

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018
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 000-55424

KBS STRATEGIC OPPORTUNITY REIT II, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of
Incorporation or Organization)

800 Newport Center Drive, Suite 700
Newport Beach, California

(Address of Principal Executive Offices)

46-2822978

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

92660

(Zip Code)

(949) 417-6500

(Registrant's Telephone Number, Including Area Code)

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

As of August 7, 2018, there were 17,853,044 and 11,980,251 outstanding shares of Class A and Class T common stock, respectively, of KBS Strategic Opportunity REIT II, Inc.

KBS Strategic Opportunity REIT II, Inc.

FORM 10-Q

June 30, 2018

INDEX

PART I.	FINANCIAL INFORMATION	2
Item 1.	Financial Statements	2
	Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017	2
	Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2018 and 2017	3
	Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the Three and Six Months Ended June 30, 2018 and 2017	4
	Consolidated Statements of Equity for the Year Ended December 31, 2017 and the Six Months Ended June 30, 2018 (unaudited)	5
	Consolidated Statement of Cash Flows (unaudited) for the Six Months Ended June 30, 2018 and 2017	6
	Condensed Notes to Consolidated Financial Statements as of June 30, 2018 (unaudited)	7
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	48
Item 4.	Controls and Procedures	49
PART II.	OTHER INFORMATION	50
Item 1.	Legal Proceedings	50
Item 1A.	Risk Factors	50
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3.	Defaults upon Senior Securities	53
Item 4.	Mine Safety Disclosures	53
Item 5.	Other Information	53
Item 6.	Exhibits	54
	SIGNATURES	55

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	June 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Real estate, net	\$ 529,187	\$ 530,440
Real estate equity securities	7,300	—
Real estate loan receivable, net	—	3,500
Total real estate and real estate-related investments, net	536,487	533,940
Cash and cash equivalents	27,134	29,031
Restricted cash	7,056	6,022
Investment in unconsolidated entity	2,732	2,698
Rents and other receivables	6,241	3,265
Above-market leases, net	74	83
Prepaid expenses and other assets	8,231	7,476
Total assets	<u>\$ 587,955</u>	<u>\$ 582,515</u>
Liabilities and equity		
Notes payable, net	\$ 328,674	\$ 328,351
Accounts payable and accrued liabilities	7,357	6,845
Due to affiliates	1,535	1,862
Distributions payable	374	366
Below-market leases, net	8,951	10,783
Other liabilities	13,861	12,399
Total liabilities	<u>360,752</u>	<u>360,606</u>
Commitments and contingencies (Note 12)		
Redeemable common stock	1,846	2,611
Equity		
KBS Strategic Opportunity REIT II, Inc. stockholders' equity		
Preferred stock, \$.01 par value per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Class A common stock, \$.01 par value per share; 500,000,000 shares authorized, 17,619,873 and 16,888,940 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	176	169
Class T common stock, \$.01 par value per share; 500,000,000 shares authorized, 11,770,887 and 11,031,895 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	118	110
Additional paid-in capital	259,191	245,077
Cumulative distributions and net losses	(47,614)	(39,657)
Accumulated other comprehensive income	134	202
Total KBS Strategic Opportunity REIT II, Inc. stockholders' equity	<u>212,005</u>	<u>205,901</u>
Noncontrolling interests	13,352	13,397
Total equity	<u>225,357</u>	<u>219,298</u>
Total liabilities and equity	<u>\$ 587,955</u>	<u>\$ 582,515</u>

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

**KBS STRATEGIC OPPORTUNITY REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Office revenues	\$ 7,361	\$ 1,782	\$ 14,960	\$ 3,606
Hotel revenues	10,263	6,470	15,773	11,313
Apartment revenues	1,803	1,699	3,519	3,438
Dividend income from real estate equity securities	36	—	36	—
Interest income from real estate loan receivable	—	101	10	200
Total revenues	<u>19,463</u>	<u>10,052</u>	<u>34,298</u>	<u>18,557</u>
Expenses:				
Office expenses	3,039	597	5,710	1,177
Hotel expenses	6,265	4,788	11,055	9,032
Apartment expenses	965	862	1,882	1,698
Asset management fees to affiliate	986	577	1,920	1,081
General and administrative expenses	604	772	1,244	1,346
Depreciation and amortization	5,069	2,614	10,172	5,467
Interest expense	3,407	1,834	6,304	3,544
Total expenses	<u>20,335</u>	<u>12,044</u>	<u>38,287</u>	<u>23,345</u>
Other income:				
Other interest income	91	193	152	289
Equity in income of unconsolidated entity	116	13	131	26
Unrealized gain on real estate equity securities	400	—	314	—
Total other income	<u>607</u>	<u>206</u>	<u>597</u>	<u>315</u>
Net loss before income taxes	<u>(265)</u>	<u>(1,786)</u>	<u>(3,392)</u>	<u>(4,473)</u>
Income tax benefit	—	428	9	437
Net loss	<u>(265)</u>	<u>(1,358)</u>	<u>(3,383)</u>	<u>(4,036)</u>
Net (income) loss attributable to noncontrolling interests	(39)	78	213	308
Net loss attributable to common stockholders	<u>\$ (304)</u>	<u>\$ (1,280)</u>	<u>\$ (3,170)</u>	<u>\$ (3,728)</u>
Class A Common Stock:				
Net loss attributable to common stockholders	\$ (23)	\$ (650)	\$ (1,593)	\$ (2,138)
Net loss per common share, basic and diluted	<u>\$ —</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>	<u>\$ (0.14)</u>
Weighted-average number of common shares outstanding, basic and diluted	<u>17,565,835</u>	<u>15,632,018</u>	<u>17,399,380</u>	<u>15,285,252</u>
Class T Common Stock:				
Net loss attributable to common stockholders	\$ (281)	\$ (630)	\$ (1,577)	\$ (1,590)
Net loss per common share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>	<u>\$ (0.14)</u>	<u>\$ (0.19)</u>
Weighted-average number of common shares outstanding, basic and diluted	<u>11,664,545</u>	<u>9,776,935</u>	<u>11,514,548</u>	<u>8,580,397</u>

