

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended **June 30, 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 **000-53649**

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

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**Maryland**

(State or Other Jurisdiction of  
Incorporation or Organization)

**800 Newport Center Drive, Suite 700  
Newport Beach, California**

(Address of Principal Executive Offices)

**26-0658752**

(I.R.S. Employer  
Identification No.)

**92660**

(Zip Code)

**(949) 417-6500**

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
None	None
Trading Symbol(s)	
None	

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

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

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input 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 August 9, 2021, there were 183,593,758 outstanding shares of common stock of the registrant.

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

**FORM 10-Q**

**June 30, 2021**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF NET ASSETS**  
(Liquidation Basis)  
(in thousands)

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Real estate	\$ 666,776	\$ 698,491
Cash and cash equivalents	7,365	21,796
Rents and other receivables	467	489
Other assets	900	461
<b>Total assets</b>	<b>\$ 675,508</b>	<b>\$ 721,237</b>
<b>Liabilities</b>		
Liabilities for estimated costs in excess of estimated receipts during liquidation	\$ 32,811	\$ 72,528
Notes payable	240,520	240,520
Accounts payable and accrued liabilities	5,607	7,308
Due to affiliate	36	49
Liabilities for estimated closing costs and disposition fees	13,888	16,458
Other liabilities	2,707	2,879
<b>Total liabilities</b>	<b>295,569</b>	<b>339,742</b>
Commitments and contingencies (Note 9)		
<b>Net assets in liquidation</b>	<b>\$ 379,939</b>	<b>\$ 381,495</b>

*See accompanying condensed notes to consolidated financial statements.*

**PART I. FINANCIAL INFORMATION (CONTINUED)****Item 1. Financial Statements (continued)**

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

For the Six Months Ended June 30, 2021

(Liquidation Basis)  
(unaudited, in thousands)

Net assets in liquidation, beginning of period	\$	381,495
<i>Changes in net assets in liquidation</i>		
Change in liquidation value of real estate properties after closing costs/disposition fees		(29,145)
Change in estimated cash flow during liquidation		5,623
Change in estimated capital expenditures		23,620
Redemptions		(1,243)
Other changes, net		(411)
Changes in net assets in liquidation		(1,556)
Net assets in liquidation, end of period	\$	<u>379,939</u>

*See accompanying condensed notes to consolidated financial statements.*

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

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

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2021

(unaudited)

**1. ORGANIZATION**

KBS Real Estate Investment Trust II, Inc. (the “Company”) was formed on July 12, 2007 as a Maryland corporation that elected to be taxed as a real estate investment trust (“REIT”) beginning with the taxable year ended December 31, 2008. The Company conducts its business primarily through KBS Limited Partnership II, a Delaware limited partnership formed on August 23, 2007 (the “Operating Partnership”), and its subsidiaries. The Company is the sole general partner of and directly owns a 0.1% partnership interest in the Operating Partnership. The Company’s wholly-owned subsidiary, KBS REIT Holdings II LLC, a Delaware limited liability company formed on August 23, 2007 (“KBS REIT Holdings II”), owns the remaining 99.9% partnership interest in the Operating Partnership and is its sole limited partner.

As of June 30, 2021, the Company owned four office properties and an office building that is part of an office campus.

Subject to certain restrictions and limitations, the business of the Company is managed by KBS Capital Advisors LLC (the “Advisor”), an affiliate of the Company, pursuant to an advisory agreement the Company entered into with the Advisor (the “Advisory Agreement”). The Advisory Agreement is effective through May 21, 2022 and may be renewed for an unlimited number of one-year periods upon the mutual consent of the Advisor and the Company. Either party may terminate the Advisory Agreement upon 60 days’ written notice. The Advisor owns 20,000 shares of the Company’s common stock.

As of June 30, 2021, the Company had 183,693,580 shares of common stock issued and outstanding.

On November 13, 2019, in connection with a review of potential strategic alternatives available to the Company, a special committee composed of all of the Company’s independent directors (the “Special Committee”) and the board of directors unanimously approved the sale of all of the Company’s assets and the dissolution of the Company pursuant to the terms of the plan of complete liquidation and dissolution (the “Plan of Liquidation”). The principal purpose of the Plan of Liquidation is to provide liquidity to the Company’s stockholders by selling the Company’s assets, paying its debts and distributing the net proceeds from liquidation to the Company’s stockholders. On March 5, 2020, the Company’s stockholders approved the Plan of Liquidation. The Plan of Liquidation is included as an exhibit to this Quarterly Report on Form 10-Q.

**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 and its liquidation, including how the pandemic is affecting its tenants and the Company’s ability to sell its remaining real estate properties at the times and prices it expects. From March 2020 through June 30, 2021, the Company did not experience significant disruptions in its operations from the COVID-19 pandemic. During the year ended December 31, 2020, the Company reduced the estimated liquidation value of its real estate portfolio by \$90.2 million due to changes in leasing projections across its portfolio resulting in lower projected cash flow and projected sales prices caused by the impact of the COVID-19 pandemic. Many of the Company’s tenants have experienced disruptions in their business, some more severely than others. As of June 30, 2021, the Company had granted rent relief to eight tenants as a result of the pandemic, but 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 therefore, the Company is unable to predict the ultimate impact the pandemic will have on its business and implementation of the Plan of Liquidation due to numerous uncertainties. The Company is evaluating each tenant rent relief request on an individual basis, considering a number of factors. Not all tenant requests will ultimately result in modified agreements, nor is the Company forgoing its contractual rights under its lease agreements. Further, significant reductions in rental revenue in the future related to the impact of the COVID-19 pandemic may limit the Company’s ability to draw on its portfolio loan facility due to covenants described in the Company’s loan agreements.

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

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

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

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

June 30, 2021

(unaudited)

**1. ORGANIZATION (CONTINUED)**

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

**2. PLAN OF LIQUIDATION**

The Plan of Liquidation authorizes the Company to undertake an orderly liquidation. In an orderly liquidation, the Company will sell all of its remaining properties, pay all of its known liabilities, provide for the payment of its unknown or contingent liabilities, distribute its remaining cash to its stockholders, wind up its operations and dissolve. The Company is authorized to provide for the payment of any unascertained or contingent liabilities and may do so by purchasing insurance, by establishing a reserve fund or in other ways.

The Plan of Liquidation enables the Company to sell any and all of its assets without further approval of its stockholders and provides that the amounts and timing of liquidating distributions will be determined by the Company's board of directors or, if a liquidating trust is formed, by the trustees of the liquidating trust, in their discretion. Pursuant to applicable REIT rules, liquidating distributions the Company pays pursuant to the Plan of Liquidation will qualify for the dividends paid deduction, provided that they are paid within 24 months of the March 5, 2020 approval of the plan by the Company's stockholders. However, if the Company cannot sell its properties and pay its debts within such time period, or if the board of directors and the Special Committee determine that it is otherwise advisable to do so, the Company may transfer and assign its remaining assets to a liquidating trust. Upon such transfer and assignment, the Company's stockholders would receive beneficial interests in the liquidating trust. The liquidating trust would pay or provide for all of the Company's liabilities and distribute any remaining net proceeds from liquidation to the holders of beneficial interests in the liquidating trust. If the Company is not able to sell its properties and pay its debt within the 24-month period and the remaining assets are not transferred to a liquidating trust, the distributions made during the 24 months may not qualify for the dividends paid deduction and may increase the Company's tax liability.

