

**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, 2021**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **000-56050**

**KBS GROWTH & INCOME REIT, INC.**

(Exact Name of Registrant as Specified in Its Charter)

<b>Maryland</b> <small>(State or Other Jurisdiction of Incorporation or Organization)</small> <b>800 Newport Center Drive, Suite 700</b> <b>Newport Beach, California</b> <small>(Address of Principal Executive Offices)</small>	<b>47-2778257</b> <small>(I.R.S. Employer Identification No.)</small>  <b>92660</b> <small>(Zip Code)</small>
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**(949) 417-6500**

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
None	None
<b>Trading Symbol(s)</b> <hr style="width: 50%; margin: 0 auto;"/> 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	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check 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 7, 2021, there were 9,864,261 outstanding shares of Class A common stock and 310,974 outstanding shares of Class T common stock of KBS Growth & Income REIT, Inc.

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**KBS GROWTH & INCOME REIT, INC.**  
**FORM 10-Q**  
**March 31, 2021**  
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**KBS GROWTH & INCOME REIT, INC.**

**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	<u>(unaudited)</u>	
<b>Assets</b>		
Real estate:		
Land	\$ 21,353	\$ 21,353
Buildings and improvements	135,193	134,931
Tenant origination and absorption costs	10,250	11,068
Total real estate, cost	166,796	167,352
Less accumulated depreciation and amortization	(25,777)	(24,716)
Total real estate, net	141,019	142,636
Cash and cash equivalents	2,712	3,807
Restricted cash	552	552
Rents and other receivables	2,828	2,936
Above-market leases, net	87	92
Prepaid expenses and other assets	1,790	1,555
Total assets	<u>\$ 148,988</u>	<u>\$ 151,578</u>
<b>Liabilities and stockholders' equity</b>		
Notes payable, net	\$ 96,683	\$ 96,623
Accounts payable and accrued liabilities	1,320	2,189
Due to affiliates	7,733	7,275
Below-market leases, net	1,339	1,509
Other liabilities	3,328	4,142
Total liabilities	<u>110,403</u>	<u>111,738</u>
<b>Commitments and contingencies (Note 9)</b>		
Redeemable common stock	204	250
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Class A common stock, \$.01 par value per share; 500,000,000 shares authorized, 9,864,261 and 9,873,729 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	99	99
Class T common stock, \$.01 par value per share; 500,000,000 shares authorized, 310,974 shares and 310,974 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	3	3
Additional paid-in capital	85,248	85,248
Cumulative distributions and net losses	(46,969)	(45,760)
Total stockholders' equity	<u>38,381</u>	<u>39,590</u>
Total liabilities and stockholders' equity	<u>\$ 148,988</u>	<u>\$ 151,578</u>

*See accompanying condensed notes to consolidated financial statements.*

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(in thousands, except share and per share amounts)

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenues:		
Rental income	\$ 4,294	\$ 4,583
Other operating income	21	34
Total revenues	4,315	4,617
Expenses:		
Operating, maintenance, and management	830	954
Property management fees and expenses to affiliate	31	35
Real estate taxes and insurance	766	733
Asset management fees to affiliate	428	435
General and administrative expenses	477	473
Depreciation and amortization	1,982	2,166
Interest expense	573	2,888
Impairment charges on real estate	—	5,750
Total expenses	5,087	13,434
Other income:		
Interest and other income	—	12
Gain on sale of real estate, net	—	5,245
Equity in loss of unconsolidated joint venture	—	(469)
Loss from extinguishment of debt	—	(29)
Total other income	—	4,759
Net loss	\$ (772)	\$ (4,058)
Net loss per common share, basic and diluted	\$ (0.08)	\$ (0.40)
Weighted-average number of common shares outstanding basic and diluted	10,184,598	10,171,186

*See accompanying condensed notes to consolidated financial statements.*

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

For the Three Months Ended March 31, 2021 and 2020 (unaudited)

(dollars in thousands)

	Common Stock				Additional Paid-in Capital	Cumulative Distributions and Net Losses	Total Stockholders' Equity
	Class A		Class T				
	Shares	Amounts	Shares	Amounts			
Balance, December 31, 2020	9,873,729	\$ 99	310,974	\$ 3	\$ 85,248	\$ (45,760)	\$ 39,590
Net loss	—	—	—	—	—	(772)	(772)
Transfers from redeemable common stock	—	—	—	—	46	—	46
Redemptions of common stock	(9,468)	—	—	—	(46)	—	(46)
Distributions declared	—	—	—	—	—	(437)	(437)
Balance, March 31, 2021	<u>9,864,261</u>	<u>\$ 99</u>	<u>310,974</u>	<u>\$ 3</u>	<u>\$ 85,248</u>	<u>\$ (46,969)</u>	<u>\$ 38,381</u>

	Common Stock				Additional Paid-in Capital	Cumulative Distributions and Net Losses	Total Stockholders' Equity
	Class A		Class T				
	Shares	Amounts	Shares	Amounts			
Balance, December 31, 2019	9,841,004	\$ 98	306,292	\$ 3	\$ 84,184	\$ (37,007)	\$ 47,278
Net loss	—	—	—	—	—	(4,058)	(4,058)
Issuance of common stock	29,511	1	2,420	—	268	—	269
Distributions declared	—	—	—	—	—	(644)	(644)
Balance, March 31, 2020	<u>9,870,515</u>	<u>\$ 99</u>	<u>308,712</u>	<u>\$ 3</u>	<u>\$ 84,452</u>	<u>\$ (41,709)</u>	<u>\$ 42,845</u>

*See accompanying condensed notes to consolidated financial statements.*

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)  
(in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (772)	\$ (4,058)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,982	2,166
Impairment charges on real estate	—	5,750
Equity in loss of unconsolidated joint venture	—	469
Deferred rents	82	191
Amortization of above and below-market leases, net	(165)	(278)
Amortization of deferred financing costs	60	83
Unrealized (gain) loss on derivative instrument	(433)	1,766
Loss from extinguishment of debt	—	29
Gain on sale of real estate, net	—	(5,245)
Changes in operating assets and liabilities:		
Rents and other receivables	5	(17)
Prepaid expenses and other assets	(338)	(420)
Accounts payable and accrued liabilities	(988)	(1,144)
Due to affiliates	458	441
Other liabilities	(360)	(327)
Net cash used in operating activities	<u>(469)</u>	<u>(594)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of real estate	—	23,603
Improvements to real estate	(143)	(834)
Reimbursement from unconsolidated joint venture	—	3
Net cash (used in) provided by investing activities	<u>(143)</u>	<u>22,772</u>
<b>Cash Flows from Financing Activities:</b>		
Principal payments on notes payable	—	(23,650)
Payments to redeem common stock	(46)	—
Distributions paid to common stockholders	(437)	(627)
Net cash used in financing activities	<u>(483)</u>	<u>(24,277)</u>
Net decrease in cash and cash equivalents	(1,095)	(2,099)
Cash and cash equivalents and restricted cash, beginning of period	4,359	6,287
Cash and cash equivalents and restricted cash, end of period	<u>\$ 3,264</u>	<u>\$ 4,188</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 945</u>	<u>\$ 1,117</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities:</b>		
Distributions payable	<u>\$ —</u>	<u>\$ 215</u>
Accrued improvements to real estate	<u>\$ 219</u>	<u>\$ 259</u>
Dividends paid to common stockholders through common stock issuances pursuant to the distribution reinvestment plan	<u>\$ —</u>	<u>\$ 269</u>

*See accompanying condensed notes to consolidated financial statements.*

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**1. ORGANIZATION**

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

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

As of March 31, 2021, the Company had invested in four office properties. The Company has invested in a portfolio of core real estate properties. The Company considers core properties to be existing properties with at least 80% occupancy. The Company’s core focus in the U.S. office sector reflects a value-creating core strategy, which is also known as a core-plus strategy.

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

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

On August 5, 2020, the board of directors of the Company approved the termination of the DRP Offering effective August 20, 2020.

On October 3, 2017, the Company launched a private placement offering exempt from registration pursuant to Rule 506(c) of Regulation D of the Securities Act pursuant to which the Company offered a maximum of \$1,000,000,000 in shares of its Class A common stock to accredited investors (the “Second Private Offering”). Prior to the launch of the Second Private Offering, on September 29, 2017, the Company entered into a dealer manager agreement (the “NCPS Dealer Agreement”) with the Advisor and North Capital Private Securities Corporation (“NCPS”) in connection with the Second Private Offering. In December 2019, the Company’s board of directors suspended the Second Private Offering and terminated the Second Private Offering on August 5, 2020.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**1. ORGANIZATION (CONTINUED)**

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

The Company sold 122,721 and 270,415 shares of Class A and Class T common stock, respectively, in the Primary Offering for aggregate gross offering proceeds of \$3.9 million. The Company sold 883,256 and 41,030 shares of Class A and Class T common stock, respectively, in the DRP Offering for aggregate gross offering proceeds of \$8.5 million.

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

As of March 31, 2021, the Company had redeemed 456,321 and 2,245 Class A and Class T shares, respectively, for \$3.8 million.