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 1. Financial Statements (continued)****KBS STRATEGIC OPPORTUNITY REIT II, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	\$ (265)	\$ (1,358)	\$ (3,383)	\$ (4,036)
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(135)	162	(68)	191
Total other comprehensive (loss) income	(135)	162	(68)	191
Total comprehensive loss	(400)	(1,196)	(3,451)	(3,845)
Total comprehensive (income) loss attributable to noncontrolling interests	(39)	78	213	308
Total comprehensive loss attributable to common stockholders	\$ (439)	\$ (1,118)	\$ (3,238)	\$ (3,537)

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 1. Financial Statements (continued)
KBS STRATEGIC OPPORTUNITY REIT II, INC.
CONSOLIDATED STATEMENTS OF EQUITY

For the Year Ended December 31, 2017 and the Six Months Ended June 30, 2018

(unaudited)

(dollars in thousands)

	Common Stock				Additional Paid-in Capital	Cumulative Distributions and Net Losses	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Class A		Class T							
	Shares	Amounts	Shares	Amounts						
Balance, December 31, 2016	14,074,793	\$ 140	6,046,591	\$ 61	\$ 176,021	\$ (27,817)	\$ (111)	\$ 148,294	\$ 11,674	\$ 159,968
Net loss	—	—	—	—	—	(3,272)	—	(3,272)	(26)	(3,298)
Other comprehensive income	—	—	—	—	—	—	313	313	—	313
Issuance of common stock	2,641,090	27	4,822,456	48	71,841	—	—	71,916	—	71,916
Stock dividends issued	308,857	3	184,606	2	4,643	(4,648)	—	—	—	—
Redemptions of common stock	(135,800)	(1)	(21,758)	(1)	(1,357)	—	—	(1,359)	—	(1,359)
Transfers to redeemable common stock	—	—	—	—	(490)	—	—	(490)	—	(490)
Distributions declared	—	—	—	—	—	(3,920)	—	(3,920)	—	(3,920)
Commissions on stock sales, dealer manager fees and stockholder servicing fees to affiliate	—	—	—	—	(4,913)	—	—	(4,913)	—	(4,913)
Other offering costs	—	—	—	—	(668)	—	—	(668)	—	(668)
Noncontrolling interests contributions	—	—	—	—	—	—	—	—	1,774	1,774
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(25)	(25)
Balance, December 31, 2017	16,888,940	\$ 169	11,031,895	\$ 110	\$ 245,077	\$ (39,657)	\$ 202	\$ 205,901	\$ 13,397	\$ 219,298
Net loss	—	—	—	—	—	(3,170)	—	(3,170)	(213)	(3,383)
Other comprehensive loss	—	—	—	—	—	—	(68)	(68)	—	(68)
Issuance of common stock	762,335	7	665,366	7	13,705	—	—	13,719	—	13,719
Stock dividends issued	171,682	2	113,539	1	2,578	(2,581)	—	—	—	—
Redemptions of common stock	(203,084)	(2)	(39,913)	—	(2,120)	—	—	(2,122)	—	(2,122)
Transfers from redeemable common stock	—	—	—	—	765	—	—	765	—	765
Distributions declared	—	—	—	—	—	(2,206)	—	(2,206)	—	(2,206)
Commissions on stock sales, dealer manager fees and stockholder servicing fees to affiliate	—	—	—	—	(685)	—	—	(685)	—	(685)
Other offering costs	—	—	—	—	(129)	—	—	(129)	—	(129)
Noncontrolling interests contributions	—	—	—	—	—	—	—	—	518	518
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(350)	(350)
Balance, June 30, 2018	17,619,873	\$ 176	11,770,887	\$ 118	\$ 259,191	\$ (47,614)	\$ 134	\$ 212,005	\$ 13,352	\$ 225,357

See accompanying condensed notes to consolidated financial statements.

