our investment in an unconsolidated entity had a carrying value of $240.3 million.

As of March 31, 2020, we had mortgage debt obligations in the aggregate principal amount of $1.5 billion, with a weighted-average remaining term of 2.0 years. The maturity dates of certain loans may be extended beyond their current maturity date, subject to certain terms and conditions contained in the loan documents. Assuming our notes payable are fully extended under the terms of the respective loan agreements and other loan documents, we have no notes payable maturing or amortization payments due during the 12 months ending March 31, 2021. We plan to exercise our extension options available under our loan agreements or pay down or refinance the related notes payable prior to their maturity dates. As of March 31, 2020, our debt obligations consisted of $93.0 million of fixed rate notes payable and $1.4 billion of variable rate notes payable. As of March 31, 2020, the interest rates on $1.2 million of our variable rate notes payable were effectively fixed through interest rate swap agreements (including two forward interest rate swaps in the total amount of $115.0 million, which will become effective in August 2020 and November 2020, respectively). As of March 31, 2020, we had $254.5 million of revolving debt available for immediate future disbursement under various loans, subject to certain conditions set forth in the loan agreements. See "Market Outlook - Real Estate and Real Estate Finance Markets - COVID-19 Pandemic and Portfolio Outlook" for a discussion on the impact of the outbreak of COVID-19 on our business.

We paid distributions to our stockholders during the three months ended March 31, 2020 using cash flow from operations from the current period and debt financing. We believe that our cash flow from operations, cash on hand, proceeds from our dividend reinvestment plan, proceeds from asset sales and current and anticipated financing activities are sufficient to meet our liquidity needs for the foreseeable future.

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 March 31, 2020 did not exceed the charter-imposed limitation.

Cash Flows from Operating Activities

During the three months ended March 31, 2020, net cash provided by operating activities was $17.4 million, compared to net cash provided by operating activities of $15.0 million during the three months ended March 31, 2019. Net cash provided by operating activities was higher in 2020 primarily as a result of the dividends received from our investment in SREIT, offset by the sale of the Singapore Portfolio in July 2019 and the timing of payments of operating expenses. We expect cash flows provided by operating activities to decrease in future periods to the extent our tenants are impacted by COVID-19 and defer rent payments or are unable to pay rent.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Cash Flows from Investing Activities

Net cash used in investing activities was $31.6 million for the three months ended March 31, 2020 and primarily consisted of the following:

- $29.5 million used for improvements to real estate; and
- $2.1 million used for construction in progress related to Hardware Village.

Cash Flows from Financing Activities

During the three months ended March 31, 2020, net cash provided by financing activities was $16.8 million and primarily consisted of the following:

- $36.2 million of net cash provided by debt financing as a result of proceeds from notes payable of $104.5 million, partially offset by principal payments on notes payable of $66.9 million and payments of deferred financing costs of $1.4 million;
- $15.6 million of net cash distributions, after giving effect to distributions reinvested by stockholders of $11.9 million;
- $3.0 million of cash used for redemptions and repurchases of common stock; and
- Payment of other organization and offering costs of $0.7 million related to our pursuit of conversion to an NAV REIT.

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). There is no limitation on the amount we may borrow for the purchase of any single asset. We limit our total liabilities to 75% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves), meaning that our borrowings and other liabilities may exceed our maximum target leverage of 65% of the cost of our tangible assets without violating these borrowing restrictions. We may exceed the 75% limit only if a majority of the conflicts committee approves each borrowing in excess of this limitation and we disclose such borrowings to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. To the extent financing in excess of this limit is available on attractive terms, our conflicts committee may approve debt in excess of this limit. From time to time, our total liabilities could also be below 45% of the cost of our tangible assets due to the lack of availability of debt financing. As of March 31, 2020, our borrowings and other liabilities were approximately 57% of both the cost (before deducting depreciation and other noncash reserves) and book value (before deducting depreciation) of our tangible assets.

We also expect to use our capital resources to make certain payments to our advisor. We currently make payments to our advisor in connection with the acquisition of investments, the management of our investments and costs incurred by our advisor in providing services to us. We also pay fees to our advisor in connection with the disposition of investments. We reimburse our advisor and dealer manager for certain stockholder services. In addition, our advisor is entitled to an incentive fee upon achieving certain performance goals.

Among the fees payable to our advisor is an asset management fee. With respect to investments in real property, the asset management fee is a monthly fee equal to one-twelfth of 0.75% of the amount paid or allocated to acquire the investment, plus the cost of any subsequent development, construction or improvements to the property. This amount includes any portion of the investment that was debt financed and is inclusive of acquisition expenses related thereto (but excludes 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 (but excluding acquisition fees paid to our advisor). With respect to investments in loans and any investments other than real property, the asset management fee is a monthly fee calculated, each month, as one-twelfth of 0.75% of the lesser of (i) the amount actually paid or allocated to acquire or fund the loan or other investment (which amount includes any portion of the investment that was debt financed and is inclusive of acquisition or origination expenses related thereto but is exclusive of acquisition or origination fees paid or payable to our advisor) and (ii) the outstanding principal amount of such loan or other investment, plus the acquisition or origination expenses related to the acquisition or funding of such investment (excluding acquisition or origination fees paid or payable to our advisor), as of the time of calculation. We currently do not pay asset management fees to our advisor on our investment in units of the SREIT.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Pursuant to the advisory agreement, with respect to asset management fees accruing from March 1, 2014, our advisor agreed to defer, without interest, our obligation to pay asset management fees for any month in which our modified funds from operations ("MFFO") for such month, as such term is defined in the practice guideline issued by the Institute for Portfolio Alternatives ("IPA") in November 2010 and interpreted by us, excluding asset management fees, does not exceed the amount of distributions declared by us for record dates of that month. We remain obligated to pay our advisor an asset management fee in any month in which our MFFO, excluding asset management fees, for such month exceeds the amount of distributions declared for the record dates of that month (such excess amount, an "MFFO Surplus"); however, any amount of such asset management fee in excess of the MFFO Surplus will also be deferred under the advisory agreement. If the MFFO Surplus for any month exceeds the amount of the asset management fee payable for such month, any remaining MFFO Surplus will be applied to pay any asset management fee amounts previously deferred in accordance with the advisory agreement.

However, notwithstanding the foregoing, any and all deferred asset management fees that are unpaid will become immediately due and payable at such time as our stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) an 8% per year cumulative, noncompounded return on net invested capital (the "Stockholders' 8% Return") and (ii) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to our share redemption program. The Stockholders' 8% Return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of our stockholders to have received any minimum return in order for our advisor to receive deferred asset management fees.

