

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2022
OR

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

For the transition period from _____ to _____
Commission file number 000-54687

KBS REAL ESTATE INVESTMENT TRUST III, INC.

(Exact Name of Registrant as Specified in Its Charter)

<p style="text-align: center;">Maryland (State or Other Jurisdiction of Incorporation or Organization) 800 Newport Center Drive, Suite 700 Newport Beach, California (Address of Principal Executive Offices)</p>	<p style="text-align: center;">27-1627696 (I.R.S. Employer Identification No.) 92660 (Zip Code)</p>
<p>(949) 417-6500 (Registrant's Telephone Number, Including Area Code)</p>	

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

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

Trading Symbol(s)

None

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

Common Stock, \$0.01 par value per share

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

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

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

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

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

There is no established market for the Registrant's shares of common stock. On November 1, 2021, the board of directors of the Registrant approved an estimated value per share of the Registrant's common stock of \$10.78 based on the estimated value of the Registrant's assets less the estimated value of the Registrant's liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2021, with the exception of adjustments to the Registrant's net asset value to give effect to (i) the change in the estimated value of the Registrant's investment in units of Prime US REIT (SGX-ST Ticker: OXMU) as of October 22, 2021 and (ii) the contractual sales price less estimated disposition costs and fees of one property that was under contract to sell as of November 1, 2021. For a full description of the methodologies used to value the Registrant's assets and liabilities in connection with the calculation of the estimated value per share as of November 1, 2021, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information" of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2021. On September 28, 2022, the board of directors of the Registrant approved an estimated value per share of the Registrant's common stock of \$9.00 based on (i) appraisals of the Registrant's 17 real estate properties as of July 31, 2022, the estimated value of the Registrant's investment in units of Prime US REIT (SGX-ST Ticker: OXMU) as of September 20, 2022 and the estimated value of the Registrant's other assets as of June 30, 2022 less (ii) the estimated value of the Registrant's liabilities as of June 30, 2022, all divided by the number of shares outstanding as of June 30, 2022. For a full description of the methodologies used to value the Registrant's assets and liabilities in connection with the calculation of the estimated value per share as of September 28, 2022, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Market Information" in this Annual Report on Form 10-K.

There were approximately 147,252,719 shares of common stock held by non-affiliates as of June 30, 2022, the last business day of the Registrant's most recently completed second fiscal quarter.

As of March 8, 2023, there were 148,595,309 outstanding shares of common stock of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement with respect to its 2023 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the Registrant's fiscal year are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 hereof as noted therein.

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FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Real Estate Investment Trust III, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as “may,” “will,” “seeks,” “anticipates,” “believes,” “estimates,” “expects,” “plans,” “intends,” “should” or similar expressions. These include statements about our plans, strategies, and prospects and these statements are subject to known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements. 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.

For a discussion of some of the risks and uncertainties, although not all risks and uncertainties, that could cause our actual results to differ materially from those presented in our forward-looking statements, see the risks identified in “Summary Risk Factors” below and in Part I, Item 1A of this Annual Report on Form 10-K (the “Annual Report”).

SUMMARY RISK FACTORS

The following is a summary of the principal risks that could adversely affect our business, financial condition, results of operations and cash flows and an investment in our common stock. This summary highlights certain of the risks that are discussed further in this Annual Report but does not address all the risks that we face. For additional discussion of the risks summarized below and a discussion of other risks that we face, see “Risk Factors” in Part I, Item 1A of this Annual Report. You should interpret many of the risks identified in this summary and under “Risk Factors” as being heightened as a result of the continued disruptions in the financial markets impacting the U.S. commercial real estate industry, especially as it pertains to commercial office buildings.

- The ongoing challenges affecting the U.S. commercial real estate industry, especially as it pertains to commercial office buildings, continues to be one of the most significant risks and uncertainties we face. The combination of the continued economic slowdown, rapidly rising interest rates and significant inflation (or the perception that any of these events may continue) as well as a lack of lending activity in the debt markets have contributed to considerable weakness in the commercial real estate markets. Upcoming and recent tenant lease expirations amidst the aforementioned headwinds coupled with slower than expected return-to-office, most notably in the San Francisco Bay Area where we own several assets, have had direct and material impacts on our ability to access certain credit facilities. Additionally, due to disruptions in the financial markets, it is becoming increasingly difficult to refinance maturing debt obligations as lenders are hesitant to make new loans in the current market environment with so many uncertainties surrounding asset valuations, especially in the office real estate market. As a result, we may need to evaluate selling certain assets into a challenged real estate market, which would likely impact the ultimate sale price. While we have extension options on all debt obligations maturing in 2023, these extensions are subject to certain terms and conditions contained in the loan documents some of which are more stringent than our current loan compliance tests. As a result, in order to qualify for certain loan extensions, we may be required to reduce the loan commitment amount or make paydowns on certain loans, which would reduce our liquidity. Continued disruptions in the financial markets and economic uncertainty could adversely affect our ability to implement our business strategy and generate returns to stockholders and our ability to sustain our current distribution rate. Further, potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, could materially and negatively impact the future demand for office space, adversely impacting our operations.
- We are dependent on KBS Capital Advisors LLC (“KBS Capital Advisors”), our advisor, to conduct our operations.
- All of our executive officers, our affiliated directors and other key professionals are also officers, affiliated 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, these individuals, our advisor and its affiliates face conflicts of interest, including conflicts created by our advisor’s and its affiliates’ compensation arrangements with us and other KBS programs and investors and conflicts in allocating time among us and these other programs and investors. These conflicts could result in action or inaction that is not in the best interests of our stockholders.

- Our advisor and its affiliates currently receive fees in connection with transactions involving the purchase or origination, management and disposition of our investments. Acquisition and asset management fees are based on the cost of the investment, and not based on the quality of the investment or the quality of the services rendered to us. We may also pay significant fees during our listing/liquidation stage. Although most of the fees payable during our listing/liquidation stage are contingent on our stockholders first enjoying agreed-upon investment returns, the investment return thresholds may be reduced subject to approval by our conflicts committee and our charter limitations. These payments increase the risk that our stockholders will not earn a profit on their investment in us and increase the risk of loss to our stockholders.
- We cannot guarantee that we will pay distributions or that distributions at the current rate are sustainable. We have and may in the future fund distributions from sources other than cash flow from operations, including, without limitation, the sale of assets, borrowings, return of capital or offering proceeds. We have no limits on the amounts we may pay from such sources.
- We may incur debt until our total liabilities would exceed 75% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves), and we may exceed this limit with the approval of the conflicts committee of our board of directors. High debt levels could limit the amount of cash we have available to distribute and could result in a decline in the value of an investment in us.
- We depend on tenants for the revenue generated by our real estate investments. Revenues from our properties could decrease due to a reduction in occupancy (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases), rent deferrals or abatements, tenants becoming unable to pay their rent and/or lower rental rates, making it more difficult for us to meet our debt service obligations and limiting our ability to pay distributions to our stockholders. Since March 2020, we have granted rent relief to a number of tenants as a result of the pandemic, and these tenants or additional tenants may request rent relief in future periods, become unable to pay rent or early terminate or not renew existing leases.
- Our significant investment in the equity securities of Prime US REIT (the “SREIT”), a traded Singapore real estate investment trust, is subject to the risks associated with real estate investments as well as the risks inherent in investing in traded securities, including, in this instance, risks related to the quantity of units held by us relative to the trading volume of the units. Due to the disruptions in the financial markets discussed herein, since March 2020, the trading price of the common units of the SREIT has experienced substantial volatility.
- Because investment opportunities that are suitable for us may also be suitable for other KBS programs or investors, our advisor and its affiliates face conflicts of interest relating to the purchase of investments.
- We cannot predict with any certainty how much, if any, of our dividend reinvestment plan proceeds will be available for general corporate purposes. If such funds are not available, we may have to use a greater proportion of our cash flow from operations to meet cash requirements, which would reduce cash available for distributions and could further limit our ability to redeem shares under our share redemption program.
- Our charter does not require us to liquidate our assets and dissolve by a specified date, nor does our charter require our directors to list our shares for trading by a specified date. No public market currently exists for our shares of common stock. There are limits on the ownership and transferability of our shares. Our shares cannot be readily sold and, if our stockholders are able to sell their shares, they would likely have to sell them at a substantial discount.
- Stockholders may have to hold their shares an indefinite period of time. We can provide no assurance that we will be able to provide additional liquidity to stockholders. Since 2019, due to the limitations on redemptions under our share redemption program, our pursuit of strategic alternatives and/or disruptions in the financial markets impacting the U.S. office market, we have either exhausted the funds available for Ordinary Redemptions (defined below) under our share redemption program or implemented suspensions of Ordinary Redemptions under our share redemption program for all or a portion of the calendar year. Since 2019, we have redeemed 18,665,466 shares under our share redemption program, which is approximately 13% of our current outstanding shares. On January 17, 2023, our board of directors determined to suspend Ordinary Redemptions under our share redemption program to preserve capital in the current market environment. Ordinary Redemptions are all redemptions other than those that qualify for the special provisions for redemptions sought in connection with a stockholder’s death, “Qualifying Disability” or “Determination of Incompetence” (each as defined in the share redemption program and, together, “Special Redemptions”). We cannot predict future redemption demand with any certainty. If Ordinary Redemptions are resumed and future redemption requests exceed the redemption limitations under our share redemption program, the number of rejected redemption requests will increase over time.

PART I

ITEM 1. BUSINESS

Overview

KBS Real Estate Investment Trust III, Inc. (the “Company”) is a Maryland corporation that has elected to be taxed as a real estate investment trust (“REIT”) and it intends to continue to operate in such a manner. As used herein, the terms “we,” “our” and “us” refer to the Company and as required by context, KBS Limited Partnership III, a Delaware limited partnership, which we refer to as our “Operating Partnership,” and to their subsidiaries. We conduct our business primarily through our Operating Partnership, of which we are the sole general partner.

We have invested in a diverse portfolio of real estate investments. As of December 31, 2022, we owned 16 office properties, one mixed-use office/retail property and an investment in the equity securities of a Singapore real estate investment trust (the “SREIT”).

We commenced our initial public offering on October 26, 2010, the primary portion of which terminated in July 2015. KBS Capital Markets Group LLC served as dealer manager for the offering. We sold 169,006,162 shares of common stock in our now-terminated primary initial public offering for gross offering proceeds of \$1.7 billion. As of December 31, 2022, we had also sold 44,254,383 shares of common stock under our dividend reinvestment plan for gross offering proceeds of \$455.1 million. Also as of December 31, 2022, we had redeemed or repurchased 73,295,267 shares sold in our initial public offering for \$777.1 million.

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

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

Section 5.11 of our charter requires that we seek stockholder approval of our liquidation if our shares of common stock are not listed on a national securities exchange by September 30, 2020, unless a majority of the conflicts committee of our board of directors, composed solely of all of our independent directors, determines that liquidation is not then in the best interest of our stockholders. Pursuant to our charter requirement, the conflicts committee considered the conflicts committee’s and the board of directors’ assessment of alternatives available to us, market conditions, uncertainty as a result of the COVID-19 pandemic’s impact on work-from-home arrangements and the impact of such arrangements on the U.S. office market, the debt capital markets, and the lack of liquidity in the marketplace, and on September 28, 2022, our conflicts committee unanimously determined to postpone approval of our liquidation. Section 5.11 of our charter requires that the conflicts committee revisit the issue of liquidation at least annually.

Also in connection with the conflict committee’s and the board of directors’ assessment of alternatives available to us, our assessment of our capital raising prospects, market conditions, economic uncertainty and the other factors mentioned above, at this time we do not intend to pursue a conversion to an “NAV REIT.”

As our advisor, KBS Capital Advisors manages our day-to-day operations and our portfolio of real estate investments. KBS Capital Advisors makes recommendations on all investments to our board of directors. All proposed investments must be approved by at least a majority of our board of directors, including a majority of the conflicts committee. Unless otherwise provided by our charter, the conflicts committee may approve a proposed investment without action by the full board of directors if the approving members of the conflicts committee constitute at least a majority of the board of directors. KBS Capital Advisors also provides asset-management, disposition, marketing, investor-relations and other administrative services on our behalf. Our advisor owns 20,857 shares of our common stock. We have no paid employees.

Objectives and Strategies

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

Real Estate Portfolio

We have acquired and manage a diverse portfolio of core real estate properties, which are generally lower risk, existing properties with at least 80% occupancy at acquisition. Our primary investment focus has been core office properties located throughout the United States, though we have and may in the future invest in other types of properties and real estate-related investments. Our core property focus in the U.S. office sector has reflected a more value-creating core strategy, which is also known as a core-plus strategy. In many cases, these properties have slightly higher (10% to 20%) vacancy rates and/or higher near-term lease rollover at acquisition than more conservative value-maintaining core properties. These characteristics may provide us with opportunities to lease space at higher rates, especially in markets with increasing absorption, or to re-lease space in these properties at higher rates, bringing below-market rates of in-place expiring leases up to market rates. Many of these properties have required or will require a moderate level of additional investment for capital expenditures and tenant improvement costs in order to improve or rebrand the properties and increase rental rates. Thus, we believe these properties provide an opportunity for us to achieve more significant capital appreciation by increasing occupancy, negotiating new leases with higher rental rates and/or executing enhancement projects.

The primary types of office properties we intend to invest in include low-rise, mid-rise and high-rise office buildings and office parks in urban and suburban locations, especially those that are in or near central business districts or have access to transportation. In addition, we may consider acquiring industrial properties (including warehouse and distribution facilities, office/warehouse flex properties, research and development properties and light industrial properties) and retail properties. Although this is our primary investment focus, we may make adjustments to our investment focus based on real estate market conditions and investment opportunities.

We will generally hold fee title to or a long-term leasehold estate in the properties we acquire. We may also invest in or acquire operating companies or other entities that own and operate assets that meet our investment objectives. We will make investments in other entities when we consider it more efficient to acquire an entity that already owns assets meeting our investment objectives than to acquire such assets directly. We have also made investments through joint ventures, and in the future we may enter into other joint ventures, partnerships and co-ownership arrangements (including preferred equity investments) or participations for the purpose of obtaining interests in real estate properties and for the development or improvement of properties.

Our advisor develops a well-defined exit strategy for each investment we make and periodically performs a hold-sell analysis on each asset. These periodic analyses focus on the remaining available value enhancement opportunities for the asset, the demand for the asset in the marketplace, market conditions and our overall portfolio objectives to determine if the sale of the asset, whether via an individual sale or as part of a portfolio sale or merger, would generate a favorable return to our stockholders. Economic and market conditions may influence us to hold our assets for different periods of time. We may sell an asset before the end of the expected holding period if we believe that market conditions and asset positioning have maximized its value to us or the sale of the asset would otherwise be in the best interests of our stockholders.

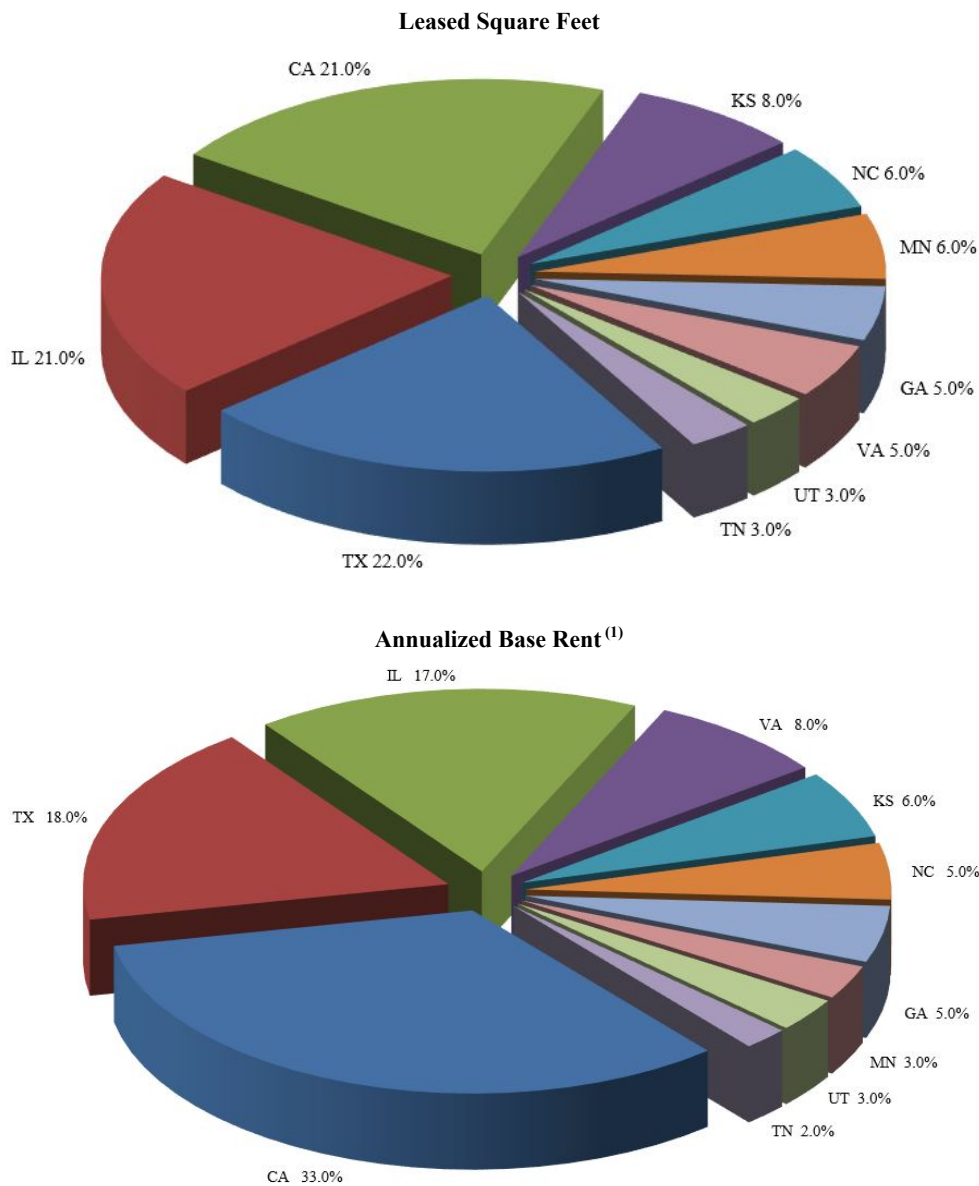
We may make adjustments to our target portfolio based on real estate market conditions and investment opportunities. We will not forego a good investment because it does not precisely fit our expected portfolio composition. We believe that we are most likely to meet our investment objectives through the careful selection and underwriting of assets. When making an acquisition, we will emphasize the performance and risk characteristics of that investment, how that investment will fit with our portfolio-level performance objectives, the other assets in our portfolio and how the returns and risks of that investment compare to the returns and risks of available investment alternatives. Thus, to the extent that our advisor presents us with what we believe to be good investment opportunities that allow us to meet the REIT requirements under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), our portfolio composition may vary from what we currently expect. In fact, we may invest in whatever types of real estate or real estate-related assets we believe are in our best interests. However, we will attempt to construct a portfolio that produces stable and attractive returns by spreading risk across different real estate investments.

Also, in connection with the Singapore Transaction (defined below), our board of directors and conflicts committee adopted the asset Allocation Process proposed by our advisor and KBS Realty Advisors. See Part I, Item 1A of this Annual Report, “Risk Factors— Our advisor and its affiliates face conflicts of interest relating to the acquisition of assets, the leasing of properties and the disposition of properties due to their relationship with other KBS-sponsored programs and/or KBS-advised investors, which could result in decisions that are not in our best interest or the best interests of our stockholders.”

We acquired our first real estate property on September 29, 2011. As of December 31, 2022, our portfolio of real estate properties was composed of 16 office properties and one mixed-use office/retail property. For more information on our real estate investments, including tenant information, see Part I, Item 2 “Properties.”

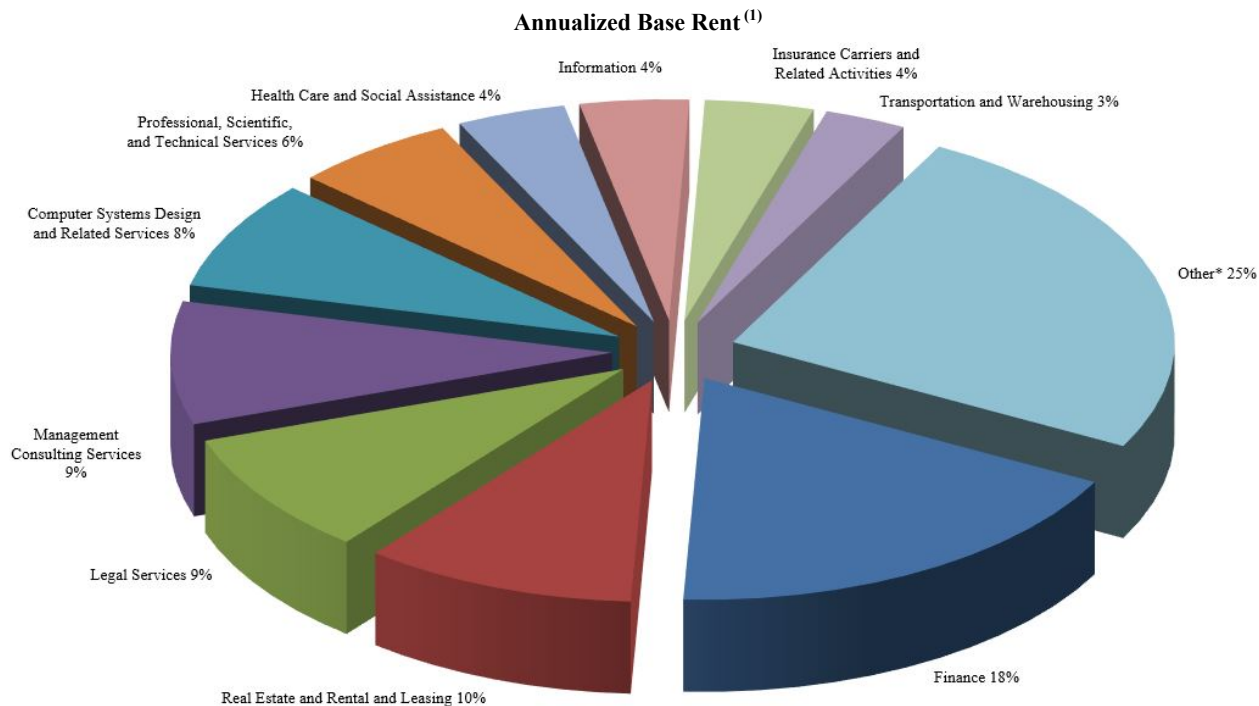
We also own an investment in the equity securities of the SREIT. On July 18, 2019, we sold 11 of our properties (the “Singapore Portfolio”) to various subsidiaries of the SREIT, a Singapore real estate investment trust that listed on the Singapore Exchange Securities Trading Limited (the “SGX-ST”) (SGX-ST Ticker: OXMU) on July 19, 2019, and on July 19, 2019, we, through an indirect wholly owned subsidiary (“REIT Properties III”), acquired 307,953,999 units in the SREIT at a price of \$0.88 per unit representing a 33.3% ownership interest in the SREIT (together, the “Singapore Transaction”). On August 21, 2019, REIT Properties III sold 18,392,100 of its units in the SREIT for \$16.2 million pursuant to an over-allotment option granted to the underwriters of the SREIT’s offering, reducing REIT Properties III’s ownership in the SREIT to 31.3% of the outstanding units of the SREIT as of that date. On November 9, 2021, REIT Properties III sold 73,720,000 units in the SREIT for \$58.9 million, net of fees and costs, pursuant to a block trade, reducing REIT Properties III’s ownership in the SREIT to 18.5% of the outstanding units of the SREIT as of that date. As of December 31, 2022, REIT Properties III held 215,841,899 units of the SREIT, which represented 18.2% of the outstanding units of the SREIT as of that date. As of December 31, 2022, the aggregate value of our investment in the units of the SREIT was \$87.4 million, which was based solely on the closing price of the units on the SGX-ST of \$0.405 per unit as of December 31, 2022 and did not take into account any potential discount for the holding period risk due to the quantity of units we hold.

The following charts illustrate the geographic diversification of our real estate properties based on total leased square feet and total annualized base rent as of December 31, 2022:



⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2022, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease’s inception through the balance of the lease term.

We have a stable tenant base and we have tried to diversify our tenant base in order to limit exposure to any one tenant or industry. Our top ten tenants leasing space in our real estate portfolio represented approximately 26% of our total annualized base rent as of December 31, 2022. The chart below illustrates the diversity of tenant industries in our real estate portfolio based on total annualized base rent as of December 31, 2022:



⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2022, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease’s inception through the balance of the lease term.

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

Financing Objectives

We financed our real estate acquisitions to date with a combination of the proceeds received from our now-terminated initial public offering and debt. We may use proceeds from borrowings to finance acquisitions of new real estate and real estate-related investments; to pay for property improvements, repairs and tenant build-outs to properties and for other capital expenditures; to refinance existing indebtedness; to pay distributions; to fund the redemption or repurchase of our shares; or to provide working capital. Our investment strategy is to utilize primarily secured debt to finance our investment portfolio, though from time to time we also use unsecured debt.

We expect to continue to borrow funds at fixed and variable rates. As of December 31, 2022, we had debt obligations in the aggregate principal amount of \$1.7 billion, with a weighted-average remaining term of 0.9 years. The maturity dates of certain loans may be extended beyond their current maturity dates; however, the extension options are subject to certain terms and conditions contained in the loan documents some of which are more stringent than our current loan compliance tests. As a result, in order to qualify for certain loan extensions, we may be required to reduce the loan commitment amount or make paydowns on certain loans, which would reduce our liquidity. Additionally, continued increases in interest rates, reductions in real estate values and future tenant turnover in the portfolio will have a further impact on our ability to meet such tests and may further reduce our available liquidity under our loan agreements. As of December 31, 2022, we had \$1.3 billion of notes payable maturing during the 12 months ending December 31, 2023. We plan to exercise our extension options available under our loan agreements. As of December 31, 2022, our debt obligations consisted of \$123.0 million of fixed rate notes payable and \$1.6 billion of variable rate notes payable. As of December 31, 2022, the interest rates on \$1.0 billion of our variable rate notes payable were effectively fixed through interest rate swap agreements. The interest rate and weighted-average effective interest rate of our fixed rate debt and variable rate debt as of December 31, 2022 were 3.7% and 4.4%, respectively. The weighted-average effective interest rate represents the actual interest rate in effect as of December 31, 2022 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of December 31, 2022, where applicable.

The following table shows the current maturities, including principal amortization payments, of our debt obligations as of December 31, 2022 (in thousands):

2023	\$	1,252,185
2024		354,210
2025		65,000
2026		—
2027		—
Thereafter		—
	\$	<u>1,671,395</u>

We expect that our debt financing and other liabilities will be between 45% and 65% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves). There is no limitation on the amount we may borrow for the purchase of any single asset. We limit our total liabilities to 75% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves) meaning that our borrowings and other liabilities may exceed our maximum target leverage of 65% of the cost of our tangible assets without violating these borrowing restrictions. We may exceed the 75% limit only if a majority of the conflicts committee approves each borrowing in excess of this limitation and we disclose such borrowings to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. To the extent financing in excess of this limit is available on attractive terms, the conflicts committee may approve debt in excess of this limit. From time to time, our total liabilities could also be below 45% of the cost of our tangible assets due to the lack of availability of debt financing. As of December 31, 2022, our borrowings and other liabilities were approximately 58% of the cost (before deducting depreciation and other noncash reserves) and 60% of the book value (before deducting depreciation) of our tangible assets, respectively.

Economic Dependency

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

Competitive Market Factors

The U.S. commercial real estate investment and leasing markets remain competitive. We face competition from various entities for investment and disposition opportunities, for prospective tenants and to retain our current tenants, including other REITs, pension funds, insurance companies, investment funds and companies, partnerships and developers. Many of these entities have substantially greater financial resources than we do and may be able to accept more risk than we can prudently manage, including risks with respect to the creditworthiness of a tenant or the geographic location of their investments. Competition from these entities may reduce the number of suitable investment opportunities offered to us or increase the bargaining power of property owners seeking to sell. Further, as a result of their greater resources, those entities may have more flexibility than we do in their ability to offer rental concessions to attract and retain tenants. This could put pressure on our ability to maintain or raise rents and could adversely affect our ability to attract or retain tenants. In addition, the COVID-19 pandemic caused many tenants to re-evaluate their space needs, resulting in a significant increase in sublease space available in the office market from tenants wanting to unload un-needed space. We face competition from these tenants, who may be more willing to offer significant discounts to prospective subtenants. As a result, our financial condition, results of operations, cash flow, ability to satisfy our debt service obligations and ability to pay distributions to our stockholders may be adversely affected.

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

This competition could decrease the sales proceeds we receive for properties that we sell, assuming we are able to sell such properties, which could adversely affect our cash flows and the overall return for our stockholders.

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

Compliance with Federal, State and Local Environmental Law

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

Industry Segments

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

Human Capital

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

Principal Executive Office

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

Available Information

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

ITEM 1A. RISK FACTORS

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

Risks Related to an Investment in Our Common Stock

There is no public trading market for the shares of our common stock and we do not anticipate that there will be a public trading market for our shares; therefore, it will be difficult for our stockholders to sell their shares and, if they are able to sell their shares, they will likely sell them at a substantial discount to the public offering price and the estimated value per share. Stockholders may have to hold their shares an indefinite period of time.

Our charter does not require our directors to seek stockholder approval to liquidate our assets and dissolve by a specified date, nor does our charter require our directors to list our shares for trading on a national securities exchange by a specified date. There is no public market for our shares and we have no plans at this time to list our shares on a national securities exchange. Until our shares are listed, if ever, our stockholders may not sell their shares unless the buyer meets the applicable suitability and minimum purchase standards. Any sale must comply with applicable state and federal securities laws. Our charter prohibits the ownership of more than 9.8% of our stock by any person, unless exempted by our board of directors, which may inhibit large investors from desiring to purchase our stockholders' shares.

Stockholders may have to hold their shares an indefinite period of time. We can provide no assurance that we will be able to provide additional liquidity to stockholders. Since 2019, due to the limitations on redemptions under our share redemption program, our pursuit of strategic alternatives and/or disruptions in the financial markets impacting the U.S. office market, we have either exhausted the funds available for Ordinary Redemptions (defined below) under our share redemption program or implemented suspensions of Ordinary Redemptions under our share redemption program for all or a portion of the calendar year. Since 2019, we have redeemed 18,665,466 shares under our share redemption program, which is approximately 13% of our current outstanding shares. On January 17, 2023, our board of directors determined to suspend Ordinary Redemptions under our share redemption program to preserve capital in the current market environment. Ordinary Redemptions are all redemptions other than those that qualify for the special provisions for redemptions sought in connection with a stockholder's death, "Qualifying Disability" or "Determination of Incompetence" (each as defined in the share redemption program and, together, "Special Redemptions").

Our board of directors may amend, suspend or terminate our share redemption program upon ten business days' notice to stockholders, and consistent with SEC guidance and interpretations, we may increase or decrease the funding available for the redemption of shares pursuant to our share redemption program upon ten business days' notice. The restrictions of our share redemption program will limit our stockholders' ability to sell their shares should they require liquidity and will limit our stockholders' ability to recover an amount equal to our estimated value per share. We describe the restrictions of our share redemption program in detail under Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Amended and Restated Share Redemption Program." We cannot predict future redemption demand with any certainty. If Ordinary Redemptions are resumed and future redemption requests exceed the amount of funding available under our share redemption program, the number of rejected redemption requests will increase over time. See "– Risks Related to Our Corporate Structure – Our stockholders may not be able to sell their shares under our share redemption program and, if our stockholders are able to sell their shares under the share redemption program, they may not be able to recover an amount equal to the estimated value per share of our common stock."

Therefore, it will be difficult for our stockholders to sell their shares promptly or at all. If our stockholders are able to sell their shares, they will likely have to sell them at a substantial discount to their public offering price or the estimated value per share. It is also likely that our stockholders' shares will not be accepted as the primary collateral for a loan. Investors should purchase shares in our dividend reinvestment plan only as a long-term investment and be prepared to hold them for an indefinite period of time because of the illiquid nature of our shares.

We face significant competition for tenants and in the acquisition and disposition of real estate, which may limit our ability to achieve our investment objectives or pay distributions.

The U.S. commercial real estate investment and leasing markets remain competitive. We face competition from various entities for investment and disposition opportunities, for prospective tenants and to retain our current tenants, including other REITs, pension funds, banks and insurance companies, investment funds and companies, partnerships and developers. Many of these entities have substantially greater financial resources than we do and may be able to accept more risk than we can prudently manage, including risks with respect to the creditworthiness of a tenant or the geographic location of their investments.

We depend upon the performance of our property managers in the selection of tenants and negotiation of leasing arrangements. The U.S. commercial real estate industry has created increased pressure on real estate investors and their property managers to find new tenants and keep existing tenants. In order to do so, we have offered and may have to offer inducements, such as free rent and tenant improvements, to compete for attractive tenants. Further, as a result of their greater resources, the entities referenced above may have more flexibility than we do in their ability to offer rental concessions to attract and retain tenants, which could put additional pressure on our ability to maintain or raise rents and could adversely affect our ability to attract or retain tenants. In addition, the COVID-19 pandemic caused many tenants to re-evaluate their space needs, resulting in a significant increase in sublease space available in the office market from tenants wanting to unload unneeded space. We face competition from these tenants, who may be more willing to offer significant discounts to prospective subtenants. Our investors must rely entirely on the management abilities of our advisor, the property managers our advisor selects and the oversight of our board of directors. In the event we are unable to find new tenants and keep existing tenants, or if we are forced to offer significant inducements to such tenants, we may not be able to meet our investment objectives and our financial condition, results of operations, cash flow, ability to satisfy our debt service obligations and ability to pay distributions to our stockholders may be adversely affected.

We face competition from these same entities for real estate investment opportunities. Competition from these entities may reduce the number of suitable investment opportunities offered to us or increase the bargaining power of property owners seeking to sell. Disruptions and dislocations in the credit markets could impact the cost and availability of debt to finance real estate investments, which is a key component of our acquisition strategy. A downturn in the credit market and a potential lack of available debt could result in a further reduction of suitable investment opportunities and create a competitive advantage for other entities that have greater financial resources than we do. In addition, the number of entities and the amount of funds competing for suitable investments may increase. We can give no assurance that our advisor will be successful in obtaining additional suitable investments on financially attractive terms or that, if our advisor makes investments on our behalf, our objectives will be achieved. If we acquire investments at higher prices and/or by using less-than-ideal capital structures, our returns may be lower and the value of our assets may not appreciate or may decrease significantly below the amount we paid for such assets. If such events occur, our stockholders may experience a lower return on their investment.

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

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

Elevated market volatility due to adverse economic and geopolitical conditions (such as the war in Ukraine), health crises (such as the continuing impact of the COVID-19 pandemic) or dislocations in the credit markets, could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

Our business may be adversely affected by market and economic volatility experienced by the U.S. and global economies, the U.S. office market as a whole and/or the local economies in the markets in which our properties are located. Such adverse economic and geopolitical conditions may be due to, among other issues, increased labor market challenges impacting the recruitment and retention of employees, rising inflation and interest rates, volatility in the public equity and debt markets, and international economic and other conditions, including pandemics (such as the continuing impact of the COVID-19 pandemic), geopolitical instability (such as the war in Ukraine), sanctions and other conditions beyond our control. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, financial condition and ability to pay dividends and/or distributions as a result of one or more of the following, among other potential consequences:

- revenues from our properties could decrease due to fewer tenants and/or lower rental rates, making it more difficult for us to pay distributions or meet our debt service obligations on debt financing;
- the financial condition of our tenants may be adversely affected, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, lack of funding, operational failures or for other reasons;
- potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, could materially and negatively impact the future demand for office space, resulting in slower overall leasing and an adverse impact to our operations and the valuation of our investments;
- significant job losses may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;
- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to refinance existing debt and increase our future interest expense;
- reduced values of our properties and reduced revenues from our properties may (i) limit our ability to dispose of assets at attractive prices, (ii) limit our ability to obtain debt financing secured by our properties, (iii) limit our ability to access revolving debt under our existing credit facilities; and (iv) may reduce the availability of unsecured loans;
- the value and liquidity of our short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold our cash deposits or the institutions or assets in which we have made short-term investments, a dislocation of the markets for our short-term investments, increased volatility in market rates for such investments or other factors; and
- to the extent we enter into derivative financial instruments, one or more counterparties to our derivative financial instruments could default on their obligations to us, or could fail, increasing the risk that we may not realize the benefits of these instruments.

Further, we have made a significant investment in the common units of the SREIT. Due to the disruptions in the financial markets discussed above, since early March 2020, the trading price of the common units of the SREIT has experienced substantial volatility. As of March 13, 2023, the aggregate value of our investment in the units of the SREIT was \$78.8 million, which was based solely on the closing price of the units on the SGX-ST of \$0.365 per unit as of March 13, 2023, and did not take into account any potential discount for the holding period risk due to the quantity of units we hold. This is a decrease of \$0.515 per unit from our initial acquisition of the SREIT units at \$0.880 per unit on July 19, 2019.