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

***COVID-19 Pandemic***

One of the most significant risks and uncertainties facing the Company and the real estate industry generally continues to be the effect of the ongoing public health crisis of the novel coronavirus disease ("COVID-19") pandemic. The Company continues to closely monitor the impact of the COVID-19 pandemic on all aspects of its business, including how the pandemic is affecting its tenants. From March 2020 through March 31, 2021, the Company did not experience significant disruptions in its operations from the COVID-19 pandemic. The Company did, however, recognize impairment charges related to a projected reduction in cash flows as a result of changes in leasing projections that were impacted in part by the COVID-19 pandemic at the Institute Property and 210. W. Chicago during the three months ended March 31, 2020. In addition, reductions in property values related to the impact of the COVID-19 pandemic have reduced the Company's availability to draw on the revolving commitment and may limit the Company's ability to exercise its extension option under its term loan due to covenants described in the loan agreement. Many of the Company's tenants have experienced disruptions in their business, some more severely than others. In general, the Company's retail tenants, which comprise approximately 7% of its annualized base rent, have been more severely impacted by the COVID-19 pandemic than its office tenants. As of March 31, 2021, the Company has granted approximately \$0.2 million of rent deferrals and approximately \$0.1 million in rental abatements. As the impact of the pandemic continues to be felt, these tenants or additional tenants may request rent relief in future periods or become unable to pay rent, and the Company is unable to predict the ultimate impact the pandemic will have on its financial condition, results of operations and cash flows due to numerous uncertainties.

The extent to which the COVID-19 pandemic impacts the Company's operations and those of its tenants depends on future developments, which remain 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.

***Liquidation Strategy***

In August of 2020, the special committee of the board of directors directed the Advisor, with the assistance of the independent financial advisor of the special committee, to develop a plan of liquidation for approval by the board and submission to the stockholders. The Company initially expected to present a plan of liquidation for a vote of the stockholders of the Company within six months from its determination to pursue a liquidation strategy. However, as a result of the adverse market conditions caused by the civil unrest and disruption in Portland and Chicago, where several of the Company's properties are located, and the ongoing uncertainty and business disruptions related to the COVID-19 pandemic, in November 2020, the board determined to delay any proposal to liquidate the Company until market conditions improve.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(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, 2020. 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, 2020 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").

**Principles of Consolidation and Basis of Presentation**

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as contained within the 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, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

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

**Use of Estimates**

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

**Segments**

The Company had invested in four office properties as of March 31, 2021. Substantially all of the Company's revenue and net loss is from real estate, and therefore, the Company currently operates in one reportable segment.

**Per Share Data**

Basic net income (loss) per share of common stock is calculated by dividing net income (loss) by the weighted-average number of shares of common stock issued and outstanding during such period. Diluted net income (loss) per share of common stock equals basic net income (loss) per share of common stock as there were no potentially dilutive securities outstanding for the three months ended March 31, 2021 and 2020. Basic and diluted net income (loss) per share of Class A common stock and basic and diluted net income (loss) per share of Class T common stock were equal for the three months ended March 31, 2021 and 2020 as aggregate cash distributions for each share class were equal during those periods.

During the three months ended March 31, 2021 and 2020, aggregate cash distributions declared per share of Class A and Class T common stock were \$0.04287500 and \$0.06322500, respectively, assuming the share was issued and outstanding each date that was a record date for distributions during the period. Distributions declared per common share of Class A and Class T common stock were \$0.04287500 per share for the quarter ended March 31, 2021. Distributions declared per common share of Class A and Class T common stock were \$0.02107500 per share for each month during the period from January 1, 2020 through March 31, 2020.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Square Footage, Occupancy and Other Measures**

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

**Recently Issued Accounting Standards Update**

In 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, 2021, 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 GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

In accordance with the Topic 842 Q&A, the Company made the 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. Accordingly, the Company does not analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and elected not apply the lease modification guidance in Topic 842. For deferrals, the Company accounts for the concessions as if no changes to the lease contract were made and continued to recognize rental income during the deferral period. The amount of deferred rent is assessed for collectability at the end of each reporting period. For rental abatements, the Company recognizes negative variable lease income for the forgiven rent, thereby reversing the rental income and rent receivable for the abated period.

The Company has not granted 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, 2021 or consolidated statements of operations for the three months ended March 31, 2021 and 2020. As of March 31, 2021, the Company had entered into lease amendments related to the effects of the COVID-19 pandemic, granting approximately \$0.2 million of rent deferrals for the period from April 2020 through April 2021 and granting approximately \$0.1 million in rental abatements.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As of March 31, 2021, the Company had \$0.1 million of receivables for lease payments that had been deferred as lease concessions related to the effects of the COVID-19 pandemic. For the three months ended March 31, 2021, the Company recorded \$16,000 of rental abatements granted to tenants as a result of the COVID-19 pandemic.

Tenants may request additional 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, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, which the Company cannot accurately predict.

**3. REAL ESTATE HELD FOR INVESTMENT**

As of March 31, 2021, the Company's portfolio of real estate held for investment was composed of four office buildings containing 599,030 rentable square feet, which were collectively 82.5% occupied. The following table provides summary information regarding the properties owned by the Company as of March 31, 2021 (in thousands):

Property	Date Acquired	City	State	Property Type	Total Real Estate at Cost <sup>(1)</sup>	Accumulated Depreciation and Amortization <sup>(1)</sup>	Total Real Estate, Net <sup>(1)</sup>
Commonwealth Building	06/30/2016	Portland	OR	Office	\$ 77,147	\$ (13,611)	\$ 63,536
The Offices at Greenhouse	11/14/2016	Houston	TX	Office	47,207	(10,347)	36,860
Institute Property	11/09/2017	Chicago	IL	Office	37,662	(1,718)	35,944
210 W. Chicago	10/05/2020	Chicago	IL	Office	4,780	(101)	4,679
					<u>\$ 166,796</u>	<u>\$ (25,777)</u>	<u>\$ 141,019</u>

<sup>(1)</sup> Amounts presented are net of impairment charges and write-offs of fully depreciated/amortized assets.

As of March 31, 2021, the following properties each 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) <sup>(1)</sup>	Average Annualized Base Rent per sq. ft.	Occupancy
Commonwealth Building	Portland, OR	224,122	\$ 63,536	42.6 %	\$ 4,614	\$ 30.33	67.9 %
The Offices at Greenhouse	Houston, TX	203,284	36,860	24.7 %	4,131	20.63	98.5 %
Institute Property	Chicago, IL	155,385	35,944	24.1 %	3,370	26.85	80.8 %

<sup>(1)</sup> Annualized base rent represents annualized contractual base rental income as of March 31, 2021, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

**PART I. FINANCIAL INFORMATION (CONTINUED)****Item 1. Financial Statements (continued)****KBS GROWTH & INCOME REIT, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**3. REAL ESTATE HELD FOR INVESTMENT (CONTINUED)****Operating Leases**

The Company's real estate properties held for investment are leased to tenants under operating leases for which the terms and expirations vary. As of March 31, 2021, the leases had remaining terms, excluding options to extend, of up to 8.3 years with a weighted-average remaining term of 3.0 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 \$0.7 million and \$0.8 million as of March 31, 2021 and December 31, 2020, respectively.

During the three months ended March 31, 2021 and 2020, the Company recognized deferred rent from tenants, net of lease incentive amortization, of \$(0.1) million and \$(0.2) million, respectively. As of March 31, 2021 and December 31, 2020, the cumulative deferred rent balance was \$2.5 million and \$2.6 million, respectively, and is included in rents and other receivables on the accompanying consolidated balance sheets. The cumulative deferred rent balance included \$0.1 million and \$0.1 million of unamortized lease incentives as of March 31, 2021 and December 31, 2020, respectively.

As of March 31, 2021, 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, 2021 through December 31, 2021	\$	9,677
2022		11,196
2023		8,737
2024		7,498
2025		2,546
Thereafter		3,190
	<u>\$</u>	<u>42,844</u>

As of March 31, 2021, the Company had a concentration of credit risk related to AECOM, one of the tenants in The Offices at Greenhouse in the engineering industry, which represented 23% of the Company's annualized base rent. The tenant individually occupied 135,727 rentable square feet or approximately 23% of the total rentable square feet of the Company's real estate portfolio held for investment, which expires on December 31, 2024, with two five-year extension options. As of March 31, 2021, the annualized base rent for this tenant was approximately \$2.9 million or \$21.37 per square foot. No other tenant represented more than 10% of the Company's annualized base rent.

**PART I. FINANCIAL INFORMATION (CONTINUED)****Item 1. Financial Statements (continued)****KBS GROWTH & INCOME REIT, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**3. REAL ESTATE HELD FOR INVESTMENT (CONTINUED)**

As of March 31, 2021, the Company's real estate properties held for investment were leased to 59 tenants over a diverse range of industries. The Company's highest tenant industry concentration (greater than 10% of annualized base rent) was as follows:

<b>Industry</b>	<b>Number of Tenants</b>	<b>Annualized Base Rent <sup>(1)</sup> (in thousands)</b>	<b>Percentage of Annualized Base Rent</b>
Professional, scientific and technical	9	\$ 4,786	37.8 %
Computer system design and related services	2	1,358	10.7 %
		<u>\$ 6,144</u>	<u>48.5 %</u>

<sup>(1)</sup> Annualized base rent represents annualized contractual base rental income as of March 31, 2021, 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, 2021, no other tenant industries accounted for more than 10% of annualized base rent. During the three months ended March 31, 2021 and 2020, the Company excluded from rental income \$0.2 million and \$0.4 million, respectively, related to lease payments that were deemed not probable of collection.