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

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

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

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

June 30, 2021

(unaudited)

**2. PLAN OF LIQUIDATION (CONTINUED)**

The Company's expectations about the implementation of the Plan of Liquidation and the amount of any additional liquidating distributions that the Company pays to its stockholders and when the Company will pay them are subject to risks and uncertainties and are based on certain estimates and assumptions, one or more of which may prove to be incorrect. As a result, the actual amount of any additional liquidating distributions the Company pays to its stockholders may be more or less than the Company estimates and the liquidating distributions may be paid later than the Company predicts. There are many factors that may affect the amount of liquidating distributions the Company will ultimately pay to its stockholders. If the Company underestimates its existing obligations and liabilities or the amount of taxes, transaction fees and expenses relating to the liquidation and dissolution, or if unanticipated or contingent liabilities arise, the amount of liquidating distributions ultimately paid to the Company's stockholders could be less than estimated. Moreover, the liquidation value will fluctuate over time in response to developments related to individual assets in the Company's portfolio and the management of those assets, in response to the real estate and finance markets, based on the actual liquidation timing and the amount of net proceeds received from the disposition of the remaining assets and due to other factors. In particular, the outbreak of COVID-19, together with the resulting measures imposed to help control the spread of the virus, has had a negative impact on the economy and business activity globally. While the Company has considered the impact from COVID-19 in its net assets in liquidation presented on the Condensed Consolidated Statement of Net Assets as of June 30, 2021, the extent to which the Company's business may be affected by COVID-19 depends 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. Given the uncertainty and current business disruptions as a result of the outbreak of COVID-19, the Company's implementation of the Plan of Liquidation may be materially and adversely impacted and this may have a material effect on the ultimate amount and timing of liquidating distributions received by stockholders. Accordingly, it is not possible to precisely predict the timing of any additional liquidating distributions the Company pays to its stockholders or the aggregate amount of liquidating distributions that the Company will ultimately pay to its stockholders. No assurance can be given that any additional liquidating distributions the Company pays to its stockholders will equal or exceed the estimate of net assets in liquidation presented on the Condensed Consolidated Statement of Net Assets as of June 30, 2021.

The Company expects to comply with the requirements necessary to continue to qualify as a REIT through the completion of the liquidation process, or until such time as any remaining assets are transferred into a liquidating trust. The board of directors shall use commercially reasonable efforts to continue to cause the Company to maintain its REIT status; provided, however, that the board of directors may elect to terminate the Company's status as a REIT if it determines that such termination would be in the best interest of the stockholders.

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

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

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

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

June 30, 2021

(unaudited)

**3. 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 (the "SEC").

**Principles of Consolidation and Basis of Presentation**

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), including Subtopic 205-30, "Liquidation Basis of Accounting," as indicated, 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.

Pursuant to the Company's stockholders' approval of the Plan of Liquidation, the Company adopted the liquidation basis of accounting as of and for the periods subsequent to February 1, 2020 (as the approval of the Plan of Liquidation by the Company's stockholders became imminent within the first week of February 2020 based on the results of the Company's solicitation of proxies from its stockholders for their approval of the Plan of Liquidation). Accordingly, on February 1, 2020, assets were adjusted to their estimated net realizable value, or liquidation value, which represents the estimated amount of cash that the Company will collect through the disposal of assets as it carries out the Plan of Liquidation. The liquidation values of the Company's remaining real estate properties are presented on an undiscounted basis. Estimated costs to dispose of assets and estimated capital expenditures through the anticipated disposition date of the properties have been presented separately from the related assets. Liabilities are carried at their contractual amounts due or estimated settlement amounts.

The Company accrues costs and income that it expects to incur and earn through the completion of its liquidation, including the estimated amount of cash the Company expects to collect through the disposal of its assets and the estimated costs to dispose of its assets, to the extent it has a reasonable basis for estimation. These amounts are classified as a liability for estimated costs in excess of estimated receipts during liquidation on the Condensed Consolidated Statement of Net Assets. Actual costs and income may differ from amounts reflected in the financial statements because of the inherent uncertainty in estimating future events. These differences may be material. See Note 2, "Plan of Liquidation" and Note 4, "Liabilities for Estimated Costs in Excess of Estimated Receipts During Liquidation" for further discussion. Actual costs incurred but unpaid as of June 30, 2021 are included in accounts payable and accrued liabilities, due to affiliates and other liabilities on the Condensed Consolidated Statement of Net Assets.

Net assets in liquidation represents the remaining estimated liquidation value available to stockholders upon liquidation. Due to the uncertainty in the timing of the sale of the Company's remaining real estate properties and the estimated cash flows from operations, actual liquidation costs and sale proceeds may differ materially from the amounts estimated.

**Use of Estimates**

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



**PART I. FINANCIAL INFORMATION (CONTINUED)****Item 1. Financial Statements (continued)****KBS REAL ESTATE INVESTMENT TRUST II, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2021

(unaudited)

**4. LIABILITIES FOR ESTIMATED COSTS IN EXCESS OF ESTIMATED RECEIPTS DURING LIQUIDATION**

The liquidation basis of accounting requires the Company to estimate net cash flows from operations and to accrue all costs associated with implementing and completing the Plan of Liquidation. As of June 30, 2021, the Company estimated that it will have costs in excess of estimated receipts during the liquidation process. These amounts can vary significantly due to, among other things, the timing and estimates for executing and renewing leases, estimates of tenant improvement costs and capital expenditures, the timing of property sales, direct costs incurred to complete the sales, the timing and amounts associated with discharging known and contingent liabilities and the costs associated with the winding down of operations. These costs are estimated and are anticipated to be paid out over the liquidation period.