On January 17, 2023, our board of directors determined to suspend Ordinary Redemptions under our share redemption program and reduce the distribution rate from that of prior periods. These actions were a direct result of the ongoing challenges affecting the U.S. commercial real estate industry, especially as it pertains to commercial office buildings. The combination of the continued economic slowdown, rapidly rising interest rates, significant inflation, and a lack of lending activity in the debt markets have contributed to considerable weakness in the commercial real estate capital markets. During 2021 and 2022, the usage of many of our assets remained lower than pre-pandemic levels, and we cannot predict when, if and to what extent economic activity, including the use of and demand for office space, will return to pre-pandemic levels. In addition, we experienced a significant reduction in leasing interest and activity when compared to pre-pandemic levels. Both upcoming and recent tenant lease expirations amidst the aforementioned headwinds coupled with slower than expected return-to-office, most notably in the San Francisco Bay Area where we own several large assets, have had direct and material impacts on our ability to access certain credit facilities which, in large part, provide liquidity to manage redemption requests. We have concluded that it is critical to preserve capital given the current state of the markets.

Additionally, due to disruptions in the financial markets, it is becoming increasingly difficult to refinance maturing debt obligations as lenders are hesitant to make new loans in the current market environment with so many uncertainties surrounding asset valuations, especially in the office real estate market. As a result, we may need to evaluate selling certain assets into a challenged real estate market, which would likely impact the ultimate sale price. While we have extension options on all debt obligations maturing in 2023, these extensions are subject to certain terms and conditions contained in the loan documents some of which are more stringent than our current loan compliance tests. As a result, in order to qualify for certain loan extensions, we may be required to reduce the loan commitment amount or make paydowns on certain loans, which would reduce our liquidity. Additionally, continued increases in interest rates, reductions in real estate values and future tenant turnover in the portfolio will have a further impact on our ability to meet such tests and may further reduce our available liquidity under our loan agreements.

Inflation and increased interest rates may adversely affect our financial condition and results of operations.

Although inflation has not materially impacted our operations in the recent past, inflation reached a 40-year high in 2022 and beginning in March of 2022, the Federal Reserve began raising the federal funds rate in an effort to curb inflation. The Federal Reserve's action, coupled with other macroeconomic factors, may trigger a recession in the United States, globally, or both. Increased inflation and interest rates could have an adverse impact on our variable rate debt, our ability to borrow money, and general and administrative expenses, as these costs could increase at a rate greater than our rental and other revenue. Increases in the costs of owning and operating our properties due to inflation could reduce our net operating income and the value of an investment in us to the extent such increases are not reimbursed or paid by our tenants. If we are materially impacted by increasing inflation because, for example, inflationary increases in costs are not sufficiently offset by the contractual rent increases and operating expense reimbursement provisions or escalations in the leases with our tenants, we may implement additional measures to conserve cash or preserve liquidity. See the discussion in the risk factor immediately above. Such additional measures could include further reducing or suspending distributions we make to our stockholders. In addition, due to rising interest rates, we may experience further restrictions in our liquidity based on certain financial covenant requirements, our inability to refinance maturing debt in part or in full as it comes due and higher debt service costs and reduced yields relative to cost of debt. If we are unable to find alternative credit arrangements or other funding in a high interest environment, our business needs may not be adequately met.

In addition, tenants and potential tenants of our properties may be adversely impacted by inflation and rising interest rates, which could negatively impact our tenants' ability to pay rent and the demand for our properties. Such adverse impacts on our tenants may cause increased vacancies, which may add pressure to lower rents and increase our expenditures for re-leasing.

Because of the concentration of a significant portion of our assets in three geographic areas and in core office properties, any adverse economic, real estate or business conditions in these geographic areas or in the U.S. office market could affect our operating results and our ability to pay distributions to our stockholders.

As of March 1, 2023, a significant portion of our real estate properties was located in California, Illinois and Texas. As such, the geographic concentration of our portfolio makes us particularly susceptible to adverse economic developments in the California, Illinois and Texas real estate markets. In addition, the majority of our real estate properties consists of core office properties. Any adverse economic or real estate developments in these geographic markets, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics and other factors, or any decrease in demand for office space could adversely affect our operating results and our ability to pay distributions to our stockholders.

A significant percentage of our assets is invested in Accenture Tower and the value of our stockholders' investment in us will fluctuate with the performance of this investment.

As of December 31, 2022, Accenture Tower represented approximately 18% of our total assets and represented approximately 17% of our total annualized base rent. Further, as a result of this investment, the geographic concentration of our portfolio makes us particularly susceptible to adverse economic developments in the Chicago real estate market. Any adverse economic or real estate developments in this market, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics and other factors, or any decrease in demand for office space resulting from the local business climate, could adversely affect our operating results and our ability to pay distributions to our stockholders.

We may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.

As of March 1, 2023, we owned 16 office properties, one mixed-used office/retail property and an investment in the equity securities of the SREIT. We cannot assure our stockholders that we will be able to operate our business successfully or implement our operating policies and strategies. We can provide no assurance that our performance will replicate the past performance of other KBS-sponsored programs. Our investment returns could be substantially lower than the returns achieved by other KBS-sponsored programs. The results of our operations depend on several factors, including the availability of opportunities for the acquisition of additional assets, the level and volatility of interest rates, the availability of short and long-term financing, conditions in the financial markets and general economic conditions.

Because we depend upon our advisor and its affiliates to select, acquire, manage and dispose of our real estate investments and to conduct our operations, any adverse changes in the financial health of our advisor or its affiliates or our relationship with them could cause our operations to suffer.

We depend on our advisor to select, acquire, manage and dispose of our real estate investments and to conduct our operations. Our advisor depends upon the fees and other compensation that it receives from us, KBS Real Estate Investment Trust II, Inc. (“KBS REIT II”), KBS Growth & Income REIT, Inc. (“KBS Growth & Income REIT”), and any future KBS-sponsored programs that it advises to conduct its operations. Any adverse changes to our relationship with, or the financial condition of, our advisor and its affiliates could hinder their ability to successfully manage our operations and our portfolio of investments.

We have paid distributions in part from debt financings and in the future we may not pay distributions solely from our cash flow from operating activities. To the extent that we pay distributions from sources other than our cash flow from operating activities, the overall return to our stockholders may be reduced.

Our distribution policy is not to use the proceeds of our offerings to make distributions. However, our organizational documents permit us to pay distributions from any source, including offering proceeds or borrowings (which may constitute a return of capital), and our charter does not limit the amount of funds we may use from any source to pay such distributions. We have paid distributions in part from debt financings, and in the future, we may not pay distributions solely from our cash flow from operating activities, in which case distributions may be paid in whole or in part from debt financing. We have and in the future we may fund such distributions with proceeds from the sale of assets. If we fund distributions from borrowings, our interest expense and other financing costs, as well as the repayment of such borrowings, will reduce our earnings and cash flow from operating activities available for distribution in future periods. If we fund distributions from the sale of assets, this will affect our ability to generate cash flow from operating activities in future periods. To the extent that we pay distributions from sources other than our cash flow from operating activities, the overall return to our stockholders may be reduced. In addition, to the extent distributions exceed cash flow from operating activities, a stockholder’s basis in our stock will be reduced and, to the extent distributions exceed a stockholder’s basis, the stockholder may recognize capital gain. There is no limit on the amount of distributions we may fund from sources other than from cash flow from operating activities.

For the year ended December 31, 2022, we paid aggregate distributions of \$89.6 million, including \$56.2 million of distributions paid in cash and \$33.4 million of distributions reinvested through our dividend reinvestment plan. We funded our total distributions paid, which includes net cash distributions and dividends reinvested by stockholders, with \$62.8 million (70%) of cash flow from current operating activities, \$22.1 million (25%) of cash flow from operating activities in excess of distributions paid during prior periods and \$4.7 million (5%) of proceeds from debt financing. For the year ended December 31, 2022, our cash flow from operating activities to distributions paid coverage ratio was 85% and our funds from operations to distributions paid coverage ratio was 159%. For more information, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Funds from Operations and Modified Funds from Operations” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Distributions” in this Annual Report.

The loss of or the inability to retain or obtain key real estate and debt finance professionals at our advisor could delay or hinder implementation of our investment, management and disposition strategies, which could limit our ability to pay distributions and decrease the value of an investment in our shares.

Our success depends to a significant degree upon the contributions of Charles J. Schreiber, Jr. and the team of real estate and debt finance professionals at our advisor. Neither we nor our advisor or its affiliates have employment agreements with these individuals and they may not remain associated with us, our advisor or its affiliates. If any of these persons were to cease their association with us, our advisor or its affiliates, we may be unable to find suitable replacements and our operating results could suffer as a result. We do not maintain key person life insurance on any person. We believe that our future success depends, in large part, upon our advisor's and its affiliates' ability to attract and retain highly skilled managerial, operational and marketing professionals. Competition for such professionals is intense, and our advisor and its affiliates may be unsuccessful in attracting and retaining such skilled professionals. Further, we have established strategic relationships with firms that have special expertise in certain services or detailed knowledge regarding real properties in certain geographic regions. Maintaining such relationships will be important for us to effectively compete in such regions. We may be unsuccessful in maintaining such relationships. If we lose or are unable to obtain the services of highly skilled professionals or do not establish or maintain appropriate strategic relationships, our ability to implement our investment, management and disposition strategies could be delayed or hindered and the value of our stockholders' investment in us could decline.

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

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

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

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

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

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

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

Risks Related to Conflicts of Interest

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

All of our executive officers, our affiliated 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, our dealer manager and/or other KBS-affiliated entities. Our advisor and its affiliates receive substantial fees from us. These fees could influence our advisor's advice to us as well as the judgment of its affiliates. Among other matters, these compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with our advisor and its affiliates, including the advisory agreement;
- equity offerings by us, including using our securities to acquire portfolios or other companies, which may entitle our dealer manager to additional dealer manager fees and would likely entitle our advisor to additional advisory fees;
- sales of real estate investments, which under our current advisory fee structure entitle our advisor to disposition fees and possible subordinated incentive fees;
- acquisitions of real estate investments, which entitle our advisor to acquisition or origination fees based on the cost of the investment and asset management fees based on the cost of the investment, and not based on the quality of the investment or the quality of the services rendered to us, which may influence our advisor to recommend riskier transactions to us and/or transactions that are not in our best interest and, in the case of acquisitions of investments from other KBS-sponsored programs, which might entitle our advisor or affiliates of our advisor to disposition fees and possible subordinated incentive fees in connection with its services for the seller;
- borrowings to acquire real estate investments, which borrowings will increase the acquisition and origination fees and asset-management fees payable to our advisor;
- whether we engage affiliates of our advisor for other services, which affiliates may receive fees in connection with the services regardless of the quality of the services provided to us;
- whether we pursue a liquidity event such as a listing of our shares of common stock on a national securities exchange, a sale of the company or a liquidation of our assets, which (i) may make it more likely for us to become self-managed or internalize our management, (ii) could positively or negatively affect the sales efforts for other KBS-sponsored programs, depending on the price at which our shares trade or the consideration received by our stockholders, and/or (iii) would affect the advisory fees received by our advisor; and
- whether and when we seek to sell the company or its assets, which could entitle our advisor to a subordinated incentive fee and terminate the asset management fee.

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

We rely on our sponsor, KBS Holdings LLC, and other key real estate and debt finance professionals at our advisor, including Mr. Schreiber, to identify suitable investment opportunities for us, to supervise property management and leasing of properties and to sell our properties. KBS REIT II and KBS Growth & Income REIT are also advised by KBS Capital Advisors. Mr. Schreiber and several of the other key real estate professionals at KBS Capital Advisors are also the key real estate professionals at KBS Realty Advisors LLC (“KBS Realty Advisors”) and its affiliates, the advisors to the private KBS-sponsored programs and the investment advisors to KBS-advised investors. In addition, KBS Realty Advisors serves as the U.S. asset manager for the SREIT, a Singapore real estate investment trust. As such, KBS-sponsored programs that have funds available for investment and KBS-advised investors that have funds available for investment rely on many of the same real estate and debt finance professionals, as will future KBS-sponsored programs and KBS-advised investors. Many investment opportunities that are suitable for us may also be suitable for other KBS-sponsored programs and KBS-advised investors. When these real estate and debt finance professionals direct an investment opportunity to any KBS-sponsored program or KBS-advised investor, they, in their sole discretion, will have to determine the program or investor for which the investment opportunity is most suitable based on the investment objectives, portfolio and criteria of each program or investor. Currently, the SREIT is in its acquisition stage.

In connection with the Singapore Transaction (defined herein), our advisor and KBS Realty Advisors proposed that our conflicts committee and board of directors adopt an asset allocation policy (the “Allocation Process”) among us, KBS REIT II and KBS Growth & Income REIT (collectively, the “Core Strategy REITs”) and the SREIT. The board of directors and conflicts committee adopted the Allocation Process as proposed. The Allocation Process provides that, in order to mitigate potential conflicts of interest that may arise among the Core REITs and the SREIT, upon the listing of the SREIT (which occurred on July 19, 2019), potential asset acquisitions that meet all of the following criteria would be offered first to the SREIT:

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

To the extent the SREIT does not have the funds to acquire the asset or to the extent the external manager of the SREIT decides to forego the acquisition opportunity, such asset may then be offered to the Core Strategy REITs at the discretion of KBS Capital Advisors.

For so long as we are externally advised, our charter provides that it shall not be a proper purpose of the company for us to make any significant investment unless our advisor has recommended the investment to us. Thus, the real estate and debt finance professionals of our advisor could direct attractive investment opportunities to other KBS-sponsored programs or KBS-advised investors. Such events could result in us investing in properties that provide less attractive returns, which would reduce the level of distributions we may be able to pay our stockholders.

We and other KBS-sponsored programs and KBS-advised investors also rely on these real estate professionals to supervise the property management and leasing of properties. If the KBS team of real estate professionals directs creditworthy prospective tenants to properties owned by another KBS-sponsored program or KBS-advised investor when it could direct such tenants to our properties, our tenant base may have more inherent risk and our properties’ occupancy may be lower than might otherwise be the case.

In addition, we and other KBS-sponsored programs and KBS-advised investors rely on our sponsor and other key real estate professionals at our advisor to sell our properties. These KBS-sponsored programs and KBS-advised investors may possess properties in similar locations and/or of the same property types as ours and may be attempting to sell these properties at the same time we are attempting to sell some of our properties. If our advisor directs potential purchasers to properties owned by another KBS-sponsored program or KBS-advised investor when it could direct such purchasers to our properties, we may be unable to sell some or all of our properties at the time or at the price we otherwise would, which could limit our ability to pay distributions and reduce our stockholders’ overall investment return.

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

KBS Capital Advisors will face conflicts of interest relating to joint ventures that we may form with affiliates of KBS Capital Advisors, which conflicts could result in a disproportionate benefit to the other venture partners at our expense.

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

Our sponsor, our officers, our advisor and the real estate, debt finance, management and accounting professionals assembled by our advisor face competing demands on their time and this may cause our operations and our stockholders' investment in us to suffer.

We rely on our sponsor, our officers, our advisor and the real estate, debt finance, management and accounting professionals that our advisor retains, including Charles J. Schreiber, Jr., Marc DeLuca, Jeffrey K. Waldvogel and Stacie K. Yamane, to provide services to us for the day-to-day operation of our business. KBS REIT II and KBS Growth & Income REIT are also advised by KBS Capital Advisors, and KBS Capital Advisors may serve as the advisor to future KBS-sponsored programs and KBS-advised investors. Further, our officers and one of our affiliated directors are also officers and/or the affiliated director of other public KBS-sponsored programs. Messrs. Schreiber and Waldvogel and Ms. Yamane are also executive officers of KBS REIT II and KBS Growth & Income REIT. Messrs. Schreiber, DeLuca and Waldvogel and Ms. Yamane are executive officers of KBS Realty Advisors and its affiliates, the advisors of the private KBS-sponsored programs and the KBS-advised investors and the U.S. asset manager for the SREIT.

As a result of their interests in other KBS-sponsored programs, their obligations to KBS-advised investors and the fact that they engage in and will continue to engage in other business activities on behalf of themselves and others, Messrs. Schreiber, DeLuca and Waldvogel and Ms. Yamane face conflicts of interest in allocating their time among us, KBS REIT II, KBS Growth & Income REIT, KBS Capital Advisors, KBS Realty Advisors, other KBS-sponsored programs and/or other KBS-advised investors, as well as other business activities in which they are involved. In addition, KBS Capital Advisors and KBS Realty Advisors and their affiliates share many of the same key real estate, management and accounting professionals. During times of intense activity in other programs and ventures, these individuals may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. Furthermore, some or all of these individuals may become employees of another KBS-sponsored program in an internalization transaction or, if we internalize our advisor, may not become our employees as a result of their relationship with other KBS-sponsored programs. If these events occur, the returns on our investments, and the value of our stockholders' investment in us, may decline.

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

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

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

Four of our directors are also directors of KBS REIT II and one of our affiliated directors is also an affiliated director of KBS Growth & Income REIT. The loyalties of our directors serving on the boards of directors of KBS REIT II and KBS Growth & Income REIT, or possibly on the boards of directors of future KBS-sponsored programs, may influence the judgment of our board of directors when considering issues for us that also may affect other KBS-sponsored and advised programs, such as the following:

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

Like us, KBS REIT II compensates each independent director with an annual retainer of \$135,000, as well as compensation for attending meetings as follows:

- each member of the audit committee and conflicts committee is paid \$10,000 annually for service on such committees (except that the chair of each of the audit committee and conflicts committee is paid \$20,000 annually for service as the chair of such committees);
- after the tenth board of directors meeting of each calendar year, each independent director is paid (i) \$2,500 for each in-person board of directors meeting attended for the remainder of the calendar year and (ii) \$2,000 for each teleconference board of directors meeting attended for the remainder of the calendar year;
- after the tenth audit committee meeting of each calendar year, each member of the audit committee is paid (i) \$2,500 for each in-person audit committee meeting attended for the remainder of the calendar year and (ii) \$2,000 for each teleconference audit committee meeting attended for the remainder of the calendar year (except that the audit committee chair is paid \$3,000 for each in-person and teleconference audit committee meeting attended after the tenth audit committee meeting of each calendar year, for the remainder of each calendar year); and
- after the tenth conflicts committee meeting of each calendar year, each member of the conflicts committee is paid (i) \$2,500 for each in-person conflicts committee meeting attended for the remainder of the calendar year and (ii) \$2,000 for each teleconference conflicts committee meeting attended for the remainder of the calendar year (except that the conflicts committee chair is paid \$3,000 for each in-person and teleconference conflicts committee meeting attended after the tenth conflicts committee meeting of each calendar year, for the remainder of each calendar year).

In addition, KBS REIT II pays independent directors for attending other committee meetings as follows: each independent director is paid \$2,000 for each in-person and teleconference committee meeting attended (except that the committee chair is paid \$3,000 for each in-person and teleconference committee meeting attended).

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

Risks Related to Our Corporate Structure

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

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. To help us comply with the REIT ownership requirements of the Internal Revenue Code, our charter prohibits a person from directly or constructively owning more than 9.8% of our outstanding shares, unless exempted by our board of directors. In addition, our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. These charter provisions may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock.

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

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

Our stockholders may not be able to sell their shares under our share redemption program and, if our stockholders are able to sell their shares under the share redemption program, they may not be able to recover an amount equal to the estimated value per share of our common stock.

Our share redemption program includes numerous restrictions that limit our stockholders' ability to sell their shares should they require liquidity and will limit our stockholders' ability to recover an amount equal to the estimated value per share of our common stock.

Since 2019, due to the limitations on redemptions under our share redemption program, our pursuit of strategic alternatives and/or disruptions in the financial markets impacting the U.S. office market, we have either exhausted the funds available for Ordinary Redemptions under our share redemption program or implemented suspensions of Ordinary Redemptions under our share redemption program for all or a portion of the calendar year. On January 17, 2023, our board of directors determined to suspend Ordinary Redemptions under our share redemption program to preserve capital in the current market environment. We will continue to evaluate the markets and our overall liquidity profile as we determine when to potentially remove the suspension on Ordinary Redemptions, though we can give no assurance in this regard.

Moreover, the share redemption program contains several general limitations on our ability to redeem shares under the program. If we resume Ordinary Redemptions in 2023, our share redemption program provides that, during any calendar year, we may redeem only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year, provided that once we have received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being \$10.0 million or less, the last \$10.0 million of available funds shall be reserved exclusively for Special Redemptions. Notwithstanding anything contained in our share redemption program to the contrary, we may increase or decrease the funding available for the redemption of shares pursuant to the program upon ten business days' notice to our stockholders. Further, during any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year. Additionally, unless the shares are being redeemed in connection with a Special Redemption, we may not redeem shares unless the stockholder has held the shares for one year. Further, 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. These limits may prevent us from accommodating all redemption requests made in any year.

We cannot predict future redemption demand with any certainty. If Ordinary Redemptions are resumed and future redemption requests exceed the amount of funding available under our share redemption program, the number of rejected redemption requests will increase over time.

In addition, under the share redemption program, Ordinary Redemptions are made at a price per share equal to 96% of our most recent estimated value per share as of the applicable redemption date, and redemptions made in connection with Special Redemptions are made at a price per share equal to the most recent estimated value per share of our common stock as of the applicable redemption date. On September 28, 2022, our board of directors approved an estimated value per share of our common stock of \$9.00 (unaudited) based on (i) appraisals of our 17 real estate properties as of July 31, 2022, the estimated value of our investment in units of Prime US REIT (SGX-ST Ticker: OXMU) as of September 20, 2022 and the estimated value of our other assets as of June 30, 2022 less (ii) the estimated value of our liabilities as of June 30, 2022, all divided by the number of shares outstanding as of June 30, 2022.

We currently expect to announce an updated estimated value per share no later than December 2023.

During their operating stages, other KBS-sponsored REITs have amended their share redemption programs to limit redemptions to Special Redemptions or place restrictive limitations on the amount of funds available for redemptions. As a result, these programs were or are not able (two programs have now liquidated) to honor all redemption requests and stockholders in these programs were or are unable to have their shares redeemed when requested. In some instances, ordinary redemptions were or have been suspended for several years. When implementing these amendments, stockholders did not always have a final opportunity to submit redemptions prior to the effectiveness of the amendment to the program.

Our board may amend, suspend or terminate our share redemption program upon ten business days' notice to stockholders, and consistent with SEC guidance and interpretations, we may increase or decrease the funding available for the redemption of shares pursuant to our share redemption program upon ten business days' notice to our stockholders. See Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Amended and Restated Share Redemption Program" for more information about the current share redemption program.

Our bylaws designate the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, shall be the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders with respect to our company, our directors, our officers or our employees (we note we currently have no employees). This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers or employees, which may discourage meritorious claims from being asserted against us and our directors, officers and employees. Alternatively, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations. We adopted this provision because we believe it makes it less likely that we will be forced to incur the expense of defending duplicative actions in multiple forums and less likely that plaintiffs' attorneys will be able to employ such litigation to coerce us into otherwise unjustified settlements, and we believe the risk of a court declining to enforce this provision is remote, as the General Assembly of Maryland has specifically amended the Maryland General Corporation Law to authorize the adoption of such provisions. This provision of our bylaws does not apply to claims brought to enforce a duty or liability created by the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or any other claim for which the federal courts have exclusive jurisdiction or to claims under state securities laws.

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

On September 28, 2022, our board of directors approved an estimated value per share of our common stock of \$9.00 (unaudited) based on (i) appraisals of our 17 real estate properties as of July 31, 2022 (the “Appraised Properties”), the estimated value of our investment in units of the SREIT (SGX-ST Ticker: OXMU) as of September 20, 2022 and the estimated value of our other assets as of June 30, 2022 less (ii) the estimated value of our liabilities as of June 30, 2022, all divided by the number of shares outstanding as of June 30, 2022. We did not make any other adjustments to the estimated value per share from the date of the valuations above, including any adjustments relating to the following, among others: (i) the issuance of common stock and the payment of related offering costs related to our dividend reinvestment plan offering; (ii) net operating income earned and distributions declared; and (iii) the redemption of shares. We provided this estimated value per share to assist broker-dealers that participated in our now-terminated initial public offering in meeting their customer account statement reporting obligations under Financial Industry Regulatory Authority (“FINRA”) Rule 2231. This valuation was performed in accordance with the provisions of and also to comply with Practice Guideline 2013–01, Valuations of Publicly Registered, Non-Listed REITs, issued by the Institute for Portfolio Alternatives (“IPA”) in April 2013 (the “IPA Valuation Guidelines”).

We engaged Kroll, LLC (formerly Duff & Phelps, LLC) (“Kroll”), an independent third-party real estate valuation firm, to provide (i) appraisals of the Appraised Properties, (ii) an estimated value for our investment in units of the SREIT and (iii) a calculation of the range in estimated value per share of our common stock as of September 28, 2022. Kroll based this range in estimated value per share upon (i) its appraisals of the Appraised Properties, (ii) its estimated value for our investment in units of the SREIT and (iii) valuations performed by our advisor of our cash, other assets, notes payable and other liabilities, which are disclosed in our Quarterly Report on Form 10-Q for the period ended June 30, 2022.

As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties using different assumptions and estimates could derive a different estimated value per share of our common stock, and this difference could be significant. The estimated value per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to U.S. generally accepted accounting principles (“GAAP”), nor does it represent a liquidation value of our assets and liabilities or the price at which our shares of common stock would trade on a national securities exchange. The estimated value per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated value per share also does not take into account estimated disposition costs and fees for real estate properties that were not under contract to sell as of September 28, 2022, debt prepayment penalties that could apply upon the prepayment of certain of our debt obligations, the impact of restrictions on the assumption of debt or swap breakage fees that may be incurred upon the termination of certain of our swaps prior to expiration. We generally have incurred disposition costs and fees related to the sale of each real estate property since inception of 0.8% to 2.9% of the gross sales price less concessions and credits, with the weighted average being approximately 1.5%. The estimated value per share also does not take into consideration acquisition-related costs and financing costs related to any future acquisitions subsequent to September 28, 2022. Accordingly, with respect to the estimated value per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at our estimated value per share;
- a stockholder would ultimately realize distributions per share equal to our estimated value per share upon liquidation of our assets and settlement of our liabilities or a sale of our company;
- our shares of common stock would trade at the estimated value per share on a national securities exchange;
- another independent third-party appraiser or third-party valuation firm would agree with our estimated value per share; or
- the methodology used to determine our estimated value per share would be acceptable to FINRA or for compliance with ERISA reporting requirements.

The value of our shares will fluctuate over time in response to developments related to future investments, the performance of individual assets in our portfolio and the management of those assets, the real estate and finance markets and due to other factors. Continued economic uncertainty and disruptions in the financial markets, including the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue) as well as potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, could materially and negatively impact the future demand for office space, resulting in slower overall leasing and an adverse impact to our operations and the valuations of our investments. Moreover, valuations for U.S. office properties continue to fluctuate due to weakness in the current real estate capital markets as a result of the factors above and the lack of transaction volume for U.S. office properties, increasing the uncertainty of valuations in the current market environment. These risks are not priced into the September 28, 2022 estimated value per share. As such, the estimated value per share does not take into account developments in our portfolio since September 28, 2022. For a full description of the methodologies and assumptions used to value our assets and liabilities in connection with the calculation of the estimated value per share, see Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information.”

We currently expect to utilize an independent valuation firm to update the estimated value per share no later than December 2023.

The actual value of shares that we repurchase under our share redemption program may be less than what we pay.

Under our current share redemption program, shares may be repurchased at varying prices depending on whether the redemptions are in connection with a Special Redemption. Pursuant to our share redemption program, redemptions made in connection with Special Redemptions are made at a price per share equal to the most recent estimated value per share of our common stock as of the applicable redemption date, which is currently \$9.00 per share, and Ordinary Redemptions are made at a price per share equal to 96% of our most recent estimated value per share as of the applicable redemption date, which is currently \$8.64. Although these redemption prices are based on our current estimated value per share, this reported value is likely to differ from the price at which a stockholder could resell his or her shares for the reasons discussed in the risk factor above. Thus, when we repurchase shares of our common stock at \$9.00 per share, the actual value of the shares that we repurchase is likely to be less, and the repurchase is likely to be dilutive to our remaining stockholders. Even at lower repurchase prices, the actual value of the shares may be less than what we pay and the repurchase may be dilutive to our remaining stockholders.

The current offering price of shares under our dividend reinvestment plan is equal to 95% of the September 28, 2022 estimated value per share approved by our board of directors. The offering price does not take into account developments in our portfolio or the markets since September 28, 2022, including the continued economic uncertainty and disruptions in the financial markets as a result of the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue) as well as potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, all of which may negatively impact our operations and the value of our real estate and real estate-related investments. As a result, a reinvestment of dividends in our common stock bears increased risk.

Pursuant to our dividend reinvestment plan, participants in the dividend reinvestment plan acquire shares of our common stock under the plan at a price equal to 95% of the estimated value per share of our common stock. As such, participants currently acquire shares of our common stock under the plan at a price equal to \$8.55 per share, which is 95% of our September 28, 2022 estimated value per share. The value of our shares will fluctuate over time in response to developments related to future investments, the performance of individual assets in our portfolio and the management of those assets, the real estate and finance markets and due to other factors. As such, the estimated value per share does not take into account developments in our portfolio since September 28, 2022. Continued economic uncertainty and disruptions in the financial markets, including the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue) as well as potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, could materially and negatively impact the future demand for office space, resulting in slower overall leasing and an adverse impact to our operations and the valuations of our investments. Moreover, valuations for U.S. office properties continue to fluctuate due to weakness in the current real estate capital markets as a result of the factors above and the lack of transaction volume for U.S. office properties, increasing the uncertainty of valuations in the current market environment. Further, our significant investment in the common units of the SREIT, a traded Singapore real estate investment trust, is subject to the risks associated with real estate investments as well as the risks inherent in investing in traded securities, including, in this instance, risks related to the quantity of units held by us relative to the trading volume of the units. Due to the disruptions in the financial markets discussed above, since early March 2020, the trading price of the common units of the SREIT has experienced substantial volatility. These risks are not priced into our most recent estimated value per share, and given the uncertainty, no assurances can be given that the purchase price of shares of our common stock reflect the underlying value of our assets. As a result, a reinvestment of distributions in our common stock bears increased risk.

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

We depend on the proceeds from our dividend reinvestment plan offering for general corporate purposes including, but not limited to: the redemption of shares under our share redemption program; capital expenditures, tenant improvement costs and leasing costs related to our real estate properties; reserves required by any financings of our real estate investments; the acquisition or origination of real estate investments; and the repayment of debt. We cannot predict with any certainty how much, if any, dividend reinvestment plan proceeds will be available for general corporate purposes. If such funds are not available from our dividend reinvestment plan offering, then we may have to use a greater proportion of our cash flow from operations to meet our general cash requirements, which would reduce cash available for distributions and could further limit our ability to redeem shares under our share redemption program.

See also the discussion above under “Our stockholders may not be able to sell their shares under our share redemption program and, if our stockholders are able to sell their shares under the share redemption program, they may not be able to recover an amount equal to the estimated value per share of our common stock.”

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

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

Payment of fees to our advisor and its affiliates reduces cash available for investment and distribution to our stockholders and increases the risk that our stockholders will not be able to recover the amount of their investment in our shares or an amount equal to the estimated value per share of our common stock.

Our advisor and its affiliates perform services for us in connection with the selection and acquisition or origination of our real estate investments, the management and leasing of our real estate properties and the disposition of our investments. We pay them substantial fees for these services, which results in immediate dilution of the value of our stockholders' investment in us and reduces the amount of cash available for investments or distribution to stockholders. Compensation to be paid to our advisor may be increased with the approval of our conflicts committee and subject to the limitations in our charter, which would further dilute our stockholders' investment in us and reduce the amount of cash available for investment or distribution to stockholders.

We may also pay significant fees during our listing/liquidation stage. Although most of the fees expected to be paid during our listing/liquidation stage are contingent on our stockholders first receiving agreed-upon investment returns, the investment-return thresholds may be reduced with the approval of our conflicts committee and subject to the limitations in our charter.

Therefore, these fees increase the risk that the amount of cash available for distribution to our stockholders upon a liquidation of our portfolio would be less than the amount stockholders paid to acquire our shares or an amount equal to the estimated value per share of our common stock. These substantial fees and other payments also increase the risk that our stockholders will not be able to resell their shares at a profit.

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

When tenants do not renew their leases or otherwise vacate their space, we will often need to expend substantial funds for improvements to the vacated space in order to attract replacement tenants. Even when tenants do renew their leases, we may agree to make improvements to their space as part of our negotiations. If we need additional capital in the future to improve or maintain our properties or for any other reason, we may have to obtain funding from sources other than our cash flow from operations, such as borrowings or future equity offerings. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both, which would limit our ability to pay distributions to our stockholders and could reduce the value of our stockholders' investment.

These risks are heightened as a result of the disruptions in the financial markets discussed above. See “—Risks Related to an Investment in Our Common Stock—Elevated market volatility due to adverse economic and geopolitical conditions (such as the war in Ukraine), health crises (such as the continuing impact of the COVID-19 pandemic) or dislocations in the credit markets, could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.” and “—Risks Related to an Investment in Our Common Stock—Inflation and increased interest rates may adversely affect our financial condition and results of operations.”

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

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

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

Our charter provides that any tender offer made by a stockholder, including any “mini-tender” offer, must comply with most provisions of Regulation 14D of the Securities Exchange Act of 1934, as amended. The offering stockholder must provide our company notice of such tender offer at least 10 business days before initiating the tender offer. If the offering stockholder does not comply with these requirements, our company will have the right to redeem that stockholder’s shares and any shares acquired in such tender offer. In addition, the noncomplying stockholder shall be responsible for all of our company’s expenses in connection with that stockholder’s noncompliance. This provision of our charter may discourage a stockholder from initiating a tender offer for our shares and prevent our stockholders from receiving a premium price for their shares in such a transaction.

Our stockholders’ return may be reduced if we are required to register as an investment company under the Investment Company Act.

We intend to continue to conduct our operations so that neither we, nor our Operating Partnership nor the subsidiaries of our Operating Partnership are investment companies under the Investment Company Act of 1940, as amended (the “Investment Company Act”). However, there can be no assurance that we and our subsidiaries will be able to successfully avoid operating as an investment company. A change in the value of any of our assets could negatively affect our ability to maintain our exemption from regulation under the Investment Company Act. To maintain compliance with the applicable exemption under the Investment Company Act, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional assets that we might not otherwise have acquired or may have to forego opportunities to acquire assets that we would otherwise want to acquire and would be important to our investment strategy.

If we were required to register as an investment company but failed to do so, we would become subject to substantial regulation with respect to our capital structure (including our ability to use borrowings), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), and portfolio composition, including disclosure requirements and restrictions with respect to diversification and industry concentration, and other matters. Compliance with the Investment Company Act would, accordingly, limit our ability to make certain investments and require us to significantly restructure our business plan, which could materially adversely affect our estimated value per share and our ability to pay distributions to our stockholders.

General Risks Related to Investments in Real Estate

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

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

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

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

These risks are heightened as a result of the disruptions in the financial markets discussed above. See “—Risks Related to an Investment in Our Common Stock—Elevated market volatility due to adverse economic and geopolitical conditions (such as the war in Ukraine), health crises (such as the continuing impact of the COVID-19 pandemic) or dislocations in the credit markets, could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.” and “—Risks Related to an Investment in Our Common Stock—Inflation and increased interest rates may adversely affect our financial condition and results of operations.”

If our acquisitions do not perform as expected, cash distributions to our stockholders may decline.

As of March 1, 2023, our real estate portfolio held for investment was composed of 16 office properties and one mixed-use office/retail property encompassing in the aggregate approximately 7.3 million rentable square feet and was collectively 80% occupied. We also own an investment in the equity securities of the SREIT, a Singapore real estate investment trust listed on the SGX-ST. We made these investments based on an underwriting analysis with respect to each asset and how the asset fits into our portfolio. If these assets do not perform as expected, we may have less cash flow from operating activities available to fund distributions and stockholder returns may be reduced.

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

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

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

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

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

We have entered into long-term leases with tenants at certain of our office properties and in the future we may enter into long-term leases with tenants at certain office properties we may acquire, which may not result in fair market rental rates over time.

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

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

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

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

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

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

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

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

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

If we sell a property by providing financing to the purchaser, we will bear the risk of default by the purchaser, which could delay or reduce cash available for distribution to our stockholders.

When we decide to sell properties, we intend to use our best efforts to sell them for cash; however, in some instances, we may sell our properties by providing financing to purchasers. When we provide financing to a purchaser, we will bear the risk that the purchaser may default, which could reduce our cash distributions to stockholders. Even in the absence of a purchaser default, the distribution of the proceeds of the sale to our stockholders, or the reinvestment of the proceeds in other assets, will be delayed until the promissory note or other property we may accept upon a sale is actually paid, sold, refinanced or otherwise disposed.