**Impairment of Real Estate**

During the three months ended March 31, 2020, the Company recorded non-cash impairment charges of \$5.8 million to write down the carrying value of the Institute Property, an office property located in Chicago, Illinois, to its estimated fair value as a result of changes in cash flow estimates including a change in leasing projections, which triggered the future estimated undiscounted cash flows to be lower than the net carrying value of the property. The decrease in cash flow projections was primarily due to reduced demand for the office space at the property resulting in longer lease-up periods and a decrease in projected rental rates and was further impacted by the COVID-19 pandemic which the Company believes will result in additional challenges to release the vacant space. Further, tenants at the Institute Property have been adversely impacted by the measures put in place to control the spread of COVID-19 and as of March 31, 2021, seven tenants at the Institute Property were granted rent concessions as their businesses have been severely impacted.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

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

As of March 31, 2021 and December 31, 2020, 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, 2021	December 31, 2020	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Cost	\$ 10,250	\$ 11,068	\$ 178	\$ 177	\$ (3,784)	\$ (5,114)
Accumulated Amortization	(5,830)	(6,210)	(91)	(85)	2,445	3,605
Net Amount	\$ 4,420	\$ 4,858	\$ 87	\$ 92	\$ (1,339)	\$ (1,509)

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, 2021 and 2020 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,	
	2021	2020	2021	2020	2021	2020
Amortization	\$ (437)	\$ (571)	\$ (5)	\$ (7)	\$ 170	\$ 285

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**5. NOTES PAYABLE**

As of March 31, 2021 and December 31, 2020, the Company's notes payable consisted of the following (dollars in thousands):

	Book Value as of March 31, 2021	Book Value as of December 31, 2020	Contractual Interest Rate as of March 31, 2021 <sup>(1)</sup>	Effective Interest Rate at March 31, 2021 <sup>(1)</sup>	Payment Type	Maturity Date <sup>(2)</sup>
Commonwealth Building Mortgage Loan <sup>(3)</sup>	\$ 45,681	\$ 45,681	One-month LIBOR + 1.80%	3.74%	Interest Only	02/01/2023
Term Loan <sup>(4)</sup>	47,550	47,550	One-month LIBOR + 2.00%	4.07%	Interest Only	11/09/2021
210 W. Chicago Mortgage Loan	3,763	3,763	One-month LIBOR + 2.20%	2.33%	<sup>(5)</sup>	06/28/2024
Notes payable principal outstanding	\$ 96,994	\$ 96,994				
Deferred financing costs, net	(311)	(371)				
Notes payable, net	<u>\$ 96,683</u>	<u>\$ 96,623</u>				

<sup>(1)</sup> Contractual interest rate represents the interest rate in effect under the loan as of March 31, 2021. Effective interest rate is calculated as the actual interest rate in effect as of March 31, 2021 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of March 31, 2021, where applicable.

<sup>(2)</sup> Represents the maturity date as of March 31, 2021; subject to certain conditions, the maturity dates of the loans may be extended beyond the dates shown.

<sup>(3)</sup> As of March 31, 2021, there are two one-year extension options remaining on the Commonwealth Building Mortgage Loan. As of March 31, 2021, \$45.7 million of the Commonwealth Building Mortgage Loan was outstanding and \$5.7 million remained available for future disbursements, subject to certain terms and conditions set forth in the loan documents.

<sup>(4)</sup> As of March 31, 2021, the outstanding balance under the Term Loan consisted of \$39.4 million of term commitment and \$8.1 million of revolving commitment. As of March 31, 2021, there was a one-year extension option remaining on the Term Loan. The Term Loan is secured by The Offices at Greenhouse Property and the Institute Property. Reductions in property values related to the impact of the COVID-19 pandemic have reduced the Company's availability to draw on the revolving commitment and may impact the Company's ability to exercise its extension option under the Term Loan due to covenants described in the loan agreement.

<sup>(5)</sup> Beginning July 5, 2021, and through the maturity date, monthly payments for the 210 W. Chicago Mortgage Loan include principal and interest with principal payments calculated using an amortization schedule of 25 years at an interest rate of 6.0%, with the remaining principal balance, all accrued and unpaid interest and any other amounts due at maturity.

During the three months ended March 31, 2021 and 2020, the Company incurred \$0.6 million and \$2.9 million of interest expense, respectively. As of March 31, 2021 and December 31, 2020, \$0.3 million and \$0.3 million of interest expense were payable, respectively. Included in interest expense during the three months ended March 31, 2021 and 2020 were \$0.1 million and \$0.1 million of amortization of deferred financing costs, respectively. Interest expense (including gains and losses) incurred as a result of the Company's derivative instruments increased interest expense by \$3,000 and \$1.9 million for the three months ended March 31, 2021 and 2020, respectively.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**5. NOTES PAYABLE (CONTINUED)**

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of March 31, 2021 (in thousands):

April 1, 2021 through December 31, 2021	\$	47,652
2022		208
2023		45,894
2024		3,240
2025		—
Thereafter		—
	<b>\$</b>	<b>96,994</b>

**6. DERIVATIVE INSTRUMENTS**

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

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

The following table summarizes the notional amount and other information related to the Company's interest rate swaps as of March 31, 2021 and December 31, 2020. The notional amount is an indication of the extent of the Company's involvement in each instrument at that time, but does not represent exposure to credit, interest rate or market risks (dollars in thousands):

Derivative Instruments	March 31, 2021		December 31, 2020		Reference Rate as of March 31, 2021	Weighted-Average Fix Pay Rate	Weighted-Average Remaining Term in Years
	Number of Instruments	Notional Amount	Number of Instruments	Notional Amount			
<i>Derivative instruments not designated as hedging instruments</i>							
Interest Rate Swaps	2	\$ 78,533	2	\$ 78,533	One-month LIBOR/ Fixed at 2.07% - 2.82%	2.36%	1.0

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, 2021 and December 31, 2020 (dollars in thousands):

Derivative Instruments	Balance Sheet Location	March 31, 2021		December 31, 2020	
		Number of Instruments	Fair Value	Number of Instruments	Fair Value
<i>Derivative instruments not designated as hedging instruments</i>					
Interest Rate Swaps	Other liabilities, at fair value	2	\$ (1,805)	2	\$ (2,239)

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**6. DERIVATIVE INSTRUMENTS (CONTINUED)**

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

	<u>For the Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Income statement related</b>		
<i>Derivatives not designated as hedging instruments</i>		
Realized loss recognized on interest rate swaps	\$ 436	\$ 132
Unrealized (gain) loss on interest rate swaps	(433)	1,766
Increase in interest expense as a result of derivatives	\$ 3	\$ 1,898

**7. FAIR VALUE DISCLOSURES**

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

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

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

*Cash and cash equivalents, 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**7. FAIR VALUE DISCLOSURES (CONTINUED)**

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

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

The following were the face values, carrying amounts and fair values of the Company's notes payable as of March 31, 2021 and December 31, 2020, which carrying amounts generally do not approximate the fair values (in thousands):

	March 31, 2021			December 31, 2020		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
<b>Financial liabilities:</b>						
Notes payable	\$ 96,994	\$ 96,683	\$ 95,706	\$ 96,994	\$ 96,623	\$ 95,036

Disclosure of the fair values of financial instruments is based on pertinent information available to the Company as of the period end and requires a significant amount of judgment. The actual value could be materially different from the Company's estimate of value.

As of March 31, 2021, the Company measured the following derivative instruments at fair value (in thousands):

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Recurring Basis:</b>				
Liability derivative - interest rate swaps	\$ (1,805)	\$ —	\$ (1,805)	\$ —

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**8. RELATED PARTY TRANSACTIONS**

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

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

The Company has also entered into a fee reimbursement agreement with the Dealer Manager pursuant to which the Company agreed to reimburse the Dealer Manager for certain fees and expenses it incurs for administering the Company's participation in the DTCC Alternative Investment Product Platform with respect to certain accounts of the Company's investors serviced through the platform.

The Advisor also serves as the advisor for KBS Real Estate Investment Trust II, Inc. ("KBS REIT II") and KBS Real Estate Investment Trust III, Inc. ("KBS REIT III"). The Dealer Manager also serves as the dealer manager for KBS REIT II and KBS REIT III.

As of January 1, 2020, the Company, together with KBS REIT II, KBS REIT III, 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 2020, the Company renewed its participation in the program. The program is effective through June 30, 2021.

During the three months ended March 31, 2021 and 2020, no other business transactions occurred between the Company and KBS REIT II and KBS REIT III.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**8. RELATED PARTY TRANSACTIONS (CONTINUED)**

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, 2021 and 2020, and any related amounts payable as of March 31, 2021 and December 31, 2020 (in thousands).