As of March 31, 2020, we had accrued and deferred payment of $8.9 million of asset management fees under the advisory agreement. The amount of asset management fees deferred, if any, will vary on a month-to-month basis and the total amount of asset management fees deferred as well as the timing of the deferrals and repayments are difficult to predict as they will depend on the amount of and terms of the debt we use to acquire assets, the level of operating cash flow generated by our real estate investments and other factors. In addition, deferrals and repayments may occur in the same period, and it is possible that there could be additional deferrals in the future.

On September 27, 2019, we and our advisor renewed the advisory agreement. The advisory agreement has a one-year term but may be renewed for an unlimited number of successive one-year periods upon the mutual consent of our advisor and our conflicts committee.

Participation Fee Liability and Potential Change in Fee Structure

Pursuant to our advisory agreement currently in effect with our advisor, our advisor is due a subordinated participation in our net cash flows (the "Subordinated Participation in Net Cash Flows") upon meeting certain performance goals. After our stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to our share redemption program, and (ii) an 8.0% per year cumulative, noncompounded return on such net invested capital, our advisor is entitled to receive 15.0% of our net cash flows, whether from continuing operations, net sale proceeds or otherwise. Net sales proceeds means the net cash proceeds realized by us after deduction of all expenses incurred in connection with a sale, including disposition fees paid to our advisor. The 8.0% per year cumulative, noncompounded return on net invested capital is calculated on a daily basis. In making this calculation, the net invested capital is reduced to the extent distributions in excess of a cumulative, noncompounded, annual return of 8.0% are paid (from whatever source), except to the extent such distributions would be required to supplement prior distributions paid in order to achieve a cumulative, noncompounded, annual return of 8.0% (invested capital is only reduced as described in this sentence; it is not reduced simply because a distribution constitutes a return of capital for federal income tax purposes). The 8.0% per year cumulative, noncompounded return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of our stockholders to have received any minimum return in order for our advisor to participate in our net cash flows. In fact, if our advisor is entitled to participate in our net cash flows, the returns of our stockholders will differ, and some may be less than an 8.0% per year cumulative, noncompounded return. This fee is payable only if we are not listed on an exchange.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

On January 9, 2020, we filed a definitive proxy statement with the SEC in connection with the annual meeting of stockholders to vote on, among other proposals, two proposals related to our pursuit of conversion to an NAV REIT. On May 7, 2020 at our annual meeting of stockholders, our stockholders approved the proposal to accelerate the payment of incentive compensation to our advisor, upon our conversion to an NAV REIT. However, the proposed acceleration of the payment of incentive compensation to our advisor remains subject to further approval of the conflicts committee, after the proposed amount of the accelerated payment of the incentive fee has been determined. Solely for purposes of determining the estimated net asset value of our company as of September 30, 2019, adjusted to give effect to the October 23, 2019 authorization of the Special Dividend of $0.80 per share on our outstanding shares of common stock to the stockholders of record as of the close of business on November 4, 2019 and a change in the estimated value of our investment in units of the SREIT, calculated in accordance with the estimated value per share approved by our board of directors on December 4, 2019, our advisor calculated the potential liability related to the Subordinated Participation in Net Cash Flows based on a hypothetical liquidation of the assets and liabilities at their estimated fair values, after considering the impact of any potential closing costs and fees related to the disposition of real estate properties. Our advisor estimated the fair value of this liability to be approximately $30 million or $0.17 per share as of the valuation date, and included the impact of this liability in its calculation of our estimated value per share.

As discussed herein, our board of directors has approved management's recommendation to pursue conversion to a non-listed perpetual-life net asset value "NAV" REIT. If we convert to an NAV REIT, we would implement a revised advisory fee structure. However, regulatory, market or business considerations, including the impact of the COVID-19 pandemic on the markets and our operations, may influence us to delay the implementation of the NAV REIT conversion and we can give no assurance that we will complete the conversion to an NAV REIT.

Contractual Obligations

The following is a summary of our contractual obligations as of March 31, 2020 (in thousands):

		Payments Due During the Years Ended December 31,			
Contractual Obligations	**Total**	**Remainder of 2020**	**2021-2022**	**2023-2024**	**Thereafter**
Outstanding debt obligations [1]	$ 1,503,985	$ 737,117	$ 93,000	$ 673,868	$ —
Interest payments on outstanding debt obligations [2]	94,611	34,496	44,570	15,545	—

[1] Amounts include principal payments only based on maturity dates as of March 31, 2020; subject to certain conditions, the maturity dates of certain loans may be extended beyond what is shown above.

[2] Projected interest payments are based on the outstanding principal amounts, maturity dates and interest rates in effect as of March 31, 2020 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable). We incurred interest expense of $13.7 million, excluding amortization of deferred financing costs totaling $1.1 million and unrealized losses on derivative instruments of $34.0 million during the three months ended March 31, 2020.

Results of Operations

Overview

As of March 31, 2019, we owned 28 office properties and one mixed-use office/retail property and had entered into the Hardware Village joint venture to develop a multifamily apartment complex. On July 18, 2019, we sold 11 properties to the SREIT in the Singapore Transaction. As of March 31, 2020, we owned 18 office properties and one mixed-use office/retail property and had entered into the Hardware Village joint venture to develop a multifamily apartment complex, which was completed and held for sale as of March 31, 2020. In addition, we owned an investment in the equity securities of the SREIT, which is accounted for as an investment in an unconsolidated entity under the equity method of accounting. As a result, the results of operations presented for the three months ended March 31, 2020 and 2019 are not directly comparable.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Comparison of the three months ended March 31, 2020 versus the three months ended March 31, 2019

The following table provides summary information about our results of operations for the three months ended March 31, 2020 and 2019 (dollar amounts in thousands):

	Three Months Ended March 31,					
	2020	2019	Increase (Decrease)	Percentage Change	$ Changes Due to Completions and Dispositions [1]	$ Change Due to Properties Held Throughout Both Periods [2]
Rental income	$ 71,618	$ 103,007	$ (31,389)	(30)%	$ (28,354)	$ (3,035)
Other operating income	6,084	8,371	(2,287)	(27)%	(2,567)	280
Operating, maintenance and management	18,257	23,735	(5,478)	(23)%	(6,419)	941
Real estate taxes and insurance	14,103	17,446	(3,343)	(19)%	(3,846)	503
Asset management fees to affiliate	5,174	6,872	(1,698)	(25)%	(1,885)	187
General and administrative expenses	1,677	2,035	(358)	(18)%	n/a	n/a
Depreciation and amortization	27,392	41,408	(14,016)	(34)%	(11,815)	(2,201)
Interest expense	48,789	37,947	10,842	29 %	(6,904)	17,746
Impairment charges on real estate	19,896	8,706	11,190	129 %	—	11,190
Other income	—	13	(13)	(100)%	n/a	n/a
Other interest income	33	72	(39)	(54)%	n/a	n/a
Equity in loss of an unconsolidated entity	(1,161)	—	(1,161)	(100)%	—	(1,161)
Loss from extinguishment of debt	(188)	—	(188)	(100)%	—	(188)

[1] Represents the dollar amount increase (decrease) for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 related to real estate developments completed and placed in service, and real estate investments disposed of on or after January 1, 2019.