Potential development and construction delays and resultant increased costs and risks may hinder our operating results and decrease our net income.

From time to time we may acquire unimproved real property or properties that are under development or construction. Investments in such properties will be subject to the uncertainties associated with the development and construction of real property, including those related to re-zoning land for development, environmental concerns of governmental entities and/or community groups and our builders' ability to build in conformity with plans, specifications, budgeted costs and timetables. If a builder fails to perform, we may resort to legal action to rescind the purchase or the construction contract or to compel performance. A builder's performance may also be affected or delayed by conditions beyond the builder's control. Delays in completing construction could also give tenants the right to terminate preconstruction leases. We may incur additional risks when we make periodic progress payments or other advances to builders before they complete construction. These and other factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly-constructed projects. We also must rely on rental income and expense projections and estimates of the fair market value of property upon completion of construction when agreeing upon a purchase price at the time we acquire the property. If our projections are inaccurate, we may pay too much for a property, and the return on our investment could suffer.

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

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

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

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce our returns on that investment and the value of our stockholders' investment in us.

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

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

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

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

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

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

All of our real estate properties are subject to Phase I environmental assessments prior to the time they are acquired; however, such assessments may not provide complete environmental histories due, for example, to limited available information about prior operations at the properties or other gaps in information at the time we acquire the property. A Phase I environmental assessment is an initial environmental investigation to identify potential environmental liabilities associated with the current and past uses of a given property. If any of our properties were found to contain hazardous or toxic substances after our acquisition, the value of our investment could decrease below the amount paid for such investment. In addition, real estate-related investments in which we invest may be secured by properties with recognized environmental conditions. Where we are secured creditors, we will attempt to acquire contractual agreements, including environmental indemnities, that protect us from losses arising out of environmental problems in the event the property is transferred by foreclosure or bankruptcy; however, no assurances can be given that such indemnities would fully protect us from responsibility for costs associated with addressing any environmental problems related to such properties.

Costs associated with complying with the Americans with Disabilities Act may decrease our cash available for distribution.

Our properties may be subject to the Americans with Disabilities Act of 1990, as amended, or the Disabilities Act. Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for "public accommodations" and "commercial facilities" that generally require that buildings and services be made accessible and available to people with disabilities. The Disabilities Act's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. Any funds used for Disabilities Act compliance will reduce our net income and the amount of cash available for distribution to our stockholders.

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage could reduce our cash flow from operations and the return on our stockholders' investment in us.

There are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, that are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential acts of terrorism could sharply increase the premiums we pay for coverage against property and casualty claims. We may not be able to obtain insurance against the risk of terrorism because it may not be available or may not be available on terms that are economically feasible. The terrorism insurance that we obtain may not be sufficient to cover loss for damages to our properties as a result of terrorist attacks. The inability to obtain sufficient terrorism insurance or any terrorism insurance at all could limit our financing and refinancing options as mortgage lenders sometimes require that specific coverage against terrorism be purchased by commercial owners as a condition for providing loans. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses. If any of our properties incurs a casualty loss that is not fully insured, the value of our assets will be reduced by any such uninsured loss, which will reduce the value of our stockholders' investment in us. In addition, other than any working capital reserve or other reserves we may establish, we have limited sources of funding to repair or reconstruct any uninsured property. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower distributions to our stockholders.

We rely on property managers to operate our properties and leasing agents to lease vacancies in our properties.

Our advisor hires property managers to manage our properties and leasing agents to lease vacancies in our properties. The property managers have significant decision-making authority with respect to the management of our properties. Our ability to direct and control how our properties are managed on a day-to-day basis may be limited because we engage other parties to perform this function. Thus, the success of our business may depend in large part on the ability of our property managers to manage the day-to-day operations and the ability of our leasing agents to lease vacancies in our properties. Any adversity experienced by, or problems in our relationship with, our property managers or leasing agents could adversely impact the operation and profitability of our properties.

Risks Related to Real Estate-Related Investments

Our investment in common equity securities is, and any future investments we make in the securities of other issuers will be, subject to the specific risks relating to the particular issuer of the securities and may involve greater risk of loss than secured debt financings.

We have made a significant investment in the common equity of the SREIT and may make equity investments in funds or corporate entities with a primary focus on the commercial real estate and real estate finance industries or with significant exposure to real estate, such as REITs. We may purchase the common or preferred stock of these entities or purchase or write options with respect to their stock. We may also invest in debt securities and preferred equity securities issued by funds or corporate entities with a primary focus on the commercial real estate and real estate finance industries or with significant exposure to real estate. Our investments in debt securities and preferred and common equity securities will involve special risks relating to the particular issuer of the securities, including the financial condition and business outlook of the issuer. Issuers that are REITs and other real estate companies are subject to the inherent risks associated with real estate investments. See above “—General Risks Related to Investments in Real Estate.” Furthermore, debt securities and preferred and common equity securities may involve greater risk of loss than secured debt financings due to a variety of factors, including that such investments are generally unsecured and may also be subordinated to other obligations of the issuer. As a result, investments in debt securities and preferred and common equity securities are subject to risks of (i) limited liquidity in the secondary trading market, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the claims of banks and senior lenders to the issuer, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the issuer to reinvest redemption proceeds in lower yielding assets, (v) the possibility that earnings of the issuer may be insufficient to meet its debt service and distribution obligations, and (vi) the declining creditworthiness and potential for insolvency of the issuer during periods of rising interest rates and economic downturn. These risks may adversely affect the value of outstanding debt securities and preferred and common equity securities and the ability of the issuers thereof to make principal, interest and/or distribution payments to us.

Our significant investment in the SREIT is subject to the risks inherent in investing in traded securities. As of March 13, 2023, based solely on the closing trading price of the units of the SREIT on the SGX-ST of \$0.365 per unit on such date and without taking into account any potential discount for the holding period risk due to the quantity of units held by us relative to the normal level of trading in the units, we owned approximately \$78.8 million of units in the SREIT, representing an approximate 18.2% interest in the units of the SREIT. The SREIT's units were first listed for trading on the SGX-ST on July 19, 2019. If an active trading market for the units does not develop or is not sustained, it may be difficult to sell our units. The market for Singapore REITs may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of our investment in the SREIT difficult. Even if an active trading market develops or we are able to negotiate block trades, if we or other significant investors sell or are perceived as intending to sell a substantial amount of units in a short period of time, the market price of our remaining units could be adversely affected. In addition, as a foreign equity investment, the trading price of units of the SREIT may be affected by political, economic, financial and social factors in the Singapore and Asian markets, including changes in government, economic and fiscal policies. Furthermore, we may be limited in our ability to sell our investment in the SREIT if our advisor and/or its affiliates are deemed to have material, non-public information regarding the SREIT. Charles J. Schreiber, Jr., our Chief Executive Officer, our President and our affiliated director, is a former director of the external manager of the SREIT, and Mr. Schreiber holds an indirect ownership interest in the external manager of the SREIT. An affiliate of our advisor serves as the U.S. asset manager to the SREIT. The inability to dispose of our investment in the SREIT at the time and on the terms we want could materially adversely affect the investment results.

Risks Associated with Debt Financing

The risks in this section should be read together with the risks discussed above under “—Risks Related to an Investment in Our Common Stock—Elevated market volatility due to adverse economic and geopolitical conditions (such as the war in Ukraine), health crises (such as the continuing impact of the COVID-19 pandemic) or dislocations in the credit markets, could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.” and “—Risks Related to an Investment in Our Common Stock— Inflation and increased interest rates may adversely affect our financial condition and results of operations.”

We obtain lines of credit, mortgage indebtedness and other borrowings and have given guarantees, which increases our risk of loss due to potential foreclosure.

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

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

Many of these same issues also apply to credit facilities which are expected to be in place at various times as well. For example, the loan documents for such facilities may include various coverage ratios, the continued compliance with which may not be completely within our control. If such coverage ratios are not met, the lenders under such credit facilities may declare any unfunded commitments to be terminated and declare any amounts outstanding to be due and payable. Credit facilities may be secured by our properties or unsecured. If we have insufficient income to service our recourse debt obligations, our lenders could institute proceedings against us to foreclose upon our assets. If a lender successfully forecloses upon any of our assets, our ability to pay cash distributions to our stockholders will be limited and our stockholders could lose all or part of their investment in us.

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

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

Additionally, due to disruptions in the financial markets, it is becoming increasingly difficult to refinance maturing debt obligations as lenders are hesitant to make new loans in the current market environment with so many uncertainties surrounding asset valuations, especially in the office real estate market. As a result, we may need to evaluate selling certain assets into a challenged real estate market, which would likely impact the ultimate sale price. While we have extension options on all debt obligations maturing in 2023, these extensions are subject to certain terms and conditions contained in the loan documents some of which are more stringent than our current loan compliance tests. As a result, in order to qualify for certain loan extensions, we may be required to reduce the loan commitment amount or make paydowns on certain loans, which would reduce our liquidity. Additionally, continued increases in interest rates, reductions in real estate values and future tenant turnover in the portfolio will have a further impact on our ability to meet such tests and may further reduce our available liquidity under our loan agreements.

We may not be able to access financing sources on attractive terms, which could adversely affect our ability to execute our business plan.

We may finance our assets over the long-term through a variety of means, including credit facilities and other structured financings. Our ability to execute this strategy will depend on various conditions in the markets for financing in this manner that are beyond our control, including lack of liquidity and greater credit spreads. We cannot be certain that these markets will remain an efficient source of long-term financing for our assets. If our strategy is not viable, we will have to find alternative forms of long-term financing for our assets, as secured revolving credit facilities may not accommodate long-term financing. This could subject us to more recourse indebtedness and the risk that debt service on less efficient forms of financing would require a larger portion of our cash flow, thereby reducing cash available for distribution to our stockholders and funds available for operations as well as for future business opportunities.

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

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

Increases in interest rates and the discontinuation of LIBOR could increase the amount of our interest and/or hedge payments and/or mitigate the effectiveness of our interest rate hedges.

As of December 31, 2022, our debt obligations consisted of \$123.0 million of fixed rate notes payable and \$1.6 billion of variable rate notes payable. As of December 31, 2022, the interest rates on \$1.0 billion of our variable rate notes payable were effectively fixed through interest rate swap agreements. We expect that we will incur additional indebtedness in the future. Interest we pay reduces our cash available for distributions. Since we have incurred and may continue to incur variable rate debt, increases in interest rates raise our interest costs to the extent such debt is not effectively hedged, which reduces our cash flows and our ability to make distributions to you. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to sell one or more of our properties at times or on terms which may not permit realization of the maximum return on such investments. Increases in interest rates may cause our operations to suffer and the amount of distributions our stockholders receive and their overall return on investment may decline.

Certain of our debt historically has borne interest at an interest rate determined based on a US Dollar London Interbank Offered Rate (“LIBOR”). On March 5, 2021, the United Kingdom’s Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative (i) immediately after December 31, 2021, in the case of the 1-week and 2-month US dollar settings; and (ii) immediately after June 30, 2023, in the case of the remaining US dollar settings. The tenors that were extended to June 30, 2023 are more widely used and are the tenors used in our LIBOR-based debt. We may convert some of our LIBOR-based debt into debt based on the Secured Overnight Financing Rate (“SOFR”), which is the interest rate recommended by the Alternative Reference Rates Committee (“ARRC”), a steering committee comprised of U.S. financial market participants convened by the Federal Reserve Board and the New York Federal Reserve to help ensure a successful transition from LIBOR to a more robust reference rate. SOFR is a broad measure of the cost of borrowing cash in the overnight U.S. treasury repo market and is a rate published by the Federal Reserve Bank of New York. On July 29, 2021, ARRC formally recommended CME Group’s forward-looking Term SOFR as a benchmark rate for use in transition away from LIBOR. Term SOFR is a forward-looking rate based on SOFR futures. We have converted and may in the future convert some of our LIBOR-based debt into debt based on Term SOFR. In order to convert LIBOR debt into SOFR or Term SOFR, based on ARRC recommendations and market practice, we generally are required by our lenders to pay a spread adjustment to LIBOR. This spread adjustment may have an impact of an increase or decrease to our current borrowing costs based on LIBOR. Where we maintain hedge positions, we may be able to offset some of the impact by converting hedge positions.

In addition, differences between LIBOR replacement methodology in our debt instruments and hedges could result in differences in conversion between our debt instruments and corresponding hedges. Mismatches could occur resulting from conversion at different times, into different benchmark replacement rates, or into the same benchmark replacement rates calculated at different times or using different methods of calculation. In addition, in 2021 we entered into certain loans benchmarked to the Bloomberg Short-Term Bank Yield Index (“BSBY”) and, in certain cases, entered into hedges benchmarked to LIBOR. Accordingly, there is a mismatch between the benchmark interest rate under those loans and the floating rate under our hedges. That mismatch is expected to continue assuming the floating rate referenced in those hedges converts in accordance with their terms to replacement benchmark rate (which is expected to be SOFR) under the ISDA conversion methodology.

The transition from LIBOR to an alternative reference rate could result in higher all-in interest costs and could hinder our ability to maintain effective hedges, which could impact our financial performance.

We may be unable to convert all of our debt instruments to SOFR or Term SOFR prior to June 30, 2023. If we are unable to effect such conversions, our lenders may force conversions to a SOFR-based rate under any applicable LIBOR transition legislation or to a SOFR-based rate or another interest rate under the terms of our debt agreements. These forced conversions could result in higher all-in interest costs and could hinder our ability to maintain effective hedges, which could impact our financial performance.

We have broad authority to incur debt and high debt levels could limit the amount of cash we have available to distribute to our stockholders and decrease the value of our stockholders' investment in us.

We expect our debt financing and other liabilities to be between 45% and 65% of the cost of our tangible assets (before deducting depreciation or other non-cash reserves). There is no limitation on the amount we may borrow for the purchase of any single asset. Our charter limits our aggregate borrowings to 300% of our net assets, which approximates aggregate liabilities of 75% of the cost of our tangible assets (before deducting depreciation or other non-cash reserves), meaning that our borrowings and other liabilities may exceed our maximum target leverage of 65% of the cost of our tangible assets without violating the borrowing restrictions in our charter. We may exceed our charter limit only if a majority of the conflicts committee approves each borrowing in excess of our charter 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 December 31, 2022, our borrowings and other liabilities were approximately 58% of the cost (before deducting depreciation and other non-cash reserves) and 60% of the book value (before deducting depreciation) of our tangible assets, respectively. High debt levels would cause us to incur higher interest charges and higher debt service payments and may also be accompanied by restrictive covenants. These factors could limit the amount of cash we have available to distribute to our stockholders and could result in a decline in the value of our stockholders' investment in us.

In certain cases, financings for our properties may be recourse to us or certain of our subsidiaries.

Generally, commercial real estate financings are structured as non-recourse to the borrower, which limits a lender's recourse to the property pledged as collateral for the loan, and not the other assets of the borrower or to any parent of the borrower, in the event of a loan default. However, lenders customarily will require that a creditworthy parent entity enter into so-called "recourse carveout" guarantees to protect the lender against certain bad-faith or other intentional acts of the borrower in violation of the loan documents. A "bad boy" guarantee typically provides that the lender can recover losses from the guarantors for certain bad acts, such as fraud or intentional misrepresentation, intentional waste, willful misconduct, criminal acts, misappropriation of funds, voluntary incurrence of prohibited debt and environmental losses sustained by lender. In addition, "bad boy" guarantees typically provide that the loan will be a full personal recourse obligation of the guarantor, for certain actions, such as prohibited transfers of the collateral or changes of control and voluntary bankruptcy of the borrower. It is expected that the financing arrangements with respect to our investments generally will require "bad boy" guarantees from certain of our subsidiaries that are the parent to the borrower entity. In the event that such a guarantee is called, our assets could be adversely affected.

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

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

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

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

We assume the credit risk of our counterparties with respect to derivative transactions.

We enter into derivative contracts for risk management purposes to hedge our exposure to cash flow variability caused by changing interest rates on our variable rate notes payable. These derivative contracts generally are entered into with bank counterparties and are not traded on an organized exchange or guaranteed by a central clearing organization. We would therefore assume the credit risk that our counterparties will fail to make periodic payments when due under these contracts or become insolvent. If a counterparty fails to make a required payment, becomes the subject of a bankruptcy case, or otherwise defaults under the applicable contract, we would have the right to terminate all outstanding derivative transactions with that counterparty and settle them based on their net market value or replacement cost. In such an event, we may be required to make a termination payment to the counterparty, or we may have the right to collect a termination payment from such counterparty. We assume the credit risk that the counterparty will not be able to make any termination payment owing to us. We may not receive any collateral from a counterparty, or we may receive collateral that is insufficient to satisfy the counterparty's obligation to make a termination payment. If a counterparty is the subject of a bankruptcy case, we will be an unsecured creditor in such case unless the counterparty has pledged sufficient collateral to us to satisfy the counterparty's obligations to us.

We assume the risk that our derivative counterparty may terminate transactions early.

If we fail to make a required payment or otherwise default under the terms of a derivative contract, the counterparty would have the right to terminate all outstanding derivative transactions between us and that counterparty and settle them based on their net market value or replacement cost. In certain circumstances, the counterparty may have the right to terminate derivative transactions early even if we are not defaulting. If our derivative transactions are terminated early, it may not be possible for us to replace those transactions with another counterparty, on as favorable terms or at all.

We may be required to collateralize our derivative transactions.

We may be required to secure our obligations to our counterparties under our derivative contracts by pledging collateral to our counterparties. That collateral may be in the form of cash, securities or other assets. If we default under a derivative contract with a counterparty, or if a counterparty otherwise terminates one or more derivative contracts early, that counterparty may apply such collateral toward our obligation to make a termination payment to the counterparty. If we have pledged securities or other assets, the counterparty may liquidate those assets in order to satisfy our obligations. If we are required to post cash or securities as collateral, such cash or securities will not be available for use in our business. Cash or securities pledged to counterparties may be repledged by counterparties and may not be held in segregated accounts. Therefore, in the event of a counterparty insolvency, we may not be entitled to recover some or all collateral pledged to that counterparty, which could result in losses and have an adverse effect on our operations.

Our investments in derivatives are carried at estimated fair value as determined by us and, as a result, there may be uncertainty as to the value of these instruments.

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

Federal Income Tax Risks

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

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

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

We believe that we have operated and will continue to operate in a manner that will allow us to continue to qualify as a REIT for U.S. federal income tax purposes, commencing with our initial taxable year ended December 31, 2011. However, the U.S. federal income tax laws governing REITs are extremely complex, and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. Accordingly, we cannot be certain that we will be successful in operating so we can remain qualified as a REIT. While we intend to continue to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments we may make, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax on our taxable income. We might need to borrow money or sell assets to pay that tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for certain statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT were excused under federal tax laws, we would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost.

Our stockholders may have current tax liability on distributions they elect to reinvest in our common stock.

If our stockholders participate in our dividend reinvestment plan, they will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. In addition, our stockholders will be treated for tax purposes as having received an additional distribution to the extent the shares are purchased at a discount to fair market value, if any. As a result, unless our stockholders are tax-exempt entities, they may have to use funds from other sources to pay their tax liability on the value of the shares of common stock received.

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

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

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

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

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

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

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

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

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

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

Potential characterization of distributions or gain on sale may be treated as unrelated business taxable income to tax-exempt investors.

If (i) all or a portion of our assets are subject to the rules relating to taxable mortgage pools, (ii) we are a “pension-held REIT,” or (iii) a tax-exempt stockholder has incurred debt to purchase or hold our common stock, then a portion of the distributions to and, in the case of a stockholder described in clause (iii), gains realized on the sale of common stock by such tax-exempt stockholder may be subject to U.S. federal income tax as unrelated business taxable income under the Internal Revenue Code.

The tax on prohibited transactions will limit our ability to engage in transactions that would be treated as sales for U.S. federal income tax purposes.

A REIT’s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets, other than foreclosure property, deemed held primarily for sale to customers in the ordinary course of business. Whether property is held primarily for sale to customers in the ordinary course of a trade or business depends on the specific facts and circumstances. No assurance can be given that any particular property (including loans) in which we hold a direct or indirect interest will not be treated as property held for sale to customers.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 20% of the value of our total assets can be represented by securities of one or more taxable REIT subsidiaries and no more than 25% of the value of our total assets can be represented by “non-qualified publicly offered REIT debt instruments.” If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

Liquidation of assets may jeopardize our REIT qualification.

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

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

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

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

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

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

Our charter authorizes our board of directors to revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. While we believe we have qualified and intend to continue to qualify to be taxed as a REIT, we may terminate our REIT election if we determine that qualifying as a REIT is no longer in our best interests. If we cease to be a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders and on the market price of our common stock.

Generally, ordinary dividends payable by REITs do not qualify for the reduced tax rates.

In general, the maximum tax rate for qualified dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Ordinary dividends payable by REITs, however, are generally not eligible for this reduced rate. While this tax treatment does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts or estates to perceive investments in REITs to be relatively less attractive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock. However, under the Tax Cuts and Jobs Act, Pub. L. No. 115-97, commencing with taxable years beginning on or after January 1, 2018 and continuing through 2025, individual taxpayers may be entitled to claim a deduction in determining their taxable income of 20% of ordinary REIT dividends (dividends other than capital gain dividends and dividends attributable to certain qualified dividend income received by us), which temporarily reduces the effective tax rate on such dividends. The deduction, if allowed in full, equates to a maximum effective U.S. federal income tax rate on ordinary REIT dividends of 29.6%. Without further legislation, this deduction would sunset after 2025. Our stockholders are urged to consult with their tax advisor regarding the effect of this change on their effective tax rate with respect to REIT dividends.

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

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

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

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

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

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

We may distribute our common stock in a taxable distribution, in which case you may sell shares of our common stock to pay tax on such distributions, and you may receive less in cash than the amount of the dividend that is taxable.

We may make taxable distributions that are payable in cash and common stock. Under IRS Revenue Procedure 2017-45, as a publicly offered REIT, we may give stockholders a choice, subject to various limits and requirements, of receiving a dividend in cash or in common stock of the REIT. As long as at least 20% of the total dividend is available in cash and certain other requirements are satisfied, the IRS will treat the stock distribution as a dividend (to the extent applicable rules treat such distribution as being made out of the REIT's earnings and profits). This threshold has been temporarily reduced in the past, and may be reduced in the future, by IRS guidance. Taxable stockholders receiving stock will be required to include in income, as a dividend, the full value of such stock, to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock it receives as a dividend to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock.

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

We may invest in the securities of other REITs and real estate partnerships. Such investments are subject to the risk that any such REIT or partnership may fail to satisfy the requirements to qualify as a REIT or a partnership, as the case may be, in any given taxable year. In the case of a REIT, such failure would subject such entity to taxation as a corporation, may require such REIT to incur indebtedness to pay its tax liabilities, may reduce its ability to make distributions to us, and may render it ineligible to elect REIT status prior to the fifth taxable year following the year in which it fails to so qualify. In the case of a partnership, such failure could subject such partnership to an entity level tax and reduce the entity's ability to make distributions to us. In addition, such failures could, depending on the circumstances, jeopardize our ability to qualify as a REIT because we may then own more than 10% of the securities of an issuer that was neither a REIT, a qualified REIT subsidiary nor a taxable REIT subsidiary.

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

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

Gain recognized by a non-U.S. stockholder upon the sale or exchange of our common stock generally will not be subject to U.S. federal income taxation unless such stock constitutes a USRPI under FIRPTA (subject to specific FIRPTA exemptions for certain non-U.S. stockholders). Our common stock will not constitute a USRPI so long as we are a "domestically-controlled qualified investment entity." A domestically-controlled qualified investment entity includes a REIT if at all times during a specified testing period, less than 50% in value of such REIT's stock is held directly or indirectly by non-U.S. stockholders. No assurance can be given, however, that we are or will be a domestically-controlled REIT.

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

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the price of our common stock.

At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation. Our stockholders are urged to consult with their tax advisor with respect to the impact of the recent legislation on their investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. Although REITs generally receive certain tax advantages compared to entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a corporation. As a result, our charter authorizes our board of directors to revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to qualify as a REIT. The impact of tax reform on an investment in our shares is uncertain. Prospective investors should consult their own tax advisors regarding changes in tax laws.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022, or the IRA. The IRA includes numerous tax provisions that impact corporations, including the implementation of a corporate alternative minimum tax as well as a 1% excise tax on certain stock repurchases and economically similar transactions. However, REITs are excluded from the definition of an “applicable corporation” and therefore are not subject to the corporate alternative minimum tax. Additionally, the 1% excise tax specifically does not apply to stock repurchases by REITs. We will continue to analyze and monitor the application of the IRA to our business; however, the effect of these changes on the value of our assets, shares of our common stock or market conditions generally, is uncertain.

Retirement Plan Risks

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

There are special considerations that apply to employee benefit plans subject to the Employee Retirement Income Security Act (“ERISA”) (such as profit sharing, Section 401(k) or pension plans) and other retirement plans or accounts subject to Section 4975 of the Internal Revenue Code (such as an IRA) or any entity whose assets include such assets (each a “Benefit Plan”) that are investing or have invested in our shares. Fiduciaries, IRA owners and other benefit plan investors investing or that have invested the assets of such a plan or account in our common stock should satisfy themselves that:

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

With respect to the annual valuation requirements described above, we will provide an estimated value per share for our common stock annually to those fiduciaries (including IRA trustees and custodians) who request it. We can make no claim whether such estimated value per share will or will not satisfy the applicable annual valuation requirements under ERISA and the Internal Revenue Code. The Department of Labor or the Internal Revenue Service may determine that a plan fiduciary or a fiduciary acting for an IRA is required to take further steps to determine the value of our common stock. In the absence of an appropriate determination of value, a plan fiduciary or a fiduciary acting for an IRA may be subject to damages, penalties or other sanctions. For information regarding our estimated value per share, see Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Market Information” of this Annual Report on Form 10-K.

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

If our assets are deemed to be plan assets, our advisor and we may be exposed to liabilities under Title I of ERISA and the Internal Revenue Code.

In some circumstances where an ERISA plan holds an interest in an entity, the assets of the entity are deemed to be ERISA plan assets unless an exception applies. This is known as the “look-through rule.” Under those circumstances, the obligations and other responsibilities of plan sponsors, plan fiduciaries and plan administrators, and of parties in interest and disqualified persons, under Title I of ERISA and Section 4975 of the Internal Revenue Code, as applicable, may be applicable, and there may be liability under these and other provisions of ERISA and the Internal Revenue Code. We believe that our assets should not be treated as plan assets because the shares should qualify as “publicly-offered securities” that are exempt from the look-through rules under applicable Treasury Regulations. We note, however, that because certain limitations are imposed upon the transferability of shares so that we may qualify as a REIT, and perhaps for other reasons, it is possible that this exemption may not apply. If that is the case, and if KBS Capital Advisors or we are exposed to liability under ERISA or the Internal Revenue Code, our performance and results of operations could be adversely affected. Stockholders should consult with their legal and other advisors concerning the impact of ERISA and the Internal Revenue Code on their investment and our performance.

We do not intend to provide investment advice to any potential investor for a fee. However, we, our advisor and our respective affiliates receive certain fees and other consideration disclosed herein in connection with an investment. If it were determined we provided a Benefit Plan investor with investment advice for a fee, it could give rise to a determination that we constitute an investment advice fiduciary under ERISA. Such a determination could give rise to claims that our fee arrangements constitute non-exempt prohibited transactions under ERISA or the Internal Revenue Code and/or claims that we have breached a fiduciary duty to a Benefit Plan investor. Adverse determinations with respect to ERISA fiduciary status or non-exempt prohibited transactions could result in significant civil penalties and excise taxes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved staff comments.

ITEM 2. PROPERTIES

As of December 31, 2022, our real estate portfolio was composed of 16 office properties and one mixed-use office/retail property encompassing 7.3 million rentable square feet in the aggregate that were collectively 82% occupied with a weighted-average remaining lease term of 5.6 years. The following table provides summary information regarding the properties owned by us as of December 31, 2022:

Property Location of Property	Date Acquired	Property Type	Rentable Square Feet	Total Real Estate at Cost ⁽¹⁾ (in thousands)	Annualized Base Rent ⁽²⁾ (in thousands)	Average Annualized Base Rent per Square Foot ⁽³⁾	Average Remaining Lease Term in Years	% of Total Assets	Occupancy
Town Center Plano, TX	03/27/2012	Office	522,043	\$ 135,867	\$ 10,110	\$ 27.82	4.4	4.0 %	69.6 %
McEwen Building Franklin, TN	04/30/2012	Office	175,262	38,596	5,072	33.18	5.6	1.2 %	87.2 %
Gateway Tech Center Salt Lake City, UT	05/09/2012	Office	210,938	34,914	5,775	28.96	6.0	1.1 %	94.5 %
60 South Sixth ⁽⁴⁾ Minneapolis, MN	01/31/2013	Office	710,332	172,062	6,066	17.44	7.8	5.4 %	49.0 %
Preston Commons Dallas, TX	06/19/2013	Office	427,799	142,988	11,047	27.66	4.3	4.7 %	93.3 %
Sterling Plaza Dallas, TX	06/19/2013	Office	313,609	91,751	7,791	27.93	3.7	2.9 %	88.9 %
201 Spear Street San Francisco, CA	12/03/2013	Office	254,598	153,384	16,030	73.99	3.7	5.2 %	85.1 %
Accenture Tower Chicago, IL	12/16/2013	Office	1,457,724	547,850	35,544	27.99	7.8	18.0 %	87.1 %
Ten Almaden San Jose, CA	12/05/2014	Office	309,255	129,483	12,931	52.08	2.4	4.1 %	80.3 %
Towers at Emeryville Emeryville, CA	12/23/2014	Office	593,484	221,712	22,546	52.68	3.0	7.3 %	72.1 %
3003 Washington Boulevard Arlington, VA	12/30/2014	Office	211,054	154,855	11,641	55.70	9.2	5.0 %	99.0 %
Park Place Village Leawood, KS	06/18/2015	Office/Retail	484,980	83,181	13,557	30.19	6.4	3.2 %	92.6 %
201 17th Street Atlanta, GA	06/23/2015	Office	355,870	102,560	9,920	31.23	7.2	3.2 %	89.3 %
515 Congress Austin, TX	08/31/2015	Office	267,956	134,216	9,472	37.45	4.0	4.6 %	94.4 %
The Almaden San Jose, CA	09/23/2015	Office	416,126	194,934	19,428	52.00	4.1	6.7 %	89.8 %
3001 Washington Boulevard Arlington, VA	11/06/2015	Office	94,836	60,947	5,189	54.72	6.7	2.1 %	100.0 %
Carillon Charlotte, NC	01/15/2016	Office	488,277	169,052	11,090	29.98	3.6	5.8 %	75.8 %
			<u>7,294,143</u>	<u>\$ 2,568,352</u>	<u>\$ 213,209</u>	<u>\$ 35.70</u>	<u>5.6</u>		<u>81.9 %</u>

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

⁽²⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2022, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

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

⁽⁴⁾ This property was formerly known as RBC Plaza and was re-named 60 South Sixth in connection with the re-branding strategy for this property.

Portfolio Lease Expirations

The following table sets forth a schedule of expiring leases for our real estate portfolio by square footage and by annualized base rent as of December 31, 2022:

Year of Expiration	Number of Leases Expiring	Annualized Base Rent Expiring ⁽¹⁾ (in thousands)	% of Portfolio Annualized Base Rent Expiring	Leased Square Feet Expiring	% of Portfolio Leased Square Feet Expiring
Month to Month	33	\$ 5,620	2.6 %	251,205	4.2 %
2023	91	28,330	13.3 %	742,111	12.4 %
2024	93	22,824	10.7 %	668,538	11.2 %
2025	85	20,407	9.6 %	551,430	9.2 %
2026	61	22,369	10.5 %	610,312	10.2 %
2027	88	24,048	11.3 %	739,036	12.4 %
2028	50	14,115	6.6 %	391,258	6.6 %
2029	23	15,642	7.3 %	371,225	6.2 %
2030	21	20,361	9.6 %	511,054	8.6 %
2031	9	2,909	1.4 %	97,162	1.6 %
2032	18	12,185	5.7 %	340,267	5.7 %
Thereafter	11	24,399	11.4 %	697,904	11.7 %
Total	583	\$ 213,209	100.0 %	5,971,502	100.0 %

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2022, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease’s inception through the balance of the lease term.

As of December 31, 2022, our portfolio’s highest tenant industry concentrations (greater than 10% of annualized base rent) were as follows:

Industry	Number of Tenants	Annualized Base Rent ⁽¹⁾ (in thousands)	Percentage of Annualized Base Rent
Finance	114	\$ 39,354	18.5 %
Real Estate	54	21,822	10.2 %
		\$ 61,176	28.7 %

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2022, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease’s inception through the balance of the lease term.

As of December 31, 2022, no other tenant industries accounted for more than 10% of annualized base rent and no tenant accounted for more than 10% of the annualized base rent.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Stockholder Information

As of March 8, 2023, we had 148.6 million shares of common stock outstanding held by a total of approximately 30,101 stockholders. The number of stockholders is based on the records of DST Systems, Inc., which serves as our transfer agent.

Market Information

There is no public trading market for the shares of our common stock and we do not anticipate that there will be a public trading market for our shares. We currently have no plans to list our shares on a national securities exchange. Until our shares are listed, if ever, our stockholders may not sell their shares unless the buyer meets the applicable suitability and minimum purchase requirements. Any sale must comply with applicable state and federal securities laws. In addition, our charter prohibits the ownership of more than 9.8% of our stock by a single person, unless exempted by our board of directors. Consequently, there is the risk that our stockholders may not be able to sell their shares at a time or price acceptable to them.

We provide an estimated value per share to assist broker-dealers that participated in our now-terminated initial public offering in meeting their customer account statement reporting obligations under FINRA Rule 2231. This valuation was performed in accordance with the provisions of and also to comply with the IPA Valuation Guidelines. For this purpose, we estimated the value of the shares of our common stock as \$9.00 per share as of December 31, 2022. This estimated value per share is based on our board of directors' approval on September 28, 2022 of an estimated value per share of our common stock of \$9.00 based on (i) appraisals of our 17 real estate properties as of July 31, 2022 (the "Appraised Properties"), the estimated value of our investment in units of the SREIT (SGX-ST Ticker: OXMU) as of September 20, 2022 and the estimated value of our other assets as of June 30, 2022 less (ii) the estimated value of our liabilities as of June 30, 2022, all divided by the number of shares outstanding as of June 30, 2022. From the date of the valuations above through September 28, 2022, there were no material changes to the net values of our assets and liabilities that impacted the overall estimated value per share.

The conflicts committee, composed solely of all of our independent directors, is responsible for the oversight of the valuation process used to determine the estimated value per share of our common stock, including the review and approval of the valuation and appraisal processes and methodologies used to determine our estimated value per share, the consistency of the valuation and appraisal methodologies with real estate industry standards and practices and the reasonableness of the assumptions used in the valuations and appraisals. With the approval of the conflicts committee, we engaged Kroll, LLC (formerly Duff & Phelps, LLC) ("Kroll"), an independent third party real estate valuation firm, to provide (i) appraisals of the Appraised Properties, (ii) an estimated value for our investment in units of the SREIT (described below) and (iii) a calculation of the range in estimated value per share of our common stock as of September 28, 2022. Kroll based this range in estimated value per share upon (i) its appraisals of the Appraised Properties, (ii) its estimated value for our investment in units of the SREIT and (iii) valuations performed by our advisor of our cash, other assets, notes payable and other liabilities, which are disclosed in our Quarterly Report on Form 10-Q for the period ended June 30, 2022. The appraisal reports Kroll prepared summarized the key inputs and assumptions involved in the appraisal of each of the Appraised Properties. The methodologies and assumptions used to determine the estimated value of our assets and the estimated value of our liabilities are described further below.

The conflicts committee reviewed Kroll's valuation report, which included an appraised value for each of the Appraised Properties, an estimated value of our investment in units of the SREIT and a summary of the estimated value of each of our other assets and our liabilities as determined by our advisor and reviewed by Kroll. In light of the valuation report and other factors considered by the conflicts committee and the conflicts committee's own extensive knowledge of our assets and liabilities, the conflicts committee: (i) concluded that the range in estimated value per share of \$8.15 to \$9.89, with an approximate mid-range value of \$9.00 per share, as determined by Kroll and recommended by our advisor, which approximate mid-range value was based on Kroll's appraisals of the Appraised Properties, Kroll's valuation of our investment in units of the SREIT and valuations performed by our advisor of our cash, other assets, notes payable and other liabilities, was reasonable and (ii) recommended to our board of directors that it adopt \$9.00 as the estimated value per share of our common stock, which estimated value per share is based on those factors discussed in (i) above. Our board of directors unanimously agreed to accept the recommendation of the conflicts committee and approved \$9.00 as the estimated value per share of our common stock, which determination is ultimately and solely the responsibility of the board of directors.