	Incurred		Payable as of	
	Three Months Ended March 31, 2021	2020	March 31, 2021	December 31, 2020
<b>Expensed</b>				
Asset management fees <sup>(1)</sup>	\$ 428	\$ 435	\$ 6,329	\$ 5,901
Reimbursement of operating expenses <sup>(2)</sup>	93	54	57	25
Property management fees <sup>(3)</sup>	31	35	9	11
Disposition fees <sup>(4)</sup>	—	381	—	—
<b>Other Arrangement</b>				
Advisor advance for cash distributions <sup>(5)</sup>	—	—	1,338	1,338
	\$ 552	\$ 905	\$ 7,733	\$ 7,275

<sup>(1)</sup> The asset management fee is a monthly fee payable to the Advisor in an amount equal to one-twelfth of 1.0% of the cost of the Company's investments including the portion of the investment that is debt financed. As of March 31, 2021, the Company had accrued and deferred payment of \$6.3 million of asset management fees related to the periods from October 2017 through March 2021.

<sup>(2)</sup> See "Reimbursable Operating Expenses" below.

<sup>(3)</sup> See "Real Estate Property Co-Management Agreements" below.

<sup>(4)</sup> Disposition fees with respect to real estate sold are included in the gain on sale of real estate, net, in the accompanying consolidated statements of operations.

<sup>(5)</sup> See "Advance from the Advisor" below.

**Reimbursable Operating Expenses**

Reimbursable operating expenses primarily related to directors and officers liability insurance, legal fees, state and local taxes, accounting software and cybersecurity related expenses incurred by the Advisor under the Advisory Agreement. The Company has reimbursed the Advisor for the Company's allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company. These amounts totaled \$89,000 and \$54,000 for the three months ended March 31, 2021 and 2020, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement for the three months ended March 31, 2021 and 2020, respectively. The Company does not reimburse for employee costs in connection with services for which the Advisor earned or earns acquisition, origination or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers. In addition to the amounts above, the Company reimburses the Advisor for certain of the Company's direct costs incurred from third parties that were initially paid by the Advisor on behalf of the Company.

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

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**8. RELATED PARTY TRANSACTIONS (CONTINUED)**

The Advisor must reimburse the Company the amount by which the Company's aggregate total operating expenses for the four fiscal quarters then ended exceed the greater of 2% of the Company's average invested assets or 25% of the Company's net income, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expenses for the four fiscal quarters ended March 31, 2021 exceeded the charter-imposed limitation; however, the Company's conflicts committee determined that the relationship of the Company's operating expenses to its average invested assets was justified as the Company is now entering its liquidation stage and has incurred additional legal and financial advisor expenses as a result and has already sold one of its real estate properties.

**Advance from the Advisor**

The Advisor advanced funds to the Company, which are non-interest bearing, for distribution record dates through the period ended May 31, 2016. As of March 31, 2021, the total advanced funds due to the Advisor from the Company was approximately \$1.3 million, which is included in due to affiliates in the Company's consolidated balance sheet. The Company is only obligated to repay the Advisor for its advance if and to the extent that:

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

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

On May 11, 2021, the Company and the Advisor agreed to amend the terms on which the advance is repaid. See Note 10 "Subsequent Events" for additional information regarding these changes.

**PART I. FINANCIAL INFORMATION (CONTINUED)****Item 1. Financial Statements (continued)****KBS GROWTH & INCOME REIT, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**8. RELATED PARTY TRANSACTIONS (CONTINUED)****Real Estate Property Co-Management Agreements**

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

<b>Property Name</b>	<b>Effective Date</b>	<b>Annual Fee Percentage</b>
Commonwealth Building	07/01/2016	1.25%
The Offices at Greenhouse	11/14/2016	0.25%
Institute Property	11/09/2017	1.00%

**Organization and Offering Costs**

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

The Advisor or its affiliates have paid some of the offering costs related to the Company’s distribution reinvestment plan offering (the “DRP”), including, but not limited to, legal, accounting, printing, mailing and filing fees of the Company. The Company was responsible for reimbursing the Advisor for these costs. No reimbursements made by the Company to the Advisor may cause total organization and offering expenses incurred by the Company to exceed 15% of the aggregate gross offering proceeds of the DRP as of the date of reimbursement. Subject to the limitations described above, the Company was also responsible for reimbursing the Dealer Manager or its affiliates for organization and offering expenses that they incurred on the Company’s behalf. From January 1, 2018 through March 31, 2021, with respect to the DRP, neither the Advisor nor the Dealer Manager incurred any organization and offering expenses on behalf of the Company. On August 5, 2020, the Company’s board of directors approved the termination of the DRP effective August 20, 2020.

The Advisor agreed to pay all organization and offering expenses related to the Second Private Offering, including selling commissions, directly on behalf of the Company without reimbursement by the Company. From the inception of the Second Private Offering through August 5, 2020, the Advisor incurred approximately \$5.5 million of organization and offering expenses related to the Second Private Offering on behalf of the Company. On August 5, 2020, the Company’s board of directors terminated the Second Private Offering.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS GROWTH & INCOME REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2021

(unaudited)

**9. COMMITMENTS AND CONTINGENCIES**

**Economic Dependency**

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

**Legal Matters**

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

**Environmental**

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. Although there can be no assurance, the Company is not aware of any environmental liability that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company's property, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to the property could result in future environmental liabilities.

**10. SUBSEQUENT EVENTS**

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

**Distributions Authorized**

On May 10, 2021, the Company's board of directors authorized a quarterly distribution in the amount of \$0.04287500 per share of common stock to stockholders of record as of the close of business on May 17, 2021, which the Company expects to pay in May 2021.

**Advisory Agreement Amendment**

On May 11, 2021, the Company and the Advisor amended the Advisory Agreement to revise the terms on which the advance from the Advisor for distributions through the period ended May 31, 2016 are repaid. The amendment revises the terms on which the Company is obligated to repay the Advisor for this advance. Pursuant to the amendment, the determination of whether the Company has an MFFO Surplus will be made on a quarterly basis as opposed to monthly to reflect the Company's board of directors' change in distribution policy from monthly to quarterly distribution payments. In addition, net sales proceeds were added as a third source of funds which obligates the Company to repay the advance to the Advisor. Finally, the amendment clarifies that the Advisor may defer repayment of the advance notwithstanding that the Company would otherwise be obligated to repay the advance.

## **PART I. FINANCIAL INFORMATION (CONTINUED)**

### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

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

#### **Forward-Looking Statements**

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Growth & Income REIT, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as “may,” “will,” “seeks,” “anticipates,” “believes,” “estimates,” “expects,” “plans,” “intends,” “should” or similar expressions. Actual results may differ materially from those contemplated by such forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, unless required by law. 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 measures imposed to contain the virus, 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 remains uncertain and cannot be predicted with confidence, and will depend on the ultimate 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 depend on our advisor and its affiliates to conduct our operations. We pay fees to our advisor and its affiliates in connection with the management of our investments that are based on the cost of the investment, not on the quality of the investment or services rendered to us. These fees decrease the amount of cash available for distribution to our stockholders.
- All of our executive officers, our affiliated director and other key real estate and debt finance professionals are also officers, directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor, and/or other KBS-affiliated entities. As a result, our executive officers, our affiliated director, some of our key real estate and debt finance professionals, our advisor and its affiliates face conflicts of interest, including significant conflicts created by our advisor’s and its affiliates’ compensation arrangements with us and other KBS-sponsored programs and KBS-advised investors and conflicts in allocating time among us and these other programs and investors. Although we have adopted corporate governance measures to ameliorate some of the risks posed by these conflicts, these conflicts could result in action or inaction that is not in the best interests of our stockholders.
- As of March 31, 2021, we had a limited portfolio of four real estate investments, which may cause the value of an investment in us to vary more widely with the performance of specific assets in our portfolio and cause our general and administrative expenses to constitute a greater percentage of our revenue.
- We may fund distributions from any source, including, without limitation, offering proceeds or borrowings. Distributions paid through March 31, 2021 have been funded in part with debt financing, including advances from our advisor, and cash resulting from a waiver of asset management fees by our advisor. Distributions funded from sources other than our cash flow from operations will result in dilution to subsequent investors, reduce funds available for investment in assets and may reduce the overall return to our stockholders.
- Our advisor waived its asset management fee for the second and third quarters of 2017 and deferred its asset management fee related to the periods from October 2017 through March 2021. If our advisor determines to no longer waive or defer certain fees owed to them, our ability to fund our operations and distributions may be adversely affected.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

- Our policies do not limit us from incurring debt until our aggregate borrowings would exceed 75% of the cost (before deducting depreciation or other non-cash reserves) of our tangible assets, and we may exceed this limit with the approval of the conflicts committee of our board of directors. High debt levels could limit the amount of cash we have available to distribute and could result in a decline in the value of our stockholders’ investment.
- We have debt obligations with variable interest rates. The interest and related payments will vary with the movement of LIBOR or other indexes. Increases in the indexes could increase the amount of our debt payments and limit our ability to pay distributions to our stockholders.
- We depend on tenants for the revenue generated by our real estate investments and, accordingly, the revenue generated by our real estate investments is dependent upon the success and economic viability of our tenants. Revenues from our properties could decrease due to a reduction in occupancy and/or lower rental rates, making it more difficult for us to meet any debt service obligations we have incurred and limiting our ability to pay distributions to our stockholders.
- Our real estate investments may be affected by unfavorable real estate market and general economic conditions, which could decrease the value of those assets and reduce the investment return to our stockholders. These events could make it more difficult for us to meet debt service obligations and limit our ability to pay distributions to our stockholders.
- Our share redemption program only provides for redemptions sought upon a stockholder’s death, “qualifying disability” or “determination of incompetence” (each as defined in the share redemption program, and collectively “special redemptions”). The dollar amounts available for such redemptions are determined by the board of directors and may be adjusted from time to time. The dollar amount limitation for such redemptions for the calendar year 2021 was \$250,000 in the aggregate, of which \$46,000 was used for such special redemptions from January through April 2021. Our share redemption program does not provide for ordinary redemptions and can provide no assurances, when, if ever, we will provide for redemptions other than special redemptions.