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

KBS STRATEGIC OPPORTUNITY REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	For the Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$ (3,383)	\$ (4,036)
Adjustment to reconcile net loss to net cash provided by operating activities		
Equity in income of unconsolidated entity	(131)	(26)
Distribution of earnings from unconsolidated entity	29	26
Depreciation and amortization	10,172	5,467
Unrealized gain on real estate equity securities	(314)	—
Insurance proceeds received for repair and cleanup costs	—	2,368
Noncash interest income on real estate-related investment	—	(38)
Deferred rents	(1,042)	(11)
Bad debt expense	179	213
Amortization of above- and below-market leases, net	(1,823)	(329)
Amortization of deferred financing costs	530	384
Unrealized (gain) loss on derivative instruments	(61)	73
Changes in operating assets and liabilities:		
Rents and other receivables	(2,259)	380
Prepaid expenses and other assets	(1,370)	(995)
Accounts payable and accrued liabilities	412	(3,104)
Due to affiliates	6	6
Other liabilities	1,621	417
Net cash provided by operating activities	<u>2,566</u>	<u>795</u>
Cash Flows from Investing Activities:		
Improvements to real estate	(4,768)	(4,489)
Investment in real estate securities	(6,986)	—
Payments for construction in progress	(3,244)	(2,325)
Payoff of real estate loan receivable	3,500	—
Purchase of interest rate cap agreement	(8)	—
Proceeds from insurance claims	237	908
Net cash used in investing activities	<u>(11,269)</u>	<u>(5,906)</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	1,753	1,951
Principal payments on notes payable	(2,166)	—
Payments of deferred financing costs	(100)	(58)
Principal payments on capital lease obligations	(175)	—
Proceeds from issuance of common stock	12,509	52,336
Payments to redeem common stock	(2,122)	(302)
Payments of commissions on stock sales, dealer manager fees and stockholder servicing fees	(1,185)	(3,161)
Distributions paid	(842)	(677)
Noncontrolling interest contributions	518	80
Distributions to noncontrolling interest	(350)	(25)
Net cash provided by financing activities	<u>7,840</u>	<u>50,144</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(863)	45,033
Cash, cash equivalents and restricted cash, beginning of period	35,053	47,126
Cash, cash equivalents and restricted cash, end of period	<u>\$ 34,190</u>	<u>\$ 92,159</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of capitalized interest of \$2,607 and \$1,710 for the six months ended June 30, 2018 and 2017, respectively	<u>\$ 5,160</u>	<u>\$ 2,595</u>
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Distributions paid to common stockholders through common stock issuances pursuant to the dividend reinvestment plan	<u>\$ 1,356</u>	<u>\$ 1,084</u>
Increase in accrued improvements to real estate	<u>\$ 218</u>	<u>\$ 158</u>
Increase in other offering costs due to affiliates	<u>\$ 129</u>	<u>\$ 496</u>
Stock dividends issued	<u>\$ 2,581</u>	<u>\$ 2,225</u>
Increase in distributions payable	<u>\$ 8</u>	<u>\$ 51</u>
Foreign currency translation (loss) gain on investment in unconsolidated entity	<u>\$ (68)</u>	<u>\$ 191</u>
Increase in construction in progress payable	<u>\$ 23</u>	<u>\$ 649</u>

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(unaudited)

1. ORGANIZATION

KBS Strategic Opportunity REIT II, Inc. (the “Company”) was formed on February 6, 2013 as a Maryland corporation that elected to be taxed as a real estate investment trust (“REIT”) beginning with the taxable year ended December 31, 2014 and intends to continue to operate in such a manner. The Company’s business is conducted through KBS Strategic Opportunity Limited Partnership II (the “Operating Partnership”), a Delaware limited partnership formed on February 7, 2013. The Company is the sole general partner of, and owns a 0.1% partnership interest in, the Operating Partnership. KBS Strategic Opportunity Holdings II LLC (“REIT Holdings”), a Delaware limited liability company formed on February 7, 2013, owns the remaining 99.9% partnership interest in the Operating Partnership and is the sole limited partner. The Company is the sole member and manager of REIT Holdings. The Company has three wholly owned taxable REIT subsidiaries (“TRS”), two of which lease the Company’s hotel properties and in turn contract with independent hotel management companies that manage the day-to-day operations of the Company’s hotels; the third consolidates the Company’s wholly owned TRSs. The Company’s TRSs are subject to federal and state income tax at regular corporate tax rates.

Subject to certain restrictions and limitations, the business of the Company has been externally managed by KBS Capital Advisors LLC (the “Advisor”), an affiliate of the Company, since July 2013 pursuant to an advisory agreement (the “Advisory Agreement”). The Advisor conducts the Company’s operations and manages its portfolio of real estate loans, opportunistic real estate, and other real estate-related investments. The Advisor has entered into a sub-advisory agreement with STAM, a real estate operating company to provide real estate acquisition and portfolio management services to the Advisor in connection with any investments the Company may make in value-added real estate, distressed debt, and real estate-related investments in Europe. On July 3, 2013, the Company issued 21,739 shares of its common stock to the Advisor at a purchase price of \$9.20 per share.