The table below sets forth the calculation of our estimated value per share as of September 28, 2022 as well as the calculation of our prior estimated value per share as of November 1, 2021. Kroll was not responsible for the determination of the estimated value per share as of September 28, 2022 or November 1, 2021, respectively.

	September 28, 2022 Estimated Value per Share	November 1, 2021 Estimated Value per Share ⁽¹⁾	Change in Estimated Value per Share
Real estate properties ⁽²⁾	\$ 18.94	\$ 19.74	\$ (0.80)
Investment in SREIT units ⁽³⁾	0.79	1.45	(0.66)
Cash, restricted cash and cash equivalents	0.26	0.25	0.01
Other assets	0.24	0.10	0.14
Notes payable ⁽⁴⁾	(10.80)	(10.17)	(0.63)
Other liabilities	(0.43)	(0.59)	0.16
Estimated value per share	\$ 9.00	\$ 10.78	\$ (1.78)
Estimated enterprise value premium	None assumed	None assumed	None assumed
Total estimated value per share	\$ 9.00	\$ 10.78	\$ (1.78)

⁽¹⁾ The November 1, 2021 estimated value per share was based upon a calculation of the range in estimated value per share of our common stock as of November 1, 2021 by Kroll and the recommendation of our advisor. Kroll based this range in estimated value per share upon (i) its appraisals of 17 of our consolidated real estate properties owned as of September 30, 2021, (ii) the contractual sales price less estimated disposition costs and fees of one property that was under contract to sell as of November 1, 2021, (iii) its estimated value for our investment in units of the SREIT and (iv) valuations performed by our advisor of our cash, other assets, notes payable and other liabilities. For more information relating to the November 1, 2021 estimated value per share and the assumptions and methodologies used by Kroll and our advisor, see Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2021, filed with the SEC on March 31, 2022.

⁽²⁾ The estimated value of our 17 real estate properties as of July 31, 2022 was \$2.8 billion. The decrease in the estimated value of real estate properties per share was primarily due to the disposition of an office property and an overall decrease in the value of the Appraised Properties.

⁽³⁾ The decrease in estimated value of our investment in SREIT units per share is due to our sale of 73,720,000 units on November 9, 2021 as well as a decrease in the closing price of the units of the SREIT on the Singapore Exchange Securities Trading Limited (“SGX-ST”) as of September 20, 2022.

⁽⁴⁾ The increase in the estimated value of notes payable per share is primarily due to an overall decrease in our outstanding shares of common stock as a result of shares redeemed since September 30, 2021 pursuant to our share redemption program.

The decrease in our estimated value per share from the previous estimate was primarily due to the items noted in the table below, which reflect the significant contributors to the decrease in the estimated value per share from \$10.78 to \$9.00. The changes are not equal to the change in values of each asset and liability group presented in the table above due to changes in the amount of shares outstanding, the disposition of an office property on November 2, 2021, the sale of 73,720,000 units of the SREIT on November 9, 2021, debt financings and other factors, which caused the value of certain asset or liability groups to change with no impact to our fair value of equity or the overall estimated value per share.

	Change in Estimated Value per Share
November 1, 2021 estimated value per share	\$ 10.78
<i>Changes to estimated value per share</i>	
Investments	
Real estate	(1.19)
Investment in SREIT units	(0.35)
Capital expenditures on real estate	(0.61)
Total change related to investments	(2.15)
Distributions declared in excess of modified operating cash flows ⁽¹⁾	(0.02)
Notes payable	0.07
Interest rate swap liability	0.31
Other changes, net	0.01
Total change in estimated value per share	\$ (1.78)
September 28, 2022 estimated value per share	\$ 9.00

⁽¹⁾ Modified operating cash flow reflects modified funds from operations (“MFFO”) adjusted to deduct capitalized interest expense, capitalized real estate taxes and insurance and add back the amortization of deferred financing costs. We compute MFFO in accordance with the definition included in the practice guideline issued by the IPA in November 2010.

As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties using different assumptions and estimates could derive a different estimated value per share of our common stock, and this difference could be significant. The estimated value per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to U.S. generally accepted accounting principles (“GAAP”), nor does it represent a liquidation value of our assets and liabilities or the price at which our shares of common stock would trade on a national securities exchange. The estimated value per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated value per share also does not take into account estimated disposition costs and fees for real estate properties that were not under contract to sell as of September 28, 2022, debt prepayment penalties that could apply upon the prepayment of certain of our debt obligations, the impact of restrictions on the assumption of debt or swap breakage fees that may be incurred upon the termination of certain of our swaps prior to expiration. We have generally incurred disposition costs and fees related to the sale of each real estate property since inception of 0.8% to 2.9% of the gross sales price less concessions and credits, with the weighted average being approximately 1.5%. The estimated value per share also does not take into consideration acquisition-related costs and financing costs related to any future acquisitions subsequent to September 28, 2022. See “—Limitations of the Estimated Value per Share” below.

As of September 28, 2022, we had no potentially dilutive securities outstanding that would impact the estimated value per share of our common stock.

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

Methodology

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

Independent Valuation Firm

Kroll⁽¹⁾ was selected by our advisor and approved by our conflicts committee and board of directors to appraise each of the Appraised Properties, to provide an estimated value of our investment in units of the SREIT and to provide a calculation of the range in estimated value per share of our common stock as of September 28, 2022. Kroll is engaged in the business of appraising commercial real estate properties and is not affiliated with us or our advisor. The compensation we paid to Kroll was based on the scope of work and not on the appraised values of the Appraised Properties or the estimated value of our investment in units of the SREIT.

Real Estate

Appraisals

Kroll performed the appraisals in accordance with the Code of Ethics and the Uniform Standards of Professional Appraisal Practice, or USPAP, and the real estate appraisal industry standards created by The Appraisal Foundation, as well as the requirements of the state where each real property is located. Each appraisal was reviewed, approved and signed by an individual with the professional designation of MAI (Member of the Appraisal Institute). The use of the reports is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

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

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

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

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

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

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

Real Estate Valuation

As of July 31, 2022, we owned 17 real estate properties (consisting of 16 office properties and one mixed-use office/retail property, which together are the Appraised Properties). Kroll appraised each of the Appraised Properties as of July 31, 2022 using various methodologies including the direct capitalization approach, discounted cash flow analyses and sales comparison approach and relied primarily on a discounted cash flow analyses for the final appraisal of each of the Appraised Properties. Kroll calculated the discounted cash flow value of each of the Appraised Properties using property-level cash flow estimates, terminal capitalization rates and discount rates that fall within ranges it believes would be used by similar investors to value the Appraised Properties, based on recent comparable market transactions adjusted for unique properties and market-specific factors.

The Appraised Properties were acquired for a total purchase price of \$2.1 billion, including \$30.4 million of acquisition fees and acquisition expenses, and as of July 31, 2022, we had invested \$679.9 million in capital expenses and tenant improvements in these properties. Based on the appraisal methodologies described above, the total appraised value of the Appraised Properties as of July 31, 2022 was \$2.8 billion which, when compared to the total purchase price plus subsequent capital improvements through July 31, 2022 of \$2.8 billion, results in an overall decrease in the estimated value of these properties of approximately 1.3%.

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

	Range in Values	Weighted-Average Basis
Terminal capitalization rate	6.25% to 8.75%	6.68%
Discount rate	7.00% to 9.50%	7.64%
Net operating income compounded annual growth rate ⁽¹⁾	(0.86)% to 31.60%	6.94%

⁽¹⁾ The net operating income compounded annual growth rates (the “CAGRs”) reflect both the contractual and market rents and reimbursements (in cases where the contractual lease period is less than the valuation period of the property) net of expenses over the valuation period for each of the properties. The range of CAGRs shown is the constant annual rate at which the net operating income is projected to grow to reach the net operating income in the final year of the hold period for each of the properties and can be significantly impacted by current occupancy at the properties. For appraised properties over 90% occupied, the CAGR range is (0.86)% to 5.10% with a weighted average CAGR of 2.83%.

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

	Increase (Decrease) on the Estimated Value per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Terminal capitalization rate	\$ 0.49	\$ (0.48)	\$ 0.63	\$ (0.61)
Discount rate	0.37	(0.39)	0.56	(0.57)

Finally, a 1% increase in the appraised value of the Appraised Properties would result in a \$0.19 increase in our estimated value per share and a 1% decrease in the appraised value of the Appraised Properties would result in a decrease of \$0.18 to our estimated value per share, assuming all other factors remain unchanged.

Investment in the SREIT

As of June 30, 2022, we owned 215,841,899 units of the SREIT (SGX-ST Ticker: OXMU), a Singapore real estate investment trust listed on the SGX-ST, which represented 18.4% of the outstanding units of the SREIT at that time.

We engaged Kroll to value our investment in units of the SREIT as of September 20, 2022 based on the SGX-ST trading price of the units of the SREIT as of closing on September 20, 2022 less a discount to account for holding period risk due to the quantity of units held by us relative to the normal level of trading volume in the SREIT units (“blockage”). Kroll estimated the percentage discount for the holding period risk applicable to our holdings as the quotient of the value of a hypothetical series of at-the-money put options relative to the freely traded market value of our holdings (i.e., the average of the high and low trading prices of the units times the number of units held by us), where each such put option corresponds to one of the expected future sales of such units in the public market over a period of time in which we could reasonably sell such units if desired, given the constraints imposed by blockage. Ultimately, the discount for the holding period risk may be attributable to blockage, which constrains the rate at which the holder can sell the subject units into a public market without upsetting the market’s equilibrium. Kroll’s analysis of the discount for the holding period risk applicable to our holdings had three elements: (i) analysis of trading volume in the SREIT’s units and the shares of other listed REITs in order to estimate the quantity of units that might be saleable by us in the public market; (ii) an estimate of the expected future price volatility of the SREIT’s units, which is the key variable in the valuation of the hypothetical series of put options; and (iii) application of the Black-Scholes model in the valuation of the series of put options. Based on its analysis, the estimated value of the units of the SREIT held by us as of September 20, 2022 was \$116.5 million. The 215,841,899 units of the SREIT owned by us as of September 20, 2022 were acquired at an aggregate purchase price of \$189.9 million.

While we believe that Kroll’s assumptions and inputs are reasonable, a change in these assumptions and inputs would significantly impact the estimated value of the units of the SREIT held by us and thus, our estimated value per share. The table below illustrates the impact on our estimated value per share if the volatility rate Kroll used to value these units was adjusted by 5% in accordance with the IPA Valuation Guidelines, assuming all other factors remain unchanged:

	Increase (Decrease) on the Estimated Value per Share due to			
	Decrease of 5%		Increase of 5%	
Volatility rate	\$	0.01	\$	(0.01)

Notes Payable

The estimated values of our notes payable are equal to the GAAP fair values disclosed in our Quarterly Report on Form 10-Q for the period ended June 30, 2022, but do not equal the book value of the loans in accordance with GAAP. Our advisor estimated the values of our notes payable using a discounted cash flow analysis. The discounted cash flow analysis was based on projected cash flow over the remaining loan terms, including extensions we expect to exercise, and 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.

As of June 30, 2022, the GAAP fair value and the carrying value of our notes payable were \$1.6 billion and \$1.6 billion, respectively. The weighted-average discount rate applied to the future estimated debt payments was approximately 5.4%. Our notes payable had a weighted-average remaining term of 1.3 years as of June 30, 2022.

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

	Increase (Decrease) on the Estimated Value per Share due to			
	Decrease of 25 basis points	Increase of 25 basis points	Decrease of 5%	Increase of 5%
Discount rate	\$ (0.03)	\$ 0.04	\$ (0.03)	\$ 0.04

Other Assets and Liabilities

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

Limitations of the Estimated Value per Share

As mentioned above, we provided this estimated value per share to assist broker-dealers that participated in our now-terminated initial public offering in meeting their customer account statement reporting obligations. The estimated value per share set forth above first appeared on the September 30, 2022 customer account statements that were mailed in October 2022. This valuation was performed in accordance with the provisions of and also to comply with the IPA Valuation Guidelines. As with any valuation methodology, the methodologies used are based upon a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated value per share of our common stock, and this difference could be significant. The estimated value per share is not audited and does not represent the fair value of our assets less the fair value of our liabilities according to GAAP.

Accordingly, with respect to the estimated value per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at our estimated value per share;
- a stockholder would ultimately realize distributions per share equal to our estimated value per share upon liquidation of our assets and settlement of our liabilities or a sale of our company;
- our shares of common stock would trade at the estimated value per share on a national securities exchange;
- another independent third-party appraiser or third-party valuation firm would agree with our estimated value per share; or
- the methodology used to determine our estimated value per share would be acceptable to FINRA or for compliance with ERISA reporting requirements.

Further, the estimated value per share is based on (i) appraisals of the Appraised Properties as of July 31, 2022, the estimated value of our investment in units of the SREIT (SGX-ST Ticker: OXMU) as of September 20, 2022 and the estimated value of our other assets as of June 30, 2022 less (ii) the estimated value of our liabilities as of June 30, 2022, all divided by the number of shares outstanding as of June 30, 2022. From the date of the valuations above through the date of this filing, there have been no material changes to the net values of our assets and liabilities that impacted the overall estimated value per share, and we did not make any other adjustments to the estimated value per share from the date of the valuations above, including any adjustments relating to the following, among others: (i) the issuance of common stock and the payment of related offering costs related to our dividend reinvestment plan offering; (ii) net operating income earned and distributions declared; and (iii) the redemption of shares. The value of our shares will fluctuate over time in response to developments related to future investments, the performance of individual assets in our portfolio and the management of those assets, the real estate and finance markets and due to other factors. Continued economic uncertainty and disruptions in the financial markets, including the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue) as well as potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, could materially and negatively impact the future demand for office space, resulting in slower overall leasing and an adverse impact to our operations and the valuations of our investments. Moreover, valuations for U.S. office properties continue to fluctuate due to weakness in the current real estate capital markets as a result of the factors above and the lack of transaction volume for U.S. office properties, increasing the uncertainty of valuations in the current market environment.

Our estimated value per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. Our estimated value per share does not take into account estimated disposition costs and fees for real estate properties that were not under contract to sell as of September 28, 2022, debt prepayment penalties that could apply upon the prepayment of certain of our debt obligations, the impact of restrictions on the assumption of debt or swap breakage fees that may be incurred upon the termination of certain of our swaps prior to expiration. We have generally incurred disposition costs and fees related to the sale of each real estate property since inception of 0.8% to 2.9% of the gross sales price less concessions and credits, with the weighted average being approximately 1.5%. The estimated value per share does not take into consideration acquisition-related costs and financing costs related to any future acquisitions subsequent to September 28, 2022. We currently expect to utilize an independent valuation firm to update our estimated value per share no later than December 2023.

Historical Estimated Values per Share

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

Estimated Value per Share	Effective Date of Valuation	Filing with the Securities and Exchange Commission
\$10.78	November 1, 2021	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2021, filed March 31, 2022
\$10.77	May 13, 2021	Current Report on Form 8-K, filed with the SEC on May 14, 2021
\$10.74	December 7, 2020	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2020, filed March 12, 2021
\$11.65 ⁽¹⁾	December 4, 2019	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2019, filed March 6, 2020
\$12.02	December 3, 2018	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2018, filed March 14, 2019
\$11.73	December 6, 2017	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2017, filed March 8, 2018
\$10.63	December 9, 2016	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2016, filed March 13, 2017
\$10.04	December 8, 2015	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2015, filed March 14, 2016
\$9.42 ⁽²⁾	December 9, 2014	Part II, Item 5 of our Annual Report on Form 10-K for the Year Ended December 31, 2014, filed March 9, 2015
\$9.29 ⁽²⁾	May 5, 2014	Supplement no. 3 to our prospectus dated April 25, 2014 (Registration No. 333-164703), filed May 6, 2014

⁽¹⁾ Excluding the special dividend, our estimated value per share of common stock would have been \$12.45.

⁽²⁾ Determined solely to be used as a component in calculating the offering prices in our now-terminated primary initial public offering.

Distribution Information

We have paid, and expect to continue to pay, distributions on a monthly basis. The rate is determined by our board of directors based on our financial condition and other factors our board of directors deems relevant. Our board of directors has not pre-established a percentage range of return for distributions to stockholders. We have not established a minimum distribution level, and our charter does not require that we pay distributions to our stockholders.

Generally, our policy is to pay distributions from current or prior period cash flow from operations (except with respect to distributions related to sales of our assets and distributions related to the sales or repayment of real estate-related investments). From time to time during our operational stage, we may not pay distributions solely from our current or prior period cash flow from operations. Further, because we may receive income from interest or rents at various times during our fiscal year and because we may need cash flow from operations during a particular period to fund capital expenditures and other expenses, we expect that, from time to time, we will declare distributions in anticipation of cash flow that we expect to receive during a later period and we will pay these distributions in advance of our actual receipt of these funds. In these instances, we have funded our distributions with debt financings and we may utilize debt financing in the future, if necessary, to fund at least a portion of our distributions. As discussed above, we may also fund distributions with proceeds from the sale of assets or from the sales or repayment of real estate-related investments. Our organizational documents permit us to pay distributions from any source, including offering proceeds or borrowings (which may constitute a return of capital), and our charter does not limit the amount of funds we may use from any source to pay such distributions. Our distribution policy is not to use the proceeds from an offering to pay distributions. If we pay distributions from sources other than our cash flow from operations, the overall return to our stockholders may be reduced.

Our operating performance cannot be accurately predicted and may deteriorate in the future due to numerous factors, including those discussed under “Forward-Looking Statements,” “Summary Risk Factors”, Part I, Item 1A, “Risk Factors” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Those factors include: the future operating performance of our real estate investments in the existing real estate and financial environment; the success and economic viability of our tenants; our ability to refinance existing indebtedness at comparable terms; changes in interest rates on any variable rate debt obligations we incur; the level of participation in our dividend reinvestment plan; and continued disruptions in the financial markets, including the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue) as well as potential changes in the demand for office properties resulting from the COVID-19 pandemic and uncertain economic conditions. In the event our FFO and/or cash flow from operating activities decrease in the future, the level of our distributions may also decrease. In addition, future distributions declared and paid may exceed FFO and/or cash flow from operating activities.

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

During 2022 and 2021, we declared distributions based on a monthly record date for each month during the period commencing January 2021 through December 2022. We paid distributions for all record dates of a given month on or about the first business day of the following month; however, we accelerated the payment of the June 2021 distributions due to the timing of a self-tender offer. Distributions declared during 2022 and 2021, aggregated by quarter, are as follows (dollars in thousands, except per share amounts):

	2022				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total Distributions Declared	\$ 22,795	\$ 22,336	\$ 22,017	\$ 22,087	\$ 89,235
Total Per Share Distribution ⁽¹⁾⁽²⁾	\$ 0.149	\$ 0.149	\$ 0.150	\$ 0.150	\$ 0.598
	2021				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total Distributions Declared	\$ 27,640	\$ 27,755	\$ 23,863	\$ 23,361	\$ 102,619
Total Per Share Distribution ⁽¹⁾⁽²⁾	\$ 0.149	\$ 0.149	\$ 0.150	\$ 0.150	\$ 0.598

⁽¹⁾ Distributions declared per common share assumes each share was issued and outstanding each day that was a monthly record date for distributions during the period presented.

⁽²⁾ For each monthly record date for distributions during the period from January 1, 2021 through December 31, 2022, distributions were calculated at a rate of \$0.04983333 per share.

The tax composition of our distributions declared for the years ended December 31, 2022 and 2021 was as follows:

	2022	2021
Ordinary Income	3 %	20 %
Capital Gain	— %	77 %
Return of Capital	97 %	3 %
Total	100 %	100 %

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

2023 Distributions

Our board of directors has declared the following distributions for the period from January 2023 through April 2023:

Period	Record Date	Distributions Declared Per Share ⁽¹⁾
January 2023	January 20, 2023	\$0.03833333
February 2023	February 20, 2023	\$0.03833333
March 2023	March 20, 2023	\$0.03833333
April 2023	April 20, 2023	\$0.03833333

⁽¹⁾ Distributions are generally paid on a monthly basis. Distributions for the monthly record date of a given month are generally paid on or about the first business day of the following month.

In January 2023, we reduced the distribution rate from that of prior periods due to the continued impact of the economic slowdown on our cash flows, which is primarily the result of rising interest rates and tenant lease expirations as discussed herein. See Part I, Item 1A, “Risk Factors” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Stockholders may choose to receive cash distributions or purchase additional shares through our dividend reinvestment plan.

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

During the year ended December 31, 2022, we did not sell any equity securities that were not registered under the Securities Act of 1933.

Amended and Restated Share Redemption Program

We have a share redemption program that may enable stockholders to sell their shares to us in limited circumstances. The restrictions of our share redemption program will limit our stockholders’ ability to sell their shares should they require liquidity and will limit our stockholders’ ability to recover an amount equal to our estimated value per share. Further, on January 17, 2023, our board of directors determined to suspend Ordinary Redemptions (defined below) under our share redemption program to preserve capital in the current market environment. We will continue to evaluate the markets and our overall liquidity profile as we determine when to potentially remove the suspension on Ordinary Redemptions, though we can give no assurance in this regard. During the suspension of Ordinary Redemptions, all Ordinary Redemption requests that have been received were canceled, and no Ordinary Redemption requests will be accepted or collected. However, any redemptions sought in connection with and meeting the requirements for Special Redemptions (defined below) will still be eligible for redemption and will continue to be processed in accordance with the current share redemption program.

The following is a description of our share redemption program from January 1, 2022 through March 30, 2022 and the amendments to the program made by (i) the March 2022 amended and restated share redemption program (the “March 2022 Amended Share Redemption Program”), which became effective for the March 31, 2022 redemption date, and (ii) the April 2022 amended and restated share redemption program (the “April 2022 Amended Share Redemption Program”), which became effective for the April 29, 2022 redemption date.

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

- Unless the shares are being redeemed in connection with a stockholder’s death, “Qualifying Disability” or “Determination of Incompetence” (each as defined in the share redemption program, and together with redemptions sought in connection with a stockholder’s death, “Special Redemptions;” all redemptions that do not meet the requirements for a Special Redemption are “Ordinary Redemptions”), we may not redeem shares unless the stockholder has held the shares for one year.
- Except as provided otherwise for calendar year 2022 only, during any calendar year, we may redeem only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year, provided that once we have received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being \$10.0 million or less, the last \$10.0 million of available funds shall be reserved exclusively for Special Redemptions. Notwithstanding anything contained in our share redemption program to the contrary, we may increase or decrease the funding available for the redemption of shares pursuant to the program upon ten business days’ notice to our stockholders.
- For calendar year 2022 only,
 - Prior to effectiveness of the March 2022 Amended Share Redemption Program, we could redeem only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year, provided that once we had received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being \$10.0 million or less, the last \$10.0 million of available funds was reserved exclusively for Special Redemptions.
 - Upon effectiveness of the March 2022 Amended Share Redemption Program and prior to effectiveness of the April 2022 Amended Share Redemption Program, we could redeem only the number of shares that we could purchase with the amount of net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year, provided that once we had received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being \$2.0 million or less, the last \$2.0 million of available funds was reserved exclusively for redemptions sought in connection with Special Redemptions.
 - Upon effectiveness of the April 2022 Amended Share Redemption Program, for calendar year 2022, we could redeem up to 5% of the weighted-average number of shares outstanding during the 2021 calendar year, provided that once we had received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the 2022 calendar year, would result in the number of remaining shares available for redemption in the 2022 calendar year being 500,000 or less, the last 500,000 shares available for redemption were reserved exclusively for redemptions sought in connection with a Special Redemption.
- During any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- We have no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland General Corporation Law, as amended from time to time, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

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

For a stockholder's shares to be eligible for redemption in a given month, the administrator must receive a written redemption request from the stockholder or from an authorized representative of the stockholder setting forth the number of shares requested to be redeemed at least five business days before the redemption date. We redeem shares on the last business day of each month, except that the first redemption date following our establishment of an estimated value per share shall be no less than ten business days after our announcement of such estimated value per share in a filing with the SEC and the redemption date shall be set forth in such filing. If we cannot redeem all shares presented for redemption in any month because of the limitations on redemptions set forth in our share redemption program, then we will honor redemption requests on a pro rata basis, except that if a pro rata redemption would result in a stockholder owning less than the minimum purchase requirement described in our currently effective, or the most recently effective, registration statement, as such registration statement has been amended or supplemented, then we would redeem all of such stockholder's shares.

Except for unsatisfied Ordinary Redemption requests for calendar year 2022 and except during the current suspension of Ordinary Redemptions under the share redemption program, if we do not completely satisfy a redemption request on a redemption date because the program administrator did not receive the request in time, because of the limitations on redemptions set forth in our share redemption program or because of a suspension of our share redemption program, then we will treat the unsatisfied portion of the redemption request as a request for redemption at the next redemption date funds are available for redemption, unless the redemption request is withdrawn. Any stockholder can withdraw a redemption request by sending written notice to the program administrator, provided such notice is received at least five business days before the redemption date.

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

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

Ordinary Redemptions are made at a price per share equal to 96% of our most recent estimated value per share as of the applicable redemption date.

On November 1, 2021, our board of directors approved an estimated value per share of our common stock of \$10.78 (unaudited) based on the estimated value of our assets less the estimated value of our liabilities divided by the number of shares outstanding, all as of September 30, 2021, with the exception of adjustments to our net asset value to give effect to (i) the change in the estimated value of our investment in units of the SREIT (SGX-ST Ticker: OXMU) as of October 22, 2021 and (ii) the contractual sales price less estimated disposition costs and fees of one property that was under contract to sell as of November 1, 2021. Effective for the November 2021 redemption date, which was November 30, 2021, and through September 28, 2022, the redemption price for all shares eligible for redemption was calculated based on the November 1, 2021 estimated value per share.

On September 28, 2022, our board of directors approved an estimated value per share of our common stock of \$9.00 (unaudited) based on (i) appraisals of our 17 real estate properties as of July 31, 2022, the estimated value of our investment in units of the SREIT (SGX-ST Ticker: OXMU) as of September 20, 2022 and the estimated value of our other assets as of June 30, 2022 less (ii) the estimated value of our liabilities as of June 30, 2022, all divided by the number of shares outstanding as of June 30, 2022. Effective for the October 2022 redemption date, which was October 31, 2022, and until the estimated value per share is updated, the redemption price for all shares eligible for redemption will be calculated based on the September 28, 2022 estimated value per share.

We currently expect to utilize an independent valuation firm to update our estimated value per share no later than December 2023. We will report the estimated value per share of our common stock in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC. We will also provide information about our estimated value per share on our website, www.kbsreitiii.com (such information may be provided by means of a link to our public filings on the SEC's website, www.sec.gov).

Our board of directors may amend, suspend or terminate our share redemption program upon ten business days' notice to stockholders, and consistent with SEC guidance and interpretations, we may increase or decrease the funding available for the redemption of shares pursuant to our share redemption program upon ten business days' notice. We may provide notice by including such information (a) in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC or (b) in a separate mailing to our stockholders. The complete share redemption program document is filed as an exhibit to our Current Report on Form 8-K filed with the SEC on April 14, 2022 and is available at the SEC's website, www.sec.gov.

During the year ended December 31, 2022, we funded redemptions under our share redemption program with the net proceeds from our dividend reinvestment plan and from debt financing. We redeemed shares pursuant to our share redemption program as follows:

Month	Total Number of Shares Redeemed ⁽¹⁾	Average Price Paid Per Share ⁽²⁾	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2022	1,153,542	\$ 10.37	(3)
February 2022	1,250,047	\$ 10.39	(3)
March 2022	1,417,714	\$ 10.38	(3)
April 2022	1,147,723	\$ 10.37	(3)
May 2022	1,108,578	\$ 10.39	(3)
June 2022	1,303,979	\$ 10.38	(3)
July 2022	806,789	\$ 10.44	(3)
August 2022	137,462	\$ 10.78	(3)
September 2022	—	\$ —	(3)
October 2022	197,449	\$ 9.00	(3)
November 2022	93,257	\$ 9.00	(3)
December 2022	—	\$ —	(3)
Total	8,616,540		

⁽¹⁾ We announced the adoption and commencement of the program on October 14, 2010. We announced amendments to the program on March 8, 2013 (which amendment became effective on April 7, 2013), on March 7, 2014 (which amendment became effective on April 6, 2014), on May 9, 2018 (which amendment became effective on June 8, 2018), on July 16, 2021 (which amendment became effective on July 30, 2021), on March 18, 2022 (which amendment became effective on March 31, 2022) and on April 14, 2022 (which amendment became effective on April 27, 2022).

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

⁽³⁾ As of August 1, 2022, we had exhausted the funds available under the share redemption program for Ordinary Redemptions for calendar year 2022. As of November 30, 2022, we had exhausted all funds available under the share redemption program for Special Redemptions for calendar year 2022. As of December 31, 2022, we had a total of \$0.7 million of outstanding and unfulfilled Special Redemption requests, representing 79,063 shares, recorded as redeemable common stock payable on the accompanying consolidated balance sheets.

For the months of January 2022 through June 2022, we fulfilled all Ordinary Redemption and Special Redemption requests eligible for redemption under our share redemption program and received in good order. For the months of July, August and October 2022, we fulfilled all Special Redemption requests eligible for redemption under our share redemption program and received in good order. See note (3) above.

In addition to the redemptions under the share redemption program described above, during the year ended December 31, 2022, we repurchased an additional 3,904 shares of our common stock at an average price of \$10.58 per share for an aggregate price of \$41,000.

As discussed above, in January 2023, our board of directors determined to suspend Ordinary Redemptions under our share redemption program to preserve capital in the current market environment. However, any redemptions sought in connection with and meeting the requirements for Special Redemptions are still eligible for redemption and will continue to be processed in accordance with the share redemption program, subject to the amount of net proceeds raised from the sale of shares under our dividend reinvestment plan during 2022, or \$33.4 million, including the reserve for Special Redemptions. As of March 1, 2023, we had \$31.2 million available for redemptions for the remainder of 2023 under the share redemption program, including the reserve for Special Redemptions.

ITEM 6. [RESERVED]

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

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

Overview

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

We have invested in a diverse portfolio of real estate investments. As of December 31, 2022, we owned 16 office properties, one mixed-use office/retail property and an investment in the equity securities of the SREIT.

Section 5.11 of our charter requires that we seek stockholder approval of our liquidation if our shares of common stock are not listed on a national securities exchange by September 30, 2020, unless a majority of the conflicts committee of our board of directors, composed solely of all of our independent directors, determines that liquidation is not then in the best interest of our stockholders. Pursuant to our charter requirement, the conflicts committee considered the conflicts committee’s and the board of directors’ assessment of alternatives available to us, market conditions, uncertainty as a result of the COVID-19 pandemic’s impact on work-from-home arrangements and the impact of such arrangements on the U.S. office market, the debt capital markets, and the lack of liquidity in the marketplace, and on September 28, 2022, our conflicts committee unanimously determined to postpone approval of our liquidation. Section 5.11 of our charter requires that the conflicts committee revisit the issue of liquidation at least annually.

Also in connection with the conflict committee’s and the board of directors’ assessment of alternatives available to us, our assessment of our capital raising prospects, market conditions, economic uncertainty and the other factors mentioned above, at this time we do not intend to pursue a conversion to an “NAV REIT.”

Market Outlook – Real Estate and Real Estate Finance Markets

Volatility in global financial markets and changing political environments can cause fluctuations in the performance of the U.S. commercial real estate markets. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of future rental concessions, including free rent to renew tenants early, to retain tenants who are up for renewal or to attract new tenants, may result in decreases in cash flows from investment properties. Further, revenues from our properties could decrease due to a reduction in occupancy (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases), rent deferrals or abatements, tenants being unable to pay their rent and/or lower rental rates. Increases in the cost of financing due to higher interest rates will prevent us from refinancing debt obligations at terms as favorable as the terms of existing indebtedness. Further, increases in interest rates would increase the amount of our debt payments on our variable rate debt to the extent the interest rates on such debt are not fixed through interest rate swap agreements or limited by interest rate caps. Market conditions can change quickly, potentially negatively impacting the value of real estate investments. Management continuously reviews our investment and debt financing strategies to optimize our portfolio and the cost of our debt exposure.

The ongoing challenges affecting the U.S. commercial real estate industry, especially as it pertains to commercial office buildings, continues to be one of the most significant risks and uncertainties we face. The combination of the continued economic slowdown, rapidly rising interest rates and significant inflation (or the perception that any of these events may continue) as well as a lack of lending activity in the debt markets have contributed to considerable weakness in the commercial real estate markets. During 2021 and 2022, the usage of many of our assets remained lower than pre-pandemic levels, and we cannot predict when, if and to what extent economic activity, including the use of and demand for office space, will return to pre-pandemic levels. In addition, we experienced a significant reduction in leasing interest and activity when compared to pre-pandemic levels. Further, potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, could materially and negatively impact the future demand for office space, adversely impacting our operations. Both upcoming and recent tenant lease expirations amidst the aforementioned headwinds coupled with slower than expected return-to-office, most notably in the San Francisco Bay Area where we own several assets, have had direct and material impacts on our ability to access certain credit facilities (see “—Liquidity and Capital Resources” below), which, in large part, provide liquidity to manage redemption requests.

During the year ended December 31, 2020, we recognized an impairment charge of \$19.9 million for an office/retail property due to the continued deterioration of retail demand at the property which was further impacted by the COVID-19 pandemic.

We have also made a significant investment in the common units of the SREIT. Due to the disruptions in the financial markets discussed above, since early March 2020, the trading price of the common units of the SREIT has experienced substantial volatility. As of March 13, 2023, the aggregate value of our investment in the units of the SREIT was \$78.8 million, which was based solely on the closing price of the units on the SGX-ST of \$0.365 per unit as of March 13, 2023, and did not take into account any potential discount for the holding period risk due to the quantity of units we hold. This is a decrease of \$0.515 per unit from our initial acquisition of the SREIT units at \$0.880 per unit on July 19, 2019.

We have concluded that it is critical to preserve capital given the current state of the markets. On January 17, 2023, our board of directors determined to suspend Ordinary Redemptions under our share redemption program and reduce the distribution rate from that of prior periods. These actions were a direct result of the factors discussed above.

Continued disruptions in the financial markets and economic uncertainty could adversely affect our ability to implement our business strategy and generate returns to stockholders and our ability to sustain our current distribution rate. Overall, there remains significant uncertainty regarding the timing and duration of the economic recovery, which precludes any prediction as to the ultimate adverse impact the current disruptions in the markets may have on our business. However, we believe that our cash flow from operations, cash on hand, current availability under our loan facilities, proceeds from our dividend reinvestment plan, current and anticipated financing activities and anticipated asset sales are sufficient to meet our liquidity needs for the foreseeable future.

Liquidity and Capital Resources

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

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

Our real estate properties generate cash flow in the form of rental revenues and tenant reimbursements, which are reduced by operating expenditures, capital expenditures, debt service payments, the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from our real estate properties is primarily dependent upon the occupancy level of our portfolio, the net effective rental rates on our leases, the collectability of rent and operating recoveries from our tenants and how well we manage our expenditures. Due to uncertainties in the U.S. office real estate market, most notably in the greater San Francisco Bay Area where we own certain assets, we anticipate that our future cash flows from operations may be impacted due to lease rollover and reduced demand for office space.

Our investment in the equity securities of the SREIT generates cash flow in the form of dividend income, and dividends are typically declared and paid on a semi-annual basis, though dividends are not guaranteed. As of December 31, 2022, we held 215,841,899 units of the SREIT which represented 18.2% of the outstanding units of the SREIT as of that date.

As of December 31, 2022, we had mortgage debt obligations in the aggregate principal amount of \$1.7 billion, with a weighted-average remaining term of 0.9 years. As of December 31, 2022, we had \$1.3 billion of notes payable maturing during the 12 months ending December 31, 2023. As of December 31, 2022, our debt obligations consisted of \$123.0 million of fixed rate notes payable and \$1.6 billion of variable rate notes payable. As of December 31, 2022, the interest rates on \$1.0 billion of our variable rate notes payable were effectively fixed through interest rate swap agreements.

The maturity dates of certain loans may be extended beyond their current maturity dates; however, the extension options are subject to certain terms and conditions contained in the loan documents some of which are more stringent than our current loan compliance tests. As a result, in order to qualify for certain loan extensions, we may be required to reduce the loan commitment amount or make paydowns on certain loans, which would reduce our liquidity. Additionally, continued increases in interest rates, reductions in real estate values and future tenant turnover in the portfolio will have a further impact on our ability to meet such tests and may further reduce our available liquidity under our loan agreements.

We paid cash distributions to our stockholders during the year ended December 31, 2022 using cash flow from operations from current and prior periods and proceeds from debt financing. Cash flows from operations are an important factor in our ability to sustain our current distribution rate. We have experienced a reduction in our net cash flows from operations in recent periods primarily due to lease expirations in our portfolio and a resulting decrease in occupancy. In January 2023, our board of directors reduced our distribution rate from prior periods due to the continued impact of the economic slowdown on our cash flows. See Part I, Item 1A, “Risk Factors,” Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Distribution Information,” “—Market Outlook—Real Estate and Real Estate Finance Markets” above and “—Distributions” below. Our management team and our board of directors will continue to monitor our results of operations and operating cash flows, and based on an analysis of our cash flows and projected cash flows may consider a further reduction to our distribution rate in a future period.