The change in the liabilities for estimated costs in excess of estimated receipts during liquidation as of June 30, 2021 is as follows (in thousands):

	December 31, 2020	Cash Payments (Receipts)	Remeasurement of Assets and Liabilities	June 30, 2021
Assets:				
Estimated net inflows from investments in real estate	\$ 12,667	\$ (13,844)	\$ 4,628	\$ 3,451
	12,667	(13,844)	4,628	3,451
Liabilities:				
Liquidation transaction costs	(2,760)	—	—	(2,760)
Corporate expenditures	(11,466)	5,399	995	(5,072)
Capital expenditures	(70,969)	18,919	23,620	(28,430)
	(85,195)	24,318	24,615	(36,262)
Total liabilities for estimated costs in excess of estimated receipts during liquidation	\$ (72,528)	\$ 10,474	\$ 29,243	\$ (32,811)

**PART I. FINANCIAL INFORMATION (CONTINUED)****Item 1. Financial Statements (continued)****KBS REAL ESTATE INVESTMENT TRUST II, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2021

(unaudited)

**5. NET ASSETS IN LIQUIDATION**

Net assets in liquidation decreased by approximately \$1.6 million during the six months ended June 30, 2021 as follows (in thousands):

Changes in net assets in liquidation		
Change in liquidation value of real estate properties after closing costs/disposition fees	\$	(29,145)
Change in estimated cash flow during liquidation		5,623
Change in estimated capital expenditures		23,620
Redemptions		(1,243)
Other changes, net		(411)
Changes in net assets in liquidation	\$	<u>(1,556)</u>

During the six months ended June 30, 2021, the estimated net realizable value of real estate after estimated closing costs and disposition fees decreased by \$29.1 million, primarily due to a \$23.6 million decrease in the anticipated net sales proceeds from the Company's investment in an office property located in Denver, Colorado ("Granite Tower") and \$5.5 million decrease as a result of a net decrease in the projected sales prices of the Company's other real estate properties. See Note 10, "Subsequent Events - Purchase and Sale Agreement for Sale of Granite Tower." The estimated net realizable value of Granite Tower was adjusted to the sales price pursuant to the purchase and sale agreement for Granite Tower. However, the decrease in the estimated net realizable value of real estate and the corresponding impact to net assets in liquidation was offset by a decrease in estimated capital expenditures of \$23.6 million primarily due to a reduction in tenant improvement costs projected through the date of sale of Granite Tower.

The net assets in liquidation as of June 30, 2021 would result in the payment of additional estimated liquidating distributions of approximately \$2.07 per share of common stock to the Company's stockholders of record as of June 30, 2021. This estimate of additional liquidating distributions includes projections of costs and expenses to be incurred during the estimated period required to complete the Plan of Liquidation. There is inherent uncertainty with these estimates and projections, and they could change materially based on the timing of the sales of the Company's remaining real estate properties, the performance of the Company's remaining assets and any changes in the underlying assumptions of the projected cash flows from such properties. See Note 2, "Plan of Liquidation."

**6. REAL ESTATE**

As of June 30, 2021, the Company's real estate investments were composed of four office properties and an office building that is part of an office campus, encompassing in the aggregate approximately 2.4 million rentable square feet. As of June 30, 2021, the Company's real estate portfolio was 71% occupied. As of June 30, 2021, the Company's liquidation value of real estate was \$666.8 million, exclusive of net operating income to be earned and projected capital expenditures to be incurred over the expected hold period through sale.

As a result of adopting the liquidation basis of accounting as of February 1, 2020, as of June 30, 2021, real estate properties were recorded at their estimated liquidation value, which represents the estimated gross amount of cash that the Company will collect through the sale of its real estate properties owned as of June 30, 2021 as it carries out its Plan of Liquidation.

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

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

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

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

June 30, 2021

(unaudited)

**7. NOTES PAYABLE**

As of June 30, 2021 and December 31, 2020, the Company's notes payable consisted of the following (dollars in thousands):

	Book Value as of June 30, 2021	Book Value as of December 31, 2020	Contractual Interest Rate as of June 30, 2021 <sup>(1)</sup>	Effective Interest Rate as of June 30, 2021 <sup>(1)</sup>	Payment Type	Maturity Date <sup>(2)</sup>
Portfolio Loan Facility <sup>(3)</sup>	\$ 145,170	\$ 145,170	One-month LIBOR + 1.45%	1.6%	Interest Only	03/29/2022
Granite Tower Mortgage Loan <sup>(4)</sup>	95,350	95,350	One-month LIBOR + 1.65%	1.8%	(4)	09/01/2023
Total notes payable principal outstanding	<u>\$ 240,520</u>	<u>\$ 240,520</u>				

<sup>(1)</sup> Contractual interest rate represents the interest rate in effect under the loan as of June 30, 2021. Effective interest rate is calculated as the actual interest rate in effect as of June 30, 2021, using interest rate indices as of June 30, 2021, where applicable.

<sup>(2)</sup> Represents the initial maturity date or the maturity date as extended as of June 30, 2021.

<sup>(3)</sup> As of June 30, 2021, the Portfolio Loan Facility was secured by Willow Oaks Corporate Center, Union Bank Plaza and Fountainhead Plaza. As of June 30, 2021, \$145.2 million of term debt of the Portfolio Loan Facility was outstanding and \$48.4 million of revolving debt remained available for future disbursements, subject to certain terms and conditions set forth in the loan documents.

<sup>(4)</sup> As of June 30, 2021, \$95.4 million had been disbursed to the Company with the remaining loan balance of \$49.6 million available for future disbursements, subject to certain conditions set forth in the loan agreement. Monthly payments are initially interest-only. Beginning on January 1, 2022, monthly payments for the Granite Tower Mortgage Loan will begin to include principal and interest with principal payments calculated using an amortization schedule of 30 years for the balance of the loan term, with the remaining principal balance, all accrued and unpaid interest and any other amounts due at maturity.

**8. RELATED PARTY TRANSACTIONS**

The Company has entered into the Advisory Agreement with the Advisor. This agreement entitles the Advisor to specified fees upon the provision of certain services with regard to the management of the Company's investments, among other services, and the disposition of investments, as well as reimbursement of certain costs incurred by the Advisor in providing services to the Company. In addition, the Advisor is entitled to certain other fees, including an incentive fee upon achieving certain performance goals, as detailed in the Advisory Agreement. The Company has also entered into a fee reimbursement agreement with KBS Capital Markets Group LLC (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 Depository Trust & Clearing Corporation Alternative Investment Product Platform with respect to certain accounts of the Company's investors serviced through the platform. The Advisor and Dealer Manager also serve or served as the advisor and dealer manager, respectively, for KBS Real Estate Investment Trust III, Inc. ("KBS REIT III") and KBS Growth & Income REIT, Inc. ("KBS Growth & Income REIT").

As of January 1, 2020, the Company, together with KBS REIT III, KBS Growth & Income REIT, the Dealer Manager, the Advisor and other KBS-affiliated entities, had entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage were shared. The cost of these lower tiers is allocated by the Advisor and its insurance broker among each of the various entities covered by the program, and is billed directly to each entity. In June 2021, the Company renewed its participation in the program. The program is effective through June 30, 2022.

During the six months ended June 30, 2021 and 2020, no other business transactions occurred between the Company and KBS REIT III, KBS Growth & Income REIT, the Advisor, the Dealer Manager or other KBS-affiliated entities.