The Company expects to invest in and manage a diverse portfolio of opportunistic real estate, real estate-related loans, real estate-related debt securities and other real estate-related investments located in the United States and Europe. Such investments may include the acquisition of distressed debt, the origination and acquisition of mortgage, mezzanine, bridge and other real estate-related loans, investment in opportunistic real estate and investments in real estate-related debt securities such as residential and commercial mortgage-backed securities and collateralized debt obligations. The Company may also invest in entities that make similar investments. As of June 30, 2018, the Company had invested in two hotel properties, four office properties, one apartment building, an investment in an unconsolidated entity and an investment in real estate equity securities. Additionally as of June 30, 2018, the Company had entered into a joint venture to develop one retail property, which is currently under construction.

From July 3, 2013 to August 11, 2014, the Company conducted a private placement offering (the “Private Offering”) exempt from registration under Regulation D of the Securities Act of 1933, as amended (the “Act”). The Company sold 3,619,851 shares of common stock for gross offering proceeds of \$32.2 million in the Private Offering.

On November 14, 2013, the Company filed a registration statement on Form S-11 with the Securities and Exchange Commission (the “SEC”) to offer a maximum of 180,000,000 shares of common stock for sale to the public (the “Public Offering”), of which 100,000,000 shares were registered in a primary offering and 80,000,000 shares were registered to be sold under the Company’s dividend reinvestment plan. The SEC declared the Company’s registration statement effective on August 12, 2014. On February 11, 2016, the Company filed an amended registration statement on Form S-11 with the SEC to offer a second class of common stock designated as Class T shares and to designate its initially offered and outstanding common stock as Class A shares. Pursuant to the amended registration statement, the Company is offering to sell any combination of Class A and Class T shares in the Public Offering but in no event may the Company sell more than 180,000,000 of shares of its common stock pursuant to the Public Offering. The Company commenced offering Class T shares of common stock for sale to the public on February 17, 2016. KBS Capital Markets Group LLC (the “Dealer Manager”), an affiliate of the Advisor, serves as the dealer manager of the Public Offering pursuant to a dealer manager agreement originally dated August 12, 2014 and amended and restated February 17, 2016 (the “Dealer Manager Agreement”). Previously the Dealer Manager served as dealer manager for the Private Offering. The Dealer Manager is responsible for marketing the Company’s shares.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

On January 7, 2015, the Company broke escrow in the Public Offering and through June 30, 2018, the Company had sold 12,242,387 and 11,443,519 shares of Class A and Class T common stock, respectively, in the Public Offering for aggregate gross offering proceeds of \$230.0 million, including 496,426 and 146,459 shares of Class A and Class T common stock, respectively, under its dividend reinvestment plan for aggregate gross offering proceeds of \$6.0 million. Also as of June 30, 2018, the Company had redeemed 410,408 and 61,671 shares of Class A and Class T common stock, respectively, for \$4.1 million.

On each of April 2, 2014 and July 31, 2014, the Company issued 120,106 shares of Class A common stock to Willowbrook Capital Group LLC, an entity owned and controlled by Keith D. Hall, one of the Company's directors and the Company's Chief Executive Officer, and Peter McMillan III, also one of the Company's directors and the Company's President, for \$1.0 million. On July 14, 2017 and February 13, 2018, the Company issued 214,175 shares and 10,935 shares, respectively, of Class A common stock to a business associate of Keith D. Hall and Peter McMillan III for approximately \$2.0 million and \$0.1 million, respectively. The Company issued these shares of common stock in a private transaction exempt from the registration requirements of the Act pursuant to Section 4(2) of the Act.

On August 10, 2017, the Company filed a registration statement on Form S-11 with the SEC to register a proposed follow-on offering. Pursuant to the follow-on offering registration statement, the Company proposes to register up to \$500.0 million of shares of common stock for sale to the public in a primary offering. The Company also proposes to register up to \$125.0 million of shares of common stock pursuant to the dividend reinvestment plan in the follow-on offering. The Company can give no assurance that it will commence or complete the follow-on offering.

The Company ceased offering shares of common stock in the primary offering on July 31, 2018 and is continuing to process subscriptions. Subscriptions must be dated on or before July 31, 2018, and subscriptions and all related documents and funds must be received by the Company in good order no later than September 28, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2017, except for the Company's adoption of the revenue recognition and financial instruments standards issued by the Financial Accounting Standards Board ("FASB") effective on January 1, 2018 and the addition of an accounting policy with respect to real estate equity securities. For further information about the Company's accounting policies, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the SEC.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as contained within the FASB Accounting Standards Codification ("ASC") and the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Use of Estimates

The preparation of the consolidated financial statements 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.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU No. 2014-09”), using the modified retrospective approach, which requires a cumulative effect adjustment as of the date of the Company’s adoption. Under the modified retrospective approach, an entity may also elect to apply this standard to either (i) all contracts as of January 1, 2018 or (ii) only to contracts that were not completed as of January 1, 2018. A completed contract is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP that was in effect before the date of initial application. The Company elected to apply this standard only to contracts that were not completed as of January 1, 2018.