We believe that our cash flow from operations, cash on hand, current availability under our loan facilities, proceeds from our dividend reinvestment plan, current and anticipated financing activities and anticipated asset sales are sufficient to meet our liquidity needs for the foreseeable future.

Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the four most recently completed fiscal quarters, as these terms are defined in our charter, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expenses for the four fiscal quarters ended December 31, 2022 did not exceed the charter-imposed limitation.

Cash Flows from Operating Activities

During the year ended December 31, 2022 and 2021, net cash provided by operating activities was \$76.0 million and \$100.8 million, respectively. Net cash provided by operating activities was lower during the year ended December 31, 2022 primarily as a result of an increase in interest costs in 2022, a decrease in dividends received from our investment in the SREIT in 2022 due to our sale of 73,720,000 units in the SREIT in November 2021, the timing of payments of lease commissions and the disposition of Domain Gateway in November 2021.

Cash Flows from Investing Activities

Net cash used in investing activities was \$121.6 million for the year ended December 31, 2022 due to improvements to real estate.

Cash Flows from Financing Activities

During the year ended December 31, 2022, net cash provided by financing activities was \$53.0 million and primarily consisted of the following:

- \$197.9 million of net cash provided by debt financing as a result of proceeds from notes payable of \$282.1 million, partially offset by principal payments on notes payable of \$83.0 million and payments of deferred financing costs of \$1.2 million;
- \$89.2 million of cash used for redemptions and repurchases of common stock;
- \$56.2 million of net cash distributions, after giving effect to distributions reinvested by stockholders of \$33.4 million; and
- \$0.6 million provided by interest rate swap settlements for off-market swap instruments.

We expect that our debt financing and other liabilities will be between 45% and 65% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves). There is no limitation on the amount we may borrow for the purchase of any single asset. We limit our total liabilities to 75% of the cost of our tangible assets (before deducting depreciation and other non-cash reserves), meaning that our borrowings and other liabilities may exceed our maximum target leverage of 65% of the cost of our tangible assets without violating these borrowing restrictions. We may exceed the 75% limit only if a majority of the conflicts committee approves each borrowing in excess of this limitation and we disclose such borrowings to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. To the extent financing in excess of this limit is available on attractive terms, our conflicts committee may approve debt in excess of this limit. From time to time, our total liabilities could also be below 45% of the cost of our tangible assets due to the lack of availability of debt financing. As of December 31, 2022, our borrowings and other liabilities were approximately 58% of the cost (before deducting depreciation and other noncash reserves) and 60% of the book value (before deducting depreciation) of our tangible assets, respectively.

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

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

Notwithstanding the foregoing on November 8, 2022, we and our advisor renewed the advisory agreement and amended certain provisions related to the payment of asset management fees (the “Renewed Advisory Agreement”), among other provisions. Pursuant to the Renewed Advisory Agreement and until the Bonus Retention Fund (defined below) is fully funded, commencing with asset management fees accruing from October 1, 2022, we pay \$1.15 million of the monthly asset management fee to our advisor in cash and we deposit the remainder of the monthly asset management fee into an interest bearing account in our name, which amounts will be paid to our advisor from such account solely as reimbursement for payments made by our advisor pursuant to our advisor’s employee retention program (such account, the “Bonus Retention Fund”). We will be deemed to have fully funded the Bonus Retention Fund once we have deposited \$8.5 million in cash into such account, at which time the monthly asset management fee will be payable in full to our advisor. Amounts deposited in the Bonus Retention Fund will not be due or paid by us to our advisor unless we have received an invoice from our advisor with a computation of the payments paid or to be paid by our advisor to employees pursuant to our advisor’s employee retention program for the applicable period. Our advisor has acknowledged and agreed that payments by our advisor to employees under our advisor’s employee retention program that are reimbursed by us from the Bonus Retention Fund will be conditioned on (a) our liquidation and dissolution; (b) a transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of us in which (i) we are not the surviving entity and (ii) our advisor is no longer serving as an advisor or asset manager to the surviving entity in such transaction; (c) the sale or other disposition of all or substantially all of our assets; (d) the non-renewal or termination of the Renewed Advisory Agreement without cause; or (e) the termination of the employee without cause. To the extent the Bonus Retention Fund is not fully paid out to employees as set forth above, the Renewed Advisory Agreement provides that the residual amount will be deemed additional Deferred Asset Management Fees (defined below) and be treated in accordance with the provisions for payment of Deferred Asset Management Fees. Two of our executive officers, Mr. Waldvogel and Ms. Yamane, and one of our directors, Mr. DeLuca, participate in and have been allocated awards under our advisor’s employee retention program, which awards would only be paid as set forth above.

Prior to entering the Renewed Advisory Agreement, the advisory agreement had provided that with respect to asset management fees accruing from March 1, 2014, our advisor would defer, without interest, our obligation to pay asset management fees for any month in which our modified funds from operations (“MFFO”) for such month, as such term is defined in the practice guideline issued by the Institute of Portfolio Alternatives (“IPA”) in November 2010 and interpreted by us, excluding asset management fees, did not exceed the amount of distributions declared by us for record dates of that month. We remained obligated to pay our advisor an asset management fee in any month in which our MFFO, excluding asset management fees, for such month exceeded the amount of distributions declared for the record dates of that month (such excess amount, an “MFFO Surplus”); however, any amount of such asset management fee in excess of the MFFO Surplus was deferred under the advisory agreement. If the MFFO Surplus for any month exceeded the amount of the asset management fee payable for such month, any remaining MFFO Surplus was applied to pay any asset management fee amounts previously deferred in accordance with the advisory agreement.

Pursuant to the Renewed Advisory Agreement, asset management fees accruing from October 1, 2022 are no longer subject to the deferral provision described above. Asset management fees that remained deferred as of September 30, 2022 are “Deferred Asset Management Fees.” As of September 30, 2022, Deferred Asset Management Fees totaled \$8.5 million. The Renewed Advisory Agreement also provides that we remain obligated to pay our advisor outstanding Deferred Asset Management Fees in any month to the extent that MFFO for such month exceeds the amount of distributions declared for the record dates of that month (such excess amount, a “RMFFO Surplus”); provided however, that any amount of outstanding Deferred Asset Management Fees in excess of the RMFFO Surplus will continue to be deferred.

Like the prior advisory agreement, the Renewed Advisory Agreement provides that notwithstanding the foregoing, any and all Deferred Asset Management Fees that are unpaid will become immediately due and payable at such time as our stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) an 8.0% per year cumulative, noncompounded return on such net invested capital (the “Stockholders’ 8% Return”) and (ii) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to our share redemption program. The Stockholders’ 8% Return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of our stockholders to have received any minimum return in order for our advisor to receive Deferred Asset Management Fees.

In addition, the Renewed Advisory Agreement provides that any and all Deferred Asset Management Fees that are unpaid will also be immediately due and payable upon the earlier of:

- (i) a listing of our shares of common stock on a national securities exchange;
- (ii) our liquidation and dissolution;
- (iii) a transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of us in which (y) we are not the surviving entity and (z) our advisor is no longer serving as an advisor or asset manager to the surviving entity in such transaction; and
- (iv) the sale or other disposition of all or substantially all of our assets.

The Renewed Advisory Agreement may be terminated (i) upon 60 days written notice without cause or penalty by either us (acting through the conflicts committee) or our advisor or (ii) immediately by us for cause or upon the bankruptcy of our advisor. If the Renewed Advisory Agreement is terminated without cause, then our advisor will be entitled to receive from us any residual amount of the Bonus Retention Fund deemed to be additional Deferred Asset Management Fees, provided that upon such non-renewal or termination we do not retain an advisor in which our advisor or its affiliates have a majority interest. Upon termination of the Renewed Advisory Agreement, all unpaid Deferred Asset Management Fees will automatically be forfeited by our advisor, and if the Renewed Advisory Agreement is terminated for cause, any residual amount of the Bonus Retention Fund deemed to be additional Deferred Asset Management Fees will also automatically be forfeited by our advisor.

As of December 31, 2022, we had accrued \$10.2 million of asset management fees, of which \$8.5 million were Deferred Asset Management Fees. As of December 31, 2022, we have deposited \$1.7 million of restricted cash into the Bonus Retention Fund. We had not made any payments to our advisor from the Bonus Retention Fund as of December 31, 2022. For the year ended December 31, 2022, we and our advisor agreed to adjust MFFO for the purpose of the calculation above to add back the following non-operating expenses: a one-time write-off of prepaid offering costs of \$2.7 million and a \$0.5 million fee to the conflicts committee’s financial advisor in connection with the conflicts committee’s review of alternatives available to us.

Debt Obligations

The following is a summary of our debt obligations as of December 31, 2022 (in thousands):

Debt Obligations	Total	Payments Due During the Years Ended December 31,		
		2023	2024-2025	2026-2027
Outstanding debt obligations ⁽¹⁾	\$ 1,671,395	\$ 1,252,185	\$ 419,210	\$ —
Interest payments on outstanding debt obligations ⁽²⁾⁽³⁾	89,178	77,390	11,788	—
Interest payments on interest rate swaps ⁽⁴⁾⁽⁵⁾	—	—	—	—

⁽¹⁾ Amounts include principal payments only based on maturity dates as of December 31, 2022. The maturity dates of certain loans may be extended beyond their current maturity dates; however, the extension options are subject to certain terms and conditions contained in the loan documents some of which are more stringent than our current loan compliance tests. As a result, in order to qualify for certain loan extensions, we may be required to reduce the loan commitment amount or make paydowns on certain loans, which would reduce our liquidity. Additionally, continued increases in interest rates, reductions in real estate values and future tenant turnover in the portfolio will have a further impact on our ability to meet such tests and may further reduce our available liquidity under our loan agreements.

⁽²⁾ Projected interest payments are based on the outstanding principal amounts, maturity dates and interest rates in effect as of December 31, 2022 (consisting of the contractual interest rate and using interest rate indices as of December 31, 2022, where applicable).

⁽³⁾ We incurred interest expense related to notes payable of \$56.4 million, excluding amortization of deferred financing costs totaling \$3.9 million during the year ended December 31, 2022.

⁽⁴⁾ Projected interest payments on interest rate swaps are calculated based on the notional amount, effective term of the swap contract, and fixed rate net of the swapped floating rate in effect as of December 31, 2022. In the case where the swapped floating rate (one-month LIBOR or one-month Term SOFR) at December 31, 2022 is higher than the fixed rate in the swap agreement, interest payments on interest rate swaps in the above debt obligations table would reflect zero as we would not be obligated to make any interest payments on those swaps and instead expect to receive payments from our swap counter-parties.

⁽⁵⁾ We incurred net realized losses related to interest rate swaps of \$0.3 million, excluding unrealized gains on derivative instruments of \$52.2 million, during the year ended December 31, 2022.

Capital Expenditures Obligations

As of December 31, 2022, we have capital expenditure obligations of \$69.3 million, the majority of which is expected to be spent in the next twelve months and of which \$24.1 million has already been accrued and included in accounts payable and accrued liabilities on our consolidated balance sheet as of December 31, 2022. This amount includes unpaid contractual obligations for building improvements and unpaid portions of tenant improvement allowances which were granted pursuant to lease agreements executed as of December 31, 2022, including amounts that may be classified as lease incentives pursuant to GAAP. In certain cases, tenants may have discretion when to utilize their tenant allowances and may delay the start of projects or tenants control the construction of their projects and may not submit timely requests for reimbursement or there are general construction delays, all of which could extend the timing of payment for a portion of these capital expenditure obligations beyond twelve months.

Results of Operations

In this section, we discuss the results of our operations for the year ended December 31, 2022 compared to the year ended December 31, 2021. For a discussion of the year ended December 31, 2021 compared to the year ended December 31, 2020, please refer to [Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”](#) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, which was filed with the SEC on March 31, 2022 and which specific discussion is incorporated herein by reference.

As of December 31, 2022 and 2021, we owned 16 office properties, one mixed-use office/retail property and an investment in the equity securities of the SREIT. The following table provides summary information about our results of operations for the years ended December 31, 2022 and 2021 (dollar amounts in thousands):

Comparison of the year ended December 31, 2022 versus the year ended December 31, 2021

	For the Years Ended December 31,		Increase (Decrease)	Percentage Change	\$ Changes Due to Dispositions of Properties and Ceasing of Equity Method of Accounting ⁽¹⁾	\$ Change Due to Properties Held Throughout Both Periods ⁽²⁾
	2022	2021				
Rental income	\$ 275,026	\$ 280,144	\$ (5,118)	(2)%	\$ (8,262)	\$ 3,144
Dividend income from real estate equity securities	14,850	—	14,850	100 %	—	14,850
Other operating income	18,141	16,617	1,524	9 %	(92)	1,616
Operating, maintenance and management	74,783	68,806	5,977	9 %	(242)	6,219
Real estate taxes and insurance	51,811	57,687	(5,876)	(10)%	(137)	(5,739)
Asset management fees to affiliate	20,102	19,832	270	1 %	(412)	682
General and administrative expenses	8,115	6,116	1,999	33 %	n/a	n/a
Depreciation and amortization	111,860	110,984	876	1 %	(2,429)	3,305
Interest expense	60,259	34,564	25,695	74 %	(681)	26,376
Net gain on derivative instruments	(51,932)	(5,263)	(46,669)	887 %	—	(46,669)
Unrealized (loss) gain on real estate equity securities	(92,812)	16,765	(109,577)	(654)%	—	(109,577)
Write-off of prepaid offering costs	(2,728)	—	(2,728)	(100)%	n/a	n/a
Other interest income	63	52	11	21 %	n/a	n/a
Equity in income of an unconsolidated entity	—	8,698	(8,698)	(100)%	(8,698)	—
Loss from extinguishment of debt	—	(214)	214	(100)%	214	—
Gain on sale of real estate, net	—	114,321	(114,321)	(100)%	(114,321)	—

⁽¹⁾ Represents the dollar amount increase (decrease) for the year ended December 31, 2022 compared to the year ended December 31, 2021 related to dispositions of properties after January 1, 2021 and ceasing of equity method of accounting related to our investment in the units of the SREIT for periods after November 9, 2021.

⁽²⁾ Represents the dollar amount increase (decrease) for the year ended December 31, 2022 compared to the year ended December 31, 2021 related to real estate investments owned by us throughout both periods presented.

Rental income from our real estate properties decreased from \$280.1 million for the year ended December 31, 2021 to \$275.0 million for the year ended December 31, 2022. The decrease in rental income was primarily due to the dispositions of real estate properties subsequent to January 1, 2021, partially offset by a net increase in rental income related to lease commencements subsequent to December 31, 2021 with respect to properties held throughout both periods. We expect rental income to vary based on occupancy rates and rental rates of our real estate investments and to the extent of continued uncertainty in the real estate and financial markets and to increase due to tenant reimbursements related to operating expenses to the extent physical occupancy increases as employees return to the office. See “Market Outlook – Real Estate and Real Estate Finance Markets.”

Dividend income from our real estate equity securities was \$14.9 million for the year ended December 31, 2022. On November 9, 2021, upon our sale of 73,720,000 units in the SREIT, we determined that based on our ownership interest of 18.5% of the outstanding units of the SREIT as of that date, we no longer had significant influence over the operations, financial policies and decision making with respect to the SREIT. Accordingly, effective November 9, 2021, our investment in the units of the SREIT represents an investment in marketable securities and is therefore presented at fair value at each reporting date based on the closing price of the SREIT units on the SGX-ST on that date and dividend income is recognized as it is declared based on eligible units as of the ex-dividend date. Prior to November 9, 2021, our investment in the SREIT was accounted for under the equity method of accounting.

Other operating income increased from \$16.6 million during the year ended December 31, 2021 to \$18.1 million for the year ended December 31, 2022. The increase in other operating income was primarily due to an increase in parking revenues for properties held throughout both periods, offset by the disposition of Anchor Centre in January 2021. We expect other operating income to vary in future periods based on occupancy rates and parking rates at our real estate properties and to the extent of continued uncertainty in the real estate and financial markets.

Operating, maintenance and management costs increased from \$68.8 million for the year ended December 31, 2021 to \$74.8 million for the year ended December 31, 2022. The increase in operating, maintenance and management costs was primarily due to an overall increase in operating costs, including utilities, janitorial and security costs, as a result of general inflation, an increase in physical occupancy at properties held throughout both periods and higher legal fees and space planning costs related to leasing activities, offset by the dispositions of real estate properties subsequent to January 1, 2021. We expect operating, maintenance and management costs to increase in future periods as a result of general inflation and to the extent physical occupancy increases as employees return to the office.

Real estate taxes and insurance decreased from \$57.7 million for the year ended December 31, 2021 to \$51.8 million for the year ended December 31, 2022, primarily due to a decrease in real estate taxes as a result of a property tax appeal for a real estate property held throughout both periods during the year ended December 31, 2022, property tax refunds received during the year ended December 31, 2022 and the dispositions of real estate properties subsequent to January 1, 2021. We expect real estate taxes and insurance to increase in future periods as a result of general inflation and general increases due to future property tax reassessments for properties that we continue to own.

Asset management fees with respect to our real estate investments increased from \$19.8 million for the year ended December 31, 2021 to \$20.1 million for the year ended December 31, 2022, primarily due to capital improvements at properties held throughout both periods, offset by the dispositions of real estate properties subsequent to January 1, 2021. We expect asset management fees to increase in future periods as a result of any improvements we make to our properties and to decrease to the extent we dispose of properties. As of December 31, 2022, there were \$10.2 million of accrued asset management fees, of which \$8.5 million were Deferred Asset Management Fees. For a discussion of Deferred Asset Management Fees, see “— Liquidity and Capital Resources” herein.

General and administrative expenses increased from \$6.1 million for the year ended December 31, 2021 to \$8.1 million for the year ended December 31, 2022, primarily due to professional fees incurred related to our conflicts committee’s and board of directors’ evaluation of various alternatives available to us. General and administrative costs consisted primarily of portfolio legal fees, board of directors fees, third party transfer agent fees, financial advisor consulting fees and audit costs. We expect general and administrative expenses to vary in future periods.

Depreciation and amortization increased slightly from \$111.0 million for the year ended December 31, 2021 to \$111.9 million for the year ended December 31, 2022, primarily due to an increase in capital improvements at a property held throughout both periods, offset by the disposition of Domain Gateway in November 2021. We expect depreciation and amortization to increase in future periods as a result of additional capital improvements, offset by a decrease in amortization related to fully amortized tenant origination and absorption costs.

Interest expense increased from \$34.6 million for the year ended December 31, 2021 to \$60.3 million for the year ended December 31, 2022. Included in interest expense was (i) \$30.6 million and \$56.4 million of interest expense payments for the years ended December 31, 2021 and 2022, respectively, and (ii) the amortization of deferred financing costs of \$4.0 million and \$3.9 million for the years ended December 31, 2021 and 2022, respectively. The increase in interest expense was due to additional borrowings to refinance a property held throughout both periods, draws on our revolving debt and higher one-month LIBOR, one-month BSBY and one-month Term SOFR during the year ended December 31, 2022 and the related impact on interest expense related to the portion of our variable rate debt. In general, we expect interest expense to vary based on fluctuations in interest rates (for our variable rate debt) and the amount of future borrowings.

Net gain on derivative instruments increased from \$5.3 million for the year ended December 31, 2021 to \$51.9 million for the year ended December 31, 2022. Included in net gain on derivative instruments was (i) unrealized gain on interest rate swaps of \$23.3 million and \$52.2 million for the years ended December 31, 2021 and 2022, respectively, (ii) realized gain on interest rate swaps of \$6.9 million for the year ended December 31, 2022, offset by (iii) \$18.0 million and \$7.2 million of realized loss on interest rate swaps for the years ended December 31, 2021 and 2022, respectively. The increase in net gain on derivative instruments was primarily due to changes in fair values with respect to our interest rate swaps that are not accounted for as cash flow hedges during the year ended December 31, 2022. In general, we expect net gains or losses on derivative instruments to vary based on fair value changes with respect to our interest rate swaps that are not accounted for as cash flow hedges.

During the year ended December 31, 2022, we recorded an unrealized loss on real estate equity securities of \$92.8 million as a result of the decrease in the closing price of the units of the SREIT on the SGX-ST. During the period from November 9, 2021 through December 31, 2021, we recorded an unrealized gain on real estate equity securities of \$16.8 million based on the difference in the aggregate carrying value of our 215,841,899 units of the SREIT on November 9, 2021 and the aggregate fair value of these units as of December 31, 2021, based on the closing price of the SREIT units on the SGX-ST on that date.

During the year ended December 31, 2022, we recorded \$2.7 million related to the write-off of prepaid offering costs. In connection with the conflict committee's and the board of directors' assessment of alternatives available to us, our assessment of our capital raising prospects, market conditions, economic uncertainty and the other factors mentioned above under "— Overview", at this time we do not intend to pursue a conversion to an "NAV REIT." In order to avoid additional legal, accounting and other offering costs, we withdrew our registration statement on Form S-11 to register a public offering as an NAV REIT, which had been filed with the SEC.

During the period from January 1, 2021 through November 8, 2021, we recorded equity in income of an unconsolidated entity of \$8.7 million, related to our investment in the SREIT. Equity in income of an unconsolidated entity during the period from January 1, 2021 through November 8, 2021 included a gain of \$3.1 million related to our sale of 73,720,000 units in the SREIT on November 9, 2021 and a gain of \$1.1 million to reflect the net effect to our investment as a result of the net proceeds raised by the SREIT in a private offering in July 2021. As discussed above, effective November 9, 2021, based on our 18.5% ownership interest in the SREIT as of that date, we do not exercise significant influence over the operations, financial policies and decision making with respect to the SREIT. Accordingly, our investment in the units of the SREIT represents an investment in marketable securities and therefore is presented at fair value as of December 31, 2022, based on the closing price of the SREIT units on the SGX-ST on that date.

We recognized a gain on sale of real estate of \$114.3 million during the year ended December 31, 2021 related to the dispositions of Anchor Centre in January 2021 and Domain Gateway in November 2021. We did not dispose of any real estate during the year ended December 31, 2022.

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. In addition, we elected the option to exclude mark-to-market changes in value recognized on real estate equity securities in the calculation of FFO. We believe FFO facilitates comparisons of operating performance between periods and among other REITs. However, our computation of FFO may not be comparable to other REITs that do not define FFO in accordance with the NAREIT definition or that interpret the current NAREIT definition differently than we do. Our management believes that historical cost accounting for real estate assets in accordance with U.S. generally accepted accounting principles ("GAAP") implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provides a more complete understanding of our performance relative to our competitors and provides a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

Changes in accounting rules have resulted in a substantial increase in the number of non-operating and non-cash items included in the calculation of FFO. As a result, our management also uses MFFO as an indicator of our ongoing performance as well as our dividend sustainability. MFFO excludes from FFO: acquisition fees and expenses (to the extent that such fees and expenses have been recorded as operating expenses); adjustments related to contingent purchase price obligations; amounts relating to straight-line rents and amortization of above and below market intangible lease assets and liabilities; accretion of discounts and amortization of premiums on debt investments; amortization of closing costs relating to debt investments; impairments of real estate-related investments; mark-to-market adjustments included in net income; and gains or losses included in net income for the extinguishment or sale of debt or hedges. We compute MFFO in accordance with the definition of MFFO included in the practice guideline issued by the IPA in November 2010 as interpreted by management. Our computation of MFFO may not be comparable to other REITs that do not compute MFFO in accordance with the current IPA definition or that interpret the current IPA definition differently than we do.

We believe that MFFO is helpful as a measure of ongoing operating performance because it excludes costs that management considers more reflective of investing activities and other non-operating items included in FFO. Management believes that excluding acquisition fees and expenses (to the extent that such fees and expenses have been recorded as operating expenses) from MFFO provides investors with supplemental performance information that is consistent with management's analysis of the operating performance of the portfolio over time. MFFO also excludes non-cash items such as straight-line rental revenue. Additionally, we believe that MFFO provides investors with supplemental performance information that is consistent with the performance indicators and analysis used by management, in addition to net income and cash flows from operating activities as defined by GAAP, to evaluate the sustainability of our operating performance. MFFO provides comparability in evaluating the operating performance of our portfolio with other non-traded REITs. 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; however, neither FFO nor MFFO reflects adjustments for the operations of properties sold or under contract to sale during the periods presented. During periods of significant disposition activity, FFO and MFFO are much more limited measures of future performance and dividend sustainability. In connection with our presentation of FFO and MFFO, we are providing information related to the proportion of MFFO related to properties sold during the years ended December 31, 2022, 2021 and 2020, and a real estate loan receivable paid off in full on December 11, 2020.

Although MFFO includes other adjustments, the exclusion of adjustments for straight-line rent, the amortization of above- and below-market leases, amortization of discounts and closing costs, 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;
- *Amortization of discounts and closing costs.* Discounts and closing costs related to debt investments are amortized over the term of the loan as an adjustment to interest income. This application results in income recognition that is different than the underlying contractual terms of the debt investments. We have excluded the amortization of discounts and closing costs related to our debt investments in our calculation of MFFO to more appropriately reflect the economic impact of our debt investments, as discounts will not be economically recognized until the loan is repaid and closing costs are essentially the same as acquisition fees and expenses on real estate. We believe excluding these items provides investors with a useful supplemental metric that directly addresses core operating performance;
- *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 years ended December 31, 2022, 2021 and 2020, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Years Ended December 31,		
	2022	2021	2020
Net (loss) income attributable to common stockholders	\$ (62,458)	\$ 143,657	\$ (18,497)
Depreciation of real estate assets	91,429	86,025	83,323
Amortization of lease-related costs	20,431	24,959	27,483
Impairment charges on real estate	—	—	19,896
Unrealized loss (gain) on real estate equity securities	92,812	(16,765)	—
Gain on sale of real estate, net	—	(114,321)	(49,457)
Adjustments for noncontrolling interests - consolidated entity ⁽¹⁾	—	—	6,144
Adjustment for investment in an unconsolidated entity ⁽²⁾	—	12,046	16,040
FFO attributable to common stockholders ⁽³⁾⁽⁴⁾⁽⁵⁾	<u>142,214</u>	<u>135,601</u>	<u>84,932</u>
Straight-line rent and amortization of above- and below-market leases, net	(12,176)	(5,304)	(7,371)
Amortization of discount and closing costs on real estate loan receivable	—	—	(2,415)
Loss from extinguishment of debt	—	214	199
Unrealized (gains) losses on derivative instruments	(52,189)	(23,283)	25,165
Adjustment for investment in an unconsolidated entity ⁽²⁾	—	(3,321)	4,426
MFFO attributable to common stockholders ⁽³⁾⁽⁴⁾⁽⁵⁾	<u>\$ 77,849</u>	<u>\$ 103,907</u>	<u>\$ 104,936</u>

⁽¹⁾ Reflects adjustments to eliminate the noncontrolling interest holder's share of the adjustments to convert our net income (loss) attributable to common stockholders to FFO.

⁽²⁾ Reflects our noncontrolling interest share of adjustments to convert our net income (loss) to FFO and MFFO for our equity investment in an unconsolidated entity.

⁽³⁾ FFO and MFFO for the year ended December 31, 2021 include a one-time \$2.5 million holdover payment from a tenant related to a six-month lease extension which was received in December 2021 and was recognized as rental income for GAAP purposes on a straight-line basis for a six-month period through May 2022.

⁽⁴⁾ FFO and MFFO exclude our share of the SREIT's FFO and MFFO, respectively, for the period from November 9, 2021 through December 31, 2021 and for the year ended December 31, 2022. On November 9, 2021, upon our sale of 73,720,000 units in the SREIT, we determined that based on our ownership interest of 18.5% of the outstanding units of the SREIT as of that date, we no longer have significant influence over the operations, financial policies and decision making with respect to the SREIT and therefore, ceased accounting for our investment in the SREIT as an equity method investment on that date. Accordingly, effective November 9, 2021, our investment in the units of the SREIT represents an investment in marketable securities and is therefore presented at fair value at each reporting date based on the closing price of the SREIT units on the SGX-ST on that date. As a result, FFO and MFFO related to our investment in the SREIT will be recognized based on dividends declared. FFO and MFFO for the year ended December 31, 2022 include the aggregate dividends declared and received from the SREIT for the year ended December 31, 2022.

⁽⁵⁾ FFO and MFFO for the year ended December 31, 2022 include a one-time write-off of prepaid offering costs of \$2.7 million and a \$0.5 million fee to the conflicts committee's financial advisor in connection with the conflicts committee's review of alternatives available to us. In connection with the conflict committee's and the board of directors' assessment of alternatives available to us, our assessment of our capital raising prospects, market conditions, economic uncertainty and the other factors mentioned above under "—Overview", at this time we do not intend to pursue a conversion to an "NAV REIT." In order to avoid additional legal, accounting and other offering costs, we withdrew our registration statement on Form S-11 to register a public offering as an NAV REIT, which had been filed with the SEC.

Our calculation of MFFO above includes amounts related to the operations of two office properties sold on January 19, 2021 and November 2, 2021, respectively, the operations of the multifamily apartment complex held by the Hardware Village joint venture that was sold on May 7, 2020 and interest income from our real estate loan receivable paid off in full on December 11, 2020. Please refer to the table below with respect to the proportion of MFFO related to the real estate properties sold during the years ended December 31, 2021 and 2020, and the real estate loan receivable paid off (in thousands).

	For the Years Ended December 31,		
	2022	2021	2020
MFFO by component:			
Assets held for investment	\$ 77,849	\$ 99,320	\$ 97,892
Real estate properties sold	—	4,587	4,340
Real estate loan receivable paid off	—	—	2,704
MFFO	\$ 77,849	\$ 103,907	\$ 104,936

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.

Distributions

Distributions declared, distributions paid and cash flow from operating activities were as follows during 2022 (in thousands, except per share amounts):

Period	Distributions Declared	Distributions Declared Per Share ⁽¹⁾	Distributions Paid ⁽¹⁾⁽²⁾			Cash Flow from Operating Activities
			Cash	Reinvested	Total	
First Quarter 2022	\$ 22,795	\$ 0.149	\$ 16,721	\$ 6,266	\$ 22,987	\$ 7,533
Second Quarter 2022	22,336	0.149	13,336	9,139	22,475	15,996
Third Quarter 2022	22,017	0.150	13,093	8,992	22,085	35,234
Fourth Quarter 2022	22,087	0.150	13,055	8,994	22,049	17,202
	\$ 89,235	\$ 0.598	\$ 56,205	\$ 33,391	\$ 89,596	\$ 75,965

⁽¹⁾ Assumes share was issued and outstanding on each monthly record date for distributions during the period presented. For each monthly record date for distributions during the period from January 1, 2022 through December 31, 2022, distributions were calculated at a rate of \$0.04983333 per share.

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

For the year ended December 31, 2022, we paid aggregate distributions of \$89.6 million, including \$56.2 million of distributions paid in cash and \$33.4 million of distributions reinvested through our dividend reinvestment plan. Our net loss for the year ended December 31, 2022 was \$62.5 million. FFO for the year ended December 31, 2022 was \$142.2 million and cash flow from operating activities was \$76.0 million. See the reconciliation of FFO to net income above. We funded our total distributions paid, which includes net cash distributions and dividends reinvested by stockholders, with \$62.8 million of cash flow from current operating activities, \$22.1 million of cash flow from operating activities in excess of distributions paid during prior periods and \$4.7 million of proceeds from debt financing. For purposes of determining the source of our distributions paid, we assume first that we use cash flow from operating activities from the relevant or prior periods to fund distribution payments.

In January 2023, we reduced the distribution rate from that of prior periods due to the continued impact of the economic slowdown on our cash flows. See Part I, Item 1A, “Risk Factors,” Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Distribution Information,” and “—Market Outlook—Real Estate and Real Estate Finance Markets” above. Our management team and our board of directors will continue to monitor our results of operations and operating cash flows, and based on an analysis of our cash flows and projected cash flows may consider a further reduction to our distribution rate in a future period.

Over the long-term, we generally expect our distributions will be paid from cash flow from operating activities from current periods or prior periods (except with respect to distributions related to sales of our assets and distributions related to the sales or repayment of real estate-related investments). From time to time during our operational stage, we may not pay distributions solely from our cash flow from operating activities, in which case distributions may be paid in whole or in part from debt financing. To the extent that we pay distributions from sources other than our cash flow from operating activities, the overall return to our stockholders may be reduced. Further, our operating performance cannot be accurately predicted and may deteriorate in the future due to numerous factors, including those discussed under “Forward-Looking Statements,” “Summary Risk Factors,” Part I, Item 1A, “Risk Factors” and in this Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Those factors include: the future operating performance of our real estate investments in the existing real estate and financial environment; the success and economic viability of our tenants; our ability to refinance existing indebtedness at comparable terms; changes in interest rates on any variable rate debt obligations we incur; the level of participation in our dividend reinvestment plan; and continued disruptions in the financial markets, including the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue) as well as potential changes in the demand for office properties resulting from the COVID-19 pandemic and uncertain economic conditions. In the event our FFO and/or cash flow from operating activities decrease in the future, the level of our distributions may also decrease. In addition, future distributions declared and paid may exceed FFO and/or cash flow from operating activities.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Revenue Recognition - Operating Leases

Real Estate

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

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

In accordance with ASU 2016-02, *Leases (Topic 842)* (“Topic 842”), tenant reimbursements for property taxes and insurance are included in the single lease component of the lease contract (the right of the lessee to use the leased space) and therefore are accounted for as variable lease payments and are recorded as rental income on our statement of operations. In addition, we adopted the practical expedient available under Topic 842, to not separate nonlease components from the associated lease component and, instead to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue recognition standard (Topic 606) and if certain conditions are met, specifically related to tenant reimbursements for common area maintenance which would otherwise be accounted for under the revenue recognition standard. We believe the two conditions have been met for tenant reimbursements for common area maintenance as (i) the timing and pattern of transfer of the nonlease components and associated lease components are the same and (ii) the lease component would be classified as an operating lease. Accordingly, tenant reimbursements for common area maintenance are also accounted for as variable lease payments and recorded as rental income on our statement of operations.

In accordance with Topic 842, we make a determination of whether the collectibility of the lease payments in an operating lease is probable. If we determine the lease payments are not probable of collection, we would fully reserve for any contractual lease payments, deferred rent receivable, and variable lease payments and would recognize rental income only to the extent cash has been received. These changes to our collectibility assessment are reflected as an adjustment to rental income. We make estimates of the collectibility of the lease payments which requires significant judgment by management. We consider payment history, current credit status, the tenant’s financial condition, security deposits, letters of credit, lease guarantees and current market conditions that may impact the tenant’s ability to make payments in accordance with its lease agreements, including the impact of the continued disruptions in the financial markets on the tenant’s business, in making the determination.

We, as a lessor, record costs to negotiate or arrange a lease that would have been incurred regardless of whether the lease was obtained, such as legal costs incurred to negotiate an operating lease, as an expense and classify such costs as operating, maintenance, and management expense on our consolidated statement of operations, as these costs are no longer capitalizable under the definition of initial direct costs under Topic 842.

Sales of Real Estate

We follow the guidance of ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets* (“ASC 610-20”), which applies to sales or transfers to noncustomers of nonfinancial assets or in substance nonfinancial assets that do not meet the definition of a business. Generally, our sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20.

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under ASC 610-20, if we determine we do not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, we would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer. The application of these criteria can be complex and incorrect assumptions on collectability of the transaction price or transfer of control can result in the improper recognition of the gain or loss from sales of real estate during the period.

Real Estate Equity Securities

Dividend income from real estate equity securities is recognized on an accrual basis based on eligible units as of the ex-dividend date.

Real Estate

Depreciation and Amortization

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

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

Real Estate Acquisition Valuation

We record the acquisition of income-producing real estate or real estate that will be used for the production of income as a business combination or an asset acquisition. If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, then the set is not a business. For purposes of this test, land and buildings can be combined along with the intangible assets for any in-place leases and accordingly, most acquisitions of investment properties would not meet the definition of a business and would be accounted for as an asset acquisition. To be considered a business, a set must include an input and a substantive process that together significantly contributes to the ability to create an output. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. For asset acquisitions, the cost of the acquisition is allocated to individual assets and liabilities on a relative fair value basis. Acquisition costs associated with business combinations are expensed as incurred. Acquisition costs associated with asset acquisitions are capitalized.

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

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

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

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

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

Subsequent to the acquisition of a property, we may incur and capitalize costs necessary to get the property ready for its intended use. During that time, certain costs such as legal fees, real estate taxes and insurance and financing costs are also capitalized.

Impairment of Real Estate and Related Intangible Assets and Liabilities

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

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

Real Estate Equity Securities

Real estate equity securities are carried at fair value based on quoted market prices for the security. Unrealized gains and losses on real estate equity securities are recognized in earnings.