[2] Represents the dollar amount increase (decrease) for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 related to real estate investments owned by us throughout both periods presented.

Rental income from our real estate properties decreased from $103.0 million for the three months ended March 31, 2019 to $71.6 million for the three months ended March 31, 2020. The decrease in rental income was primarily due to the Singapore Transaction in July 2019, and with respect to properties held throughout both periods, lease termination fees received in 2019 and an increase in the reserve for straight-line rent during the three months ended March 31, 2020 as a result of the outbreak of COVID-19, partially offset by an increase in occupancy at Hardware Village East, which was completed and placed in service in October 2019. We expect rental income to vary based on occupancy rates and rental rates of our real estate investments and uncertainty and business disruptions as a result of the outbreak of COVID-19. See "Market Outlook - Real Estate and Real Estate Finance Markets - COVID-19 Pandemic and Portfolio Outlook" for a discussion on the impact of the outbreak of COVID-19 on our business.

Other operating income decreased from $8.4 million during the three months ended March 31, 2019 to $6.1 million for the three months ended March 31, 2020. The decrease in other operating income was primarily due to the Singapore Transaction in July 2019, partially offset by an increase in parking revenues for properties held throughout both periods. We expect other operating income to vary in future periods based on occupancy rates and parking rates at our real estate properties, and business disruptions as a result of the outbreak of COVID-19.

Operating, maintenance and management costs decreased from $23.7 million for the three months ended March 31, 2019 to $18.3 million for the three months ended March 31, 2020. The decrease in operating, maintenance and management costs was primarily due to the Singapore Transaction in July 2019, partially offset by the costs related to the operation of Hardware Village East, which was completed and placed in service in October 2019, and by an increase in operating costs at properties held throughout both periods. We expect operating, maintenance and management costs to increase in future periods as a result of general inflation for properties that we continue to own offset by a decrease due to the disposition of Hardware Village, which subsequently sold on May 7, 2020.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Real estate taxes and insurance decreased from $17.4 million for the three months ended March 31, 2019 to $14.1 million for the three months ended March 31, 2020. The decrease in real estate taxes and insurance was primarily due to the Singapore Transaction in July 2019, partially offset by tax refunds received in 2019 for various properties held throughout both periods. We expect real estate taxes and insurance to increase in future periods as a result of general inflation and general increases due to future property tax reassessments for properties that we continue to own offset by a decrease due to the disposition of Hardware Village, which subsequently sold on May 7, 2020.

Asset management fees with respect to our real estate investments decreased from $6.9 million for the three months ended March 31, 2019 to $5.2 million for the three months ended March 31, 2020 primarily due to the Singapore Transaction in July 2019, partially offset by the development of Hardware Village East, which was completed in October 2019. We expect asset management fees to increase in future periods as a result of any improvements we make to our properties offset by a decrease due to the disposition of Hardware Village, which subsequently sold on May 7, 2020. As of March 31, 2020, there were $8.9 million of accrued and deferred asset management fees. For a discussion of accrued and deferred asset management fees, see "-Liquidity and Capital Resources" herein.

General and administrative expenses decreased from $2.0 million for the three months ended March 31, 2019 to $1.7 million for the three months ended March 31, 2020. The decrease in general and administrative expenses was primarily due to professional fees incurred in 2019 related to the Singapore Transaction that closed on July 18, 2019. We had agreed with our advisor to evenly divide certain costs and expenses related to the Singapore Transaction, all of which were reimbursed by the SREIT after closing. We expect general and administrative expenses to vary in future periods.

Depreciation and amortization decreased from $41.4 million for the three months ended March 31, 2019 to $27.4 million for the three months ended March 31, 2020, primarily due to the Singapore Transaction in July 2019, accelerated depreciation and amortization due to lease terminations in 2019 at a property held throughout both periods and the classification of Hardware Village to held for sale. Upon classifying a property as held for sale, we cease depreciation and amortization expense for that property. We expect depreciation and amortization to increase in future periods as a result of additional capital improvements offset by a decrease in amortization related to fully amortized tenant origination and absorption costs.

Interest expense increased from $37.9 million for the three months ended March 31, 2019 to $48.8 million for the three months ended March 31, 2020. Included in interest expense was (i) $23.5 million and $13.0 million of interest expense payments for the three months ended March 31, 2019 and 2020, respectively, (ii) the amortization of deferred financing costs of $1.6 million and $1.1 million for the three months ended March 31, 2019 and 2020, respectively, and (iii) interest expense (including gains and losses) incurred as a result of our derivative instruments, which increased interest expense by $13.2 million and $34.7 million for the three months ended March 31, 2019 and 2020. Additionally, during the three months ended March 31, 2019, we capitalized $0.5 million of interest to construction-in-progress related to Hardware Village. The increase in interest expense was primarily due to changes in fair values with respect to our interest rate swaps that are not accounted for as cash flow hedges and an increased level of borrowing, partially offset by the repayment of debt related to the Singapore Transaction in July 2019 and a lower 30-day LIBOR rate during the three months ended March 31, 2020. Our interest expense in future periods will vary based on fair value changes with respect to our interest rate swaps that are not accounted for as cash flow hedges and fluctuations in one-month LIBOR (for our variable rate debt). We also expect interest to increase in future periods as a result of additional borrowings for capital expenditures.

During the three months ended March 31, 2020 and 2019, we recorded impairment charges of $19.9 million and $8.7 million, respectively, to write down the carrying value of an office/retail property to its estimated fair value as a result of changes in cash flow estimates, including a change to the anticipated hold period of the property, which triggered the future estimated undiscounted cash flows to be lower than the net carrying value of the property at March 31, 2020 and 2019, respectively. The decrease in cash flow projections was primarily due to the continued lack of demand for the property's retail component resulting in longer than estimated lease-up periods and lower projected rental rates, mostly due to the impact of the COVID-19 pandemic with respect to the three months ended March 31, 2020. As a result, many retail tenants have requested rent concessions as their businesses have been severely impacted.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

During the three months ended March 31, 2020, we recorded an equity in loss from an unconsolidated entity of $1.2 million related to our investment in the SREIT, which includes $3.3 million related to our share of net losses from the SREIT offset by a gain of $2.1 million to reflect the net effect to our investment as a result of the net proceeds raised by the SREIT in a private offering in February 2020. Based on our 27.5% ownership interest in the SREIT as of March 31, 2020, we exercise significant influence over the operations, financial policies and decision making with respect to this investment. Accordingly, we accounted for the investment in the SREIT under the equity method of accounting as of March 31, 2020. We did not recognize any equity in income (loss) of an unconsolidated entity during the three months ended March 31, 2019. We expect our equity in income (loss) of an unconsolidated entity related to our investment in the SREIT to vary based on occupancy rates and rental rates of the SREIT's real estate investments and uncertainty and business disruptions as a result of the outbreak of COVID-19.