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

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

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

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

June 30, 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 and six months ended June 30, 2021 and 2020, respectively, and any related amounts payable as of June 30, 2021 and December 31, 2020 (in thousands):

	Incurred				Payable as of	
	Three Months Ended June 30,		Six Months Ended June 30,		June 30,	December 31,
	2021	2020	2021	2020	2021	2020
<b>Expensed</b>						
Asset management fees	\$ 1,476	\$ 1,660	\$ 2,914	\$ 3,499	\$ —	\$ —
Reimbursement of operating expenses <sup>(1)</sup>	95	146	221	222	36	49
Disposition fees	—	685	—	3,767	—	—
	<u>\$ 1,571</u>	<u>\$ 2,491</u>	<u>\$ 3,135</u>	<u>\$ 7,488</u>	<u>\$ 36</u>	<u>\$ 49</u>

<sup>(1)</sup> Reimbursable operating expenses primarily consists of internal audit personnel costs, accounting software and cybersecurity related expenses incurred by the Advisor under the Advisory Agreement. The Company has reimbursed the Advisor for the Company's allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company. These amounts totaled \$76,000 and \$107,000 for the three months ended June 30, 2021 and 2020, respectively, and \$163,000 and \$165,000 for the six months ended June 30, 2021 and 2020, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement for the six months ended June 30, 2021 and 2020. The Company will not reimburse for employee costs in connection with services for which the Advisor 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.

**9. COMMITMENTS AND CONTINGENCIES**

**Economic Dependency**

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

**Environmental**

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. Compliance with existing environmental laws is not expected to have a material adverse effect on the Company's financial condition and results of operations as of June 30, 2021.

**Legal Matters**

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

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

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

**KBS REAL ESTATE INVESTMENT TRUST II, INC.**

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

June 30, 2021

(unaudited)

**10. SUBSEQUENT EVENTS**

**Purchase and Sale Agreement for Sale of Granite Tower**

On December 16, 2010, the Company, through an indirect wholly owned subsidiary, acquired Granite Tower, a 31-story office building located in Denver, Colorado containing 593,527 rentable square feet on approximately 0.7 acres of land.

On July 23, 2021, the due diligence period expired under the purchase and sale agreement and escrow instructions (the “Granite Tower Agreement”) for the sale of Granite Tower by and between an indirect wholly owned subsidiary of the Company and Granite Tower LLC (the “Granite Tower Purchaser”), an affiliate of CP Group. The Granite Tower Purchaser is unaffiliated with the Company or the Advisor. Pursuant to the Granite Tower Agreement, the sale price for Granite Tower is \$203.5 million, subject to prorations and adjustments as provided in the Granite Tower Agreement.

On August 9, 2021, the closing date was extended to September 10, 2021 in accordance with the Granite Tower Agreement. There can be no assurance that the Company will complete the sale of Granite Tower. The Granite Tower Purchaser would be obligated to purchase Granite Tower only after satisfaction of agreed upon closing conditions. In certain circumstances, if the Granite Tower Purchaser fails to complete the acquisition, it may forfeit up to \$6.0 million of earnest money.

**Purchase and Sale Agreement for Sale of Fountainhead Plaza**

On September 13, 2011, the Company, through an indirect wholly owned subsidiary, purchased two office buildings totaling 445,957 rentable square feet located on approximately 11.33 acres of land in Tempe, Arizona (“Fountainhead Plaza”).

On August 9, 2021, the due diligence period expired under the purchase and sale agreement and escrow instructions (the “Fountainhead Plaza Agreement”) for the sale of Fountainhead Plaza by and between an indirect wholly owned subsidiary of the Company and an unaffiliated purchaser (the “Fountainhead Plaza Purchaser”). Pursuant to the Fountainhead Plaza Agreement, the sale price for Fountainhead Plaza is \$117.5 million, before closing credits as provided in the Fountainhead Plaza Agreement.

The closing date is expected to be September 8, 2021, provided that the Fountainhead Plaza Purchaser may extend the closing date subject to certain conditions set forth in the Fountainhead Plaza Agreement. There can be no assurance that the Company will complete the sale of Fountainhead Plaza. The Fountainhead Plaza Purchaser would be obligated to purchase Fountainhead Plaza only after satisfaction of agreed upon closing conditions. In certain circumstances, if the Fountainhead Plaza Purchaser fails to complete the acquisition, it may forfeit up to \$4.0 million of earnest money.

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

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

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

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

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Real Estate Investment Trust II, 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 help control the spread of 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 and our implementation of the Plan of Liquidation (defined below) depends on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others.
- Although our board of directors and our stockholders have approved the sale of all of our assets and our dissolution pursuant to the Plan of Liquidation, we can give no assurance that we will be able to successfully implement the Plan of Liquidation and sell our assets, pay our debts and distribute the net proceeds from liquidation to our stockholders as we expect. If we underestimated our existing obligations and liabilities or if unanticipated or contingent liabilities arise, the amount of liquidating distributions ultimately paid to our stockholders could be less than estimated. Given the uncertainty and current business disruptions as a result of the outbreak of COVID-19, our implementation of the Plan of Liquidation may be materially and adversely impacted and this may have a material effect on the ultimate amount and timing of liquidating distributions received by stockholders.
- We may face unanticipated difficulties, delays or expenditures relating to our implementation of the Plan of Liquidation, which may reduce or delay our payment of liquidating distributions.
- We can give no assurance regarding the timing of asset dispositions in connection with the implementation of the Plan of Liquidation, the sale prices we will receive for our assets and the amount and timing of liquidating distributions to be received by our stockholders.
- We may face risks associated with legal proceedings, including stockholder litigation, that may be instituted against us related to the Plan of Liquidation.
- All of our executive officers, one of our directors and other key real estate and debt finance professionals are also officers, directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor, the entity that acted as our dealer manager and/or other KBS-affiliated entities. As a result, they face conflicts of interest, including significant conflicts created by our advisor’s 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. These conflicts could result in unanticipated actions.
- We pay substantial fees to and expenses of our advisor and its affiliates. These payments reduce the amount of liquidating distributions our stockholders will receive.

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

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

- We depend on tenants for the revenue generated by our real estate investments and, accordingly, the revenue generated by our real estate investments is dependent upon the success and economic viability of our tenants. Revenues from our properties could decrease due to a reduction in occupancy (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases), rent deferrals or abatements, tenants becoming unable to pay their rent and/or lower rental rates, making it more difficult for us to meet our debt service obligations and reducing our stockholders’ returns and the amount of liquidating distributions they receive. From March 2020 through June 30, 2021, we have granted rent relief to eight tenants as a result of the pandemic, and these tenants or additional tenants may request rent relief in future periods or become unable to pay rent.
- Our investments in real estate may be affected by unfavorable real estate market and general economic conditions, which could decrease the value of those assets. Revenues from our properties could decrease. Such events would make it more difficult for us to meet our debt service obligations and successfully implement the Plan of Liquidation, which could reduce our stockholders’ returns and the amount of liquidating distributions they receive.
- Continued disruptions in the financial markets, changes in the demand for office properties and uncertain economic conditions could adversely affect our ability to successfully implement our business strategy and the Plan of Liquidation, which could reduce our stockholders’ returns and the amount of liquidating distributions they receive.
- As of June 30, 2021, we have \$240.5 million of variable debt outstanding, and we may incur additional variable rate debt in the future. The interest and related payments on our variable rate debt will vary with the movement of LIBOR or other indexes. Increases in one-month LIBOR or other indexes would increase the amount of our debt payments and could reduce our stockholders’ returns and the amount of liquidating distributions they receive.
- Our share redemption program provides only for redemptions sought upon a stockholder’s death, “qualifying disability” or “determination of incompetence” (each as defined in the share redemption program document, and, together with redemptions sought in connection with a stockholder’s death, “Special Redemptions”). The dollar amounts available for such redemptions are determined by the board of directors and may be reviewed and adjusted from time to time. Additionally, redemptions are further subject to limitations described in our share redemption program. We do not expect to have funds available for ordinary redemptions in the future.
- During the year ended December 31, 2020, we sold two office properties and four office buildings that were part of an eight-building office campus. During the year ended December 31, 2019, we sold two office properties. As a result of our disposition activity, our general and administrative expenses, which are not directly related to the size of our portfolio, have increased as a percentage of our cash flow from operations and will continue to increase as we sell additional assets pursuant to the Plan of Liquidation.