Derivative Instruments

We enter into derivative instruments for risk management purposes to hedge our exposure to cash flow variability caused by changing interest rates on our variable rate notes payable. We record these derivative instruments at fair value on the accompanying consolidated balance sheets. The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria are recorded as gain or loss on derivative instruments and included in interest expense as presented in the accompanying consolidated statements of operations.

The calculation of the fair value of derivative instruments is complex and different inputs used in the model can result in significant changes to the fair value of derivative instruments and the related gain or loss on derivative instruments included as interest expense in the accompanying consolidated statements of operations. The valuation of our derivative instruments is based on a proprietary model using 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.

Fair Value Election of Hybrid Financial Instruments with Embedded Derivatives

When we enter into interest rate swaps which include off-market terms, we determine if these contracts are hybrid financial instruments with embedded derivatives requiring bifurcation between the host contract and the derivative instrument. We elected to initially and subsequently measure these hybrid financial instruments in their entirety at fair value with concurrent documentation of this election. Changes in the fair value of the hybrid financial instrument under this fair value election are recorded in earnings and are included in interest expense in the accompanying consolidated statements of operations. The cash flows for these off-market swap instruments which contain an other-than-insignificant financing element at inception are included in cash flows provided by or used in financing activities on the accompanying consolidated statements of cash flows.

Income Taxes

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

Subsequent Events

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

Distributions Paid

On January 3, 2023, we paid distributions of \$7.4 million, which related to distributions in the amount of \$0.04983333 per share of common stock to stockholders of record as of the close of business on December 20, 2022. On February 1, 2023, we paid distributions of \$5.7 million, which related to distributions in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on January 20, 2023. On March 1, 2023, we paid distributions of \$5.7 million, which related to distributions in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on February 20, 2023.

Distributions Authorized

On March 10, 2023, our board of directors authorized a March 2023 distribution in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on March 20, 2023, which we expect to pay in April 2023, and an April 2023 distribution in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on April 20, 2023, which we expect to pay in May 2023.

Investors may choose to receive cash distributions or purchase additional shares through our dividend reinvestment plan.

Suspension of Ordinary Redemptions

On January 17, 2023, our board of directors determined to suspend Ordinary Redemptions under our share redemption program. The suspension is a direct result of the ongoing challenges affecting the commercial real estate industry, especially as it pertains to commercial office buildings as discussed herein.

We will continue to evaluate the markets and our overall liquidity profile as we determine when to potentially remove the suspension on Ordinary Redemptions, though we can give no assurance in this regard.

All Ordinary Redemption requests that have been received were canceled. Further, no Ordinary Redemptions will be accepted or collected during the suspension of the share redemption program. However, any redemptions sought in connection with and meeting the requirements for Special Redemptions will still be eligible and will continue to be processed in accordance with the current share redemption program.

In addition, there are several other limitations on our ability to redeem shares under the share redemption program. See Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Amended and Restated Share Redemption Program.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The table below summarizes the outstanding principal balance, interest rate or weighted-average contractual interest rates and fair value for our notes payable for each category; and the notional amounts, average pay rates, average receive rates and fair value of our derivative instruments, based on maturity dates as of December 31, 2022 (dollars in thousands):

	Maturity Date					Total Value or Notional Amount	Fair Value
	2023	2024	2025	2026	2027		
Assets							
<i>Derivative Instruments</i>							
Interest rate swaps, notional amount	\$ 519,190	\$ —	\$ 300,000	\$ 600,000	\$ —	\$ 1,419,190	\$ 40,216
Average pay rate ⁽¹⁾	1.3 %	— %	1.2 %	3.0 %	— %	2.0 %	
Average receive rate ⁽²⁾	4.4 %	— %	4.4 %	4.4 %	— %	4.4 %	
Liabilities							
<i>Notes payable, principal outstanding</i>							
Fixed Rate	\$ 123,000	\$ —	\$ —	\$ —	\$ —	\$ 123,000	\$ 118,746
Interest rate	3.7 %	— %	— %	— %	— %	3.7 %	
Variable Rate	\$1,127,363	\$ 356,032	\$ 65,000	\$ —	\$ —	\$ 1,548,395	\$1,535,300
Weighted-average contractual interest rate ⁽³⁾	6.2 %	5.8 %	6.3 %	— %	— %	6.1 %	
<i>Derivative Instruments</i>							
Interest rate swaps, notional amount	\$ —	\$ —	\$ —	\$ 200,000	\$ —	\$ 200,000	\$ 75
Average pay rate ⁽¹⁾	— %	— %	— %	3.8 %	— %	3.8 %	
Average receive rate ⁽²⁾	— %	— %	— %	4.4 %	— %	4.4 %	

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

⁽²⁾ The average receive rate is based on the 30-day LIBOR rate or 30-day Term SOFR rate as of December 31, 2022.

⁽³⁾ The weighted-average contractual interest rate represents the actual interest rate in effect as of December 31, 2022, consisting of the contractual interest rate and using interest rate indices as of December 31, 2022, where applicable.

We borrow funds at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt, unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. As of December 31, 2022, the fair value of our fixed rate debt was \$118.7 million and the outstanding principal balance of our fixed rate debt was \$123.0 million. The fair value estimate of our fixed rate debt is calculated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loan was originated as of December 31, 2022. As we expect to hold our fixed rate instruments to maturity (unless the property securing the debt is sold and the loan is repaid) and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

Conversely, movements in interest rates on our variable rate debt would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. However, changes in required risk premiums would result in changes in the fair value of variable rate instruments. As of December 31, 2022, we were exposed to market risks related to fluctuations in interest rates on \$529.2 million of variable rate debt outstanding after giving consideration to the impact of interest rate swap agreements on approximately \$1.0 billion of our variable rate debt. Based on interest rates as of December 31, 2022, if interest rates were 100 basis points higher or lower during the 12 months ending December 31, 2023, interest expense on our variable rate debt would increase or decrease by \$5.3 million.

The interest rate and weighted-average effective interest rate of our fixed rate debt and variable rate debt as of December 31, 2022 were 3.7% and 4.4%, respectively. The weighted-average effective interest rate represents the actual interest rate in effect as of December 31, 2022 (consisting of the contractual interest rate and the effect of interest rate swaps, if applicable), using interest rate indices as of December 31, 2022 where applicable.

We are exposed to financial market risk with respect to our investment in the SREIT (SGX-ST Ticker: OXMU). Financial market risk is the risk that we will incur economic losses due to adverse changes in our investment's security price. Our exposure to changes in security prices is a result of our investment in these types of securities. Market prices are subject to fluctuation and, therefore, the amount realized in the subsequent sale of an investment may significantly differ from our carrying value. Fluctuation in the market prices of a security may result from any number of factors, including perceived changes in the underlying fundamental characteristics of the issuer, the relative price of alternative investments, interest rates, default rates and general market conditions. The SREIT's units were first listed for trading on the SGX-ST on July 19, 2019. If an active trading market for the units does not develop or is not sustained, it may be difficult to sell our units. The market for Singapore REITs may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of our investment in the SREIT difficult. Even if an active trading market develops or we are able to negotiate block trades, if we or other significant investors sell or are perceived as intending to sell a substantial amount of units in a short period of time, the market price of our remaining units could be adversely affected. In addition, as a foreign equity investment, the trading price of units of the SREIT may be affected by political, economic, financial and social factors in the Singapore and Asian markets, including changes in government, economic and fiscal policies. Furthermore, we may be limited in our ability to sell our investment in the SREIT if our advisor and/or its affiliates are deemed to have material, non-public information regarding the SREIT. Charles J. Schreiber, Jr., our Chief Executive Officer, our President and our affiliated director, is a former director of the external manager of the SREIT, and Mr. Schreiber currently holds an indirect ownership interest in the external manager of the SREIT. An affiliate of our advisor serves as the U.S. asset manager to the SREIT. We do not currently engage in derivative or other hedging transactions to manage our investment's security price risk. As of December 31, 2022, we held 215,841,899 units of the SREIT which represented 18.2% of the outstanding units of the SREIT as of that date. As of December 31, 2022, the aggregate value of our investment in the units of the SREIT was \$87.4 million, which was based solely on the closing price of the SREIT units on the SGX-ST of \$0.405 per unit as of December 31, 2022, and did not take into account any potential discount for the holding period risk due to the quantity of units held by us relative to the normal level of trading volume in the units. Based solely on the closing price per unit of the SREIT units as of December 31, 2022, if prices were to increase or decrease by 10%, our net income would increase or decrease by approximately \$8.7 million.

For a discussion of the interest rate risks related to the current capital and credit markets, see Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Outlook – Real Estate and Real Estate Finance Markets."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting

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

In connection with the preparation of our Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2022. In making that assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013).

Based on its assessment, our management believes that, as of December 31, 2022, our internal control over financial reporting was effective based on those criteria. There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Accenture Tower Revolving Loan

On November 2, 2020, we, through an indirect wholly owned subsidiary (the "Accenture Tower Borrower"), entered into a three-year loan facility with U.S. Bank, National Association, as administrative agent, joint lead arranger and co-book runner; Bank of America, N.A., as syndication agent, joint lead arranger and co-book runner; and Deutsche Pfandbriefbank AG (together, with the National Bank of Kuwait S.A.K.P. Grand Cayman Branch (which was subsequently added as a lender), the "Accenture Tower Lenders"), for a committed amount of up to \$375.0 million (the "Accenture Tower Revolving Loan"), of which \$281.3 million is term debt and \$93.7 million is revolving debt.

On March 8, 2023, the Accenture Tower Borrower entered into a modification with the Accenture Tower Lenders to convert the benchmark interest rate from LIBOR to Term SOFR. Effective March 1, 2023, the Accenture Tower Revolving Loan bears interest at one-month Term SOFR plus 235 basis points per annum, which increased the margin from 225 basis points to include a SOFR adjustment of 10 basis points per annum. All other material terms of the Accenture Tower Revolving Loan remain the same.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

We will file a definitive Proxy Statement for our 2023 Annual Meeting of Stockholders (the “2023 Proxy Statement”) with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2023 Proxy Statement that specifically address the items required to be set forth herein are incorporated by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a Code of Conduct and Ethics that applies to all of our executive officers and directors, including but not limited to, our principal executive officer, principal financial officer and principal accounting officer. Our Code of Conduct and Ethics can be found at www.kbsreitiii.com.

The other information required by this Item is incorporated by reference from our 2023 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from our 2023 Proxy Statement.

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

The information required by this Item is incorporated by reference from our 2023 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from our 2023 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference from our 2023 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statement Schedules

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

The following financial statement schedule is included herein at pages F-40 through F-41 of this report:

Schedule III - Real Estate Assets and Accumulated Depreciation and Amortization

(b) Exhibits

Ex.	Description
3.1	Second Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed January 25, 2011
3.2	Third Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
4.1	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-11, Commission File No. 333-164703, filed August 20, 2010
4.2	Fourth Amended and Restated Dividend Reinvestment Plan, incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed August 13, 2015
4.3	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed March 12, 2021
10.1	Advisory Agreement, by and between the Company and KBS Capital Advisors LLC, dated as of November 8, 2022, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed November 9, 2022
10.2	Amended and Restated Loan Agreement by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022
10.3	Assignment and Assumption by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC, Bank of America, N.A. and Capital One, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022
10.4	Assignment and Assumption by and among KBSIII 60 Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC, Bank of America, N.A. and PNC Bank, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022
10.5	Assignment and Assumption by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC, Bank of America, N.A. and U.S. Bank, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022

Ex.	Description
10.6	<u>Assignment and Assumption by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC, Regions Bank and Capital One, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.7	<u>Assignment and Assumption by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC, Wells Fargo Bank, National Association and Capital One, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.8	<u>Assignment and Assumption by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC, Zions Bancorporation, N.A. (FKA ZB, N.A.) DBA California Bank & Trust and Capital One, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.9	<u>Amendment to Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing by and between KBSIII Legacy Town Center, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.10	<u>Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing by and between KBSIII Preston Commons, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.11	<u>Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing by and between KBSIII Sterling Plaza, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.12	<u>Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing by and between KBSIII Ten Almaden, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.13	<u>Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing by and between KBSIII Towers at Emeryville, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.14	<u>Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing by and between KBSIII 60 South Sixth Street, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.15	<u>Amended and Restated Guaranty Agreement by and between KBS REIT Properties III, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.16	<u>Amended and Restated Promissory Note by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and Zions Bancorporation, N.A. (FKA ZB, N.A.) DBA California Bank & Trust, dated as of November 3, 2021, incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.17	<u>Amended and Restated Promissory Note by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and Capital One, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>

Ex.	Description
10.18	<u>Amended and Restated Promissory Note by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and Regions Bank, dated as of November 3, 2021, incorporated by reference to Exhibit 10.18 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.19	<u>Amended and Restated Promissory Note by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and PNC Bank, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.19 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.20	<u>Second Amended and Restated Promissory Note by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and Bank of America, N.A., dated as of November 3, 2021, incorporated by reference to Exhibit 10.20 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.21	<u>Second Amended and Restated Promissory Note by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and U.S. Bank, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.21 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.22	<u>Second Amended and Restated Promissory Note by and among KBSIII 60 South Sixth Street, LLC, KBSIII Preston Commons, LLC, KBSIII Sterling Plaza, LLC, KBSIII Towers at Emeryville, LLC, KBSIII Ten Almaden, LLC, KBSIII Legacy Town Center, LLC and Wells Fargo Bank, National Association, dated as of November 3, 2021, incorporated by reference to Exhibit 10.22 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, filed March 31, 2022</u>
10.23	<u>Term Loan Agreement, by and among KBSIII Domain Gateway, LLC, KBSIII 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC and U.S. Bank National Association, dated October 17, 2018, incorporated by reference to Exhibit 10.15 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed March 14, 2019</u>
10.24	<u>Deed of Trust, Assignment of Leases and Rents, Security Agreement, Fixture Filing and Financing Statement (515 Congress Project), by KBSIII 515 Congress, LLC for the benefit of U.S. Bank National Association, dated October 17, 2018, incorporated by reference to Exhibit 10.17 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed March 14, 2019</u>
10.25	<u>Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (Gateway Tech Project), by KBSIII 155 North 400 West, LLC for the benefit of U.S. Bank National Association, dated October 17, 2018, incorporated by reference to Exhibit 10.18 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed March 14, 2019</u>
10.26	<u>Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (McEwen Project), by KBSIII 1550 West McEwen Drive, LLC for the benefit of U.S. Bank National Association, dated October 17, 2018, incorporated by reference to Exhibit 10.19 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed March 14, 2019</u>
10.27	<u>Recourse Carve-Out Guaranty Agreement, by KBS REIT Properties III, LLC for the benefit of U.S. Bank National Association, dated October 17, 2018, incorporated by reference to Exhibit 10.20 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed March 14, 2019</u>
10.28	<u>Payment Guaranty Agreement, by KBS REIT Properties III, LLC for the benefit of U.S. Bank National Association, dated October 17, 2018, incorporated by reference to Exhibit 10.21 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed March 14, 2019</u>
10.29	<u>First Modification and Additional Advance Agreement (Long Form), by and among KBSIII Domain Gateway, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 155 North 400 West, LLC, KBSIII 515 Congress, LLC, KBSIII 201 17th Street, LLC, U.S. Bank National Association and the Lenders party thereto, dated January 23, 2020, incorporated by reference to Exhibit 10.43 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020</u>

Ex.	Description
10.30	Deed to Secure Debt, Assignment of Leases and Rents, Security Agreement and Fixture Filing (201 17th Street Project), by and between KBSIII 201 17th Street, LLC and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.44 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.31	Junior Deed of Trust, Assignment of Leases and Rents, Security Agreement, Fixture Filing and Financing Statement (515 Congress Project), by and among KBSIII 515 Congress, LLC, James A Johnson and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.45 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.32	Assumption and Joinder Agreement, by and among KBSIII 201 17th Street, LLC, the other Borrowers thereto and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.48 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.33	Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and Associated Bank, National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.49 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.34	Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and City National Bank, dated January 23, 2020, incorporated by reference to Exhibit 10.50 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.35	Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and Regions Bank, dated January 23, 2020, incorporated by reference to Exhibit 10.51 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.36	Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and Citizens Bank, dated January 23, 2020, incorporated by reference to Exhibit 10.52 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.37	Second Amended and Restated Promissory Note, by and among KBSIII Domain Gateway, LLC, KBS 515 Congress, LLC, KBSIII 155 North 400 West, LLC, KBSIII 1550 West McEwen Drive, LLC, KBSIII 201 17th Street, LLC and U.S. Bank National Association, dated January 23, 2020, incorporated by reference to Exhibit 10.53 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed March 6, 2020
10.38	Revolving and Term Loan Agreement, by and among KBSIII 500 West Madison, LLC, U.S. Bank National Association and Bank of America, N.A., dated November 2, 2020, incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.39	Construction Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing, by and between KBSIII 500 West Madison, LLC and U.S. Bank National Association, dated November 2, 2020, incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.40	Subordination, Nondisturbance, and Attornment Agreement, by and between U.S. Bank National Association and Accenture LLP, dated November 2, 2020, incorporated by reference to Exhibit 10.5 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.41	Promissory Note, by and between KBSIII 500 West Madison, LLC and U.S. Bank National Association, dated November 2, 2020, incorporated by reference to Exhibit 10.6 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.42	Promissory Note, by and between KBSIII 500 West Madison, LLC and Bank of America, N.A., dated November 2, 2020, incorporated by reference to Exhibit 10.7 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020

Ex.	Description
10.43	Promissory Note, by and between KBSIII 500 West Madison, LLC and Deutsche Pfandbriefbank AG, dated November 2, 2020, incorporated by reference to Exhibit 10.8 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.44	Payment Guaranty Agreement, by and among KBS REIT Properties III, LLC and U.S. Bank National Association, dated November 2, 2020, incorporated by reference to Exhibit 10.9 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.45	Recourse Carve-Out Guaranty Agreement, by and among KBS REIT Properties III, LLC and U.S. Bank National Association, dated November 2, 2020, incorporated by reference to Exhibit 10.10 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.46	Environmental Indemnification Agreement, by and among KBSIII 500 West Madison, LLC and U.S. Bank National Association, dated November 2, 2020, incorporated by reference to Exhibit 10.11 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.47	Consent and Subordination of Management Agreements, by and among Transwestern Commercial Services Illinois, LLC, KBSIII 500 West Madison, LLC and U.S. Bank National Association, dated November 2, 2020, incorporated by reference to Exhibit 10.12 to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, filed November 16, 2020
10.48	Amended and Restated Promissory Note by and between KBSIII 500 West Madison, LLC and U.S. Bank National Association, dated March 1, 2021, incorporated by reference to Exhibit 10.43 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, filed March 12, 2021
10.49	Promissory Note by and between KBSIII 500 West Madison, LLC and National Bank of Kuwait S.A.K.P. dated March 1, 2021, incorporated by reference to Exhibit 10.44 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, filed March 12, 2021
10.50	Deed of Lease, by and between KBSIII 3003 Washington, LLC and KBS Realty Advisors, LLC, dated May 29, 2015, incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed August 13, 2015
10.51	First Amendment to Deed of Lease, by and between KBSIII 3003 Washington, LLC and KBS Realty Advisors, LLC, dated March 14, 2019, incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2019, filed May 15, 2019
21.1	Subsidiaries of the Company
23.1	Consent of Ernst & Young LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	March 2022 Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K, filed March 18, 2022
99.2	April 2022 Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K, filed April 14, 2022
99.3	Consent of Kroll, LLC

Ex.	Description
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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Consolidated Financial Statements

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Financial Statement Schedule

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
KBS Real Estate Investment Trust III, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of KBS Real Estate Investment Trust III, Inc. (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of real estate investments

Description of the Matter

The Company's real estate investments totaled \$1.9 billion as of December 31, 2022. As discussed in Note 2 to the consolidated financial statements, the Company monitors on an ongoing basis events and changes in circumstances that could indicate that the carrying amounts of its real estate and related intangible assets and liabilities may not be recoverable or realized. When indicators of potential impairment are present, the Company assesses the recoverability by estimating whether the Company will recover the carrying value of the real estate and related intangible assets and liabilities through its undiscounted future cash flows and eventual disposition of the property. If the carrying value of the real estate is determined to not be recoverable, the Company records an impairment loss to the extent that the carrying value exceeds the estimated fair value of the real estate and related intangible assets and liabilities.

Auditing the Company's process to evaluate real estate investments for impairment was especially challenging as a result of the high degree of judgment and subjectivity in determining whether indicators of impairment were present for certain properties, and in determining the future undiscounted cash flows and estimated fair values, where necessary, of properties where indicators of impairment were determined to be present. In particular, the undiscounted cash flows and fair value estimates were sensitive to significant assumptions including market rental rates and related leasing assumptions, capitalization rates and discount rates, which are affected by expectations about future market or economic conditions.

How We Addressed the Matter in Our Audit

To test the Company's real estate impairment assessment, our audit procedures included, among others, evaluating the significant judgments applied in determining whether indicators of impairment were present, obtaining evidence to corroborate such judgments and searching for evidence contrary to such judgments, evaluating the methodologies and testing the significant assumptions listed above used to estimate undiscounted cash flows and, where applicable, fair values for certain properties with identified higher impairment risk characteristics. We also held discussions with management about business plans for the assets and other judgments used in determining cash flow estimates for the assets, and compared information used in the impairment assessment to information included in materials presented to the Company's Board of Directors. Further, we compared significant assumptions used by management as listed above to current industry and economic trends, observable market-specific data, and historical results of the properties. In certain instances, we involved our internal real estate valuation specialists to assist in performing these procedures.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2010.

Irvine, California
March 13, 2023

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31,	
	2022	2021
Assets		
Real estate:		
Land	\$ 290,121	\$ 290,121
Buildings and improvements	2,235,676	2,090,983
Tenant origination and absorption costs	42,555	60,162
Total real estate held for investment, cost	2,568,352	2,441,266
Less accumulated depreciation and amortization	(656,401)	(572,968)
Total real estate, net	1,911,951	1,868,298
Real estate equity securities	87,416	180,228
Total real estate and real estate-related investments, net	1,999,367	2,048,526
Cash and cash equivalents	47,767	44,404
Restricted cash	6,070	2,032
Rents and other receivables, net	93,100	88,534
Above-market leases, net	262	348
Due from affiliates	10	343
Prepaid expenses and other assets	112,411	70,014
Total assets	\$ 2,258,987	\$ 2,254,201
Liabilities and equity		
Notes payable, net	\$ 1,667,288	\$ 1,465,398
Accounts payable and accrued liabilities	56,071	58,323
Due to affiliate	10,365	8,126
Distributions payable	7,374	7,735
Below-market leases, net	1,911	3,277
Other liabilities	60,918	48,780
Redeemable common stock payable	711	—
Total liabilities	1,804,638	1,591,639
Commitments and contingencies (Note 11)		
Redeemable common stock	32,681	42,369
Stockholders' equity:		
Preferred stock, \$.01 par value per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.01 par value per share; 1,000,000,000 shares authorized, 147,964,954 and 153,150,766 shares issued and outstanding as of December 31, 2022 and 2021, respectively	1,480	1,532
Additional paid-in capital	1,275,833	1,322,613
Cumulative distributions in excess of net income	(855,645)	(703,952)
Total stockholders' equity	421,668	620,193
Total liabilities and equity	\$ 2,258,987	\$ 2,254,201

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Years Ended December 31,		
	2022	2021	2020
Revenues:			
Rental income	\$ 275,026	\$ 280,144	\$ 282,527
Dividend income from real estate equity securities	14,850	—	—
Interest income from real estate loan receivable	—	—	5,666
Other operating income	18,141	16,617	18,725
Total revenues	<u>308,017</u>	<u>296,761</u>	<u>306,918</u>
Expenses:			
Operating, maintenance and management	74,783	68,806	71,470
Real estate taxes and insurance	51,811	57,687	57,234
Asset management fees to affiliate	20,102	19,832	20,990
General and administrative expenses	8,115	6,116	6,600
Depreciation and amortization	111,860	110,984	110,806
Interest expense	60,259	34,564	42,027
Net (gain) loss on derivative instruments	(51,932)	(5,263)	39,112
Impairment charges on real estate	—	—	19,896
Total expenses	<u>274,998</u>	<u>292,726</u>	<u>368,135</u>
Other income (loss):			
Unrealized (loss) gain on real estate equity securities	(92,812)	16,765	—
Write-off of prepaid offering costs	(2,728)	—	—
Other interest income	63	52	72
Equity in income (loss) of an unconsolidated entity	—	8,698	(465)
Loss from extinguishment of debt	—	(214)	(199)
Gain on sale of real estate, net	—	114,321	49,457
Total other (loss) income, net	<u>(95,477)</u>	<u>139,622</u>	<u>48,865</u>
Net (loss) income	<u>(62,458)</u>	<u>143,657</u>	<u>(12,352)</u>
Net income attributable to noncontrolling interest	—	—	(6,145)
Net (loss) income attributable to common stockholders	<u>\$ (62,458)</u>	<u>\$ 143,657</u>	<u>\$ (18,497)</u>
Net (loss) income per common share attributable to common stockholders, basic and diluted	<u>\$ (0.42)</u>	<u>\$ 0.83</u>	<u>\$ (0.10)</u>
Weighted-average number of common shares outstanding, basic and diluted	<u>149,164,231</u>	<u>172,330,821</u>	<u>182,806,753</u>

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST III, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amounts					
Balance, December 31, 2019	180,970,743	\$ 1,810	\$ 1,600,416	\$ (617,171)	\$ 985,055	\$ 255	\$ 985,310
Net (loss) income	—	—	—	(18,497)	(18,497)	6,145	(12,352)
Issuance of common stock	4,220,684	42	46,680	—	46,722	—	46,722
Transfers from redeemable common stock	—	—	4,981	—	4,981	—	4,981
Redemptions of common stock	(942,351)	(10)	(10,867)	—	(10,877)	—	(10,877)
Distributions declared	—	—	—	(109,322)	(109,322)	—	(109,322)
Other offering costs	—	—	(26)	—	(26)	—	(26)
Distribution to noncontrolling interest	—	—	—	—	—	(6,400)	(6,400)
Balance, December 31, 2020	184,249,076	\$ 1,842	\$ 1,641,184	\$ (744,990)	\$ 898,036	\$ —	\$ 898,036
Net income	—	—	—	143,657	143,657	—	143,657
Issuance of common stock	4,145,065	41	42,328	—	42,369	—	42,369
Transfers from redeemable common stock	—	—	4,354	—	4,354	—	4,354
Redemptions of common stock	(35,243,375)	(351)	(365,236)	—	(365,587)	—	(365,587)
Distributions declared	—	—	—	(102,619)	(102,619)	—	(102,619)
Other offering costs	—	—	(17)	—	(17)	—	(17)
Balance, December 31, 2021	153,150,766	\$ 1,532	\$ 1,322,613	\$ (703,952)	\$ 620,193	\$ —	\$ 620,193
Net loss	—	—	—	(62,458)	(62,458)	—	(62,458)
Issuance of common stock	3,434,632	34	33,357	—	33,391	—	33,391
Transfers from redeemable common stock	—	—	8,977	—	8,977	—	8,977
Redemptions of common stock	(8,620,444)	(86)	(89,097)	—	(89,183)	—	(89,183)
Distributions declared	—	—	—	(89,235)	(89,235)	—	(89,235)
Other offering costs	—	—	(17)	—	(17)	—	(17)
Balance, December 31, 2022	147,964,954	\$ 1,480	\$ 1,275,833	\$ (855,645)	\$ 421,668	\$ —	\$ 421,668

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2022	2021	2020
Cash Flows from Operating Activities:			
Net (loss) income	\$ (62,458)	\$ 143,657	\$ (12,352)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	111,860	110,984	110,806
Impairment charges on real estate	—	—	19,896
Noncash interest income on real estate loan receivable	—	—	(2,415)
Unrealized loss (gain) on real estate equity securities	92,812	(16,765)	—
Equity in (income) loss of unconsolidated entities	—	(8,698)	465
Distribution of operating cash flow from an unconsolidated entity	—	19,861	19,314
Deferred rents	(10,896)	(2,550)	(4,564)
Amortization of above- and below-market leases, net	(1,280)	(2,754)	(2,807)
Amortization of deferred financing costs	3,940	3,978	4,293
Unrealized (gains) losses on derivative instruments	(52,189)	(23,283)	25,165
Loss from extinguishment of debt	—	214	199
Gain on sale of real estate	—	(114,321)	(49,457)
Write-off of prepaid offering costs	2,728	—	—
Interest rate swap settlements for off-market swap instruments	(1,543)	3,031	476
Changes in operating assets and liabilities:			
Rents and other receivables	3,044	(5,005)	(2,698)
Due from affiliates	333	(343)	—
Prepaid expenses and other assets	(16,395)	(14,361)	(9,015)
Accounts payable and accrued liabilities	(2,598)	4,141	(6,696)
Due to affiliates	2,239	(500)	1,873
Other liabilities	6,368	3,513	9,247
Net cash provided by operating activities	<u>75,965</u>	<u>100,799</u>	<u>101,730</u>
Cash Flows from Investing Activities:			
Improvements to real estate	(121,568)	(70,131)	(87,630)
Proceeds from sale of real estate, net	—	237,683	25,091
Proceeds from payoff of real estate loan receivable	—	—	150,213
Proceeds from the sale of real estate equity securities	—	58,936	—
Payments for construction in progress	—	—	(3,277)
Origination costs on real estate loan receivable	—	—	(120)
Net cash (used in) provided by investing activities	<u>(121,568)</u>	<u>226,488</u>	<u>84,277</u>
Cash Flows from Financing Activities:			
Proceeds from notes payable	282,118	806,090	421,760
Principal payments on notes payable	(83,013)	(730,545)	(491,391)
Payments of deferred financing costs	(1,155)	(2,704)	(6,339)
Interest rate swap settlements for off-market swap instruments	569	(3,017)	(231)
Payments to redeem common stock	(89,183)	(365,587)	(10,877)
Payments of prepaid other offering costs	(110)	(1,180)	(1,159)
Payments of other offering costs	(17)	(17)	(26)
Distribution to noncontrolling interest	—	—	(6,400)
Distributions paid to common stockholders	(56,205)	(61,702)	(62,805)
Net cash provided by (used in) financing activities	<u>53,004</u>	<u>(358,662)</u>	<u>(157,468)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	7,401	(31,375)	28,539
Cash, cash equivalents and restricted cash, beginning of period	46,436	77,811	49,272
Cash, cash equivalents and restricted cash, end of period	<u>\$ 53,837</u>	<u>\$ 46,436</u>	<u>\$ 77,811</u>
Supplemental Disclosure of Cash Flow Information:			
Interest paid	<u>\$ 55,245</u>	<u>\$ 45,586</u>	<u>\$ 51,576</u>
Supplemental Disclosure of Noncash Investing and Financing Activities:			
Distributions payable	<u>\$ 7,374</u>	<u>\$ 7,735</u>	<u>\$ 9,187</u>
Distributions paid to common stockholders through common stock issuances pursuant to the dividend reinvestment plan	<u>\$ 33,391</u>	<u>\$ 42,369</u>	<u>\$ 46,722</u>
Redeemable common stock payable	<u>\$ 711</u>	<u>\$ —</u>	<u>\$ —</u>
Accrued improvements to real estate	<u>\$ 19,324</u>	<u>\$ 17,985</u>	<u>\$ 18,589</u>
Capital improvements paid by tenant	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,283</u>
Accrued prepaid other offering costs	<u>\$ —</u>	<u>\$ 19</u>	<u>\$ 782</u>
Financing of interest rate swap liability through off-market swap instruments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,156</u>
Accrued interest rate swap settlements related to off-market swap instruments	<u>\$ (974)</u>	<u>\$ 259</u>	<u>\$ 245</u>
Real estate equity securities reclassified from investment in unconsolidated entity	<u>\$ —</u>	<u>\$ 163,463</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

1. ORGANIZATION

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

Subject to certain restrictions and limitations, the business of the Company is externally managed by KBS Capital Advisors LLC (the “Advisor”), an affiliate of the Company, pursuant to an advisory agreement the Company entered into with the Advisor (the “Advisory Agreement”). On January 26, 2010, the Company issued 20,000 shares of its common stock to the Advisor at a purchase price of \$10.00 per share. As of December 31, 2022, the Advisor owned 20,857 shares of the Company’s common stock.

The Company owns a diverse portfolio of real estate investments. As of December 31, 2022, the Company owned 16 office properties, one mixed-use office/retail property and an investment in the equity securities of Prime US REIT, a Singapore real estate investment trust (the “SREIT”).

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

The Company sold 169,006,162 shares of common stock in the primary Offering for gross proceeds of \$1.7 billion. As of December 31, 2022, the Company had also sold 44,254,383 shares of common stock under its dividend reinvestment plan for gross offering proceeds of \$455.1 million. Also as of December 31, 2022, the Company had redeemed or repurchased 73,295,267 shares sold in the Offering for \$777.1 million.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

The consolidated financial statements include the accounts of the Company, REIT Holdings III, the Operating Partnership, their direct and indirect wholly owned subsidiaries, and through May 7, 2020, a joint venture in which the Company held a controlling interest. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements and 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.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the Company's prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods.

During the year ended December 31, 2022, the Company presented gains and losses on derivative instruments separate from interest expense on the Company's consolidated statement of operations. Accordingly, the Company's gains and losses on derivative instruments were reclassified for all periods presented.

Comprehensive Income (Loss)

Comprehensive income (loss) for each of the years ended December 31, 2022, 2021 and 2020 was equal to net income (loss) for these respective periods.

Revenue Recognition - Operating Leases

Real Estate

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

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

In accordance with ASU 2016-02, *Leases (Topic 842)* ("Topic 842"), tenant reimbursements for property taxes and insurance are included in the single lease component of the lease contract (the right of the lessee to use the leased space) and therefore are accounted for as variable lease payments and are recorded as rental income on the Company's statement of operations. In addition, the Company adopted the practical expedient available under Topic 842 to not separate nonlease components from the associated lease component and instead to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue recognition standard (Topic 606) and if certain conditions are met, specifically related to tenant reimbursements for common area maintenance which would otherwise be accounted for under the revenue recognition standard. The Company believes the two conditions have been met for tenant reimbursements for common area maintenance as (i) the timing and pattern of transfer of the nonlease components and associated lease components are the same and (ii) the lease component would be classified as an operating lease. Accordingly, tenant reimbursements for common area maintenance are also accounted for as variable lease payments and recorded as rental income on the Company's statement of operations.

In accordance with Topic 842, the Company makes a determination of whether the collectibility of the lease payments in an operating lease is probable. If the Company determines the lease payments are not probable of collection, the Company would fully reserve for any contractual lease payments, deferred rent receivable, and variable lease payments and would recognize rental income only to the extent cash has been received. These changes to the Company's collectibility assessment are reflected as an adjustment to rental income.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Sales of Real Estate

The Company follows the guidance of ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets* ("ASC 610-20"), which applies to sales or transfers to noncustomers of nonfinancial assets or in substance nonfinancial assets that do not meet the definition of a business. Generally, the Company's sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20.

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under ASC 610-20, if the Company determines it does not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, the Company would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer.

Real Estate Loan Receivable

Interest income on the Company's real estate loan receivable was recognized on an accrual basis over the life of the investment using the interest method. Direct loan origination fees and origination or acquisition costs, as well as premiums or discounts, were amortized over the term of the loan as an adjustment to interest income.

Real Estate Equity Securities

Dividend income from real estate equity securities is recognized on an accrual basis based on eligible units as of the ex-dividend date.

Cash and Cash Equivalents

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

Real Estate

Depreciation and Amortization

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

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

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Acquisition Valuation

The Company records the acquisition of income-producing real estate or real estate that will be used for the production of income as a business combination or an asset acquisition. If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, then the set is not a business. For purposes of this test, land and buildings can be combined along with the intangible assets for any in-place leases and accordingly, most acquisitions of investment properties would not meet the definition of a business and would be accounted for as an asset acquisition. To be considered a business, a set must include an input and a substantive process that together significantly contributes to the ability to create an output. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. For asset acquisitions, the cost of the acquisition is allocated to individual assets and liabilities on a relative fair value basis. Acquisition costs associated with business combinations are expensed as incurred. Acquisition costs associated with asset acquisitions are capitalized.

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

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

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

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

Subsequent to the acquisition of a property, the Company may incur and capitalize costs necessary to get the property ready for its intended use. During that time, certain costs such as legal fees, real estate taxes and insurance and financing costs are also capitalized.

Impairment of Real Estate and Related Intangible Assets and Liabilities

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its real estate and related intangible assets and liabilities may not be recoverable or realized. When indicators of potential impairment suggest that the carrying value of real estate and related intangible assets and liabilities may not be recoverable, the Company assesses the recoverability by estimating whether the Company will recover the carrying value of the real estate and related intangible assets and liabilities through its undiscounted future cash flows and its eventual disposition. If, based on this analysis, the Company does not believe that it will be able to recover the carrying value of the real estate and related intangible assets and liabilities, the Company would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of the real estate and related intangible assets and liabilities. The Company did not record any impairment loss on its real estate and related intangible assets during the years ended December 31, 2022 and 2021. During the year ended December 31, 2020, the Company recorded impairment losses of \$19.9 million on its real estate and related intangible assets. See Note 3, "Real Estate — Impairment of Real Estate."