All forward-looking statements should be read in light of the risks identified herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, all filed with the Securities and Exchange Commission (the “SEC”).

**Overview**

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

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

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

## **PART I. FINANCIAL INFORMATION (CONTINUED)**

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

On February 4, 2015, we filed a registration statement on Form S-11 with the SEC to register an initial public offering to offer a maximum of \$1,500,000,000 in shares of common stock for sale to the public in the primary offering, consisting of two classes of shares: Class A and Class T and a maximum of \$800,000,000 in both classes of shares of our common stock pursuant to our distribution reinvestment plan. The SEC declared our registration statement effective on April 28, 2016 and we retained KBS Capital Markets Group LLC to serve as the dealer manager of the initial public offering. We terminated our primary initial public offering effective June 30, 2017. We terminated our distribution reinvestment plan offering effective August 20, 2020.

We sold 122,721 and 270,415 shares of Class A and Class T common stock in the initial primary public offering, respectively, for aggregate gross offering proceeds of \$3.9 million. We sold 883,256 and 41,030 shares of Class A and Class T common stock under our distribution reinvestment plan, respectively, for aggregate gross offering proceeds of \$8.5 million.

On October 3, 2017, we launched a second private placement offering exempt from registration pursuant to Rule 506(c) of Regulation D of the Securities Act pursuant to which offered a maximum of \$1,000,000,000 in shares of our Class A common stock to accredited investors. Prior to the launch of the second private placement offering, on September 29, 2017, we entered into a dealer manager agreement (the “NCPS Dealer Agreement”) with KBS Capital Advisors and North Capital Private Securities Corporation (“NCPS”) in connection with the second private placement offering. In December 2019, in connection with its consideration of strategic alternatives for us, our board of directors determined to suspend the second private offering and terminated the second private offering on August 5, 2020. We sold 612,272 shares of Class A common stock in the second private offering for aggregate gross offering proceeds of \$5.5 million.

As of March 31, 2021, we had redeemed 456,321 and 2,245 Class A and Class T shares, respectively, for \$3.8 million.

We have used substantially all of the net proceeds from our offerings to invest in a portfolio of core real estate properties. We consider core properties to be existing properties with at least 80% occupancy. As of March 31, 2021, we owned four office buildings.

In August of 2020, the special committee directed KBS Capital Advisors, with the assistance of the independent financial advisor of the special committee, to develop a plan of liquidation for approval by our board of directors and submission to our stockholders. We initially expected to present a plan of liquidation for a vote of our stockholders within six months from our determination to pursue a liquidation strategy. However, as a result of the adverse market conditions caused by the civil unrest and disruption in Portland and Chicago, where several of our properties are located, and the ongoing uncertainty and business disruptions related to the COVID-19 pandemic, in November 2020, our board of directors determined to delay any proposal to liquidate until market conditions improve.

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

#### **Market Outlook – Real Estate and Real Estate Finance Markets**

Volatility in global financial markets, changing political environments and civil unrest 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. 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

***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 continues to evolve and many countries, states and localities, including states and localities in the United States, have reacted with various containment and mitigation efforts, including instituting quarantines, “shelter-in-place” and “stay-at-home” orders, travel restrictions, restrictions on businesses and school closures. As a result, the COVID-19 pandemic is negatively impacting almost every industry, including the U.S. office real estate industry and the industries of our tenants, directly or indirectly. The fluidity of the COVID-19 pandemic continues to preclude any prediction as to the ultimate adverse impact the pandemic may have on our business, financial condition, results of operations and cash flows.

During the year ended December 31, 2020 and the three months ended March 31, 2021, we did not experience significant disruptions in our operations from the COVID-19 pandemic. Many of our tenants have suffered reductions in revenue since March 2020. From March 2020 through March 31, 2021, we granted rent relief to nine tenants as a result of the pandemic. Depending upon the duration of the pandemic, the various measures imposed to help control the spread of the virus and the corresponding economic slowdown, these tenants or additional tenants may seek rent deferrals or abatements in future periods or become unable to pay their rent. Rent collections for the quarter ended March 31, 2021 were 97%. As of March 31, 2021, we had entered into lease amendments related to the effects of the COVID-19 pandemic, granting approximately \$0.2 million of rent deferrals for the period from April 2020 through April 2021 and granting approximately \$0.1 million in rental abatements. As of March 31, 2021, nine tenants were granted rental deferrals, rental abatements and/or rent restructures, of which four of these tenants have begun to pay rent in accordance with their lease agreements subsequent to the deferral and/or abatement period and two of these tenant leases was modified at lower rental rates. One of the nine tenants continue to be in the rental deferral and/or rental abatement periods as granted in accordance with their agreements. As of March 31, 2021, these lease concessions did not have a material impact on our consolidated balance sheet as of March 31, 2021 or consolidated statement of operations for the three months ended March 31, 2021. Subsequent to March 31, 2021, we have not seen a material impact on our rent collections.

Prior rent relief arrangements have been, and any future rent relief arrangements are expected to be structured as temporary short-term deferrals of base rent that will be paid back over time. 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. Current 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 income for the second quarter of 2021 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. In response to a decrease in cash flow projections as a result of changes in leasing projections due in part to the impact of COVID-19 on our leasing efforts and perceived ability to collect rent from tenants, during the three months ended March 31, 2020, we recognized impairment charges of \$5.8 million at the Institute Property and \$0.5 million of equity in loss of unconsolidated joint venture, which included an impairment related to the 210 W. Chicago property then-owned by the joint venture.

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, especially office properties; reduced economic activity, general economic decline or recession, which may impact our tenants’ businesses, financial condition and liquidity and may cause one or more of our 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

The extent to which the COVID-19 pandemic or any other pandemic, epidemic or disease impacts our operations and those of our tenants remains uncertain and cannot be predicted with confidence and will depend on 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. In response to the uncertainty caused by the ongoing COVID-19 pandemic and its uncertain impact on our operations and those of our tenants, our board of directors adjusted our distribution policy commencing with the fourth quarter of 2020 and expects to consider and declare quarterly distributions based on a single quarterly record date.

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. We believe the current challenging economic circumstances will be a difficult environment in which to continue to create value in our portfolio consistent with our core-plus investment strategy. The properties in our portfolio were acquired to provide an opportunity for us to achieve more significant capital appreciation by increasing occupancy, negotiating new leases with higher rental rates and/or executing enhancement projects, all of which we believe will be more difficult as a result of the impacts of COVID-19 on the economy. While the majority of our tenants have continued to pay rent, the weakening macroeconomic conditions have negatively impacted many of our tenants. As of March 31, 2021, our portfolio was 82.5% occupied with a weighted-average lease term of 3.0 years. As of March 31, 2021, two tenants at our Commonwealth Building, or 4% of the rentable square footage at the property, have given notice of non-renewal of their leases and subsequent to March 31, 2021, two tenants at our 213 W. Institute property, or 3% of the rentable square footage at the property, early terminated their leases. Due to the impact of COVID-19, we believe the leasing environment will be challenged in the short-term and the time to lease up and stabilize a property will be extended. More specifically, our office properties in Chicago will likely take more time to stabilize than previously anticipated.

**Liquidity and Capital Resources**

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

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

Our investments in real estate generate cash flow in the form of rental revenues and tenant reimbursements, which are reduced by operating expenditures, capital expenditures, debt service payments, the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from real estate investments will be primarily dependent upon the occupancy level of our portfolio, the net effective rental rates on our leases, the collectibility of rent and operating recoveries from our tenants and how well we manage our expenditures, all of which may be adversely affected by the impact of the COVID-19 pandemic as discussed above.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

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

- (i) Our modified funds from operations (“MFFO”), as such term is defined by the Institute for Portfolio Alternatives and interpreted by us, for the immediately preceding month exceeds the amount of distributions declared for record dates of such prior month (an “MFFO Surplus”), and we will pay our advisor the amount of the MFFO Surplus to reduce the principal amount outstanding under the advance, provided that such payments shall only be made if management in its sole discretion expects an MFFO Surplus to be recurring for at least the next two calendar quarters, determined on a quarterly basis; or
- (ii) Excess proceeds from third-party financings are available (“Excess Proceeds”), provided that the amount of any such Excess Proceeds that may be used to repay the principal amount outstanding under the advance shall be determined by the conflicts committee in its sole discretion.

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

On May 11, 2021, we and our advisor agreed to amend the terms on which the advance is repaid. See “Subsequent Events - Advisory Agreement Amendment” for additional information regarding these changes.