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), gains and losses from change in control, 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 excluding acquisition fees and expenses (to the extent that such fees and expenses have been recorded as operating expenses) from MFFO provides investors with supplemental performance information that is consistent with management's analysis of the operating performance of the portfolio over time. MFFO also excludes non-cash items such as straight-line rental revenue. Additionally, we believe that MFFO provides investors with supplemental performance information that is consistent with the performance indicators and analysis used by management, in addition to net income and cash flows from operating activities as defined by GAAP, to evaluate the sustainability of our operating performance. MFFO provides comparability in evaluating the operating performance of our portfolio with other non-traded REITs which typically have limited lives with short and defined acquisition periods and targeted exit strategies. MFFO, or an equivalent measure, is routinely reported by non-traded REITs, and we believe often used by analysts and investors for comparison purposes.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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; however, neither FFO nor MFFO reflects adjustments for the operations of properties sold or under contract to sale during the periods presented. During periods of significant disposition activity, FFO and MFFO are much more limited measures of future performance and dividend sustainability. In connection with our presentation of FFO and MFFO, we are providing information related to the proportion of MFFO related to properties sold and held for sale as of March 31, 2020.

Further, during the current period of uncertainty and business disruptions as a result of the outbreak of COVID-19, FFO and MFFO are much more limited measures of future performance and dividend sustainability. See "Market Outlook - Real Estate and Real Estate Finance Markets - COVID-19 Pandemic and Portfolio Outlook" for a discussion of the impact of the outbreak of COVID-19 on our business.

Although MFFO includes other adjustments, the exclusion of adjustments for straight-line rent, the amortization of above- and below-market leases, unrealized losses (gains) on derivative instruments and loss from extinguishment of debt are the most significant adjustments for the periods presented. We have excluded these items based on the following economic considerations:

- *Adjustments for straight-line rent.* These are adjustments to rental revenue as required by GAAP to recognize contractual lease payments on a straight-line basis over the life of the respective lease. We have excluded these adjustments in our calculation of MFFO to more appropriately reflect the current economic impact of our in-place leases, while also providing investors with a useful supplemental metric that addresses core operating performance by removing rent we expect to receive in a future period or rent that was received in a prior period;
- *Amortization of above- and below-market leases.* Similar to depreciation and amortization of real estate assets and lease related costs that are excluded from FFO, GAAP implicitly assumes that the value of intangible lease assets and liabilities diminishes predictably over time and requires that these charges be recognized currently in revenue. Since market lease rates in the aggregate have historically risen or fallen with local market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the realized economics of the real estate;
- *Unrealized losses (gains) on derivative instruments.* These adjustments include unrealized losses (gains) from mark-to-market adjustments on interest rate swaps. The change in fair value of interest rate swaps not designated as a hedge are non-cash adjustments recognized directly in earnings and are included in interest expense. We have excluded these adjustments in our calculation of MFFO to more appropriately reflect the economic impact of our interest rate swap agreements; and
- *Loss from extinguishment of debt*. A loss from extinguishment of debt, which includes prepayment fees related to the extinguishment of debt, represents the difference between the carrying value of any consideration transferred to the lender in return for the extinguishment of a debt and the net carrying value of the debt at the time of settlement. We have excluded the loss from extinguishment of debt in our calculation of MFFO because these losses do not impact the current operating performance of our investments and do not provide an indication of future operating performance.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Our calculation of FFO, which we believe is consistent with the calculation of FFO as defined by NAREIT, is presented in the following table, along with our calculation of MFFO and Adjusted MFFO, for the three months ended March 31, 2020 and 2019, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Three Months Ended March 31,	
	2020	2019
Net loss attributable to common stockholders	$ (58,903)	$ (26,678)
Depreciation of real estate assets	20,218	26,496
Amortization of lease-related costs	7,174	14,912
Impairment charges on real estate	19,896	8,706
Adjustments for noncontrolling interests - consolidated entities [1]	—	(6)
Adjustment for investment in an unconsolidated entity [2]	2,354	—
FFO attributable to common stockholders [3]	(9,261)	23,430
Straight-line rent and amortization of above- and below-market leases, net	(2,351)	(2,822)
Loss from extinguishment of debt	188	—
Unrealized losses on derivative instruments	33,991	14,619
Adjustment for investment in an unconsolidated entity [2]	3,801	—
MFFO attributable to common stockholders [3]	26,368	35,227
Adjustment for a contractual rent payment received but deferred [4]	381	—
Adjusted MFFO attributable to common stockholders [3]	$ 26,749	$ 35,227

[1] Reflects adjustments to eliminate the noncontrolling interest holders' share of the adjustments to convert our net loss attributable to common stockholders to FFO.

[2] 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 an unconsolidated entity.

[3] FFO, MFFO and Adjusted MFFO include $2.6 million of lease termination income for the three months ended March 31, 2019.

[4] Adjustment for rent contractually due and collected per the terms of a lease agreement, but deferred and not recognized into rental income for purposes of GAAP as the tenant improvements are under construction. This amount is included in other liabilities on our consolidated balance sheet as of March 31, 2020.

Our calculation of Adjusted MFFO above includes amounts related to the operations of the multifamily apartment complex held by the Hardware Village Joint Venture that sold on May 7, 2020 and the Singapore Portfolio sold on July 18, 2019. Please refer to the table below with respect to the proportion of Adjusted MFFO related to the real estate properties sold or held for sale as of March 31, 2020 (in thousands).

	For the Three Months Ended March 31,	
	2020	2019
Adjusted MFFO by component:		
Assets held for investment	$ 26,681	$ 24,586
Real estate properties sold	15	11,641
Real estate property held for sale	53	(1,000)
Adjusted MFFO	$ 26,749	$ 35,227

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.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Distributions

Distributions declared, distributions paid and cash flow from operating activities were as follows for the first quarter of 2020 (in thousands, except per share amounts):

			Distributions Paid [2]			
Period	Distributions Declared	Distributions Declared Per Share [1]	Cash	Reinvested	Total	Cash Flow from Operating Activities
First Quarter 2020	$ 27,149	$ 0.149	$ 15,573	$ 11,904	$ 27,477	$ 17,410

[1] Assumes share was issued and outstanding on each monthly record date for distributions during the period presented. For each monthly record date for distributions during the period from January 1, 2020 through March 31, 2020, distributions were calculated at a rate of $0.04983333 per share.

