KBS | REIT III

December 31, 2020

Dear KBS REIT III Stockholder:

On December 7, 2020, KBS Real Estate Investment Trust III, Inc.'s (the "REIT") board of directors approved an updated estimated value per share of the REIT's common stock of $10.74. This estimated value is based on the estimated value of the REIT's assets less the estimated value of the REIT's liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2020, with the exception of certain adjustments described below and in the REIT's Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on December 15, 2020 ("the Valuation 8- K").[1]

The $10.74 estimated value per share approximates the mid-range value of the range in estimated value per share calculated by Duff & Phelps and was recommended by KBS Capital Advisors LLC, the REIT's external advisor (the "Advisor"), and the REIT's conflicts committee. The range in estimated value per share and the estimated value per share were based on appraisals of the REIT's real estate properties performed by Duff & Phelps, a third-party real estate valuation firm, a valuation of the REIT's investment in units of Prime US REIT performed by Duff & Phelps and the Advisor's valuations of the REIT's other assets and liabilities.

The decrease in the REIT's current estimated value per share of $10.74 from the previous estimate of $11.65 as of December 4, 2019 was primarily due to significant capital expenditures on certain properties, which improvements were not materialized due to the global COVID-19 pandemic, the decrease in the appraised values of some of the real estate properties, and the decrease in the value of the units of Prime US REIT (SGX Ticker: OXMU) owned by the REIT, offset by the growth in real estate values for certain properties. Overall, the appraised value of our real estate portfolio, excluding properties sold during the year, decreased by less than 1% year-over-year. The global COVID-19 pandemic, has altered the landscape of the real estate market in its entirety, reducing cashflows and halting leasing activity, thus negatively impacting real estate values.

With respect to real estate values, the following properties experienced the most significant changes in value in 2020:

**Accenture Tower, Chicago, Illinois -** The appraised value decreased $19.8 million, or 3.9%, from the prior year appraised value due to the following:

- Decreased leasing activity in 2020, coupled with flat rents and lack of rent growth as a result of the pandemic.
- Additional $9 million in future capital expenditures, as a result of the building's age and the need to repair/replace various building systems.
- A good portion of the property is retail space and retail tenants have been severely impacted by the COVID-19 pandemic, resulting in a deterioration of retail demand at the property.
- Increase of credit loss factor and general vacancy as a near-term result of the pandemic and longer-term effect of the Chicago leasing market.

**Park Place Village, Kansas City, Kansas -** The appraised value decreased $23.7 million, or 22.7%, from the prior year appraised value due to the following:

- Both the cap rate and discount rate used in the appraisal increased to account for the overall trend in the market, but also to account for the increased risk of American Multi-Cinema's creditworthiness amid the pandemic as well as other struggling retail tenants.
- The appraisal dropped office rents from $32.50 to $31.50 due to the pandemic and overall current vacancy.
- Although retail leasing has picked up in 2020, actual rents have been lower than the assumed rents used in the 2019 appraisal.

**Towers II & III at Emeryville, San Francisco Bay Area, California -** The appraised value decreased $10.4 million, or 3.4%, from the prior year appraised value due to the following:

- The San Francisco Bay Area, like other major metros, has been disproportionately affected by COVID-19. Combined with public transit concerns, many tenants have chosen to list their spaces for sublease in order to cut costs in the short term. Some tenants with pending lease expirations are giving back their space and choosing to let leases lapse and allow staff to work from home.
- Considering significant large block spaces coming vacant and, in an effort to keep tenants, landlords are beginning to

grant additional concessions in the form of rent discounts, free rent and tenant improvement allowances in an environment where there has been little leasing activity over the course of 2020.

**201 Spear, San Francisco Bay Area, California –** The appraised value decreased $12.2 million, or 5.4%, from the prior year appraised value due to the following:

- COVID-19 related restrictions impacting the use of office space in San Francisco has idled demand and allowed supply to build up to levels not seen since the last recession. The amount of available space in San Francisco market has doubled this year to 17.6% or 14.6 million square feet with sublease space representing 72% of the additions.
- This has put a downward pressure on rents and resulted in 3.1 million square feet of negative net absorption year-to-date in the San Francisco market, pushing overall vacancy up to 8.3% and direct asking rents down 8.6%.

**Domain Gateway, Austin, Texas -** The appraised value increased $16.2 million, or 15.1%, from the prior year appraised value due to the following:

- An increase in Net Operating Income compared to the prior year analysis primarily due to Indeed.com's occupancy fully commencing to 100% of the building as of March 2020, in addition to contractual annual rent increases commencing October 2020.
- Increased capital market demand for long-term, creditworthy tenancy in strong markets has led to increased values for property profiles like Domain Gateway's, where investors have become risk-adverse and instead are bidding up prices where there is certainty of future cash flow.

**<u>Final Remarks</u>**

The global COVID-19 pandemic has negatively impacted almost every industry, including the U.S. office real estate market and the industries of the REIT's tenants, directly or indirectly. Specific to the REIT, rent collections remain strong, although short-term rent relief has been granted to a number of tenants, mostly in the form of rent deferrals. While we believe the REIT's portfolio is well-positioned to continue to successfully respond to the pandemic, the impact of the COVID-19 pandemic on the capital and financial markets, including the U.S. real estate office market, has caused us to further consider the timing and likelihood of success of the proposed NAV REIT conversion. The REIT's conflicts committee and board of directors continue to evaluate whether the proposed NAV REIT conversion remains in the best interest of our stockholders.