All forward-looking statements should be read in light of the risks identified in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ended March 31, 2021, each as filed with the Securities and Exchange Commission (the “SEC”).

**Overview**

We were formed on July 12, 2007 as a Maryland corporation that elected to be taxed as a real estate investment trust (“REIT”) beginning with the taxable year ended December 31, 2008 and we intend to continue to operate in such a manner. We conduct our business primarily through our Operating Partnership, of which we are the sole general partner. Subject to certain restrictions and limitations, our business is managed by our advisor, KBS Capital Advisors LLC, pursuant to an advisory agreement. KBS Capital Advisors conducts our operations and manages our portfolio of real estate investments. Our advisor owns 20,000 shares of our common stock. We have no paid employees.

As of June 30, 2021, we owned four office properties and an office building that is part of an office campus.

As of June 30, 2021, we had 183,693,580 shares of common stock issued and outstanding.

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

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

On November 13, 2019, in connection with a review of potential strategic alternatives available to us, a special committee composed of all of our independent directors (the “Special Committee”) and our board of directors unanimously approved the sale of all of our assets and our dissolution pursuant to the terms of the plan of complete liquidation and dissolution (the “Plan of Liquidation”). The principal purpose of the Plan of Liquidation is to provide liquidity to our stockholders by selling our assets, paying our debts and distributing the net proceeds from liquidation to our stockholders. On March 5, 2020, our stockholders approved the Plan of Liquidation. The Plan of Liquidation is included as an exhibit to this Quarterly Report on Form 10-Q.

#### ***Plan of Liquidation***

In accordance with the Plan of Liquidation, our objectives are to pursue an orderly liquidation of our company by selling all of our remaining assets, paying our debts and our known liabilities, providing for the payment of unknown or contingent liabilities, distributing the net proceeds from liquidation to our stockholders and winding up our operations and dissolving our company. While pursuing our liquidation pursuant to the Plan of Liquidation, we intend to continue to manage our portfolio of assets to maintain and, if possible, improve the quality and income-producing ability of our properties to enhance property stability and better position our remaining assets for sale.

We expect to distribute substantially all of the net proceeds from liquidation to our stockholders within 24 months from March 5, 2020. Pursuant to the Plan of Liquidation, on March 5, 2020, our board of directors authorized an initial liquidating distribution in the amount of \$0.75 per share of common stock to stockholders of record as of the close of business on March 5, 2020. On July 31, 2020, our board of directors authorized a second liquidating distribution in the amount of \$0.25 per share of common stock to stockholders of record as of the close of business on August 3, 2020, and on December 24, 2020, our board of directors authorized a third liquidating distribution in the amount of \$0.40 per share of common stock to stockholders of record as of the close of business on December 24, 2020. We expect to continue to pay liquidating distribution payments to our stockholders through the completion of our liquidation process. However, if we cannot sell our assets and pay our debts within 24 months from March 5, 2020, or if the board of directors and the Special Committee determine that it is otherwise advisable to do so, pursuant to the Plan of Liquidation, we may transfer and assign our remaining assets to a liquidating trust. Upon such transfer and assignment, our stockholders will receive beneficial interests in the liquidating trust.

Our expectations about the implementation of the Plan of Liquidation and the amount of any additional liquidating distributions that we will pay to our stockholders and when we will pay them are subject to risks and uncertainties and are based on certain estimates and assumptions, one or more of which may prove to be incorrect. As a result, the actual amount of any additional liquidating distributions we pay to stockholders may be more or less than we estimate and the liquidating distributions may be paid later than we predict. There are many factors that may affect the amount of liquidating distributions we will ultimately pay to our stockholders. If we underestimate our existing obligations and liabilities or the amount of taxes, transaction fees and expenses relating to the liquidation and dissolution, or if unanticipated or contingent liabilities arise, the amount of liquidating distributions ultimately paid to our stockholders could be less than estimated. Moreover, the liquidation value will fluctuate over time in response to developments related to individual assets in our portfolio and the management of those assets, in response to the real estate and finance markets, based on the actual liquidation timing and the amount of net proceeds received from the disposition of the remaining assets and due to other factors. Given the uncertainty and current business disruptions as a result of the outbreak of COVID-19, our implementation of the Plan of Liquidation may be materially and adversely impacted and this may have a material effect on the ultimate amount and timing of liquidating distributions received by our stockholders. While we have considered the impact from COVID-19 in our net assets in liquidation presented on the Condensed Consolidated Statement of Net Assets as of June 30, 2021, the extent to which our business may be affected by COVID-19 depends 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. 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 and our liquidation. We can give no assurance regarding the timing of asset dispositions in connection with the implementation of the Plan of Liquidation, the sale prices we will receive for our assets, and the amount or timing of liquidating distributions to be received by our stockholders.



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

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

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

Volatility in global financial markets and changing political environments can cause fluctuations in the performance of the U.S. commercial real estate markets. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of future rental concessions, including free rent to renew tenants early, to retain tenants who are up for renewal or to attract new tenants, may result in decreases in cash flows from our 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. Reductions in revenues from our properties would adversely impact the timing of asset sales and/or the sales price we will receive for our properties. To the extent there are increases in the cost of financing due to higher interest rates, this may cause difficulty in refinancing debt obligations at terms as favorable as the terms of existing indebtedness. Further, increases in interest rates would increase the amount of our debt payments on our variable rate debt. Management continuously reviews our debt financing strategies to optimize our portfolio and the cost of our debt exposure. Market conditions can change quickly, potentially negatively impacting the value of real estate investments. Most recently, the outbreak of COVID-19 has had a negative impact on the real estate market as discussed below.

***COVID-19 Pandemic and Portfolio Outlook***

As of June 30, 2021, the novel coronavirus, or COVID-19, pandemic is ongoing. During 2020, the COVID-19 pandemic created disruption in the U.S. and global economies, adversely impacting many industries, including the U.S. office real estate industry and the industries of our tenants, directly or indirectly. In 2021, the global economy has, with certain setbacks, begun reopening and wider distribution of vaccines will likely encourage greater economic activity. Nonetheless, the recovery could remain uneven, particularly given uncertainty with respect to the distribution and acceptance of the vaccines and their effectiveness with respect to new variants of the virus.