We expect that our debt financing and other liabilities will be between 45% and 65% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves). Though this is our target leverage, our charter does not limit us from incurring debt until our aggregate borrowings would exceed 300% of our net assets (before deducting depreciation and other non-cash reserves), which is effectively 75% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves), though we may exceed this limit under certain circumstances. To the extent financing in excess of this limit is available at attractive terms, the conflicts committee may approve debt in excess of this limit. As of March 31, 2021, we had mortgage debt obligations in the aggregate principal amount of \$97.0 million and our aggregate borrowings were approximately 60% of our net assets before deducting depreciation and other non-cash reserves. As of March 31, 2021, we had \$4.7 million of revolving debt available for immediate future disbursement, subject to certain conditions set forth in the loan agreements. As of March 31, 2021, we had \$47.6 million of debt maturing during the 12 months ending March 31, 2022, all of which is under our term loan and may be extended beyond such time subject to certain terms and conditions set forth in the loan agreement. Reductions in property values related to the impact of the COVID-19 pandemic have reduced our availability to draw on the revolving commitment and may limit our ability to exercise our extension option under our term loan due to covenants described in the loan agreement.

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

We make payments to our advisor in connection with the management of our assets and costs incurred by our advisor in providing certain services to us. The asset management fee is a monthly fee payable to our advisor in an amount equal to one-twelfth of 1.0% of the cost of our investments including the portion of the investment that is debt financed. The cost of our real property investments is calculated as the amount paid or allocated to acquire the real property, plus budgeted capital improvement costs for the development, construction or improvements to the property once such funds are disbursed pursuant to a final approved budget and fees and expenses related to the acquisition, but excluding acquisition fees paid or payable to our advisor. In the case of investments made through joint ventures, the asset management fee is determined based on our proportionate share of the underlying investment. Our advisor waived asset management fees for the second and third quarters of 2017 and deferred payment of asset management fees related to the periods from October 2017 through March 31, 2021. Our advisor’s waiver and deferral of its asset management fees resulted in additional cash being available to fund our operations. If our advisor chooses to no longer waive or defer such fees, our ability to fund our operations may be adversely affected.

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

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

We elected to be taxed as a REIT and to operate as a REIT beginning with our taxable year ended December 31, 2015. To maintain our qualification as a REIT, we will be required to make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income (computed without regard to the dividends-paid deduction and excluding net capital gain). Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. Provided we have sufficient available cash flow, we intend to authorize and declare cash distributions based on quarterly record dates and pay cash distributions on a quarterly basis. We have not established a minimum distribution level.

Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the four most recently completed fiscal quarters, as these terms are defined in our charter, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expenses for the four fiscal quarters ended March 31, 2021 exceeded the charter-imposed limitation; however, the conflicts committee determined that the relationship of our operating expenses to our average invested assets was justified as we are now entering our liquidation stage and have incurred additional legal and financial advisor expenses as a result and have already sold one of our real estate properties.

***Cash Flows from Operating Activities***

As of March 31, 2021, we owned four office properties. During the three months ended March 31, 2021 and 2020, net cash used in operating activities was \$0.5 million and \$0.6 million, respectively. 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 or to the extent we are unable to re-lease space vacated by our current tenants.

***Cash Flows from Investing Activities***

During the three months ended March 31, 2021, net cash used in investing activities was \$0.1 million due to improvements to real estate.

***Cash Flows from Financing Activities***

During the three months ended March 31, 2021, net cash used in financing activities was \$0.5 million and consisted of the following:

- \$0.4 million of net cash distributions, and
- \$0.1 million of payments to redeem common stock.

**Contractual Obligations**

The following is a summary of our contractual obligations as of March 31, 2021 (in thousands).

Contractual Obligations	Total	Payments Due During the Years Ending December 31,		
		Remainder of 2021	2022-2023	2024-2025
Outstanding debt obligations <sup>(1)</sup>	\$ 96,994	\$ 47,652	\$ 46,102	\$ 3,240
Interest payments on outstanding debt obligations <sup>(2)</sup>	\$ 4,394	\$ 2,525	\$ 1,826	\$ 43

<sup>(1)</sup> Amounts include principal payments only.

<sup>(2)</sup> Projected interest payments are based on the outstanding principal amount, maturity date and contractual interest rate in effect as of March 31, 2021 (consisting of the contractual interest rate and the effect of interest rate swaps). We incurred interest expense of \$0.9 million, excluding amortization of deferred financing costs totaling \$0.1 million and unrealized gains on derivative instruments of \$0.4 million during the three months ended March 31, 2021.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

**Results of Operations**

*Overview*

As of March 31, 2020, we owned three office properties and an investment in an unconsolidated joint venture. Subsequent to March 31, 2020, we purchased the joint venture partner’s 50% equity interest and consolidated 210 W. Chicago. As a result, as of March 31, 2021, we owned four office properties. The following table provides summary information about our results of operations for the three months ended March 31, 2021 and 2020 (dollar amounts in thousands):

*Comparison of the three months ended March 31, 2021 versus the three months ended March 31, 2020*

	For the Three Months Ended March 31,		Increase (Decrease)	Percentage Change	\$ Change Due to Dispositions/JV Consolidation <sup>(1)</sup>	\$ Change Due to Properties Held Throughout Both Periods <sup>(2)</sup>
	2021	2020				
Rental income	\$ 4,294	\$ 4,583	\$ (289)	(6)%	\$ 60	\$ (349)
Other operating income	21	34	(13)	(38)%	3	(16)
Operating, maintenance and management costs	830	954	(124)	(13)%	(21)	(103)
Property management fees and expenses to affiliate	31	35	(4)	(11)%	(1)	(3)
Real estate taxes and insurance	766	733	33	5 %	25	8
Asset management fees to affiliate	428	435	(7)	(2)%	2	(9)
General and administrative expenses	477	473	4	1 %	n/a	n/a
Depreciation and amortization	1,982	2,166	(184)	(8)%	47	(231)
Interest expense	573	2,888	(2,315)	(80)%	(8)	(2,307)
Impairment charges on real estate	—	5,750	(5,750)	(100)%	—	(5,750)
Interest and other income	—	12	(12)	(100)%	n/a	n/a
Gain on sale of real estate, net	—	5,245	(5,245)	(100)%	(5,245)	—
Equity in loss of unconsolidated joint venture	—	(469)	469	(100)%	469	—
Loss from extinguishment of debt	—	(29)	29	(100)%	—	29

<sup>(1)</sup> Represents the dollar amount increase (decrease) for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 related to real estate investments disposed of and real estate acquired through joint venture consolidation on or after January 1, 2020.

<sup>(2)</sup> Represents the dollar amount increase (decrease) for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 related to real estate investments owned by us throughout both periods presented.

Rental income decreased from \$4.6 million for the three months ended March 31, 2020 to \$4.3 million for the three months ended March 31, 2021, primarily due to a decrease in occupancy rate as a result of lease expirations and a decrease in operating and property tax recoveries at properties held throughout both periods, partially offset by an increase in rental income due to a decrease in the write-off of receivables deemed not probable of collection during the three months ended March 31, 2021 at properties held throughout both periods. We expect rental income to fluctuate based on the occupancy at our existing properties and uncertainty and business disruptions as a result of the COVID-19 pandemic. See “Market Outlook - Real Estate and Real Estate Finance Markets - COVID-19 Pandemic and Portfolio Outlook” for a discussion on the impact of the COVID-19 pandemic on our business.

Operating, maintenance, and management costs decreased slightly from \$1.0 million for the three months ended March 31, 2020 to \$0.8 million for the three months ended March 31, 2021, the decrease is primarily due to the sale of Von Karman Tech Center on January 17, 2020 and an overall decrease in operating costs at properties held throughout both periods due to a decrease in physical occupancy as a result of the COVID-19 pandemic. We expect operating, maintenance, and management costs to fluctuate as a result of general inflation for properties that we continue to own, and business disruptions as a result of the COVID-19 pandemic.

Real estate taxes and insurance increased slightly from \$0.7 million for the three months ended March 31, 2020 to \$0.8 million for the three months ended March 31, 2021, primarily due to the consolidation of 210 W. Chicago. 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

Asset management fees to affiliate remained consistent at \$0.4 million for the three months ended March 31, 2021 and 2020. As of March 31, 2021, we had accrued and deferred payment of \$6.3 million of asset management fees related to the periods from October 2017 through March 31, 2021.

General and administrative expenses remained consistent at \$0.5 million for the three months ended March 31, 2021 and 2020. These general and administrative costs consisted primarily of internal audit compensation expense, portfolio legal fees, and board of directors fees.