Based on the Company’s evaluation of contracts within the scope of ASU No. 2014-09, revenue that is impacted by ASU No. 2014-09 includes revenue generated by other operating income and tenant reimbursements for substantial services earned at the Company’s office properties and hotel revenues. The recognition of such revenue will occur when the services are provided and the performance obligations are satisfied.

Hotel Revenue

The Company recognizes revenue for hotels as hotel revenue when earned. Revenues are recorded net of any sales or occupancy tax collected from the Company’s guests. Additionally, some of the Company’s hotel rooms are booked through independent internet travel intermediaries. If the guest pays the independent internet travel intermediary directly, revenue for the room is booked by the Company at the price the Company sold the room to the independent internet travel intermediary, less any discount or commission paid. If the guest pays the Company directly, revenue for the room is booked by the Company on a gross basis. The Company participates in frequent guest programs sponsored by the brand owners of the Company’s hotels and the Company expenses the charges associated with those programs, as incurred. Hotel operating revenues are disaggregated in the real estate footnote into the categories of rooms revenue, food, beverage and convention services revenue, campground revenue and other revenue to demonstrate how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows.

Room revenue is generated through contracts with customers whereby the customer agrees to pay a daily rate for right to use a hotel room. The Company’s contract performance obligations are fulfilled at the end of the day that the customer is provided the room and revenue is recognized daily at the contract rate. Payment from the customer is secured at the end of the contract upon check-out by the customer from the Company’s hotel. The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future stay at the Company’s hotels. Advanced deposits for room revenue are included in the balance of other liabilities on the consolidated balance sheet. Advanced deposits are recognized as revenue at the time of the guest’s stay. The Company notes no significant judgments regarding the recognition of rooms revenue.

Food, beverage and convention revenue is generated through contracts with customers whereby the customer agrees to pay a contract rate for restaurant dining services or convention services. The Company’s contract performance obligations are fulfilled at the time that the meal is provided to the customer or when the convention facilities and related dining amenities are provided to the customer. The Company recognizes food and beverage revenue upon the fulfillment of the contract with the customer. The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future banquet event at the Company’s hotels. Advanced deposits for food and beverage revenue are included in the balance of other liabilities on the consolidated balance sheet. Advanced deposits for banquet services are recognized as revenue following the completion of the banquet services. The Company notes no significant judgements regarding the recognition of food and beverage revenue.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Campground revenue is recognized on a straight-line basis over the term of the lease when collectability is reasonably assured.

Real Estate Equity Securities

The Company's real estate equity securities are carried at their estimated fair value based on quoted market prices for the security. Transaction costs that are directly attributable to the acquisition of real estate equity securities are capitalized to its cost basis. Upon adoption of ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU No. 2016-01") on January 1, 2018, unrealized gains and losses on real estate equity securities are recognized in earnings.

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

Segments

The Company has invested in opportunistic real estate investments, real estate equity securities and originated a loan secured by a non-stabilized real estate asset, which was repaid on January 12, 2018. In general, the Company intends to hold its investments in opportunistic real estate, real estate equity securities and other real estate-related assets for capital appreciation. Traditional performance metrics of opportunistic real estate and other real estate-related assets may not be meaningful as these investments are generally non-stabilized and do not provide a consistent stream of interest income or rental revenue. These investments exhibit similar long-term financial performance and have similar economic characteristics. These investments typically involve a higher degree of risk and do not provide a constant stream of ongoing cash flows. As a result, the Company's management views opportunistic real estate and other real estate-related assets as similar investments. Substantially all of its revenue and net income (loss) is from opportunistic real estate and other real estate-related assets, and therefore, the Company currently aggregates its operating segments into one reportable business segment. In addition, the Company has invested in a participating loan facility secured by a portfolio of light industrial properties located in Europe. However, based on the Company's investment portfolio and future investment focus, the Company does not believe that its investment in the European asset is a reportable segment.

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 for each class of share outstanding during such period. Diluted net income (loss) per share of common stock equals basic net income (loss) per share of common stock as there were no potentially dilutive securities outstanding during the three and six months ended June 30, 2018 and 2017. For the purpose of determining the weighted-average number of shares outstanding, stock dividends issued are adjusted retroactively and treated as if they were issued and outstanding for all periods presented.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 1. Financial Statements (continued)****KBS STRATEGIC OPPORTUNITY REIT II, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2018

(unaudited)

The Company's board of directors has declared and issued stock dividends on shares of the Company's common stock during the three and six months ended June 30, 2018 and 2017 as follows:

Three Months Ended June 30,	Amount Declared per Share Outstanding ⁽¹⁾	Total Shares Issued
2017	0.005001 shares	121,213
2018	0.005001 shares	144,436

⁽¹⁾ Amount declared per share outstanding includes monthly dividends and assumes each share was issued and outstanding for the entire periods presented. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend.