The outbreak of COVID-19 and its impact on the current financial, economic, capital markets and real estate market environment, and future developments in these and other areas present uncertainty and risk with respect to our business, financial condition, results of operations, cash flows and liquidation. Although a recovery is partially underway, it continues to be gradual, uneven and characterized by meaningful dispersion across sectors and regions, and could be hindered by persistent or resurgent infection rates. The most recent round of U.S. fiscal stimulus could provide meaningful support, along with continued accommodative monetary policy and wider distribution of vaccines. Issues with respect to the distribution and acceptance of vaccines or the spread of new variants of the virus could adversely impact the recovery. Overall, there remains significant uncertainty regarding the timing and duration of the economic recovery, which precludes any prediction as to the ultimate adverse impact COVID-19 may have on our business and liquidation.

During the year ended December 31, 2020 and the six months ended June 30, 2021, we did not experience a significant impact to rental income collections from the COVID-19 pandemic. Rent collections for the quarter ended June 30, 2021 were approximately 99%. Many of our tenants have suffered reductions in revenue. As of June 30, 2021, we had entered into lease amendments related to the effects of the COVID-19 pandemic, granting \$0.2 million of rent deferrals for the period from March 2020 through June 30, 2021 and granting \$0.2 million in rental abatements during this period. From March 2020 through June 30, 2021, eight tenants were granted rental deferrals or rental abatements as a result of the pandemic, of which three tenants have begun to pay rent in accordance with their lease agreements subsequent to the deferral or abatement period. Two of the eight tenants continued to have rent abated through August 2021. We will continue to evaluate any additional short-term rent relief requests from tenants on an individual basis. 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 restrictions are lifted. Subsequent to June 30, 2021, we have not seen a material impact on our rent collections. Current collections and rent relief requests to-date may not be indicative of collections or requests in any future period.

Although we did not experience significant disruptions in rental income, during the year ended December 31, 2020, we reduced the estimated liquidation value of our real estate portfolio by \$90.2 million due to changes in leasing projections across our portfolio resulting in lower projected cash flow and projected sales prices caused by the impact of the COVID-19 pandemic. In future periods, we may need to recognize additional decreases in the values of our real estate properties to the extent leasing projections and projected sales prices decline at our properties.

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

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

Should we experience significant reductions in rental revenue in the future, this may limit our ability to draw on our portfolio loan facility due to covenants described in our loan agreements. However, we believe that our cash on hand, proceeds from asset sales and proceeds available under our portfolio loan facility will be sufficient to meet our liquidity needs during our liquidation.

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. Given the uncertainty and current business disruptions as a result of the outbreak of COVID-19, our implementation of the Plan of Liquidation may be materially and adversely impacted and this may have a material effect on the ultimate amount and timing of liquidating distributions received by our stockholders.

#### **Liquidity and Capital Resources**

As described above under “— Overview — Plan of Liquidation,” on March 5, 2020, our stockholders approved the sale of all of our assets and our dissolution pursuant to the terms of the Plan of Liquidation. We expect to sell all of our assets, pay all of our known liabilities, provide for unknown liabilities and distribute the net proceeds from liquidation to our stockholders. Our principal demands for funds during our liquidation are and will be for: the payment of operating expenses, capital expenditures and general and administrative expenses, including expenses in connection with the Plan of Liquidation; payments under debt obligations; Special Redemptions of common stock pursuant to our share redemption program; and payments of distributions to stockholders pursuant to the Plan of Liquidation. During our liquidation, we intend to use our cash on hand and proceeds from the sale of real estate properties as our primary sources of liquidity. To the extent available, we also intend to use cash flow generated by our real estate investments and proceeds from debt financing; however, asset sales will further reduce cash flows from these sources during the implementation of the Plan of Liquidation.

Our share redemption program provides only for Special Redemptions. During each calendar year, such Special Redemptions are limited to an annual dollar amount determined by the board of directors, which may be reviewed during the year and increased or decreased upon ten business days’ notice to our stockholders. We do not expect to make ordinary redemptions in the future. On December 24, 2020, our board of directors approved an annual dollar limitation of \$10.0 million in the aggregate for the calendar year 2021 for Special Redemptions (subject to review and adjustment during the year by the board of directors), and further subject to the limitations described in the share redemption program. As of June 30, 2021, we had \$8.8 million available for Special Redemptions for the remainder of 2021.

Our investments in real estate generate cash flow in the form of rental revenues and tenant reimbursements, which are reduced by operating expenditures, debt service payments, the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from our real estate investments is 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. As of June 30, 2021, our real estate properties were 71% occupied.

For the six months ended June 30, 2021, our cash needs for capital expenditures and the payment of debt obligations were met with cash on hand and proceeds from asset sales. Operating cash needs during the same period were met with cash flow generated by our real estate. We believe that our cash on hand, proceeds from the sales of real estate properties and, to the extent available, our cash flow from operations and proceeds available under our portfolio loan facility will be sufficient to meet our liquidity needs during our liquidation. As discussed above, asset sales will further reduce cash flows from operations and proceeds available from debt financing during the implementation of the Plan of Liquidation.

We do not expect to pay regular monthly distributions during the liquidating process. During the liquidating process, we intend to maintain adequate cash reserves for liquidity, capital expenditures, debt repayments, future Special Redemptions under our share redemption program and other future capital needs.

We expect to continue to pay liquidating distribution payments to our stockholders through the completion of our liquidation process and to pay the final liquidating distribution after we sell all of our assets, pay all of our known liabilities and provide for unknown liabilities. We expect to substantially complete these activities within 24 months from March 5, 2020, the day our stockholders approved the Plan of Liquidation. However, our expectations about the amount of liquidating distributions that we will pay and when we will pay them are based on many estimates and assumptions, one or more of which may prove to be incorrect. As a result, the actual amount of liquidating distributions we pay to our stockholders may be more or less than we estimate and the liquidating distributions may be paid later than we predict. See “— Overview — Plan of Liquidation” and “—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 and our liquidation.

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

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

In addition to using our capital resources to meet our debt service obligations, for capital expenditures and for operating costs, we use our capital resources to make certain payments to our advisor. We paid our advisor fees in connection with the acquisition and origination of our assets and pay our advisor fees in connection with the management and disposition of our assets and for certain costs incurred by our advisor in providing services to us. Among the fees payable to our advisor is an asset management fee. With respect to investments in real estate, we pay our advisor a monthly asset management fee equal to one-twelfth of 0.75% of the amount paid or allocated to acquire the investment, plus the cost of any subsequent development, construction or improvements to the property. This amount includes any portion of the investment that was debt financed and is inclusive of acquisition fees and expenses related thereto. We also continue to reimburse our advisor and our dealer manager for certain stockholder services.