[2] Distributions are paid on a monthly basis. Distributions for the monthly record date of a given month are paid on or about the first business day of the following month.

For the three months ended March 31, 2020, we paid aggregate distributions of $27.5 million, including $15.6 million of distributions paid in cash and $11.9 million of distributions reinvested through our dividend reinvestment plan. Our net loss attributable to common stockholders for the three months ended March 31, 2020 was $58.9 million. FFO for the three months ended March 31, 2020 was $(9.3) million and cash flow from operating activities was $17.4 million. See the reconciliation of FFO to net loss attributable to common stockholders above. We funded our total distributions paid, which includes net cash distributions and dividends reinvested by stockholders, with $17.4 million of cash flow from current operating activities and $10.1 million from debt financing. For purposes of determining the source of our distributions paid, we assume first that we use cash flow from operating activities from the relevant or prior periods to fund distribution payments.

We continue to evaluate the impact and uncertainty of the COVID-19 pandemic on our real estate portfolio's ongoing cash flows and monthly stockholder distributions. We can give no certainty to the amount of future monthly stockholder distributions which will depend in large part on the amount of tenant rent collections each month and the impact on our operating cash flows. In the near term, our board of directors will evaluate the payment of future distributions on a monthly basis.

Over the long-term, we generally expect our distributions will be paid from cash flow from operating activities from current periods or prior periods (except with respect to distributions related to sales of our assets and distributions related to the sales or repayment of real estate-related investments). From time to time during our operational stage, we may not pay distributions solely from our cash flow from operating activities, in which case distributions may be paid in whole or in part from debt financing. To the extent that we pay distributions from sources other than our cash flow from operating activities, the overall return to our stockholders may be reduced. Further, our operating performance cannot be accurately predicted and may deteriorate in the future due to numerous factors, including those discussed under "Forward-Looking Statements", "-Market Outlook - Real Estate and Real Estate Finance Markets," "-Liquidity and Capital Resources," and "-Results of Operations" herein, and the risks discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC, and those discussed in Part II, Item 1A herein. Those factors include: the future operating performance of our 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; the level of participation in our dividend reinvestment plan; and the extent to which the COVID-19 pandemic impacts our operations and those of our tenants and our investment in the SREIT. 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 operating activities.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Critical Accounting Policies

Our consolidated interim financial statements have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. A discussion of the accounting policies that management considers critical in that they involve significant management judgments, assumptions and estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC. There have been no significant changes to our policies during 2020.

Subsequent Events

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

Disposition of Hardware Village and Entering into a Financing Arrangement with Purchaser

On May 9, 2012, we, through an indirect wholly owned subsidiary, acquired an office building containing 198,565 rentable square feet located on approximately 9.0 acres of land in Salt Lake City, Utah ("Gateway Tech Center"). At acquisition, a portion of the land at Gateway Tech Center was designated as multi-use with the potential for development (the "Excess Land").

On August 26, 2016, we, through an indirect wholly owned subsidiary, and an unaffiliated developer (the "Developer Partner") entered into an agreement to form a joint venture (the "Hardware Village Joint Venture"). The Hardware Village Joint Venture was formed to participate in the development and subsequent operation of a two building multi-family apartment complex ("Hardware Village"). In July 2018, one of the two buildings consisting of 267 units was placed into service. In October 2019, the development was completed and the second building consisting of 186 units was placed into service.

Through May 7, 2020, we owned a 99.24% equity interest in the Hardware Village Joint Venture. We partially funded our initial capital contribution to the Hardware Village Joint Venture by contributing the Excess Land valued, pursuant to the joint venture agreement, at $13.5 million with a historical cost basis of $4.2 million. At March 31, 2020, the cost basis of Hardware Village, including the cost basis of the Excess Land and excluding accumulated depreciation, was $128.3 million. The project was primarily funded with capital contributions from us and proceeds from a loan facility with an unaffiliated lender, which was paid off by us on September 25, 2019.

On December 6, 2019, the Hardware Village Joint Venture, through a wholly owned subsidiary, entered into a purchase and sale agreement and escrow instructions for the sale of Hardware Village to a buyer (the "Purchaser"). The Purchaser is not affiliated with the Hardware Village Joint Venture, us or our advisor.

On May 7, 2020, the Hardware Village Joint Venture completed the sale of Hardware Village to the Purchaser for a purchase price of $178.0 million, before third-party closing costs, credits and the disposition fee payable to our advisor. The purchase price was paid in a combination of approximately $27.8 million in cash and approximately $150.2 million in seller financing provided by our indirect wholly owned subsidiary (the "Lender"), as described below. The Developer Partner received a distribution of $6.4 million of the proceeds from the sale, assigned its interest in the Hardware Village Joint Venture to us and ceased to be a member of the Hardware Village Joint Venture effective May 7, 2020.

In connection with the sale and seller financing, on May 7, 2020, the Purchaser entered into a promissory note with the Lender for $150.2 million. The promissory note is secured by a first mortgage on Hardware Village. For the period commencing on May 7, 2020 through July 31, 2020, interest on the promissory note will accrue based on the higher of 2.95% and 250 basis points plus one-month LIBOR. For the period commencing on August 1, 2020 and until the maturity date, interest on the promissory note will accrue based on the higher of 3.95% and 350 basis points plus one-month LIBOR. Monthly payments are interest only, with the outstanding principal due and payable at maturity on May 6, 2021; however, the Purchaser can prepay the outstanding principal and any unpaid accrued interest at any time without fee, premium or penalty.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Distributions Paid

On April 1, 2020, we paid distributions of $9.1 million, which related to distributions in the amount of $0.04983333 per share of common stock to stockholders of record as of the close of business on March 20, 2020. On May 1, 2020, we paid distributions of $9.1 million, which related to distributions in the amount of $0.04983333 per share of common stock to stockholders of record as of the close of business on April 20, 2020.

COVID-19 Pandemic

We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how the pandemic will impact our tenants and our investment in the SREIT. While we did not incur significant disruptions from the COVID-19 pandemic during the three months ended March 31, 2020, we did recognize an impairment charge on an office/retail property due to the continued deterioration of retail demand at the property which was further impacted by the COVID-19 pandemic. Many of our tenants have experienced disruptions in their business, some more severely than others. In general, our retail tenants have been more severely impacted by the COVID-19 pandemic than the office tenants. In addition, since April 1, 2020, several tenants have requested rent relief as a result of the pandemic, and we are unable to predict the impact that the pandemic will have on our financial condition, results of operations and cash flows due to numerous uncertainties. We are evaluating each tenant rent relief request on an individual basis, considering a number of factors. Not all tenant requests will ultimately result in modified agreements, nor are we forgoing our contractual rights under our lease agreements.