Six Months Ended June 30,	Amount Declared per Share Outstanding ⁽¹⁾	Total Shares Issued
2017	0.010002 shares	225,738
2018	0.010002 shares	285,221

⁽¹⁾ Amount declared per share outstanding includes monthly dividends and assumes each share was issued and outstanding for the entire periods presented. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend.

Until the Company established an estimated net asset value per share of common stock on June 6, 2017, for the purpose of calculating the dollar amount of the Class A and Class T stock dividends issued, the Company used the Class A and Class T primary offering price at the time of issuance.

Cash distributions declared per share of Class A common stock were \$0.048 and \$0.095 for the three and six months ended June 30, 2018, respectively. Cash distributions declared per share of Class T common stock were \$0.025 and \$0.049 for the three and six months ended June 30, 2018, respectively. The declared rate of cash distributions for Class T Shares is different than the rate declared for the Class A Shares by an amount equivalent to any applicable daily stockholder servicing fees. Distributions declared per share of common stock assumes each share was issued and outstanding each day that was a record date during the three and six months ended June 30, 2018. Each day during the period from January 1, 2018 through June 30, 2018 was a record date for distributions. Distributions for this period were calculated based on stockholders of record each day during this period at a rate of (i) \$0.00052548 per share per day less (ii) the applicable daily stockholder servicing fees accrued for and allocable to any class of common stock, divided by the number of shares of common stock of such class outstanding as of the close of business on each respective record date.

Cash distributions declared per share of Class A common stock were \$0.048 and \$0.095 for the three and six months ended June 30, 2017, respectively. Cash distributions declared per share of Class T common stock were \$0.024 and \$0.048 for the three and six months ended June 30, 2017, respectively. The declared rate of cash distributions for Class T Shares is different than the rate declared for the Class A Shares by an amount equivalent to any applicable daily stockholder servicing fees. Distributions declared per share of common stock assumes each share was issued and outstanding each day that was a record date during the three and six months ended June 30, 2017. Each day during the period from January 1, 2017 through June 30, 2017 was a record date for distributions. Distributions for this period were calculated based on stockholders of record each day during this period at a rate of (i) \$0.00052548 per share per day less (ii) the applicable daily stockholder servicing fees accrued for and allocable to any class of common stock, divided by the number of shares of common stock of such class outstanding as of the close of business on each respective record date.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

The Company uses the two-class method to calculate earnings per share. Basic earnings per share is calculated based on dividends declared (“distributed earnings”) and the rights of common shares and participating securities in any undistributed earnings, which represents net income remaining after deduction of dividends declared during the period. The undistributed earnings are allocated to all outstanding common shares based on the relative percentage of each class of shares to the total number of outstanding shares. The Company does not have any participating securities outstanding other than Class A Common Stock and Class T Common stock during the periods presented.

The Company’s calculated earnings per share for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss attributable to common stockholders	\$ (304)	\$ (1,280)	\$ (3,170)	\$ (3,728)
Less: Class A Common Stock cash distributions declared	836	728	1,642	1,410
Less: Class T Common Stock cash distributions declared	288	232	564	402
Undistributed net loss attributable to common stockholders	\$ (1,428)	\$ (2,240)	\$ (5,376)	\$ (5,540)
Class A Common Stock:				
Undistributed net loss attributable to common stockholders	\$ (859)	\$ (1,378)	\$ (3,235)	\$ (3,548)
Class A Common Stock cash distributions declared	836	728	1,642	1,410
Net loss attributable to Class A common stockholders	\$ (23)	\$ (650)	\$ (1,593)	\$ (2,138)
Net loss per common share, basic and diluted	\$ —	\$ (0.04)	\$ (0.09)	\$ (0.14)
Weighted-average number of common shares outstanding, basic and diluted	17,565,835	15,632,018	17,399,380	15,285,252
Class T Common Stock:				
Undistributed net loss attributable to common stockholders	\$ (569)	\$ (862)	\$ (2,141)	\$ (1,992)
Class T Common Stock cash distributions declared	288	232	564	402
Net loss attributable to Class T common stockholders	\$ (281)	\$ (630)	\$ (1,577)	\$ (1,590)
Net loss per common share, basic and diluted	\$ (0.02)	\$ (0.06)	\$ (0.14)	\$ (0.19)
Weighted-average number of common shares outstanding, basic and diluted	11,664,545	9,776,935	11,514,548	8,580,397

Square Footage, Occupancy and Other Measures

Any references to square footage, occupancy or annualized base rent are unaudited and outside the scope of the Company’s independent registered public accounting firm’s review of the Company’s financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 1. Financial Statements (continued)****KBS STRATEGIC OPPORTUNITY REIT II, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2018

(unaudited)