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Held for Sale

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

Real Estate Equity Securities

Real estate equity securities are carried at fair value based on quoted market prices for the security. Unrealized gains and losses on real estate equity securities are recognized in earnings.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents may include cash and short term investments. Cash and cash equivalents are stated at cost, which approximates fair value. There are no restrictions on the use of the Company’s cash and cash equivalents as of December 31, 2022.

The Company’s cash and cash equivalents balance exceeds federally insurable limits as of December 31, 2022. The Company monitors the cash balances in its operating accounts and adjusts the cash balances as appropriate; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to cash in its operating accounts.

Restricted Cash

Restricted cash is composed of lender impound reserve accounts on the Company’s borrowings. In addition, restricted cash includes asset management fees restricted from payment to the Advisor pursuant to the Renewed Advisory Agreement and held in a separate account for purposes of the Bonus Retention Fund. See below under, “— Related Party Transactions — Asset Management Fee.”

Rents and Other Receivables

The Company makes a determination of whether the collectibility of the lease payments in its operating leases is probable. If the Company determines the lease payments are not probable of collection, the Company would fully reserve for any outstanding rent receivables related to contractual lease payments and variable leases payments, would write-off any deferred rent receivable and would recognize rental income only to the extent cash has been received. The Company exercises judgment in assessing collectibility and considers payment history, current credit status, the tenant’s financial condition, security deposits, letters of credit, lease guarantees and current market conditions that may impact the tenant’s ability to make payments in accordance with its lease agreements, including the impact of the continued disruptions in the financial markets on the tenant’s business, in making the determination.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Instruments

The Company enters into derivative instruments for risk management purposes to hedge its exposure to cash flow variability caused by changing interest rates on its variable rate notes payable. The Company records these derivative instruments at fair value on the accompanying consolidated balance sheets. The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria are recorded as gain or loss on derivative instruments and included in interest expense as presented in the accompanying consolidated statements of operations.

Fair Value Election of Hybrid Financial Instruments with Embedded Derivatives

When the Company enters into interest rate swaps which include off-market terms, the Company determines if these contracts are hybrid financial instruments with embedded derivatives requiring bifurcation between the host contract and the derivative instrument. The Company elected to initially and subsequently measure these hybrid financial instruments in their entirety at fair value with concurrent documentation of this election. Changes in the fair value of the hybrid financial instrument under this fair value election are recorded in earnings and are included in interest expense in the accompanying consolidated statements of operations. The cash flows for these off-market swap instruments which contain an other-than-insignificant financing element at inception are included in cash flows provided by or used in financing activities on the accompanying consolidated statements of cash flows.

Deferred Financing Costs

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

Fair Value Measurements

The Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other non-financial and financial assets at fair value on a non-recurring basis (e.g., carrying value of impaired real estate loans receivable and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Dividend Reinvestment Plan

The Company has adopted a dividend reinvestment plan pursuant to which common stockholders may elect to have all or a portion of their dividends and other distributions, exclusive of dividends and other distributions that the Company's board of directors designates as ineligible for reinvestment through the dividend reinvestment plan, reinvested in additional shares of the Company's common stock in lieu of receiving cash distributions. Participants in the dividend reinvestment plan acquire shares of the Company's common stock at a price equal to 95% of the estimated value per share of the Company's common stock, as determined by the Advisor or another firm chosen by the Company's board of directors for that purpose.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On December 4, 2019, the Company's board of directors approved an estimated value per share of the Company's common stock of \$11.65 (unaudited) based on the estimated value of the Company's assets less the estimated value of the Company's liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2019, with the exception of adjustments to the Company's net asset value to give effect to (i) the October 23, 2019 authorization of a special dividend of \$0.80 per share on the outstanding shares of common stock of the Company to the stockholders of record as of the close of business on November 4, 2019 (the "Special Dividend") and (ii) the change in the estimated value of the Company's investment in units of the SREIT (SGX-ST Ticker: "OXMU") as of December 3, 2019. The change in the dividend reinvestment plan purchase price was effective for the January 2, 2020 dividend reinvestment plan purchase date and was effective until the estimated value per share was updated. Commencing with the January 2, 2020 purchase date and until the estimated value per share was updated, the purchase price per share under the dividend reinvestment plan was \$11.07.

On December 7, 2020, the Company's board of directors approved an estimated value per share of the Company's common stock of \$10.74 (unaudited) based on the estimated value of the Company's assets less the estimated value of the Company's liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2020, with the exception of adjustments to the Company's net asset value to give effect to the change in the estimated value of the Company's investment in units of the SREIT (SGX-ST Ticker: "OXMU") as of December 1, 2020. The change in the dividend reinvestment plan purchase price was effective for the January 4, 2021 dividend reinvestment plan purchase date and was effective until the estimated value per share was updated. Commencing with the January 4, 2021 purchase date and until the estimated value per share was updated, the purchase price per share under the dividend reinvestment plan was \$10.21.

On May 13, 2021, the Company's board of directors approved an estimated value per share of the Company's common stock of \$10.77 (unaudited) based on the estimated value of the Company's assets less the estimated value of the Company's liabilities, or net asset value, divided by the number of shares outstanding, all as of March 31, 2021, with the exception of adjustments to the Company's net asset value to give effect to the change in the estimated value of the Company's investment in units of the SREIT (SGX-ST Ticker: OXMU) as of April 29, 2021. The change in the dividend reinvestment plan purchase price was effective for the June 1, 2021 dividend reinvestment plan purchase date and was effective until the estimated value per share was updated. Commencing with the June 1, 2021 purchase date and until the estimated value per share was updated, the purchase price per share under the dividend reinvestment plan was \$10.23.

On November 1, 2021, the Company's board of directors approved an estimated value per share of the Company's common stock of \$10.78 (unaudited) based on the estimated value of the Company's assets less the estimated value of the Company's liabilities, or net asset value, divided by the number of shares outstanding, all as of September 30, 2021, with the exception of adjustments to the Company's net asset value to give effect to (i) the change in the estimated value of the Company's investment in units of the SREIT (SGX-ST Ticker: "OXMU") as of October 22, 2021 and (ii) the contractual sales price less estimated disposition costs and fees of one property that was under contract to sell as of November 1, 2021. The change in the dividend reinvestment plan purchase price was effective for the December 1, 2021 dividend reinvestment plan purchase date and was effective until the estimated value per share was updated. Commencing with the December 1, 2021 purchase date and until the estimated value per share was updated, the purchase price per share under the dividend reinvestment plan was \$10.24.

On September 28, 2022, the Company's board of directors approved an estimated value per share of the Company's common stock of \$9.00 (unaudited) based on (i) appraisals of the Company's 17 real estate properties as of July 31, 2022, the estimated value of the Company's investment in units of the SREIT (SGX-ST Ticker: "OXMU") as of September 20, 2022 and the estimated value of the Company's other assets as of June 30, 2022 less (ii) the estimated value of the Company's liabilities as of June 30, 2022, all divided by the number of shares outstanding as of June 30, 2022. The change in the dividend reinvestment plan purchase price was effective for the October 3, 2022 dividend reinvestment plan purchase date and is effective until the estimated value per share is updated. Commencing with the October 3, 2022 purchase date and until the estimated value per share is updated, the purchase price per share under the dividend reinvestment plan is \$8.55.

No selling commissions or dealer manager fees will be paid on shares sold under the dividend reinvestment plan. The board of directors of the Company may amend or terminate the dividend reinvestment plan for any reason upon ten days' notice to participants.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Redeemable Common Stock

The Company's board of directors has adopted a share redemption program that may enable stockholders to sell their shares to the Company in limited circumstances. The restrictions of the Company's share redemption program will limit its stockholders' ability to sell their shares should they require liquidity and will limit the stockholders' ability to recover an amount equal to the Company's estimated value per share. The following is a description of the Company's share redemption program from January 1, 2020 through June 30, 2021 and the amendments to the program made by (i) the July 2021 amended and restated share redemption program (the "July 2021 Amended Share Redemption Program"), which became effective as of the July 30, 2021 redemption date, (ii) the March 2022 amended and restated share redemption program (the "March 2022 Amended Share Redemption Program"), which became effective as of the March 31, 2022 redemption date, and (iii) the April 2022 amended and restated share redemption program (the "April 2022 Amended Share Redemption Program"), which became effective as of the April 29, 2022 redemption date.

In December 2019, the Company's board of directors determined to temporarily suspend Ordinary Redemptions under the share redemption program, and Ordinary Redemptions remained suspended through June 30, 2021. Ordinary Redemptions are all redemptions other than those that qualify for the special provisions for redemptions sought in connection with a stockholder's death, "Qualifying Disability" or "Determination of Incompetence" (each as defined in the share redemption program and, together, "Special Redemptions"). Upon suspension, all Ordinary Redemption requests that had been received were cancelled and no Ordinary Redemption requests were accepted or collected during the suspension of the share redemption program. Further, on June 3, 2021, the Company announced that, in connection with the approval of the Self-Tender (defined below), the Company's board of directors approved a temporary suspension of all redemptions under the share redemption program, including Special Redemptions. Upon suspension, all outstanding redemption requests under the share redemption program were cancelled, and no requests were accepted or collected under the share redemption program. On July 14, 2021, the Company's board of directors approved the July 2021 Amended Share Redemption Program and Ordinary Redemptions and Special Redemptions resumed effective for the July 30, 2021 redemption date.

In order to provide stockholders with additional liquidity that was in excess of that permitted under the Company's share redemption program, on June 4, 2021, the Company commenced a self-tender offer (the "Self-Tender") for up to 33,849,130 shares of common stock at a price of \$10.34 per share, or approximately \$350.0 million of shares. On July 12, 2021, the Company accepted for purchase 26,375,383 shares properly tendered and not properly withdrawn at a purchase price of \$10.34 per share, or approximately \$272.7 million of shares, excluding fees and expenses relating to the tender offer.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There are several limitations on the Company's ability to redeem shares under the share redemption program:

- Unless the shares are being redeemed in connection with a Special Redemption, the Company may not redeem shares unless the stockholder has held the shares for one year.
- Except as provided otherwise for calendar years 2022 and 2021 only, during any calendar year, the share redemption program limits the number of shares the Company may redeem to those that the Company could purchase with the amount of net proceeds from the sale of shares under the dividend reinvestment plan during the prior calendar year, provided that once the Company has received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being \$10.0 million or less, the last \$10.0 million of available funds shall be reserved exclusively for Special Redemptions. Notwithstanding anything contained in the share redemption program to the contrary, the Company may increase or decrease the funding available for the redemption of shares pursuant to the program upon ten business days' notice to its stockholders.
- For calendar year 2022 only,
 - Prior to effectiveness of the March 2022 Amended Share Redemption Program, the Company could redeem only the number of shares that the Company could purchase with the amount of net proceeds from the sale of shares under the Company's dividend reinvestment plan during the prior calendar year, provided that once the Company had received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being \$10.0 million or less, the last \$10.0 million of available funds was reserved exclusively for Special Redemptions.
 - Upon effectiveness of the March 2022 Amended Share Redemption Program and prior to effectiveness of the April 2022 Amended Share Redemption Program, the Company could redeem only the number of shares that the Company could purchase with the amount of net proceeds from the sale of shares under the Company's dividend reinvestment plan during the prior calendar year, provided that once the Company had received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the calendar year, would result in the amount of remaining funds available for the redemption of additional shares in such calendar year being \$2.0 million or less, the last \$2.0 million of available funds was reserved exclusively for redemptions sought in connection with Special Redemptions.
 - Upon effectiveness of the April 2022 Amended Share Redemption Program, for calendar year 2022, the Company could redeem up to 5% of the weighted-average number of shares outstanding during the 2021 calendar year, provided that once the Company had received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the 2022 calendar year, would result in the number of remaining shares available for redemption in the 2022 calendar year being 500,000 or less, the last 500,000 shares available for redemption was reserved exclusively for redemptions sought in connection with a Special Redemption.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Pursuant to the July 2021 Amended Share Redemption Program, for calendar year 2021 only, the Company could redeem up to 5% of the weighted-average number of shares outstanding during the 2020 calendar year, provided that if the Company received requests for redemptions, whether in connection with Special Redemptions or otherwise, that if honored, and when combined with all prior redemptions made during the 2021 calendar year, would result in the number of remaining shares available for redemption in the 2021 calendar year being 500,000 or less, the last 500,000 shares available for redemption were reserved exclusively for Special Redemptions.
- During any calendar year, the Company may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- The Company has no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland 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.

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

From January 1, 2020 through June 30, 2021, Ordinary Redemptions were made at a price per share equal to 95% of the Company's most recent estimated value per share as of the applicable redemption date. Upon effectiveness of the July 2021 Amended Share Redemption Program and commencing with the July 30, 2021 redemption date, Ordinary Redemptions are made at a price per share equal to 96% of the Company's most recent estimated value per share as of the applicable redemption date.

On December 4, 2019, the Company's board of directors approved an estimated value per share of its common stock of \$11.65 (unaudited) as described above under "— Dividend Reinvestment Plan." This estimated value per share became effective for the December 2019 redemption date, which was December 31, 2019.

On December 7, 2020, the Company's board of directors approved an estimated value per share of its common stock of \$10.74 (unaudited) as described above under "— Dividend Reinvestment Plan." This estimated value per share became effective for the December 2020 redemption date, which was December 31, 2020.

On May 13, 2021, the Company's board of directors approved an estimated value per share of its common stock of \$10.77 (unaudited) as described above under "— Dividend Reinvestment Plan." This estimated value per share became effective for the May 2021 redemption date, which was May 28, 2021.

On November 1, 2021, the Company's board of directors approved an estimated value per share of its common stock of \$10.78 (unaudited) as described above under "— Dividend Reinvestment Plan." This estimated value per share became effective for the November 2021 redemption date, which was November 30, 2021.

On September 28, 2022, the Company's board of directors approved an estimated value per share of its common stock of \$9.00 (unaudited) as described above under "— Dividend Reinvestment Plan." This estimated value per share became effective for the October 2022 redemption date, which was October 31, 2022. The Company currently expects to utilize an independent valuation firm to update its estimated value per share no later than December 2023.

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

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company classifies financial instruments that represent a mandatory obligation of the Company to redeem shares as liabilities. The Company's redeemable common shares are considered redeemable at the option of the holder and, accordingly, the Company separately classifies an amount equal to the current maximum potential redemption obligation under the share redemption program as redeemable common stock on the consolidated balance sheet. When the Company determines it has a mandatory obligation to repurchase shares under the share redemption program, it reclassifies such obligations from temporary equity to a liability based upon their respective settlement values.

The Company may (a) amend, suspend or terminate the share redemption program for any reason, or (b) consistent with SEC guidance and interpretations, increase or decrease the funding available for the redemption of shares pursuant to the share redemption program, each upon ten business days' notice to the Company's stockholders. The Company may provide notice by including such information in a (i) Current Report on Form 8-K or in its annual or quarterly reports, all publicly filed with the SEC or (ii) separate mailing to the stockholders.

During the year ended December 31, 2022, the Company redeemed \$89.2 million of common stock. As of August 1, 2022, the Company had exhausted the funds available under the share redemption program for Ordinary Redemptions for calendar year 2022. All unsatisfied Ordinary Redemption requests for calendar year 2022 were cancelled. Subsequent to December 31, 2022, the Company's board of directors determined to suspend Ordinary Redemptions under the Company's share redemption program. See Note 12, "Subsequent Events – Suspension of Ordinary Redemptions." During the year ended December 31, 2022, the Company redeemed all Special Redemption requests received in good order and eligible for redemption through the December 2022 redemption date, except for Special Redemption requests for 79,063 shares or approximately \$0.7 million. The Company recorded \$0.7 million of redeemable common stock payable on the Company's balance sheet as of December 31, 2022 related to these unfulfilled Special Redemption requests. As of December 31, 2022, the Company had \$33.4 million available for redemptions in 2023 based on the share redemption program limitations as of December 31, 2022, including Special Redemptions.

Offering Costs

Direct and incremental costs related to the issuance of stock such as legal fees, printing costs and bankers' or underwriters' fees are accounted for as a reduction in the proceeds from the sale of the stock and accordingly, recorded as a reduction of equity in the Company's consolidated statements of equity. Prior to the effective date of an equity offering, these costs are deferred and included in prepaid expenses and other assets on the Company's consolidated balance sheets. The deferred costs of a subsequently aborted offering are expensed. During the year ended December 31, 2022, the Company wrote-off \$2.7 million of prepaid offering costs in connection with the withdrawal of the Company's Registration Statement on Form S-11 to offer additional shares under a proposed offering, which were included as an expense in the Company's consolidated statements of operations.

Related Party Transactions

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

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company records all related party fees as incurred, subject to any limitations described in the Advisory Agreement, the Dealer Manager Agreement or the AIP Reimbursement Agreement. See Note 10, “Related Party Transactions.”

Acquisition and Origination Fees

The Company pays the Advisor an acquisition fee equal to 1.0% of the cost of investments acquired, including the sum of the amount actually paid or allocated to the purchase, development, construction or improvement of such investments, acquisition expenses and any debt attributable to such investments. With respect to investments in and originations of loans, the Company pays an origination fee equal to 1.0% of the amount to be funded by the Company to acquire or originate mortgage, mezzanine, bridge or other loans, including any expenses related to such investments and any debt the Company uses to fund the acquisition or origination of these loans. The Company does not pay an acquisition fee with respect to investments in loans. No acquisition or origination fees were paid in connection with the Company’s investment in units of the SREIT or in connection with the Company’s origination of a real estate loan receivable in connection with providing seller financing in the sale of a multifamily apartment complex held through a consolidated joint venture (“Hardware Village”).

Operating Expenses

Under the Advisory Agreement, the Advisor has the right to seek reimbursement from the Company for all costs and expenses it incurs in connection with the provision of services to the Company, including the Company’s allocable share of the Advisor’s overhead, such as rent, employee costs, utilities, accounting software and cybersecurity costs. With respect to employee costs, and other than future payments pursuant to the Bonus Retention Fund (defined below), at this time, the Company reimburses the Advisor for the Company’s allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company. The Company currently does not reimburse the Advisor 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) and other than further payments pursuant to the Bonus Retention Fund, the Company does not reimburse the Advisor for the salaries and benefits the Advisor or its affiliates may pay to the Company’s executive officers and affiliated directors. In addition, 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.

Asset Management Fee

For asset management services, the Company pays the Advisor a monthly fee. With respect to investments in real property, the asset management fee is a monthly fee equal to one-twelfth of 0.75% of the amount paid or allocated to acquire the investment, plus the cost of any subsequent development, construction or improvements to the property. This amount includes any portion of the investment that was debt financed and is inclusive of acquisition expenses related thereto (but excludes acquisition fees paid or payable to the Advisor). In the case of investments made through joint ventures, the asset management fee is determined based on the Company’s proportionate share of the underlying investment (but excluding acquisition fees paid or payable to the Advisor). With respect to investments in loans and any investments other than real property, the asset management fee is a monthly fee calculated, each month, as one-twelfth of 0.75% of the lesser of (i) the amount actually paid or allocated to acquire or fund the loan or other investment (which amount includes any portion of the investment that was debt financed and is inclusive of acquisition or origination expenses related thereto, but is exclusive of acquisition or origination fees paid or payable to the Advisor) and (ii) the outstanding principal amount of such loan or other investment, plus the acquisition or origination expenses related to the acquisition or funding of such investment (excluding acquisition or origination fees paid or payable to the Advisor), as of the time of calculation. The Company currently does not pay any asset management fees in connection with the Company’s investment in the equity securities of the SREIT.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notwithstanding the foregoing on November 8, 2022, the Company and the Advisor renewed the Advisory Agreement and amended certain provisions related to the payment of asset management fees (the “Renewed Advisory Agreement”), among other provisions. Pursuant to the Renewed Advisory Agreement and until the Bonus Retention Fund (defined below) is fully funded, commencing with asset management fees accruing from October 1, 2022, the Company pays \$1.15 million of the monthly asset management fee to the Advisor in cash and the Company deposits the remainder of the monthly asset management fee into an interest bearing account in the Company’s name, which amounts will be paid to the Advisor from such account solely as reimbursement for payments made by the Advisor pursuant to the Advisor’s employee retention program (such account, the “Bonus Retention Fund”). The Company will be deemed to have fully funded the Bonus Retention Fund once the Company has deposited \$8.5 million in cash into such account, at which time the monthly asset management fee will be payable in full to the Advisor. Amounts deposited in the Bonus Retention Fund will not be due or paid by the Company to the Advisor unless the Company has received an invoice from the Advisor with a computation of the payments paid or to be paid by the Advisor to employees pursuant to the Advisor’s employee retention program for the applicable period. The Advisor has acknowledged and agreed that payments by the Advisor to employees under the Advisor’s employee retention program that are reimbursed by the Company from the Bonus Retention Fund will be conditioned on (a) the Company’s liquidation and dissolution; (b) a transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of the Company in which (i) the Company is not the surviving entity and (ii) the Advisor is no longer serving as an advisor or asset manager to the surviving entity in such transaction; (c) the sale or other disposition of all or substantially all of the Company’s assets; (d) the non-renewal or termination of the Renewed Advisory Agreement without cause; or (e) the termination of the employee without cause. To the extent the Bonus Retention Fund is not fully paid out to employees as set forth above, the Renewed Advisory Agreement provides that the residual amount will be deemed additional Deferred Asset Management Fees (defined below) and be treated in accordance with the provisions for payment of Deferred Asset Management Fees. Two of the Company’s executive officers, Jeff Waldvogel and Stacie Yamane, and one of the Company’s directors, Marc DeLuca, participate in and have been allocated awards under the Advisor’s employee retention program, which awards would only be paid as set forth above. As of December 31, 2022, the Company had deposited \$1.7 million into the Bonus Retention Fund and the Company had not made any payments to the Advisor from the Bonus Retention Fund.

Prior to entering the Renewed Advisory Agreement, the Advisory Agreement had provided that with respect to asset management fees accruing from March 1, 2014, the Advisor would defer, without interest, the Company’s obligation to pay asset management fees for any month in which the Company’s modified funds from operations (“MFFO”) for such month, as such term is defined in the practice guideline issued by the Institute of Portfolio Alternatives (“IPA”) in November 2010 and interpreted by the Company, excluding asset management fees, did not exceed the amount of distributions declared by the Company for record dates of that month. The Company remained obligated to pay the Advisor an asset management fee in any month in which the Company’s MFFO, excluding asset management fees, for such month exceeded the amount of distributions declared for the record dates of that month (such excess amount, an “MFFO Surplus”); however, any amount of such asset management fee in excess of the MFFO Surplus was deferred under the Advisory Agreement. If the MFFO Surplus for any month exceeded the amount of the asset management fee payable for such month, any remaining MFFO Surplus was applied to pay any asset management fee amounts previously deferred in accordance with the Advisory Agreement.

Pursuant to the Renewed Advisory Agreement, asset management fees accruing from October 1, 2022 are no longer subject to the deferral provision described above. Asset management fees that remained deferred as of September 30, 2022 are “Deferred Asset Management Fees.” As of September 30, 2022, Deferred Asset Management Fees totaled \$8.5 million. The Renewed Advisory Agreement also provides that the Company remains obligated to pay the Advisor outstanding Deferred Asset Management Fees in any month to the extent that MFFO for such month exceeds the amount of distributions declared for the record dates of that month (such excess amount, a “RMFFO Surplus”); provided however, that any amount of outstanding Deferred Asset Management Fees in excess of the RMFFO Surplus will continue to be deferred.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In addition, the Renewed Advisory Agreement provides that any and all Deferred Asset Management Fees that are unpaid will also be immediately due and payable upon the earlier of:

- (i) a listing of the Company's shares of common stock on a national securities exchange;
- (ii) the Company's liquidation and dissolution;
- (iii) a transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of the Company in which (y) the Company is not the surviving entity and (z) the Advisor is no longer serving as an advisor or asset manager to the surviving entity in such transaction; and
- (iv) the sale or other disposition of all or substantially all of the Company's assets.

The Renewed Advisory Agreement has a term expiring on September 27, 2023 but may be renewed for an unlimited number of successive one-year periods upon the mutual consent of the Company and the Advisor. The Renewed Advisory Agreement may be terminated (i) upon 60 days written notice without cause or penalty by either the Company (acting through the conflicts committee) or the Advisor or (ii) immediately by the Company for cause or upon the bankruptcy of the Advisor. If the Renewed Advisory Agreement is terminated without cause, then the Advisor will be entitled to receive from the Company any residual amount of the Bonus Retention Fund deemed to be additional Deferred Asset Management Fees, provided that upon such non-renewal or termination the Company does not retain an advisor in which the Advisor or its affiliates have a majority interest. Upon termination of the Renewed Advisory Agreement, all unpaid Deferred Asset Management Fees will automatically be forfeited by the Advisor, and if the Renewed Advisory Agreement is terminated for cause, any residual amount of the Bonus Retention Fund deemed to be additional Deferred Asset Management Fees will also automatically be forfeited by the Advisor.

Disposition Fee

For substantial assistance in connection with the sale of properties or other investments, the Company pays the Advisor or one of its affiliates 1.0% of the contract sales price of each property or other investment sold; provided, however, that if, in connection with such disposition, commissions are paid to third parties unaffiliated with the Advisor or one of its affiliates, the fee paid to the Advisor or one of its affiliates may not exceed the commissions paid to such unaffiliated third parties, and provided further that the disposition fees paid to the Advisor or one of its affiliates and unaffiliated third parties may not exceed 6.0% of the contract sales price. The Company will not pay a disposition fee upon the maturity, prepayment or workout of a loan or other debt-related investment, provided that if the Company takes ownership of a property as a result of a workout or foreclosure of a loan, the Company will pay a disposition fee upon the sale of such property. No disposition fees will be paid with respect to any sales of the Company's investment in units of the SREIT.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

The Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Neither the Company nor its subsidiaries has been assessed interest or penalties by any major tax jurisdictions. The Company's evaluations were performed for all open tax years through December 31, 2022. As of December 31, 2022, the returns for calendar years 2018 through 2021 remain subject to examination by major tax jurisdictions.

Per Share Data

Basic net income (loss) per share of common stock is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock issued and outstanding during such period. Diluted net income (loss) per share of common stock equals basic net income (loss) per share of common stock as there were no potentially dilutive securities outstanding during the years ended December 31, 2022, 2021 and 2020, respectively.

Distributions declared per common share were \$0.598, \$0.598 and \$0.598 during the years ended December 31, 2022, 2021 and 2020, respectively. Distributions declared per common share assumes each share was issued and outstanding each day that was a record date for distributions and were based on a monthly record date for each month during the period commencing January 2020 through December 2022. For each monthly record date for distributions during the period from January 1, 2020 through December 31, 2022, distributions were calculated at a rate of \$0.04983333 per share.

Segments

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

Square Footage, Occupancy and Other Measures

Square footage, occupancy, number of tenants and other measures, including annualized base rent and annualized base rent per square foot, used to describe real estate investments included in these notes to the consolidated financial statements are presented on an unaudited basis.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. In December 2022, the FASB issued ASU No. 2022-06, to extend the temporary accounting relief provided under ASU No. 2020-04 to December 31, 2024. 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 December 31, 2022, 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. Certain of the Company’s loan agreements, derivative instruments, and 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 not to designate its derivative instruments as a hedge.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

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* (“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 that do not result in a substantial increase in the rights of the Company as lessor 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 to 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 continues 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 granted a number of lease concessions related to the effects of the COVID-19 pandemic but these lease concessions did not have a material impact to the Company’s consolidated balance sheets as of December 31, 2022 and 2021 or consolidated statements of operations for the years ended December 31, 2022, 2021 and 2020. As of December 31, 2022, the Company had entered into lease amendments related to the effects of the COVID-19 pandemic, granting \$3.8 million of rent deferrals for the period from March 2020 through March 2023 and granting \$4.8 million in rental abatements.

As of December 31, 2022, the Company had \$0.6 million of receivables for lease payments that had been deferred as lease concessions related to the effects of the COVID-19 pandemic, of which \$0.3 million was reserved for payments not probable of collection, which were included in rent and other receivables, net on the accompanying consolidated balance sheet. For the years ended December 31, 2022, 2021 and 2020, the Company recorded \$2.1 million, \$1.2 million and \$1.5 million, respectively, of rental abatements granted to tenants as a result of the COVID-19 pandemic.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tenants may request additional lease concessions, in the form of rent deferrals or abatements, 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, which remain uncertain and cannot be predicted with confidence, including among other developments, potential changes in customer behavior, such as continued work-from-home arrangements, which increased as a result of the COVID-19 pandemic, and could materially and negatively impact the future demand for office space, resulting in slower overall leasing and an adverse impact to the Company's operations.

3. REAL ESTATE

As of December 31, 2022, the Company's real estate portfolio was composed of 16 office properties and one mixed-use office/retail property encompassing in the aggregate approximately 7.3 million rentable square feet. As of December 31, 2022, the Company's real estate portfolio was collectively 82% occupied. The following table summarizes the Company's investments in real estate as of December 31, 2022 (in thousands):

Property	Date Acquired	City	State	Property Type	Total Real Estate, at Cost ⁽¹⁾	Accumulated Depreciation and Amortization ⁽¹⁾	Total Real Estate, Net ⁽¹⁾
Town Center	03/27/2012	Plano	TX	Office	\$ 135,867	\$ (46,506)	\$ 89,361
McEwen Building	04/30/2012	Franklin	TN	Office	38,596	(10,469)	28,127
Gateway Tech Center	05/09/2012	Salt Lake City	UT	Office	34,914	(10,423)	24,491
60 South Sixth ⁽²⁾	01/31/2013	Minneapolis	MN	Office	172,062	(51,059)	121,003
Preston Commons	06/19/2013	Dallas	TX	Office	142,988	(36,576)	106,412
Sterling Plaza	06/19/2013	Dallas	TX	Office	91,751	(26,439)	65,312
201 Spear Street	12/03/2013	San Francisco	CA	Office	153,384	(36,246)	117,138
Accenture Tower	12/16/2013	Chicago	IL	Office	547,850	(141,298)	406,552
Ten Almaden	12/05/2014	San Jose	CA	Office	129,483	(35,776)	93,707
Towers at Emeryville	12/23/2014	Emeryville	CA	Office	221,712	(56,836)	164,876
3003 Washington Boulevard	12/30/2014	Arlington	VA	Office	154,855	(40,820)	114,035
Park Place Village	06/18/2015	Leawood	KS	Office/Retail	83,181	(9,844)	73,337
201 17th Street	06/23/2015	Atlanta	GA	Office	102,560	(29,875)	72,685
515 Congress	08/31/2015	Austin	TX	Office	134,216	(30,155)	104,061
The Almaden	09/23/2015	San Jose	CA	Office	194,934	(44,076)	150,858
3001 Washington Boulevard	11/06/2015	Arlington	VA	Office	60,947	(12,798)	48,149
Carillon	01/15/2016	Charlotte	NC	Office	169,052	(37,205)	131,847
					\$ 2,568,352	\$ (656,401)	\$ 1,911,951

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

⁽²⁾ This property was formerly known as RBC Plaza and was re-named 60 South Sixth in connection with the Company's re-branding strategy for this property.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

3. REAL ESTATE (CONTINUED)

As of December 31, 2022, the following property represented more than 10% of the Company's total assets:

Property	Location	Rentable Square Feet	Total Real Estate, Net (in thousands)	Percentage of Total Assets	Annualized Base Rent (in thousands) ⁽¹⁾	Average Annualized Base Rent per sq. ft.	Occupancy
Accenture Tower	Chicago, IL	1,457,724	\$ 406,552	18.0 %	\$ 35,544	\$ 27.99	87.1 %

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2022, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

Operating Leases

The Company's office and office/retail properties are leased to tenants under operating leases for which the terms and expirations vary. As of December 31, 2022, the leases, including leases that have been executed but not yet commenced, had remaining terms, excluding options to extend, of up to 16.4 years with a weighted-average remaining term of 5.6 years. Some of the leases have provisions to extend the term of the leases, options for early termination for all or a part of the leased premises after paying a specified penalty, and other terms and conditions as negotiated. The Company retains substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. Generally, upon the execution of a lease, the Company requires a security deposit from the tenant in the form of a cash deposit and/or a letter of credit. The amount required as a security deposit varies depending upon the terms of the respective lease and the creditworthiness of the tenant, but generally is not a significant amount. Therefore, exposure to credit risk exists to the extent that a receivable from a tenant exceeds the amount of its security deposit. Security deposits received in cash related to tenant leases are included in other liabilities in the accompanying consolidated balance sheets and totaled \$9.3 million and \$8.7 million as of December 31, 2022 and 2021, respectively.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized deferred rent from tenants of \$10.9 million, \$2.6 million and \$4.6 million, respectively. As of December 31, 2022 and 2021, the cumulative deferred rent balance was \$89.9 million and \$85.2 million, respectively, and is included in rents and other receivables on the accompanying balance sheets. The cumulative deferred rent balance included \$17.3 million and \$22.8 million of unamortized lease incentives as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, the future minimum rental income from the Company's properties under its non-cancelable operating leases was as follows (in thousands):

2023	\$	197,341
2024		191,131
2025		173,728
2026		154,790
2027		128,181
Thereafter		494,677
	<u>\$</u>	<u>1,339,848</u>

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

3. REAL ESTATE (CONTINUED)

As of December 31, 2022, the Company's office and office/retail properties were leased to approximately 560 tenants over a diverse range of industries and geographic areas. The Company's highest tenant industry concentrations (greater than 10% of annualized base rent) were as follows:

Industry	Number of Tenants	Annualized Base Rent ⁽¹⁾ (in thousands)	Percentage of Annualized Base Rent
Finance	114	\$ 39,354	18.5 %
Real Estate	54	21,822	10.2 %
		<u>\$ 61,176</u>	<u>28.7 %</u>

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of December 31, 2022, adjusted to straight-line any contractual tenant concessions (including free rent), rent increases and rent decreases from the lease's inception through the balance of the lease term.

As of December 31, 2022, no other tenant industries accounted for more than 10% of annualized base rent and no tenant accounted for more than 10% of annualized base rent.

Geographic Concentration Risk

As of December 31, 2022, the Company's net investments in real estate in California, Illinois and Texas represented 23.3%, 18.0% and 16.2% of the Company's total assets, respectively. As a result, the geographic concentration of the Company's portfolio makes it particularly susceptible to adverse economic developments in the California, Illinois and Texas real estate markets. Any adverse economic or real estate developments in these markets, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics and other factors, or any decrease in demand for office space resulting from the local business climate, could adversely affect the Company's operating results and its ability to pay distributions to stockholders.

Impairment of Real Estate

The Company did not record any impairment charges on its real estate properties during the years ended December 31, 2022 and 2021. During the year ended December 31, 2020, the Company recorded impairment charges of \$19.9 million to write down the carrying value of an office/retail property to its estimated fair value as a result of changes in cash flow estimates, including a change to the anticipated hold period of the property, which triggered the future estimated undiscounted cash flows to be lower than the net carrying value of the property. The decrease in cash flow projections was primarily due to the continued lack of demand for the property's retail component resulting in longer than estimated lease-up periods and lower projected rental rates, mostly due to the impact of the COVID-19 pandemic. As a result, many retail tenants requested rent concessions as their businesses had been severely impacted.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

4. REAL ESTATE DISPOSITIONS

During the year ended December 31, 2021, the Company sold two office properties to purchasers unaffiliated with the Company or the Advisor. In November 2021, the Company completed the sale of one office property for \$143.0 million, before third-party closing costs, closing credits and disposition fees payable to the Advisor, and in January 2021, the Company sold one office property for \$103.5 million, before third-party closing costs, credits and disposition fees payable to the Advisor. The Company recognized a gain on sale of \$114.3 million related to these dispositions. As of December 31, 2022, the Company did not have any real estate properties held for sale.

During the year ended December 31, 2020, the Company sold Hardware Village to a buyer unaffiliated with the joint venture, the Company or the Advisor for \$178.0 million, before third-party closing costs, credits and the disposition fee payable to the Advisor. The Company recognized a gain on sale of \$49.5 million related to the disposition of Hardware Village. In connection with the sale, the Company, through an indirect wholly owned subsidiary, provided seller financing to the purchaser by originating a real estate loan receivable, which was paid off in full in December 2020.