The extent to which the COVID-19 pandemic impacts our operations and those of our tenants and our investment in the SREIT will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the acquisition, expansion and refinancing of our real estate investment portfolio and operations. We may also be exposed to the effects of changes in interest rates as a result of the acquisition and origination of mortgage and other loans. 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 by utilizing a variety of financial instruments, including interest rate caps, floors, and swap agreements, in order to limit the effects of changes in interest rates on our operations. When we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the funds available for the payment of distributions to our stockholders and that the losses may exceed the amount we invested in the instruments.

We borrow funds at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt, unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. As of March 31, 2020, the fair value of our fixed rate debt was $95.3 million and the outstanding principal balance of our fixed rate debt was $93.0 million. The fair value estimate of our fixed rate debt is calculated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loan was originated as of March 31, 2020. As we expect to hold our fixed rate instruments to maturity (unless the property securing the debt is sold and the loan is repaid) and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

Conversely, movements in interest rates on our variable rate debt would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. However, changes in required risk premiums would result in changes in the fair value of variable rate instruments. As of March 31, 2020, we were exposed to market risks related to fluctuations in interest rates on $221.2 million of variable rate debt outstanding after giving consideration to the impact of interest rate swap agreements on approximately $1.2 billion of our variable rate debt (including two forward interest rate swaps in the total amount of $115.0 million, which will become effective in August 2020 and November 2020, respectively). Based on interest rates as of March 31, 2020, if interest rates were 100 basis points higher or lower during the 12 months ending March 31, 2021, interest expense on our variable rate debt would increase or decrease by $2.2 million.

The interest rate and weighted-average interest rate of our fixed rate debt and variable rate debt as of March 31, 2020 were 4.2% and 3.5%, respectively. The weighted-average interest rate represents the actual interest rate in effect as of March 31, 2020 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of March 31, 2020 where applicable.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)

We are exposed to financial market risk with respect to our investment in Prime US REIT (SGX Ticker: OXMU). Financial market risk is the risk that we will incur economic losses due to adverse changes in our investment's security price. Our exposure to changes in security prices is a result of our investment in these types of securities. Market prices are subject to fluctuation and, therefore, the amount realized in the subsequent sale of an investment may significantly differ from our carrying value. Fluctuation in the market prices of a security may result from any number of factors, including perceived changes in the underlying fundamental characteristics of the issuer, the relative price of alternative investments, interest rates, default rates and general market conditions. Pursuant to lock-up letters we and certain of our subsidiaries entered in connection with the acquisition of the securities, we and our subsidiaries agreed not to sell, pledge or transfer any of our units of common equity in Prime US REIT (subject to limited exceptions) until January 19, 2020 and not to sell, pledge or transfer 50% of our units of common equity until July 19, 2020. Prime US REIT's units were first listed for trading on the SGX-ST on July 19, 2019. If an active trading market for the units does not develop or is not sustained, it may be difficult to sell our units. The market for Singapore REITs may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of our investment in Prime US REIT difficult. Even if an active trading market develops or we are able to negotiate block trades, if we or other significant investors sell or are perceived as intending to sell a substantial amount of units in a short period of time, the market price of our remaining units could be adversely affected. In addition, as a foreign equity investment, the trading price of units of Prime US REIT may be affected by political, economic, financial and social factors in the Singapore and Asian markets, including changes in government, economic and fiscal policies. Furthermore, we may be limited in our ability to sell our investment in Prime US REIT if our advisor and/or its affiliates are deemed to have material, non-public information regarding Prime US REIT. Charles J. Schreiber, Jr., the Chairman of our Board, our Chief Executive Officer, our President and our affiliated director, is a director of the external manager of Prime US REIT, and an affiliate of our advisor services as the U.S. asset manager to Prime US REIT. We do not currently engage in derivative or other hedging transactions to manage our investment's security price risk. As of March 31, 2020, we held 289,561,899 units of the Prime US REIT which represented 27.5% of the outstanding units of Prime US REIT. As of March 31, 2020, the aggregate value of our investment in the units of Prime US REIT was $181.0 million, which was based on the closing price of the Prime US REIT units on the SGX of $0.63 per unit as of March 31, 2020. Based solely on the closing price per unit of Prime US REIT units as of March 31, 2020, if prices were to increase or decrease by 10% upon sale of all of our 289,561,899 units of Prime US REIT, our net income would decrease by $41.2 million or $77.4 million, respectively.

For a discussion of the interest rate risks related to the current capital and credit markets, see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Outlook - Real Estate and Real Estate Finance Markets" herein and the risks discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In addition to the risks discussed below, please see the risks discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the SEC.

The COVID-19 pandemic or any future pandemic, epidemic or outbreak of infectious disease could have material and adverse effects on our business, financial condition, results of operations and cash flows, the markets and communities in which we and our tenants operate and our investment in the SREIT.

Since initially being reported in December 2019, COVID-19 has spread around the world, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. The COVID-19 pandemic has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the pandemic is rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures and restricting travel. As a result, the COVID-19 pandemic is negatively impacting almost every industry, including the real estate industry and the industries of our tenants, directly or indirectly. Many experts predict that the COVID-19 pandemic will trigger a period of global economic slowdown or recession. The rapid development and fluidity of the COVID-19 pandemic precludes any prediction as to the ultimate adverse impact of the pandemic on our business, financial condition, results of operations or cash flows.

The COVID-19 pandemic or any future pandemic, epidemic or outbreak of infectious disease affecting states or regions in which we or our tenants operate could have material and adverse effects on our business, financial condition, results of operations and cash flows due to, among other factors:

- health or other government authorities requiring the closure of offices or other businesses or instituting quarantines of personnel as the result of, or in order to avoid, exposure to a contagious disease;
- disruption in supply and delivery chains;
- a general decline in business activity and demand for real estate;
- reduced economic activity, general economic decline or recession, which may impact our tenants' businesses, financial condition and liquidity and may cause tenants to be unable to make rent payments to us timely, or at all, or to otherwise seek modifications of lease obligations;
- difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions, which may affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis; and
- the potential negative impact on the health of our advisor's personnel, particularly if a significant number of our advisor's employees are impacted, which would result in a deterioration in our ability to ensure business continuity during a disruption.