Depreciation and amortization decreased from \$2.2 million for the three months ended March 31, 2020 to \$2.0 million for the three months ended March 31, 2021, primarily due to lease expirations and early lease terminations related to properties held throughout both periods, partially offset by an increase in depreciation and amortization as a result of the consolidation of 210 W. Chicago. 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 decreased from \$2.9 million for the three months ended March 31, 2020 to \$0.6 million for the three months ended March 31, 2021. Included in interest expense is the amortization of deferred financing costs of \$0.1 million and \$0.1 million for the three months ended March 31, 2021 and 2020, respectively. During the three months ended March 31, 2021 and 2020, interest expense (including gains and losses) incurred as a result of our derivative instruments, increased interest expense by \$3,000 and \$1.9 million, respectively. The decrease in interest expense is primarily due to a decrease in one-month LIBOR and its impact on interest expense related to our variable rate debt and a decrease in interest expense due to changes in fair values with respect to our interest rate swaps that are not accounted for as cash flow hedges, offset by an increase in interest expense related to a mortgage loan assumed in connection with the consolidation of 210 W. Chicago. In general, we expect interest expense to vary based on fluctuations in one-month LIBOR (for our unhedged variable rate debt) and our level of future borrowings, which will depend on the availability and cost of debt financing, draws on our debts and any debt repayments we make.

During the three months ended March 31, 2020, we recorded non-cash impairment charges of \$5.8 million to write down the carrying value of the Institute Property, an office property located in Chicago, Illinois, to its estimated fair value as a result of changes in cash flow estimates including a change in leasing projections, which triggered the future estimated undiscounted cash flows to be lower than the net carrying value of the property. The decrease in cash flow projections was primarily due to reduced demand for the office space at the property resulting in longer lease-up periods and a decrease in projected rental rates and was further impacted by the COVID-19 pandemic which we believe will result in additional challenges to release the vacant space. We did not record any impairment charges on our real estate properties during the three months ended March 31, 2021.

We recognized a gain on sale of real estate of \$5.2 million related to disposition of Von Karman Tech Center during the three months ended March 31, 2020. We did not recognize any gain on sale of real estate during the three months ended March 31, 2021.

During the three months ended March 31, 2020, we recognized \$0.5 million of equity in loss of unconsolidated joint venture, which included \$0.5 million of impairment, related to our investment in the joint venture. The impairment was a result of the decline in fair value of the underlying 210 W. Chicago property due to changes in cash flow estimates including a change in leasing projections, which triggered future estimated undiscounted cash flows to be lower than the net carrying value of the property. The decrease in cash flow projections was primarily due to reduced demand for the office space at the property resulting in a decrease in projected rental rates as leases mature.

## **PART I. FINANCIAL INFORMATION (CONTINUED)**

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

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

FFO and MFFO are non-GAAP financial measures and do not represent net income as defined by GAAP. Net income as defined by GAAP is the most relevant measure in determining our operating performance because FFO and MFFO include adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization and the other items described above. Accordingly, FFO and MFFO should not be considered as alternatives to net income as an indicator of our current and historical operating performance. In addition, FFO and MFFO do not represent cash flows from operating activities determined in accordance with GAAP and should not be considered an indication of our liquidity. We believe FFO and MFFO, in addition to net income and cash flows from operating activities as defined by GAAP, are meaningful supplemental performance measures.

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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

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

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

Our calculation of FFO, which we believe is consistent with the calculation of FFO as defined by NAREIT, is presented in the following table, along with our calculation of MFFO, for the three months ended March 31, 2021 and 2020, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Net loss	\$ (772)	\$ (4,058)
Depreciation of real estate assets	1,168	1,145
Amortization of lease-related costs	814	1,021
Impairment charges on real estate	—	5,750
Gain on sale of real estate, net	—	(5,245)
Adjustment for investment in unconsolidated joint venture <sup>(1)</sup>	—	566
<b>FFO</b>	<b>1,210</b>	<b>(821)</b>
Straight-line rent and amortization of above- and below-market leases, net	(83)	(87)
Unrealized (gain) loss on derivative instruments	(433)	1,766
Loss from extinguishment of debt	—	29
Adjustment for investment in unconsolidated joint venture <sup>(1)</sup>	—	(4)
<b>MFFO</b>	<b>\$ 694</b>	<b>\$ 883</b>

<sup>(1)</sup> Reflects adjustments to add back our noncontrolling interest share of the adjustments to convert our net loss attributable to common stockholders to FFO and MFFO for our equity investment in unconsolidated joint venture for the three months ended March 31, 2020.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

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

**Organization and Offering Costs**

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

The Advisor or its affiliates have paid some of the offering costs related to our distribution reinvestment plan offering (the “DRP”), including, but not limited to, our legal, accounting, printing, mailing and filing fees. We were responsible for reimbursing the Advisor for these costs. No reimbursements made by us to the Advisor may cause total organization and offering expenses incurred by us to exceed 15% of the aggregate gross offering proceeds of the DRP as of the date of reimbursement. Subject to the limitations described above, we were also responsible for reimbursing the Dealer Manager or its affiliates for organization and offering expenses that they incurred on our behalf. From January 1, 2019 through March 31, 2021, with respect to the DRP, neither the Advisor nor the Dealer Manager incurred any organization and offering expenses on our behalf. On August 5, 2020, our board of directors approved the termination of the DRP effective August 20, 2020.

The Advisor agreed to pay all organization and offering expenses related to the Second Private Offering, including selling commissions, directly on our behalf without reimbursement by us. From the inception of the Second Private Offering through August 5, 2020, the Advisor incurred approximately \$5.5 million of organization and offering expenses related to the Second Private Offering on our behalf. On August 5, 2020, our board of directors terminated the Second Private Offering.

**Distributions**

During our offering stage, and from time to time during our operational stage, we may not pay distributions solely from our cash flows from operations, in which case distributions may be paid in whole or in part from debt financing, including advances from our advisor, if necessary. Distributions declared, distributions paid and cash flows from operations were as follows for the first quarter of 2021 (in thousands, except per share amounts):

Period	Distributions Declared <sup>(1)</sup>	Distribution Declared Per Class A Share <sup>(1)(2)</sup>	Distribution Declared Per Class T Share <sup>(1)(2)</sup>	Distributions Paid	Cash Flows used in Operating Activities
First Quarter 2021	\$ 437	\$ 0.043	\$ 0.043	\$ 437	\$ (469)

<sup>(1)</sup> Distributions for the period from January 1, 2021 through March 31, 2021 were calculated at a quarterly rate of \$0.04287500 per share based on a single quarterly record date.

<sup>(2)</sup> Assumes Class A and Class T shares were issued and outstanding each day that was a record date for distributions during the period presented.

For the three months ended March 31, 2021, we paid aggregate distributions of \$0.4 million, all of which were paid in cash. Our net loss for the three months ended March 31, 2021 was \$0.8 million. FFO for the three months ended March 31, 2021 was \$1.2 million and cash flows used in operations for the three months ended March 31, 2021 was \$0.5 million. See the reconciliation of FFO to net loss above. We funded our total distributions paid, which includes net cash distributions with \$0.4 million of cash flows from operations in excess of distributions paid from prior periods. In addition, our advisor waived and deferred certain of its asset management fees which resulted in more cash being available for distribution. To the extent that we pay distributions from sources other than our cash flows from operations, the overall return to our stockholders may be reduced.

Cash distributions will be determined by our board of directors based on our financial condition and such other factors as our board of directors deems relevant. Our board of directors has not pre-established a percentage rate of return for cash distributions to stockholders. We have not established a minimum distribution level, and our charter does not require that we make distributions to our stockholders. Commencing with the fourth quarter of 2020, our board of directors adjusted our distribution policy in response to the ongoing uncertainty caused by the COVID-19 pandemic and its uncertain impact on our operations and those of our tenants. Our board of directors expects to consider and declare quarterly distributions based on a single quarterly record date. We expect any such distributions for a quarter to be authorized by the end of the following quarter.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

Our operating performance cannot be accurately predicted and may deteriorate in the future due to numerous factors, including those discussed under Part II, Item 1A, “Risk Factors.” Those factors include: the future operating performance of our current 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; and changes in interest rates on any variable rate debt obligations we incur. In the event our FFO and/or cash flow from operations decrease in the future, the level of our distributions may also decrease. In addition, future distributions declared and paid may exceed FFO and/or cash flow from operations.

**Critical Accounting Policies**

Our consolidated interim financial statements and condensed notes thereto have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. A discussion of the accounting policies that management considers critical in that they involve significant management judgments, assumptions and estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC. There have been no significant changes to our accounting policies during 2021.

**Subsequent Events**

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

***Distributions Authorized***

On May 10, 2021 our board of directors authorized a quarterly distribution in the amount of \$0.04287500 per share of common stock to stockholders of record as of the close of business on May 17, 2021, which we expect to pay in May 2021.

***Advisory Agreement Amendment***

On May 11, 2021, we and our advisor amended the Advisory Agreement to revise the terms on which the advance from our advisor for distributions through the period ended May 31, 2016 are repaid. The amendment revises the terms on which we are obligated to repay our advisor for this advance. Pursuant to the amendment, the determination of whether we have an MFFO Surplus will be made on a quarterly basis as opposed to monthly to reflect our board of directors’ change in distribution policy from monthly to quarterly distribution payments. In addition, net sales proceeds were added as a third source of funds which obligates us to repay the advance to our advisor. Finally, the amendment clarifies that our advisor may defer repayment of the advance notwithstanding that we would otherwise be obligated to repay the advance.