The results of operations for the properties sold during the years ended December 31, 2021 and 2020 are included in continuing operations on the Company's consolidated statements of operations. The following table summarizes certain revenues and expenses related to the Company's real estate properties that were sold during the years ended December 31, 2021 and 2020, which were included in continuing operations (in thousands):

	Years Ended December 31,		
	2022	2021	2020
Revenues			
Rental income	\$ —	\$ 8,262	\$ 14,169
Other operating income	—	92	1,168
Total revenues	<u>\$ —</u>	<u>\$ 8,354</u>	<u>\$ 15,337</u>
Expenses			
Operating, maintenance, and management	\$ —	\$ 242	\$ 4,091
Real estate taxes and insurance	—	137	2,040
Asset management fees to affiliate	—	412	1,509
General and administrative expenses	—	15	163
Depreciation and amortization	—	2,429	6,104
Interest expense	—	681	2,463
Total expenses	<u>\$ —</u>	<u>\$ 3,916</u>	<u>\$ 16,370</u>

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

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

As of December 31, 2022 and 2021, 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	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Cost	\$ 42,555	\$ 60,162	\$ 983	\$ 1,112	\$ (8,384)	\$ (15,395)
Accumulated Amortization	(29,524)	(41,387)	(721)	(764)	6,473	12,118
Net Amount	\$ 13,031	\$ 18,775	\$ 262	\$ 348	\$ (1,911)	\$ (3,277)

Increases (decreases) in net income as a result of amortization of the Company's tenant origination and absorption costs, above-market lease assets and below-market lease liabilities for the years ended December 31, 2022, 2021 and 2020 were as follows (in thousands):

	Tenant Origination and Absorption Costs			Above-Market Lease Assets			Below-Market Lease Liabilities		
	For the Years Ended December 31,			For the Years Ended December 31,			For the Years Ended December 31,		
	2022	2021	2020	2022	2021	2020	2022	2021	2020
Amortization	\$ (5,744)	\$ (8,175)	\$ (9,971)	\$ (86)	\$ (101)	\$ (117)	\$ 1,366	\$ 2,855	\$ 2,924

The remaining unamortized balance for these outstanding intangible assets and liabilities as of December 31, 2022 is estimated to be amortized for the years ending December 31 as follows (in thousands):

	Tenant Origination and Absorption Costs	Above-Market Lease Assets	Below-Market Lease Liabilities
2023	\$ (3,892)	\$ (73)	\$ 833
2024	(2,765)	(69)	534
2025	(2,311)	(68)	314
2026	(1,741)	(52)	198
2027	(1,033)	—	32
Thereafter	(1,289)	—	—
	\$ (13,031)	\$ (262)	\$ 1,911
Weighted-Average Remaining Amortization Period	4.5 years	3.7 years	2.9 years

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

6. REAL ESTATE EQUITY SECURITIES

Investment in Prime US REIT

In connection with the Company's sale of 11 properties to the SREIT on July 18, 2019 (the "Singapore Portfolio"), on July 19, 2019, the Company, through an indirect wholly owned subsidiary ("REIT Properties III"), acquired 307,953,999 units in the SREIT at a price of \$271.0 million, or \$0.88 per unit, representing a 33.3% ownership interest in the SREIT (such transactions, the "Singapore Transaction"). On August 21, 2019, REIT Properties III sold 18,392,100 of its units in the SREIT for \$16.2 million pursuant to an over-allotment option granted to the underwriters of the SREIT's offering, reducing REIT Properties III's ownership in the SREIT to 31.3% of the outstanding units of the SREIT as of that date. On November 9, 2021, REIT Properties III sold 73,720,000 of its units in the SREIT for \$58.9 million, net of fees and costs, reducing REIT Properties III's ownership in the SREIT to 18.5% of the outstanding units of the SREIT as of that date. As of December 31, 2022, REIT Properties III held 215,841,899 units of the SREIT which represented 18.2% of the outstanding units of the SREIT. As of December 31, 2022, the aggregate book value and fair value of the Company's investment in the units of the SREIT was \$87.4 million, which was based on the closing price of the SREIT units on the SGX-ST of \$0.405 per unit as of December 31, 2022.

For the period from July 19, 2019 through November 8, 2021, the Company concluded that based on its ownership interest, it exercised significant influence over the operations, financial policies and decision making with respect to the SREIT. Accordingly, the Company accounted for its investment in the SREIT during this period under the equity method of accounting. Income was allocated according to the Company's ownership interest at each month-end and recorded as equity income (loss) from unconsolidated entity. Any dividends received from the SREIT reduced the carrying amount of the investment.

On November 9, 2021, upon the Company's sale of 73,720,000 units in the SREIT, the Company determined that based on its ownership interest of 18.5% of the outstanding units of the SREIT as of that date, it no longer had significant influence over the operations, financial policies and decision making with respect to the SREIT. Accordingly, effective November 9, 2021, the Company's investment in the units of the SREIT represent an investment in marketable securities and is therefore presented at fair value at each reporting date based on the closing price of the SREIT units on the SGX-ST on that date and dividend income is recognized as it is declared based on eligible units as of the ex-dividend date. During the period from November 9, 2021 through December 31, 2021, the Company recorded an unrealized gain on real estate equity securities of \$16.8 million. During the year ended December 31, 2022, the Company recognized \$14.9 million of dividend income from its investment in the SREIT and recorded an unrealized loss on real estate equity securities of \$92.8 million.

During the period from January 1, 2021 through November 8, 2021, the Company recorded equity in income from an unconsolidated entity of \$8.7 million, related to its investment in the SREIT. Equity in income from an unconsolidated entity during the period from January 1, 2021 through November 8, 2021 included a gain of \$3.1 million related to the Company's sale of 73,720,000 units in the SREIT on November 9, 2021 and a gain of \$1.1 million to reflect the net effect to the Company's investment as a result of the net proceeds raised by the SREIT in a private offering in July 2021. During the year ended December 31, 2020, the Company recorded equity in loss from an unconsolidated entity of \$0.5 million, related to its investment in the SREIT. Equity in loss from an unconsolidated entity for the year ended December 31, 2020 included \$2.6 million related to the Company's share of net losses from the SREIT offset by a gain of \$2.1 million to reflect the net effect to the Company's investment as a result of the net proceeds raised by the SREIT in a private offering in February 2020.

During the period from January 1, 2021 through November 8, 2021 and for the year ended December 31, 2020, the Company received \$19.9 million and \$19.3 million, respectively, of dividends from its investment in the SREIT, which was recorded as a reduction of the Company's carrying value of its equity method investment. The Company elected to apply the nature of the distribution approach for purposes of presentation of the dividends on the statement of consolidated cash flows and classified the dividends received as operating activities on the statement of consolidated cash flows. The nature of the distribution approach requires the Company to classify distributions from equity method investments on the basis of the nature of the activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow of operating activities) or a return of investment (classified as a cash inflow from investing activities) when such information is available.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

7. NOTES PAYABLE

As of December 31, 2022 and 2021, the Company's notes payable consisted of the following (dollars in thousands):

	Book Value as of December 31, 2022	Book Value as of December 31, 2021	Contractual Interest Rate as of December 31, 2022 ⁽¹⁾	Effective Interest Rate as of December 31, 2022 ⁽¹⁾	Payment Type	Maturity Date ⁽²⁾
The Almaden Mortgage Loan ⁽³⁾	\$ 123,000	\$ 123,000	3.65%	3.65%	Interest Only	12/01/2023
201 Spear Street Mortgage Loan	125,000	125,000	One-month LIBOR + 1.45%	5.85%	Interest Only	01/05/2024
Carillon Mortgage Loan ⁽⁴⁾	88,800	105,800	One-month LIBOR + 1.40%	5.79%	Interest Only	04/11/2024
Modified Portfolio Revolving Loan Facility ⁽⁵⁾	249,145	196,595	One-month LIBOR + 1.50%	5.89%	Interest Only	03/01/2023
3001 & 3003 Washington Mortgage Loan ⁽⁶⁾	142,232	143,245	One-month LIBOR + 1.45%	5.84%	Principal & Interest	06/01/2024
Accenture Tower Revolving Loan ⁽⁷⁾	281,250	281,250	One-month LIBOR + 2.25%	6.64%	Interest Only	11/02/2023
Unsecured Credit Facility ⁽⁸⁾	37,500	37,500	One-month LIBOR + 2.10%	6.49%	Interest Only	07/30/2023
Amended and Restated Portfolio Loan Facility ⁽⁹⁾	559,468	459,900	One-month BSBY ⁽¹⁰⁾ + 1.80%	6.16%	Interest Only	11/03/2023
Park Place Village Mortgage Loan ⁽¹¹⁾	65,000	—	One-month Term SOFR + 1.95%	6.31%	Interest Only	08/31/2025
Total notes payable principal outstanding	\$ 1,671,395	\$ 1,472,290				
Deferred financing costs, net	(4,107)	(6,892)				
Total Notes Payable, net	<u>\$ 1,667,288</u>	<u>\$ 1,465,398</u>				

⁽¹⁾ Contractual interest rate represents the interest rate in effect under the loan as of December 31, 2022. Effective interest rate is calculated as the actual interest rate in effect as of December 31, 2022, consisting of the contractual interest rate and using interest rate indices as of December 31, 2022, where applicable. For information regarding the Company's derivative instruments, see Note 8, "Derivative Instruments."

⁽²⁾ Represents the maturity date as of December 31, 2022; subject to certain conditions, the maturity dates of certain loans may be extended beyond the dates shown. See below.

⁽³⁾ As of December 31, 2022, The Almaden Mortgage Loan has two 12-month extension options, subject to certain terms, conditions and fees as described in the loan documents. The Almaden Mortgage Loan bears interest at a fixed rate of 3.65% for the initial term of the loan and a floating rate of 350 basis points over one-month LIBOR during the extension options, subject to a minimum interest rate of 3.65%.

⁽⁴⁾ As of December 31, 2022, the borrowing capacity under the Carillon Mortgage Loan was \$111.0 million, of which \$88.8 million is term debt and \$22.2 million is revolving debt. As of December 31, 2022, the outstanding balance under the loan consisted of \$88.8 million of term debt. As of December 31, 2022, \$22.2 million of revolving debt remained available for future disbursements, subject to certain terms and conditions set forth in the loan documents.

⁽⁵⁾ As of December 31, 2022, the Modified Portfolio Revolving Loan Facility was secured by 515 Congress, the McEwen Building, Gateway Tech Center and 201 17th Street. As of December 31, 2022, the borrowing capacity under the Modified Portfolio Revolving Loan Facility was \$249.2 million, of which \$124.6 million is term debt and \$124.6 million is revolving debt. As of December 31, 2022, the outstanding balance under the loan consisted of \$124.6 million of term debt and \$124.6 million of revolving debt. As of December 31, 2022, the Modified Portfolio Revolving Loan Facility had two 12-month extension options, subject to certain terms, conditions and fees as described in the loan documents. Subsequent to December 31, 2022, the borrower under the Modified Portfolio Revolving Loan Facility entered into a modification agreement with the lender to convert the benchmark interest rate from LIBOR to Term SOFR. Effective March 1, 2023, the Modified Portfolio Revolving Loan Facility bears interest at Term SOFR plus 160 basis points per annum. In addition, the Company exercised one of the 12-month extension options, extending the maturity date of the Modified Portfolio Revolving Loan Facility to March 1, 2024.

⁽⁶⁾ Subsequent to December 31, 2022, the borrower under the 3001 & 3003 Washington Mortgage Loan entered into an amendment agreement with the lender to convert the benchmark interest rate from LIBOR to Term SOFR. Effective March 1, 2023, the 3001 & 3003 Washington Mortgage Loan bears interest at one-month Term SOFR plus 155 basis points per annum.

⁽⁷⁾ As of December 31, 2022, the outstanding balance under the Accenture Tower Revolving Loan consisted of \$281.3 million of term debt and an additional \$93.7 million of revolving debt remained available for future disbursements, subject to certain terms and conditions contained in the loan documents. As of December 31, 2022, the Accenture Tower Revolving Loan has two 12-month extension options, subject to certain terms and conditions contained in the loan documents. Subsequent to December 31, 2022, the borrower under the Accenture Tower Revolving Loan entered into a modification agreement with the lender to convert the benchmark interest rate from LIBOR to Term SOFR. Effective March 1, 2023, the Accenture Tower Revolving Loan bears interest at one-month Term SOFR plus 235 basis points per annum.

⁽⁸⁾ As of December 31, 2022, the borrowing capacity under the Unsecured Credit Facility was \$75.0 million, of which \$37.5 million is term debt and \$37.5 million is revolving debt. As of December 31, 2022, the outstanding balance under the Unsecured Credit Facility consisted of \$37.5 million of term debt and an additional \$37.5 million of revolving debt remained available for future disbursements, subject to certain terms and conditions contained in the loan documents. The Unsecured Credit Facility has one 12-month extension option, subject to certain terms and conditions contained in the loan documents.

⁽⁹⁾ As of December 31, 2022, the Amended and Restated Portfolio Loan Facility was secured by 60 South Sixth, Preston Commons, Sterling Plaza, Towers at Emeryville, Ten Almaden and Town Center. As of December 31, 2022, the borrowing capacity under the Amended and Restated Portfolio Loan Facility was \$613.2 million, of which \$459.9 million is term debt and \$153.3 million is revolving debt. As of December 31, 2022, the outstanding balance under the loan consisted of \$459.9 million of term debt and \$99.6 million of revolving debt. As of December 31, 2022, an additional \$53.7 million of revolving debt remained available for future disbursements, subject to certain terms and conditions contained in the loan documents. The Amended and Restated Portfolio Loan Facility has one 12-month extension option, subject to certain terms and conditions as described in the loan documents.

⁽¹⁰⁾ Bloomberg Short-Term Bank Yield Index ("BSBY").

⁽¹¹⁾ See below, "Recent Financing Transaction - Park Place Village Loan."

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

7. NOTES PAYABLE (CONTINUED)

The maturity dates of certain notes payable may be extended beyond their current maturity dates; however, the extension options are subject to certain terms and conditions contained in the loan documents some of which are more stringent than the Company’s current loan compliance tests. As a result, in order to qualify for certain loan extensions, the Company may be required to reduce the loan commitment amount or make paydowns on certain loans, which would reduce the Company’s liquidity. Additionally, continued increases in interest rates, reductions in real estate values and future tenant turnover in the portfolio will have a further impact on the Company’s ability to meet such tests and may further reduce the available liquidity under the Company’s loan agreements.

During the years ended December 31, 2022, 2021 and 2020, the Company’s interest expense related to notes payable was \$60.3 million, \$34.6 million and \$42.0 million, respectively. Included in interest expense was the amortization of deferred financing costs of \$3.9 million, \$4.0 million and \$4.3 million for the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022 and 2021, \$8.0 million and \$4.0 million of interest expense were payable, respectively.

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of December 31, 2022 (in thousands):

2023	\$	1,252,185
2024		354,210
2025		65,000
2026		—
2027		—
Thereafter		—
	<u>\$</u>	<u>1,671,395</u>

The Company’s notes payable contain financial debt covenants. As of December 31, 2022, the Company was in compliance with these debt covenants.

Recent Financing Transaction

Park Place Village Mortgage Loan

On September 1, 2022, the Company, through an indirect wholly owned subsidiary, entered into a three-year loan agreement with a lender unaffiliated with the Company or the Advisor, for a committed amount of \$65.0 million (the “Park Place Village Mortgage Loan”). The Park Place Village Mortgage Loan is secured by Park Place Village.

The Park Place Village Mortgage Loan matures on August 31, 2025, with two 12-month extension options, subject to certain terms and conditions contained in the loan documents. The Park Place Village Mortgage Loan bears interest at the forward-looking term rate based on the Secured Overnight Financing Rate (“Term SOFR”) plus 195 basis points per annum. Monthly payments are interest only during the initial term and the first extension option, with the remaining principal balance, all accrued and unpaid interest and all other sums due under the loan documents payable at maturity. During the second extension option, certain future monthly payments due under the Park Place Village Mortgage Loan also include amortizing principal payments. The Company has the right to repay the loan in part and in whole, without penalty or premium, at any time, subject to certain terms and conditions contained in the loan documents.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

8. DERIVATIVE INSTRUMENTS

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

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

As of December 31, 2022, the Company has entered into 20 interest rate swaps, which were not designated as hedging instruments. The following table summarizes the notional amount and other information related to the Company's interest rate swaps as of December 31, 2022 and 2021. The notional amount is an indication of the extent of the Company's involvement in each instrument at that time, but does not represent exposure to credit, interest rate or market risks (dollars in thousands):

Derivative Instruments	December 31, 2022		December 31, 2021		Reference Rate as of December 31, 2022	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 ⁽¹⁾	20	\$ 1,619,190	12	\$ 1,420,390	One-month LIBOR/ Fixed at 0.70% - 1.67% One-month Term SOFR/ Fixed at 2.38% - 3.92%	2.2%	2.0

⁽¹⁾ Includes eight forward interest rate swaps: (i) one forward interest rate swap in the amount of \$100.0 million will become effective on February 1, 2023 and mature on July 1, 2026, (ii) four forward interest rate swaps in the total amount of \$200.0 million will become effective on November 1, 2023 and mature on February 1, 2026, (iii) one forward interest rate swap in the amount of \$100.0 million will become effective on November 1, 2023 and mature on May 1, 2026, (iv) one forward interest rate swap in the amount of \$100.0 million will become effective on November 1, 2023 and mature on July 1, 2026 and (v) one forward interest rate swap in the amount of \$100.0 million will become effective on November 1, 2023 and mature on November 1, 2026.

The following table sets forth the fair value of the Company's derivative instruments as well as their classification on the consolidated balance sheets as of December 31, 2022 and 2021 (dollars in thousands):

Derivative Instruments	Balance Sheet Location	December 31, 2022		December 31, 2021	
		Number of Instruments	Fair Value	Number of Instruments	Fair Value
<i>Derivative instruments not designated as hedging instruments</i>					
Interest rate swaps	Prepaid expenses and other assets, at fair value ⁽¹⁾	18	\$ 40,216	5	\$ 757
Interest rate swaps	Other liabilities, at fair value ⁽²⁾	2	\$ (75)	7	\$ (12,805)

⁽¹⁾ Includes eight forward interest rate swaps. See footnote (1) to the table immediately above. As of December 31, 2022, prepaid expenses and other assets included a \$8.7 million asset related to the fair value of two off-market interest rate swaps determined to be hybrid financial instruments for which the Company elected to apply the fair value option. As of December 31, 2021, prepaid expenses and other assets included a \$0.1 million asset related to the fair value of an off-market interest rate swap determined to be a hybrid financial instrument for which the Company elected to apply the fair value option.

⁽²⁾ As of December 31, 2021, other liabilities included a \$2.1 million liability related to the fair value of an off-market interest rate swap determined to be a hybrid financial instrument for which the Company elected to apply the fair value option.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

8. DERIVATIVE INSTRUMENTS (CONTINUED)

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

	For the Years Ended December 31,		
	2022	2021	2020
<i>Derivatives not designated as hedging instruments</i>			
Realized loss recognized on interest rate swaps	\$ 7,152	\$ 18,020	\$ 13,947
Realized gain recognized on interest rate swaps	(6,895)	—	—
Unrealized (gain) loss on interest rate swaps ⁽¹⁾	(52,189)	(23,283)	25,165
Net (gain) loss on derivative instruments	<u>\$ (51,932)</u>	<u>\$ (5,263)</u>	<u>\$ 39,112</u>

⁽¹⁾ For the years ended December 31, 2022 and 2021, unrealized (gain) loss on interest rate swaps included a \$10.7 million and \$5.8 million unrealized gain, respectively, related to the change in fair value of two off-market interest rate swaps determined to be hybrid financial instruments for which the Company elected to apply the fair value option. For the year ended December 31, 2020, unrealized (gain) loss on interest rate swaps included a \$7.8 million unrealized loss related to the change in fair value of two off-market interest rate swaps determined to be hybrid financial instruments for which the Company elected to apply the fair value option.

9. FAIR VALUE DISCLOSURES

The following is a summary of the methods and assumptions used by management in estimating the fair value of each class of assets and liabilities for which it is practicable to estimate the fair value:

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

Real estate equity securities: At December 31, 2022, the Company's investment in the units of the SREIT was presented at fair value on the accompanying consolidated balance sheet. The fair value of the units of the SREIT was based on a quoted price in an active market on a major stock exchange. The Company classifies these inputs as Level 1 inputs.

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

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

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

9. FAIR VALUE DISCLOSURES (CONTINUED)

The following were the face values, carrying amounts and fair values of the Company's notes payable as of December 31, 2022 and 2021, which carrying amounts generally do not approximate the fair values (in thousands):

	December 31, 2022			December 31, 2021		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial liabilities:						
Notes payable	\$ 1,671,395	\$ 1,667,288	\$ 1,654,046	\$ 1,472,290	\$ 1,465,398	\$ 1,469,580

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

As of December 31, 2022, the Company measured the following assets and liabilities at fair value (in thousands):

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Real estate equity securities	\$ 87,416	\$ 87,416	\$ —	\$ —
Asset derivatives - interest rate swaps ⁽¹⁾	40,216	—	40,216	—
Liability derivatives - interest rate swaps	(75)	—	(75)	—

⁽¹⁾ Includes eight forward interest rate swaps. See Note 8, "Derivative Instruments." Also includes a \$8.7 million asset related to the fair value of two off-market interest rate swaps determined to be hybrid financial instruments for which the Company elected to apply the fair value option.

10. RELATED PARTY TRANSACTIONS

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

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

10. RELATED PARTY TRANSACTIONS (CONTINUED)

As of January 1, 2020, the Company, together with KBS REIT II, KBS Growth & Income REIT, the Dealer Manager, the Advisor and other KBS-affiliated entities, had entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage were shared. The cost of these lower tiers is allocated by the Advisor and its insurance broker among each of the various entities covered by the program, and is billed directly to each entity. In June 2022, the Company renewed its participation in the program, and the program is effective through June 30, 2023. At renewal on June 30, 2022, due to its liquidation, KBS REIT II elected to cease participation in the program and obtained separate insurance coverage.

Pursuant to the terms of these agreements, summarized below are the related-party costs incurred by the Company for the years ended December 31, 2022, 2021 and 2020, respectively, and any related amounts receivable and payable as of December 31, 2022 and 2021 (in thousands):

	Incurred Years Ended December 31,			Receivable as of December 31,		Payable as of December 31,		
	2022	2021	2020	2022	2021	2022	2021	
Expensed								
Asset management fees ⁽¹⁾	\$ 20,102	\$ 19,832	\$ 20,990	\$ —	\$ —	\$ 10,191	\$ 8,065	
Reimbursement of operating expenses ⁽²⁾	325	577	479	10	343	174	61	
Disposition fees ⁽³⁾	—	2,426	1,715	—	—	—	—	
Capitalized								
Acquisition fee on development project	—	—	34	—	—	—	—	
	<u>\$ 20,427</u>	<u>\$ 22,835</u>	<u>\$ 23,218</u>	<u>\$ 10</u>	<u>\$ 343</u>	<u>\$ 10,365</u>	<u>\$ 8,126</u>	

⁽¹⁾ See "Asset Management Fees" below and under Note 2, "Summary of Significant Accounting Policies— Related Party Transactions—Asset Management Fee."

⁽²⁾ Reimbursable operating expenses primarily consists of internal audit personnel costs, accounting software costs 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 \$163,000, \$428,000 and \$338,000 for the years ended December 31, 2022, 2021 and 2020, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement for the years ended December 31, 2022, 2021 and 2020. The Company currently does not reimburse for employee costs in connection with services for which the Advisor earns acquisition or origination fees or disposition fees (other than reimbursement of travel and communication expenses) and other than future payments pursuant to the Bonus Retention Fund (see Note 2, "Summary of Significant Accounting Policies— Related Party Transactions—Asset Management Fee"), the Company does not reimburse the Advisor for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers and affiliated directors. 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. As of December 31, 2021, the Company was charged \$0.8 million by certain vendors for services for which the Company believes it was either overcharged or which were never performed. Additionally, during the year ended December 31, 2022, the Company incurred \$1.6 million of legal and accounting costs related to the investigation of this matter. The Advisor agreed to reimburse the Company for any amounts inappropriately charged to the Company for these vendor services, including legal and accounting costs incurred related to the investigation of this matter. As of December 31, 2021, the Company had recorded a receivable of \$0.3 million related to the reimbursement of these overpayments and also recorded a credit against the liability for asset management fees that were deferred in prior periods of \$0.5 million that would have been due by the Company to the Advisor in those periods as a result of the increase in the Company's net income and MFFO for such periods, and corresponding decrease in expenses, related to the charges that the Company should not have incurred. As of December 31, 2022, the Advisor had reimbursed the Company \$1.9 million in cash for amounts inappropriately charged to the Company and for legal and accounting costs related to the investigation of this matter and the Company recorded an additional receivable of \$10,000 from the Advisor as of December 31, 2022 for this matter.

⁽³⁾ 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.

In connection with the Offering, Messrs. Bren, Hall, McMillan and Schreiber agreed to provide additional indemnification to one of the participating broker-dealers. The Company agreed to add supplemental coverage to its directors' and officers' insurance coverage to insure Messrs. Bren, Hall, McMillan and Schreiber's obligations under this indemnification agreement in exchange for reimbursement by Messrs. Bren, Hall, McMillan and Schreiber to the Company for all costs, expenses and premiums related to this supplemental coverage. During each of the years ended December 31, 2022, 2021 and 2020, the Advisor incurred \$0.1 million for the costs of the supplemental coverage obtained by the Company.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

10. RELATED PARTY TRANSACTIONS (CONTINUED)

Asset Management Fees

As of December 31, 2022 and 2021, the Company had accrued \$10.2 million and \$8.1 million of asset management fees, respectively, of which \$8.5 million and \$6.4 million were Deferred Asset Management Fees as of December 31, 2022 and 2021, respectively. In addition, for the year ended December 31, 2022, the Company accrued \$1.7 million of asset management fees that were restricted for payment pursuant to the Renewed Advisory Agreement related to the Bonus Retention Fund. For information regarding Deferred Asset Management Fees and the Bonus Retention Fund, see Note 2, “Summary of Significant Accounting Policies— Related Party Transactions—Asset Management Fee.” For the year ended December 31, 2022, the Company and the Advisor agreed to adjust MFFO for the purpose of the calculation above to add back the following non-operating expenses: a one-time write-off of prepaid offering costs of \$2.7 million and a \$0.5 million fee to the conflicts committee’s financial advisor in connection with the conflicts committee’s review of alternatives available to the Company.

Lease to Affiliate

On May 29, 2015, the indirect wholly owned subsidiary (the “Lessor”) of the Company that owns 3003 Washington Boulevard entered into a lease with an affiliate of the Advisor (the “Lessee”) for 5,046 rentable square feet, or approximately 2.4% of the total rentable square feet, at 3003 Washington Boulevard. The lease commenced on October 1, 2015 and was amended on March 14, 2019 (the “Amended Lease”) to extend the lease period commencing on September 1, 2019 and terminating on August 31, 2024 and set the annual base rent during the extension period. The annualized base rent from the commencement of the Amended Lease is approximately \$0.3 million, and the average annual rental rate (net of rental abatements) over the term of the Amended Lease through its termination is \$62.55 per square foot.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized \$0.3 million, \$0.3 million and \$0.3 million of revenue related to this lease, respectively.

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

Portfolio Sale

On July 18, 2019, the Company sold the Singapore Portfolio to the SREIT, which is affiliated with Charles J. Schreiber, Jr., a director and executive officer of the Company. See Note 6, “Real Estate Equity Securities” for information related to the Company’s investment in the SREIT. The SREIT is externally managed by an entity (the “Manager”) in which Charles J. Schreiber, Jr. currently holds an indirect ownership interest. Mr. Schreiber is also a former director of the Manager. The SREIT pays the Manager an annual base fee of 10% of annual distributable income and an annual performance fee of 25% of the increase in distributions per unit of the SREIT from the preceding year. For acquisitions other than the Singapore Portfolio, the SREIT pays the Manager an acquisition fee of 1% of the acquisition price. The SREIT will also pay the Manager a divestment fee of 0.5% of the sale price of any real estate sold and a development management fee of 3% of the total project costs incurred for development projects. A portion of the fees paid to the Manager are paid to KBS Realty Advisors LLC, an entity controlled by Mr. Schreiber, for sub-advisory services. The Schreiber Trust, a trust whose beneficiaries are Charles J. Schreiber, Jr. and his family members, and the Linda Bren 2017 Trust also acquired units in the SREIT. The Schreiber Trust agreed it will not sell any portion of its units in the SREIT unless it has received the consent of the Company’s conflicts committee. The Linda Bren 2017 Trust has agreed it will not sell \$5.0 million of its investment in the SREIT unless it has received the consent of the Company’s conflicts committee.

During the years ended December 31, 2022, 2021 and 2020, no other business transactions occurred between the Company and KBS REIT II, KBS Growth & Income REIT, the Advisor, the Dealer Manager or other KBS-affiliated entities.

KBS REAL ESTATE INVESTMENT TRUST III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

11. COMMITMENTS AND CONTINGENCIES

Economic Dependency

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

Legal Matters

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

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 December 31, 2022.

12. SUBSEQUENT EVENTS

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

Distributions Paid

On January 3, 2023, the Company paid distributions of \$7.4 million, which related to distributions in the amount of \$0.04983333 per share of common stock to stockholders of record as of the close of business on December 20, 2022. On February 1, 2023, the Company paid distributions of \$5.7 million, which related to distributions in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on January 20, 2023. On March 1, 2023, the Company paid distributions of \$5.7 million, which related to distributions in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on February 20, 2023.

Distributions Authorized

On March 10, 2023, the Company's board of directors authorized a March 2023 distribution in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on March 20, 2023, which the Company expects to pay in April 2023, and an April 2023 distribution in the amount of \$0.03833333 per share of common stock to stockholders of record as of the close of business on April 20, 2023, which the Company expects to pay in May 2023.

Investors may choose to receive cash distributions or purchase additional shares through the Company's dividend reinvestment plan.

Suspension of Ordinary Redemptions

On January 17, 2023, the Company's board of directors determined to suspend Ordinary Redemptions under the Company's share redemption program.

All Ordinary Redemption requests that have been received were canceled. Further, no Ordinary Redemptions will be accepted or collected during the suspension of the share redemption program. However, any redemptions sought in connection with and meeting the requirements for Special Redemptions will still be eligible and will continue to be processed in accordance with the current share redemption program.

KBS REAL ESTATE INVESTMENT TRUST III, INC.

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION

December 31, 2022

(dollar amounts in thousands)

Description	Location	Ownership Percent	Encumbrances	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition ⁽²⁾	Gross Amount at which Carried at Close of Period			Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
				Land	Building and Improvements ⁽¹⁾	Total		Land	Building and Improvements ⁽¹⁾	Total ⁽³⁾			
Town Center	Plano, TX	100%	⁽⁴⁾	\$ 7,428	\$ 108,547	\$ 115,975	\$ 19,892	\$ 7,428	\$ 128,439	\$ 135,867	\$ (46,506)	2001/2002/2006	03/27/2012
McEwen Building	Franklin, TN	100%	⁽⁵⁾	5,600	34,704	40,304	(1,708)	5,600	32,996	38,596	(10,469)	2009	04/30/2012
Gateway Tech Center	Salt Lake City, UT	100%	⁽⁵⁾	5,617	20,051	25,668	9,246	5,617	29,297	34,914	(10,423)	1909	05/09/2012
60 South Sixth ⁽⁶⁾	Minneapolis, MN	100%	⁽⁴⁾	16,951	109,191	126,142	45,920	16,951	155,111	172,062	(51,059)	1991	01/31/2013
Preston Commons	Dallas, TX	100%	⁽⁴⁾	17,188	96,330	113,518	29,470	17,188	125,800	142,988	(36,576)	1958/1986	06/19/2013
Sterling Plaza	Dallas, TX	100%	⁽⁴⁾	6,800	68,292	75,092	16,659	6,800	84,951	91,751	(26,439)	1984	06/19/2013
201 Spear Street	San Francisco, CA	100%	\$ 125,000	40,279	85,941	126,220	27,164	40,279	113,105	153,384	(36,246)	1984	12/03/2013
Accenture Tower	Chicago, IL	100%	281,250	49,306	370,662	419,968	127,882	49,306	498,544	547,850	(141,298)	1987	12/16/2013
Ten Almaden	San Jose, CA	100%	⁽⁴⁾	7,000	110,292	117,292	12,191	7,000	122,483	129,483	(35,776)	1988	12/05/2014
Towers at Emeryville	Emeryville, CA	100%	⁽⁴⁾	35,774	147,167	182,941	38,771	35,774	185,938	221,712	(56,836)	1972/1975/1985	12/23/2014
3003 Washington Boulevard	Arlington, VA	100%	⁽⁷⁾	18,800	129,820	148,620	6,235	18,800	136,055	154,855	(40,820)	2014	12/30/2014
Park Place Village	Leawood, KS	100%	65,000	11,009	117,070	128,079	(44,898)	8,101	75,080	83,181	(9,844)	2007	06/18/2015
201 17th Street	Atlanta, GA	100%	⁽⁵⁾	5,277	86,859	92,136	10,424	5,277	97,283	102,560	(29,875)	2007	06/23/2015
515 Congress	Austin, TX	100%	⁽⁵⁾	8,000	106,261	114,261	19,955	8,000	126,216	134,216	(30,155)	1975	08/31/2015
The Almaden	San Jose, CA	100%	123,000	29,000	130,145	159,145	35,789	29,000	165,934	194,934	(44,076)	1980/1981	09/23/2015
3001 Washington Boulevard	Arlington, VA	100%	⁽⁷⁾	9,900	41,551	51,451	9,496	9,900	51,047	60,947	(12,798)	2015	11/06/2015
Carillon	Charlotte, NC	100%	88,800	19,100	126,979	146,079	22,973	19,100	149,952	169,052	(37,205)	1991	01/15/2016
TOTAL				<u>\$ 293,029</u>	<u>\$ 1,889,862</u>	<u>\$2,182,891</u>	<u>\$ 385,461</u>	<u>\$ 290,121</u>	<u>\$ 2,278,231</u>	<u>\$2,568,352</u>	<u>\$ (656,401)</u>		

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

⁽²⁾ Costs capitalized subsequent to acquisition is net of impairment charges, write-offs of fully depreciated/amortized assets and property damage.

⁽³⁾ The aggregate cost of real estate for federal income tax purposes was \$2.8 billion (unaudited) as of December 31, 2022.

⁽⁴⁾ As of December 31, 2022, these properties served as the security for the Amended and Restated Portfolio Loan Facility, which had an outstanding principal balance of \$559.5 million.

⁽⁵⁾ As of December 31, 2022, these properties served as the security for the Modified Portfolio Revolving Loan Facility, which had an outstanding principal balance of \$249.1 million.

⁽⁶⁾ This property was formerly known as RBC Plaza and was re-named 60 South Sixth in connection with the Company's re-branding strategy for this property.

⁽⁷⁾ As of December 31, 2022, these properties served as the security for the 3001 & 3003 Washington Mortgage Loan, which had an outstanding principal balance of \$142.2 million.

KBS REAL ESTATE INVESTMENT TRUST III, INC.

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION AND AMORTIZATION (CONTINUED)

December 31, 2022

(dollar amounts in thousands)

	2022	2021	2020
Real Estate:			
Balance at the beginning of the year	\$ 2,441,266	\$ 2,554,572	\$ 2,625,002
Improvements	144,693	69,527	96,191
Write off of fully depreciated and fully amortized assets	(17,607)	(15,502)	(18,832)
Impairments	—	—	(19,395)
Sale	—	(167,331)	(128,394)
Balance at the end of the year	<u>\$ 2,568,352</u>	<u>\$ 2,441,266</u>	<u>\$ 2,554,572</u>
Accumulated depreciation and amortization:			
Balance at the beginning of the year	\$ (572,968)	\$ (525,629)	\$ (449,381)
Depreciation and amortization expense	(101,040)	(100,036)	(100,162)
Write off of fully depreciated and fully amortized assets	17,607	15,502	18,832
Sale	—	37,195	5,082
Balance at the end of the year	<u>\$ (656,401)</u>	<u>\$ (572,968)</u>	<u>\$ (525,629)</u>

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newport Beach, State of California, on March 13, 2023.

KBS REAL ESTATE INVESTMENT TRUST III, INC.

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

Charles J. Schreiber, Jr.

Chief Executive Officer, President and Director

(principal executive officer)

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ CHARLES J. SCHREIBER, JR.</u> Charles J. Schreiber, Jr.	Chief Executive Officer, President and Director (principal executive officer)	March 13, 2023
<u>/s/ JEFFREY K. WALDVOGEL</u> Jeffrey K. Waldvogel	Chief Financial Officer, Treasurer and Secretary (principal financial officer)	March 13, 2023
<u>/s/ STACIE K. YAMANE</u> Stacie K. Yamane	Chief Accounting Officer and Assistant Secretary (principal accounting officer)	March 13, 2023
<u>/s/ MARC DELUCA</u> Marc DeLuca	Chairman of the Board and Director	March 13, 2023
<u>/s/ JEFFREY A. DRITLEY</u> Jeffrey A. Dritley	Director	March 13, 2023
<u>/s/ STUART A. GABRIEL, PH.D.</u> Stuart A. Gabriel, Ph.D.	Director	March 13, 2023
<u>/s/ ROBERT MILKOVICH</u> Robert Milkovich	Director	March 13, 2023
<u>/s/ RON D. STURZENEGGER</u> Ron D. Sturzenegger	Director	March 13, 2023