We have also made a significant investment in the common units of the SREIT. In addition to the risks similar to above with respect to the SREIT's investments in US office properties, our investment in the units of the SREIT is subject to the risks inherent in investing in traded securities. Since mid-March 2020, the trading price of the common units of the SREIT has declined substantially and experienced substantial volatility. For purposes of the December 4, 2019 estimated value per share, we valued our investment in units of the SREIT at $257.8 million, based on the trading price of the units of the SREIT as of closing on December 3, 2019 less a discount for (i) transfer restrictions imposed by lock-up agreements then in effect on 100% of the units we held and (ii) blockage due to the quantity of units held by us relative to the normal level of trading volume in the SREIT units. As of May 14, 2020, the aggregate value of our investment in the units of the SREIT was $199.8 million, which was based solely on the closing price of the units on the SGX of $0.69 per unit as of May 14, 2020 and did not take into account the remaining lock-up restrictions on 50% of the units we hold and potential blockage due to the quantity of units we hold.

PART II. OTHER INFORMATION (CONTINUED)

Item 1A. Risk Factors (continued)

The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential impacts on our business and operations, our tenant's business and operations, our investment in the SREIT or the global economy as a whole. In the near term many of our tenants will suffer reductions in revenue and, depending upon the duration of quarantines and the corresponding economic slowdown, some of our tenants have or will seek rent deferrals or become unable to pay their rent. Since April 1, 2020, several tenants have requested rent relief, most in the form of rent deferrals or abatements. If tenants default on their rent and vacate, the ability to re-lease this space is likely to be more difficult if the economic slowdown continues and any long term impact of this situation, even after an economic rebound, remains unclear. While the spread of COVID-19 may eventually be contained or mitigated, there is no guarantee that a future outbreak or any other widespread epidemics will not occur, or that the global economy will recover, either of which could materially harm our business.

The current offering price of shares under our dividend reinvestment plan is equal to 95% of the December 4, 2019 estimated value per share approved by our board of directors. It does not take into account developments in our portfolio or the markets since December 4, 2019, including the current business disruptions as a result of the outbreak of the COVID-19 pandemic. As a result of these developments, a reinvestment of dividends in our common stock bears increased risk.

Pursuant to our dividend reinvestment plan, participants in the dividend reinvestment plan acquire shares of our common stock under the plan at a price equal to 95% of the estimated value per share of our common stock. As such, participants currently acquire shares of our common stock under the plan at a price equal to $11.07 per share, which is 95% of our December 4, 2019 estimated value per share. 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, the real estate and finance markets and due to other factors. As such, the estimated value per share does not take into account developments in our portfolio since December 4, 2019. In particular, the outbreak of COVID-19, together with the resulting restrictions on travel and quarantines imposed, has had a negative impact on the economy and business activity globally, as discussed in the risk factor above. These risks are not priced into our most recent estimated value per share, and given the uncertainty, no assurances can be given that the purchase price of shares of our common stock reflect the underlying value of our assets. As a result, a reinvestment of distributions in our common stock bears increased risk.

For a full description of the methodologies and assumptions used to value our assets and liabilities in connection with the calculation of the December 4, 2019 estimated value per share, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information" of the our Annual Report on Form 10-K for the year ended December 31, 2019.

PART II. OTHER INFORMATION (CONTINUED)

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

a). During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933.

b). Not applicable.

c). We have a share redemption program that may enable stockholders to sell their shares to us in limited circumstances. The restrictions of our share redemption program will severely limit our stockholders' ability to sell their shares should they require liquidity and will limit our stockholders' ability to recover an amount equal to our estimated value per share.

The following is a description of our share redemption program.

In connection with our pursuit of a NAV REIT strategy, in December 2019, the board of directors determined to temporarily suspend Ordinary Redemptions (defined below) under the share redemption program. Upon suspension, all Ordinary Redemptions requests that had been received were cancelled and no Ordinary Redemptions requests will be accepted or collected during the suspension of the share redemption program. However, any redemptions sought in connection with and meeting the requirements for a Special Redemptions (defined below) would still be eligible and continue to be processed in accordance with the current share redemption program, subject to the restrictions described below.

There are several limitations on our ability to redeem shares under our share redemption program:

- Unless the shares are being redeemed in connection with a stockholder's death, "Qualifying Disability" or "Determination of Incompetence" (each as defined in the share redemption program, and together with redemptions sought in connection with a stockholder's death, "Special Redemptions;" all redemptions that do not meet the requirements for a Special Redemption are "Ordinary Redemptions"), we may not redeem shares unless the stockholder has held the shares for one year.
- During any calendar year, we may redeem only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year, provided that once we have received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being $10.0 million or less, the last $10.0 million of available funds shall be reserved exclusively for Special Redemptions. Notwithstanding anything contained in our share redemption program to the contrary, we may increase or decrease the funding available for the redemption of shares pursuant to the program upon ten business days' notice to our stockholders.
- During any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- We have no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland General Corporation Law, as amended from time to time, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

For a stockholder's shares to be eligible for redemption in a given month, the administrator must receive a written redemption request from the stockholder or from an authorized representative of the stockholder setting forth the number of shares requested to be redeemed at least five business days before the redemption date. If we cannot redeem all shares presented for redemption in any month because of the limitations on redemptions set forth in our share redemption program, then we will honor redemption requests on a pro rata basis, except that if a pro rata redemption would result in a stockholder owning less than the minimum purchase requirement described in our currently effective, or the most recently effective, registration statement, as such registration statement has been amended or supplemented, then we would redeem all of such stockholder's shares.

If we do not completely satisfy a redemption request on a redemption date because the program administrator did not receive the request in time, because of the limitations on redemptions set forth in our share redemption program or because of a suspension of our share redemption program, then we will treat the unsatisfied portion of the redemption request as a request for redemption at the next redemption date funds are available for redemption, unless the redemption request is withdrawn. Any stockholder can withdraw a redemption request by sending written notice to the program administrator, provided such notice is received at least five business days before the redemption date.

PART II. OTHER INFORMATION (CONTINUED)

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

Upon a transfer of shares, any pending redemption requests with respect to such transferred shares will be canceled as of the date we accept the transfer. Stockholders wishing us to continue to consider a redemption request related to any transferred shares must resubmit their redemption request.

Pursuant to our share redemption program, redemptions made in connection with Special Redemptions are made at a price per share equal to the most recent estimated value per share of our common stock as of the applicable redemption date.

Ordinary Redemptions are made at a price per share equal to 95% of our most recent estimated value per share as of the applicable redemption date.