During the six months ended June 30, 2021, cash and cash equivalents decreased by \$14.4 million primarily as a result of \$18.9 million of capital expenditure payments and \$5.4 million of corporate expenditures, offset by net inflows from investments in real estate of \$13.8 million.

In order to execute our investment strategy, we primarily utilized secured debt to finance a portion of our investment portfolio. Management remains vigilant in monitoring the risks inherent with the use of debt in our portfolio and is taking actions to ensure that these risks, including refinance and interest rate risks, are properly balanced with the benefit of using leverage. We limit our total liabilities to 75% of the cost (before deducting depreciation and other noncash reserves) of our tangible assets; however, we may exceed that limit if the majority of the conflicts committee approves each borrowing in excess of such limitation and we disclose such borrowings to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. As of June 30, 2021, our borrowings and other liabilities were approximately 35% of both the cost (before deducting depreciation and other noncash reserves) and book value (before deducting depreciation) of our tangible assets, respectively.

Pursuant to our stockholders’ approval of the Plan of Liquidation, we adopted the liquidation basis of accounting as of February 1, 2020 (as the approval of the Plan of Liquidation by our stockholders became imminent within the first week of February 2020 based on the results of our solicitation of proxies from our stockholders for their approval of the Plan of Liquidation) and for the periods subsequent to February 1, 2020 in accordance with GAAP. Accordingly, on February 1, 2020, assets were adjusted to their estimated net realizable value, or liquidation value, which represents the estimated amount of cash that we will collect through the disposal of our assets as we carry out our Plan of Liquidation. The liquidation values of our operating properties are presented on an undiscounted basis. Estimated costs to dispose of assets and estimated capital expenditures through the anticipated disposition date of the properties have been presented separately from the related assets. Liabilities are carried at their contractual amounts due or estimated settlement amounts.

**Contractual Obligations**

The following is a summary of our contractual obligations as of June 30, 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>	\$ 240,520	\$ —	\$ 150,381	\$ 90,139	\$ —	\$ —
Interest payments on outstanding debt obligations <sup>(2)</sup>	\$ 5,364	\$ 1,989	\$ 2,198	\$ 1,177	\$ —	\$ —

<sup>(1)</sup> Amounts include principal payments only based on maturity dates as of June 30, 2021.

<sup>(2)</sup> Projected interest payments are based on the outstanding principal amounts, maturity dates and interest rates in effect as of June 30, 2021 (consisting of the contractual interest rate). During the six months ended June 30, 2021, we incurred interest expense of \$2.1 million.

**Changes in Net Assets in Liquidation**

***For the Six Months June 30, 2021***

Net assets in liquidation decreased by approximately \$1.6 million from \$381.5 million on December 31, 2020 to \$379.9 million on June 30, 2021. The primary reason for the decrease in net assets in liquidation was due to a decrease in the liquidation value our real estate properties, offset by a decrease in projected capital expenditures and an increase in estimated cash flows from operations. There is inherent uncertainty with these estimates and projections, and they could change materially based on the timing of the sales of our remaining real estate properties, the performance of our remaining assets and any changes in the underlying assumptions of the projected cash flows from such properties.

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

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

#### **Results of Operations**

In light of the adoption of liquidation basis accounting as of February 1, 2020, the results of operations for the current year period are not comparable to the prior year period. The sale of assets under the Plan of Liquidation will have a significant impact on our operations. See “— Overview — Plan of Liquidation” and “— 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 and our liquidation.

Due to the adoption of the Plan of Liquidation, we are no longer reporting funds from operations and modified funds from operations as we no longer consider these to be key performance measures.

#### **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 judgements, 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. With different estimates or assumptions, materially different amounts could be reported in our financial statements. A discussion of the accounting policies that management considers critical in that they involve significant management judgements, 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 policies during 2021.

#### **Subsequent Events**

##### ***Purchase and Sale Agreement for Sale of Granite Tower***

On December 16, 2010, we, through an indirect wholly owned subsidiary, acquired a 31-story office building located in Denver, Colorado containing 593,527 rentable square feet on approximately 0.7 acres of land (“Granite Tower”).

On July 23, 2021, the due diligence period expired under the purchase and sale agreement and escrow instructions (the “Granite Tower Agreement”) for the sale of Granite Tower by and between our indirect wholly owned subsidiary and Granite Tower LLC (the “Granite Tower Purchaser”), an affiliate of CP Group. The Granite Tower Purchaser is unaffiliated with us or our advisor. Pursuant to the Granite Tower Agreement, the sale price for Granite Tower is \$203.5 million, subject to prorations and adjustments as provided in the Granite Tower Agreement.

On August 9, 2021, the closing date was extended to September 10, 2021 in accordance with the Granite Tower Agreement. There can be no assurance that we will complete the sale of Granite Tower. The Granite Tower Purchaser would be obligated to purchase Granite Tower only after satisfaction of agreed upon closing conditions. In certain circumstances, if the Granite Tower Purchaser fails to complete the acquisition, it may forfeit up to \$6.0 million of earnest money.

##### ***Purchase and Sale Agreement for Sale of Fountainhead Plaza***

On September 13, 2011, we, through an indirect wholly owned subsidiary, purchased two office buildings totaling 445,957 rentable square feet located on approximately 11.33 acres of land in Tempe, Arizona (“Fountainhead Plaza”).

On August 9, 2021, the due diligence period expired under the purchase and sale agreement and escrow instructions (the “Fountainhead Plaza Agreement”) for the sale of Fountainhead Plaza by and between our indirect wholly owned subsidiary and an unaffiliated purchaser (the “Fountainhead Plaza Purchaser”). Pursuant to the Fountainhead Plaza Agreement, the sale price for Fountainhead Plaza is \$117.5 million, before closing credits as provided in the Fountainhead Plaza Agreement.

The closing date is expected to be September 8, 2021, provided that the Fountainhead Plaza Purchaser may extend the closing date subject to certain conditions set forth in the Fountainhead Plaza Agreement. There can be no assurance that we will complete the sale of Fountainhead Plaza. The Fountainhead Plaza Purchaser would be obligated to purchase Fountainhead Plaza only after satisfaction of agreed upon closing conditions. In certain circumstances, if the Fountainhead Plaza Purchaser fails to complete the acquisition, it may forfeit up to \$4.0 million of earnest money.

## **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, to fund the financing and refinancing of our real estate portfolio and to fund our operations. Our profitability and the value of our 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.

As of June 30, 2021, we were exposed to market risks related to fluctuations in interest rates on \$240.5 million of variable rate debt outstanding. Movements in interest rates on our variable rate debt would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. However, changes in required risk premiums would result in changes in the fair value of variable rate instruments. Based on interest rates as of June 30, 2021, if interest rates were 100 basis points higher or lower during the 12 months ending June 30, 2022, interest expense on our variable rate debt would increase or decrease by \$2.4 million.

The weighted-average interest rate of our variable rate debt as of June 30, 2021 was 1.6%. The weighted-average interest rate represents the actual interest rate in effect as of June 30, 2021, using interest rate indices as of June 30, 2021, where applicable.