Recently Issued Accounting Standards Updates

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU No. 2016-02”). The amendments in ASU No. 2016-02 change the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of ASU No. 2016-02 as of its issuance is permitted. ASU No. 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting the new lease accounting standard on its consolidated financial statements. Upon adoption of ASU No. 2016-02, the Company expects to adopt the package of practical expedients for all leases that commenced before the effective date of January 1, 2019. Accordingly, the Company will 1) not reassess whether any expired or existing contracts are or contain leases, 2) not reassess the lease classification for any expired or existing lease, and 3) not reassess initial direct costs for any existing leases. The Company does not expect to elect the practical expedient related to using hindsight to reevaluate the lease term. In addition, the Company expects to adopt the practical expedient for land easements to not assess whether existing or expired land easements that were not previously accounted for as leases under the current lease accounting standards of Topic 840 are or contain a lease under Topic 842.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements* (“ASU No. 2018-11”), which provides lessors with a practical expedient, by class of underlying asset, 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. Upon adoption of the lease accounting standard under Topic 842, the Company expects to adopt this practical expedient, specifically related to its tenant reimbursements which would otherwise be accounted for under the new revenue recognition standard. The Company believes the two conditions have been met for tenant reimbursements as 1) the timing and pattern of transfer of the nonlease components and associated lease components are the same and 2) the lease component would be classified as an operating lease. In addition, ASU No. 2018-11 provides an additional optional transition method to allow entities to apply the new lease accounting standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. An entity’s reporting for the comparative periods presented in the financial statements in which it adopts the new lease accounting standard will continue to be reported under the current lease accounting standards of Topic 840. The Company expects to adopt this transition method upon adoption of the lease accounting standard of Topic 842 on January 1, 2019.

3. REAL ESTATE

As of June 30, 2018, the Company’s real estate portfolio was composed of two hotel properties, four office properties and one apartment building. In addition, the Company has entered into a consolidated joint venture to develop one retail property, which is currently under construction. The following table summarizes the Company’s real estate as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Land	\$ 104,138	\$ 104,138
Buildings and improvements	366,988	362,210
Construction in progress	67,232	63,732
Tenant origination and absorption costs	18,510	19,006
Total real estate, cost	556,868	549,086
Accumulated depreciation and amortization	(27,681)	(18,646)
Total real estate, net	<u>\$ 529,187</u>	<u>\$ 530,440</u>

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

The following table provides summary information regarding the Company's real estate as of June 30, 2018 (in thousands):

Property	Date Acquired	City	State	Property Type	Land	Building and Improvements ⁽¹⁾	Tenant Origination and Absorption	Total Real Estate, at Cost	Accumulated Depreciation and Amortization	Total Real Estate, Net	Ownership %
Springmaid Beach Resort	12/30/2014	Myrtle Beach	SC	Hotel	\$ 27,438	\$ 33,154	\$ —	\$ 60,592	\$ (5,750)	\$ 54,842	90.0%
Q&C Hotel	12/17/2015	New Orleans	LA	Hotel	1,232	53,036	—	54,268	(4,955)	49,313	90.0%
2200 Paseo Verde	12/23/2015	Henderson	NV	Office	1,850	11,606	553	14,009	(1,352)	12,657	100.0%
Lincoln Court	05/20/2016	Campbell	CA	Office	14,706	34,060	3,643	52,409	(4,615)	47,794	100.0%
Lofts at NoHo Commons	11/16/2016	North Hollywood	CA	Apartment	26,222	76,503	—	102,725	(3,076)	99,649	90.0%
210 West 31st Street ⁽²⁾	12/01/2016	New York	NY	Retail	—	67,232	—	67,232	—	67,232	80.0%
Oakland City Center	08/18/2017	Oakland	CA	Office	22,150	138,713	11,514	172,377	(6,847)	165,530	100.0%
Madison Square ⁽³⁾	10/03/2017	Phoenix	AZ	Office	10,540	19,916	2,800	33,256	(1,086)	32,170	90.0%
					<u>\$ 104,138</u>	<u>\$ 434,220</u>	<u>\$ 18,510</u>	<u>\$ 556,868</u>	<u>\$ (27,681)</u>	<u>\$ 529,187</u>	

⁽¹⁾ Building and improvements includes construction in progress.

⁽²⁾ The Company acquired the rights to a leasehold interest with respect to this property. The leasehold interest expires January 31, 2114. As of June 30, 2018, the capital lease asset had a carrying value of \$6.8 million included in construction in progress.

⁽³⁾ The Company acquired the rights to a leasehold interest with respect to the land at this property. This property was formerly known as Grace Court and was re-named Madison Square in connection with the Company's re-branding strategy of this property.

Office Properties

As of June 30, 2018, the Company owned four office properties encompassing in the aggregate 864,941 rentable square feet which were 72% occupied. The following table provides detailed information regarding the Company's office revenues and expenses for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Office revenues:				
Rental income	\$ 6,585	\$ 1,716	\$ 13,429	\$ 3,466
Tenant reimbursements and other income ⁽¹⁾	776	66	1,531	140
Office revenues	<u>\$ 7,361</u>	<u>\$ 1,782</u>	<u>\$ 14,960</u>	<u>\$ 3,606</u>
Office expenses:				
Operating, maintenance, and management	\$ 2,134	\$ 405	\$ 3,853	\$ 796
Real estate taxes and insurance	905	192	1,857	381
Office expenses	<u>\$ 3,039</u>	<u>\$ 597</u>	<u>\$ 5,710</u>	<u>\$ 1,177</u>