On December 4, 2019, our board of directors approved an estimated value per share of our common stock of $11.65 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, with the exception of adjustments to our net asset value to give effect to (i) the October 23, 2019 authorization of a Special Dividend of $0.80 per share on the outstanding shares of our common stock to the stockholders of record as of the close of business on November 4, 2019 and (ii) the change in the estimated value of our investment in units of Prime US REIT (SGX Ticker: OXMU) as of December 3, 2019. This estimated value per share became effective for the December 2019 redemption date, which was December 31, 2019.

For purposes of determining the time period a redeeming stockholder has held each share, the time period begins as of the date the stockholder acquired the share; provided, that shares purchased by the redeeming stockholder pursuant to our dividend reinvestment plan will be deemed to have been acquired on the same date as the initial share to which the dividend reinvestment plan shares relate. The date of the share's original issuance by us is not determinative.

We currently expect to utilize an independent valuation firm to update our estimated value per share no later than December 2020. We will report the estimated value per share of our common stock in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC. We will also provide information about our estimated value per share on our website, *www.kbsreitiii.com* (such information may be provided by means of a link to our public filings on the SEC's website, *www.sec.gov*).

Our board of directors may amend, suspend or terminate our share redemption program upon 10 business days' notice to stockholders, and we may increase or decrease the funding available for the redemption of shares pursuant to our share redemption program upon 10 business days' notice. 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 complete share redemption program document is filed as an exhibit to our Quarterly Report on Form 10-Q for the period ended March 31, 2018 filed with the SEC on May 9, 2018 and is available at the SEC's website at *www.sec.gov*.

PART II. OTHER INFORMATION (CONTINUED)

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

During the three months ended March 31, 2020, we funded redemptions under our share redemption program with the net proceeds from our dividend reinvestment plan and we redeemed shares pursuant to our share redemption program as follows:

Month	Total Number of Shares Redeemed [1]	Average Price Paid Per Share [2]	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2020	96,852	$ 11.65	[3]
February 2020	58,947	$ 11.65	[3]
March 2020	103,822	$ 11.65	[3]
Total	259,621		

[1] We announced the adoption and commencement of the program on October 14, 2010. We announced amendments to the program on March 8, 2013 (which amendment became effective on April 7, 2013), on March 7, 2014 (which amendment became effective on April 6, 2014) and on May 9, 2018 (which amendment became effective on June 8, 2018).

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

[3] We limit the dollar value of shares that may be redeemed under the program as described above. Based on the amount of net proceeds raised from the sale of shares under our dividend reinvestment plan during 2019, we had an aggregate of $51.7 million available for redemptions in 2020, including the reserve for Special Redemptions. In connection with our pursuit of a NAV REIT strategy, in December 2019, the board of directors determined to temporarily suspend Ordinary Redemptions under the share redemption program. Upon suspension, all Ordinary Redemptions requests that had been received were cancelled and no Ordinary Redemptions requests were accepted or collected during the three months ended March 31, 2020. Based on this limitation, as of March 31, 2020, we had $48.7 million available for redemptions for the remainder of 2020, including the reserve for Special Redemptions for the remainder of 2020. As of April 30, 2020, we had $47.5 million available for redemptions, including $10.0 million reserved for Special Redemptions for the remainder of 2020.

In addition to the redemptions under the share redemption program described above, during the three months ended March 31, 2020, we repurchased an additional 2,089 shares of our common stock at a weighted-average price of $11.65 per share for an aggregate price of $24,000.

PART II. OTHER INFORMATION (CONTINUED)

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5 Other Information

None.

Item 6. Exhibits

Ex.	Description
3.1	Second Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed January 25, 2011
3.2	Second Amended and Restated Bylaws, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed September 22, 2016
4.1	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-11, Commission File No. 333-164703, filed August 20, 2010
4.2	Fourth Amended and Restated Dividend Reinvestment Plan, incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed August 13, 2015
10.1	First Modification and Additional Advance Agreement (Long Form), by and among KBSIII Domain Gateway, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 155 North 400 West, LLC, KBSIII 515 Congress, LLC, KBSIII 201 17th Street, LLC, U.S. Bank National Association and the Lenders party thereto, dated January 23, 2020 ,incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.2	Deed to Secure Debt, Assignment of Leases and Rents, Security Agreement and Fixture Filing (201 17th Street Project), by and between KBSIII 201 17th Street, LLC and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.3	Junior Deed of Trust, Assignment of Leases and Rents, Security Agreement, Fixture Filing and Financing Statement (515 Congress Project), by and among KBSIII 515 Congress, LLC, James A Johnson and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.4	Junior Deed of Trust, Assignment of Leases and Rents, Security Agreement, Fixture Filing and Financing Statement (Domain Gateway Project), by and among KBSIII Domain Gateway, LLC, James A Johnson and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.5	Assignment and Assumption Agreement, by and between Fifth Third Bank and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020

PART II. OTHER INFORMATION (CONTINUED)

Item 6. Exhibits (continued)

Ex.	Description
10.6	Assumption and Joinder Agreement, by and among KBSIII 201 17th Street, LLC, the other Borrowers thereto and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.7	Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and Associated Bank, National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.8	Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and City National Bank, dated January 23, 2020, incorporated by reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.9	Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and Regions Bank, dated January 23, 2020, incorporated by reference to Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.10	Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and Citizens Bank, dated January 23, 2020, incorporated by reference to Exhibit 10.52 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.11	Second Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.12	Fee Letter, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
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	Fourth Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018, filed May 9, 2018

PART II. OTHER INFORMATION (CONTINUED)

Item 6. Exhibits (continued)

Ex.	Description
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)

SIGNATURES

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

KBS REAL ESTATE INVESTMENT TRUST III, INC.

Date: May 14, 2020

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

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

Date: May 14, 2020

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer, Treasurer and Secretary
(principal financial officer)

Exhibit 31.1

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

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

1. I have reviewed this quarterly report on Form 10-Q of KBS Real Estate Investment Trust III, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2020

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

Charles J. Schreiber, Jr.

Chairman of the Board,
Chief Executive Officer, President and Director

(principal executive officer)

Exhibit 31.2

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

I, Jeffrey K. Waldvogel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBS Real Estate Investment Trust III, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2020

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer, Treasurer and Secretary
(principal financial officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of KBS Real Estate Investment Trust III, Inc. (the "Registrant") for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Charles J. Schreiber, Jr., Chief Executive Officer, President and Director of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 14, 2020

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

Charles J. Schreiber, Jr.

Chairman of the Board,
Chief Executive Officer, President and Director

(principal executive officer)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of KBS Real Estate Investment Trust III, Inc. (the "Registrant") for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jeffrey K. Waldvogel, the Chief Financial Officer, Treasurer and Secretary of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

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

Date: May 14, 2020

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer, Treasurer and Secretary
(principal financial officer)