The following are the REIT's goals and objectives for 2021:

- Distribute operating cash flows to stockholders
- Efficiently manage the real estate portfolio throughout the COVID-19 crisis in order to maximize the long-term portfolio value to stockholder
- Carefully evaluate all tenant rent deferral requests to make certain we are providing rent relief where it is necessary, while being repaid on such deferrals either over time or through a longer-term lease extension
- Constantly review the liquidity needs of the portfolio in order to retain capital to enhance asset values and provide stockholder liquidity
- Continue to monitor the properties in the portfolio for any beneficial sale opportunities in order to maximize value
- Finalize decision on the NAV REIT conversion

Thank you for your continued confidence and support of KBS REIT III. I look forward to providing you with future updates.

Sincerely,

Charles J. Schreiber, Jr.
Chief Executive Officer

[1] For more information on the estimated value per share, including a full description of the limitations, methodologies and assumptions used to value the REIT's assets and liabilities, and used in the calculation of the estimated value per share, see the Valuation 8-K. In addition, you can view the December 2020 Valuation Update Presentation online at kbs-cmg.com, by clicking on "View Offering" under "KBS Real Estate Investment Trust III."

**IMPORTANT INFORMATION FOR STOCKHOLDERS**
**ADDITIONAL INFORMATION AND WHERE TO FIND IT**

The information contained herein should be read in conjunction with, and is qualified by, the information in the REIT's Annual Report on Form 10-K for the year ended December 31, 2019 (the "Annual Report"), Quarterly Reports on Form 10-Q for the period ended September 30, 2020 (the "Quarterly Reports"), including the "Risk Factors" contained therein.

***Forward-Looking Statements***

*The foregoing includes forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. The Company intends that such forward-looking statements be subject to the safe harbors created by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements regarding the intent, belief or current expectations of the Company and members of its 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. The Company undertakes 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. Such statements are subject to known and unknown risks and uncertainties which could cause actual results to differ materially from those contemplated by such forward-looking statements. The Company makes no representation or warranty (express or implied) about the accuracy of any such forward-looking statements. These statements are based on a number of assumptions involving the judgment of management.*

*The appraisal methodology for the Appraised Properties assumes the properties realize the projected net operating income and expected exit cap rates and that investors would be willing to invest in such properties at yields equal to the expected discount rates. The valuation for the Company's investment in units of Prime US REIT assumes a discount for the holding period risk attributable to blockage due to the quantity of units held by the Company and such discount is driven by trading volume in Prime US REIT's units in the public market and expected future volatility. Though the appraisals of the Appraised Properties and the valuation of the Company's investment in units of Prime US REIT, with respect to Duff & Phelps, and the valuation estimates used in calculating the estimated value per share, with respect to Duff & Phelps, the Advisor and the Company, are the respective party's best estimates as of September 30, 2020, December 1, 2020 or December 7, 2020, as applicable, the Company can give no assurance in this regard. Even small changes to these assumptions could result in significant differences in the appraised values of the Appraised Properties, the valuation of the Company's investment in units of Prime US REIT, the valuation of the Company's real estate loan receivable and the estimated value per share.*

*The COVID-19 pandemic, together with the resulting measures imposed to help control the spread of the virus, has had a negative impact on the economy and business activity globally. The COVID-19 pandemic is negatively impacting almost every industry, including the U.S. office real estate industry and the industries of the Company's tenants, directly or indirectly. The extent to which the COVID-19 pandemic impacts the Company's or its tenants' business, financial condition, results of operations and cash flows, the markets and communities in which the Company and its tenants operate and the Company's investments in Prime US REIT and a real estate loan receivable, depends 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. The fluidity of the COVID-19 pandemic continues to preclude any prediction as to the ultimate adverse impact of the pandemic on the Company or the global economy as a whole.*

*Stockholders may have to hold their shares an indefinite period of time. The Company can provide no assurance that it will be able to provide additional liquidity to stockholders. As the global impact of the COVID-19 pandemic continues to evolve, the Company's conflicts committee and board of directors continue to evaluate whether the proposed NAV REIT conversion remains in the best interest of the Company's stockholders. Accordingly, the Company can give no assurance that it will continue to pursue a conversion to an NAV REIT. Even if the Company converts to an NAV REIT, there is no assurance that the Company will successfully implement its strategy.*

*These statements also depend on factors such as: future economic, competitive and market conditions; the Company's ability to maintain occupancy levels and rental rates at its real estate properties; the borrower under the Company's real estate loan receivable continuing to make required payments under the loan documents; and other risks identified in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and in Part II, Item 1A of the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2020, June 30, 2020 and September 30, 2020, each as filed with the SEC. You should interpret many of the risks as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic. Actual events may cause the value and returns on the Company's investments to be less than that used for purposes of the Company's estimated value per share.*