For a discussion of the interest rate risks related to the current capital and credit markets, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Outlook — Real Estate and Real Estate Finance Markets” herein and the risks discussed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the SEC.

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

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

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

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

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 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 in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ended March 31, 2021, each as filed with the SEC.

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

- a) During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933.
- b) Not applicable.
- c) Our share redemption program provides only for redemptions sought upon a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined in the share redemption program and, together with redemptions sought in connection with a stockholder's death, "Special Redemptions"). Such redemptions are subject to the limitations described in the share redemption program document, including:
  - During each calendar year, Special Redemptions are limited to an annual dollar amount determined by the board of directors, which may be reviewed during the year and increased or decreased upon ten business days' notice to our stockholders. We may provide notice by including such information (a) in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the Securities and Exchange Commission or (b) in a separate mailing to the stockholders. On December 24, 2020, our board of directors approved the dollar amount limitation for Special Redemptions for calendar year 2021 of \$10.0 million in the aggregate (subject to review and adjustment during the year by the board of directors), and further subject to the limitations described in the share redemption program.
  - During any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
  - We have no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland General Corporation Law, as amended from time to time, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

If we cannot repurchase all shares presented for redemption in any month because of the limitations on redemptions set forth in our share redemption program, then we will honor redemption requests on a pro rata basis, except that if a pro rata redemption would result in a stockholder owning less than the minimum purchase requirement described in our currently effective, or our most recently effective, registration statement as such registration statement has been amended or supplemented, then we would redeem all of such stockholder's shares.

Upon a transfer of shares, any pending redemption requests with respect to such transferred shares will be canceled as of the date the transfer is accepted by us. Stockholders wishing to continue to have a redemption request related to any transferred shares considered by us must resubmit their redemption request.

We do not expect to have funds available for ordinary redemptions in the future.

Our share redemption program sets the redemption price per share of our common stock eligible for redemption at our most recent estimated value per share as of the applicable redemption date, provided that if our board of directors has declared liquidating distributions on such share with a record date prior to the applicable redemption date for such share and the most recent estimated value per share has not been updated to reflect the reduction for such liquidating distributions, then the redemption price per share will be reduced to reflect the amount of such liquidating distributions.

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

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

On December 24, 2020, in connection with the authorization of the third liquidating distribution, our board of directors approved an updated estimated value per share of our common stock of \$2.01, effective December 30, 2020. Therefore, effective commencing with the December 31, 2020 redemption date, the redemption price for all shares eligible for redemption was equal to \$2.01, which was effective through the February 26, 2021 redemption date. For more information, see our Current Report on Form 8-K, filed with the SEC on December 28, 2020.

On March 11, 2021, our board of directors approved an estimated value per share of our common stock of \$2.07 based on our net assets in liquidation, divided by the number of shares outstanding, all as of December 31, 2020. Therefore, effective commencing with the March 31, 2021 redemption date, the redemption price for all shares eligible for redemption was equal to \$2.07. For more information, see Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information” of our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the SEC.

We will report future redemption prices in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC.

We may amend, suspend or terminate our share redemption program for any reason upon ten business days’ notice to our stockholders, and we may increase or decrease the funding available for the redemption of shares under the program upon ten business days’ notice to our stockholders. We may provide this notice by including such information (a) in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC or (b) in a separate mailing to our stockholders.

The only redemptions we made under our share redemption program during the six months ended June 30, 2021 were those that qualified as, and met the requirements for, Special Redemptions under our share redemption program and we fulfilled all redemption requests that qualified as Special Redemptions under our share redemption program. We funded redemptions during the six months ended June 30, 2021 with existing cash on hand.

During the six months ended June 30, 2021, we redeemed shares pursuant to our share redemption program as follows:

Month	Total Number of Shares Redeemed <sup>(1)</sup>	Average Price Paid Per Share <sup>(2)</sup>	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2021	115,571	\$ 2.01	<sup>(3)</sup>
February 2021	72,339	\$ 2.01	<sup>(3)</sup>
March 2021	56,058	\$ 2.07	<sup>(3)</sup>
April 2021	128,533	\$ 2.07	<sup>(3)</sup>
May 2021	93,291	\$ 2.07	<sup>(3)</sup>
June 2021	140,128	\$ 2.07	<sup>(3)</sup>
Total	605,920		

<sup>(1)</sup> We announced the adoption and commencement of the program on April 8, 2008. We announced amendments to the program on May 13, 2009 (which amendment became effective on June 12, 2009), on March 11, 2011 (which amendment became effective on April 10, 2011), on May 18, 2012 (which amendment became effective on June 17, 2012), on June 29, 2012 (which amendment became effective on July 29, 2012), on October 18, 2012 (which amendment became effective on November 17, 2012), on March 8, 2013 (which amendment became effective on April 7, 2013), on October 17, 2013 (which amendment became effective on November 16, 2013), on May 19, 2014 (which amendment became effective on June 18, 2014), on December 7, 2018 (which amendment became effective on January 6, 2019), on March 6, 2020 (which amendment became effective on March 20, 2020) and on June 16, 2020 (which amendment became effective on June 30, 2020).

<sup>(2)</sup> We describe the determination of the redemption price above.

<sup>(3)</sup> We limit the dollar value of shares that may be redeemed under the share redemption program as described above. During the six months ended June 30, 2021, we redeemed \$1.2 million of shares of common stock, which represented all redemption requests received in good order and eligible for redemption through the June 30, 2021 redemption date. Based on the redemption limitations described above and redemptions through June 30, 2021, we may redeem up to \$8.8 million of shares in connection with Special Redemptions for the remainder of 2021.

**Item 3. Defaults upon Senior Securities**

None.

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

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Ex.</b>	<b>Description</b>
2.1	<a href="#">Plan of Complete Liquidation and Dissolution of the Company dated as of March 5, 2020, incorporated by reference to Exhibit 2.1 to the Company's Annual Report of Form 10-K, filed March 6, 2020</a>
3.1	<a href="#">Second Articles of Amendment and Restatement of the Company, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2008, filed May 28, 2008</a>
3.2	<a href="#">Articles of Amendment of the Company, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2020, filed May 15, 2020</a>
3.3	<a href="#">Fourth Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed September 22, 2016</a>
4.1	<a href="#">Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 1 to the Company's Registration Statement on Form S-11, Commission File No. 333-146341, filed February 19, 2008</a>
10.1	<a href="#">Second Amendment to Amended and Restated Office Lease, by and between KBSII 445 South Figueroa, LLC and MUFG Union Bank, N.A., dated as of June 18, 2021</a>
10.2	<a href="#">Advisory Agreement dated May 21, 2021, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed May 24, 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="#">Eleventh Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2020, filed August 12, 2020</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 REAL ESTATE INVESTMENT TRUST II, INC.**

Date: August 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: August 11, 2021

By: /s/ JEFFREY K. WALDVOGEL

**Jeffrey K. Waldvogel**

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