## **PART I. FINANCIAL INFORMATION (CONTINUED)**

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the acquisition, expansion and refinancing of our real estate investment portfolio and operations. Our profitability and the value of our real estate investment portfolio may be adversely affected during any period as a result of interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs. We may manage interest rate risk by maintaining a ratio of fixed rate, long-term debt such that variable rate exposure is kept at an acceptable level or we may utilize a variety of financial instruments, including interest rate caps, floors, and swap agreements, in order to limit the effects of changes in interest rates on our operations. When we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the funds available for the payment of distributions to our stockholders and that the losses may exceed the amount we invested in the instruments.

We expect to borrow funds and make investments at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect future earnings or cash flows on fixed rate debt unless such debt mature or is otherwise terminated. However, interest rate changes will affect the fair value of fixed rate instruments. At March 31, 2021, we did not have any fixed rate debt outstanding.

Conversely, movements in interest rates on variable rate debt would change future earnings and cash flows, but not significantly affect the fair value of the debt. However, changes in required risk premiums would result in changes in the fair value of variable rate instruments. At March 31, 2021, we were exposed to market risks related to fluctuations in interest rates on \$18.5 million of variable rate debt outstanding, after giving consideration to the impact of interest rate swap agreements on approximately \$78.5 million of our variable debt. Based on interest rates as of March 31, 2021, if interest rates were 100 basis points higher or lower during the 12 months ending March 31, 2022, interest expense on our variable rate debt would increase or decrease by \$0.2 million.

The weighted average interest rate of our variable rate debt at March 31, 2021 was 3.8%. The interest rate represents the actual interest rate in effect at March 31, 2021 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of March 31, 2021 where applicable.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

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

#### **Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

Please see the risks discussed below and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020.

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

From time to time, our advisor may agree to waive or defer all or a portion of the asset management or other fees, compensation or incentives due to it, pay general administrative expenses or otherwise supplement stockholder returns in order to increase the amount of cash available to fund our operations or make distributions to stockholders. Specifically, in the second and third quarters of 2017 our advisor waived its asset management fee and beginning October 2017 through March 31, 2021, the advisor deferred its asset management fee. If our advisor chooses to no longer waive or defer such fees, our ability to fund our operations and our distributions at the current rate may be adversely affected.

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

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 outbreak continues to evolve and many countries, states and localities, including states and localities in the United States, have reacted by instituting measures to help control the spread of the virus, including quarantines, "shelter-in-place" and "stay-at-home" orders, travel restrictions, restrictions on businesses and school closures. As a result, the COVID-19 pandemic is negatively impacting almost every industry, including the U.S. office real estate industry and the industries of our tenants, directly or indirectly. The COVID-19 pandemic has triggered a period of global economic slowdown. The fluidity of the COVID-19 pandemic continues to preclude any prediction as to the ultimate adverse impact of COVID-19.

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;
- businesses evolving to make work-from-home environments, such as employee telecommuting, flexible work schedules, open workplaces or teleconferencing, increasingly common, which could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations;
- disruption in supply and delivery chains;
- a general decline in business activity and demand for real estate; especially office properties;
- reduced economic activity, general economic decline or recession, which may impact our tenants' businesses, financial condition and liquidity and may cause one or more of our 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.

## **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 tenants' businesses and operations or the global economy as a whole. Nevertheless, many of our tenants have suffered reductions in revenue. From March 2020 through March 31, 2021, we granted rent relief to nine tenants as a result of the pandemic. Depending upon the duration of the pandemic, the quarantines and the corresponding economic slowdown, these tenants or additional tenants may seek rent deferrals or abatements in future periods or become unable to pay their rent. As of March 31, 2021, we had entered into lease amendments related to the effects of the COVID-19 pandemic, granting approximately \$0.2 million of rent deferrals for the period from April 2020 through April 2021 and granting approximately \$0.1 million in rental abatements. As of March 31, 2021, these lease concessions did not have a material impact on our consolidated balance sheet as of March 31, 2021 or consolidated statement of operations for the for the three months ended March 31, 2021. Subsequent to March 31, 2021, we have not seen a material impact on our rent collections. 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. As of March 31, 2021, two tenants at our Commonwealth Building have given notice of non-renewal of their leases and subsequent to March 31, 2021, two tenants at our 213 W. Institute property early terminated their leases. 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 charges of \$5.8 million at the Institute Property and \$0.5 million of equity in loss of unconsolidated joint venture, which included an impairment related to the property then-owned by the joint venture. We expect longer lease-up periods and a decrease in rental rates and believe the COVID-19 pandemic will cause additional challenges to release the vacant space. In addition, reductions in property values related to the impact of the COVID-19 pandemic have reduced our availability to draw on the revolving commitment and may limit our ability to exercise our extension option under our term loan due to covenants described in the loan agreement. 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.

### **Item 2. Unregistered Sales of Equity and Use of Proceeds**

- a). During the period covered by this Form 10-Q, no equity securities that were not registered under the Securities Act of 1933 (the "Act") were sold.
- b). Not applicable.
- c). We have adopted a share redemption program that may enable stockholders to sell their shares to us in limited circumstances.

Currently, our share redemption program is only available for redemptions sought upon a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program, and collectively "special redemptions").

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

- During each calendar year, special redemptions are limited to an annual dollar amount determined by our board of directors, which may be reviewed during the year and increased or decreased upon ten business days' notice to our stockholders. The dollar amount limitation for the calendar year 2021 is \$250,000 in the aggregate, as may be reviewed and adjusted from time to time by our board of directors.
- During any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- We have no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

**PART II. OTHER INFORMATION (CONTINUED)**

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

Special redemptions are redeemed at a price equal to the most recent estimated NAV per share as of the applicable redemption date. On December 7, 2020, our board of directors approved an estimated NAV per share of our common stock of \$4.90 based on the estimated value of our assets less the estimated value of our liabilities, or NAV, divided by the number of shares outstanding, all as of September 30, 2020. For a full description of the methodologies used to value our assets and liabilities in connection with the calculation of our estimated NAV per share as of September 30, 2020, see the Current Report on Form 8-K filed with the SEC on December 15, 2020. We expect to update the estimated NAV annually in December.

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

During the three months ended March 31, 2021, redemptions under our share redemption program were funded with existing cash on hand and shares were redeemed pursuant to our share redemption program as follows:

Month	Total Number of Shares Redeemed	Average Price Paid Per Share <sup>(1)</sup>	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2021	—	\$ —	(2)
February 2021	—	\$ —	(2)
March 2021	9,468	\$ 4.90	(2)
Total	<u>9,468</u>		

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

<sup>(2)</sup> We limit the dollar value of shares that may be redeemed under the program as described above. Based on the redemption limitation described above and redemptions through March 31, 2021, we may redeem up to \$204,000 of shares for the remainder of 2021.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

***Advisory Agreement Amendment***

On May 11, 2021, we entered Amendment no. 1 (“Amendment no. 1”) to the Advisory Agreement dated April 28, 2021 (the “Advisory Agreement”) between us and our advisor. Pursuant to the Advisory Agreement our advisor has agreed to advance us funds, which are non-interest bearing, for distributions through the period ended May 31, 2016. Amendment no. 1 revises the terms on which we are obligated to repay our advisor for this advance. Pursuant to Amendment no. 1, the determination of whether we have an MFFO Surplus (as defined in the Advisory Agreement) will be made on a quarterly basis as opposed to monthly to reflect our board of directors’ change in distribution policy from monthly to quarterly distribution payments. In addition, Amendment no. 1 adds net sales proceeds as a third source of funds which obligates us to repay the advance to our advisor. Finally, Amendment no. 1 clarifies that our advisor may defer repayment of the advance notwithstanding that we would otherwise be obligated to repay the advance.

**PART II. OTHER INFORMATION (CONTINUED)**

**Item 6. Exhibits**

<b>Ex.</b>	<b>Description</b>
3.1	<a href="#">Second Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-11 filed October 16, 2015</a>
3.2	<a href="#">Second Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 filed October 16, 2015</a>
3.3	<a href="#">Articles Supplementary for Class T Shares, incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-11 filed April 20, 2016</a>
4.1	<a href="#">Statement regarding restrictions in transferability of shares of common stock issued in a private offering (to be sent upon request and without charge to stockholders), incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed November 9, 2017</a>
4.2	<a href="#">Statement regarding restrictions on transferability of shares of common stock issued in a public offering (to be sent upon request and without charge to stockholders), incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed November 9, 2017</a>
4.3	<a href="#">Third Amended and Restated Distribution Reinvestment Plan, dated August 9, 2017, incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed August 10, 2017</a>
4.4	<a href="#">Multiple Class Plan, effective as of April 11, 2016, incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-11 filed April 20, 2016</a>
10.1	<a href="#">Advisory Agreement, by and between the Company and KBS Capital Advisors LLC, dated April 28, 2021, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 29, 2021</a>
10.2	<a href="#">Amendment No. 1 to the Advisory Agreement, by and between the Company and KBS Capital Advisors LLC, dated May 11, 2021</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">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</a>
32.2	<a href="#">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</a>
99.1	<a href="#">Second Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, filed December 10, 2018</a>
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 GROWTH & INCOME REIT, INC.**

Date: May 11, 2021

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 11, 2021

By: /S/ JEFFREY K. WALDVOGEL

**Jeffrey K. Waldvogel**

*Chief Financial Officer, Treasurer and Secretary*  
(principal financial officer)