⁽¹⁾ For the three and six months ended June 30, 2018, included in tenant reimbursements and other income for office properties is \$0.2 million and \$0.4 million, respectively, of other operating income and tenant reimbursements for substantial services accounted for under ASU No. 2014-09.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Operating Leases

The Company's office properties are leased to tenants under operating leases for which the terms and expirations vary. As of June 30, 2018, the leases had remaining terms, excluding options to extend, of up to 10.2 years with a weighted-average remaining term of 3.9 years. Some of the leases may have provisions to extend the term of the lease, options for early termination for all or a part of the leased premises after paying a specified penalty, rights of first refusal to purchase the property at competitive market rates, 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 office tenant leases are included in other liabilities in the accompanying consolidated balance sheets and totaled \$1.1 million as of June 30, 2018 and December 31, 2017.

During the three and six months ended June 30, 2018, the Company recognized deferred rent from tenants of \$0.4 million and \$1.0 million, respectively, net of lease incentive amortization. During the six months ended June 30, 2017, the Company recognized deferred rent from tenants of \$11,000, net of lease incentive amortization. As of June 30, 2018 and December 31, 2017, the cumulative deferred rent receivable balance, including unamortized lease incentive receivables, was \$2.4 million and \$1.3 million, respectively, and is included in rents and other receivables on the accompanying balance sheets. The cumulative deferred rent balance included \$0.2 million of unamortized lease incentives as of June 30, 2018 and December 31, 2017.

As of June 30, 2018, the future minimum rental income from the Company's office properties under its non-cancelable operating leases was as follows (in thousands):

July 1, 2018 through December 31, 2018	\$	10,845
2019		20,498
2020		17,789
2021		14,935
2022		11,748
Thereafter		27,741
	<u>\$</u>	<u>103,556</u>

As of June 30, 2018, the Company's commercial real estate properties were leased to approximately 100 tenants over a diverse range of industries and geographic areas. As of June 30, 2018, the highest tenant industry concentrations (greater than 10% of annualized base rent) in the Company's portfolio were as follows:

Industry	Number of Tenants	Annualized Base Rent ⁽¹⁾ (in thousands)	Percentage of Annualized Base Rent
Legal Services	11	\$ 3,564	15.3%
Public Administration (Government)	6	3,168	13.6%
Professional, Scientific and Legal	12	2,970	12.7%
Finance	13	2,505	10.7%
		<u>\$ 12,207</u>	<u>52.3%</u>

⁽¹⁾ Annualized base rent represents annualized contractual base rental income as of June 30, 2018, 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.

No other tenant industries accounted for more than 10% of annualized base rent. No tenant accounted for more than 10% of annualized base rent. No material tenant credit issues have been identified at this time.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Hotel Properties

As of June 30, 2018, the Company owned two hotel properties. The following table provides detailed information regarding the Company's hotel revenues and expenses for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Hotel revenues:				
Room	\$ 8,002	4,736	\$ 12,112	8,330
Food, beverage and convention services	1,503	1,002	2,318	1,754
Campground	292	278	582	550
Other	466	454	761	679
Hotel revenues	\$ 10,263	\$ 6,470	\$ 15,773	\$ 11,313
Hotel expenses:				
Room	\$ 1,765	1,182	\$ 3,015	2,213
Food, beverage and convention services	1,197	836	1,921	1,513
General and administrative	809	581	1,445	1,147
Sales and marketing	797	764	1,449	1,368
Repairs and maintenance	509	454	995	896
Utilities	276	232	552	452
Property taxes and insurance	421	400	864	783
Other	491	339	814	660
Hotel expenses	\$ 6,265	\$ 4,788	\$ 11,055	\$ 9,032

Contract liabilities

The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future stay or a deposit for a future banquet event at the Company's hotels. Advanced deposits are recognized as revenue at the time of the guest's stay or completion of the banquet services. The following table summarizes the Company's contract liabilities, which are included in other liabilities in the accompanying consolidated balance sheets, as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Contract liability	\$ 992	\$ 358
Revenue recognized in the period from:		
Amounts included in contract liability at the beginning of the period	\$ 231	(1)

(1) The amount of revenue recognized in the period from amounts included in contract liability at the beginning of the period is not relevant for the year ended December 31, 2017, as the Company adopted ASU No. 2014-09 effective January 1, 2018.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Apartment Property

As of June 30, 2018, the Company owned one apartment property with 292 units which was 94% occupied. The following table provides detailed information regarding the Company's apartment revenues and expenses for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Apartment revenues:				
Rental income	\$ 1,645	\$ 1,603	\$ 3,229	\$ 3,218
Tenant reimbursements and other income	158	96	290	220
Apartment revenues	<u>\$ 1,803</u>	<u>\$ 1,699</u>	<u>\$ 3,519</u>	<u>\$ 3,438</u>
Apartment expenses:				
Operating, maintenance, and management	\$ 636	\$ 534	\$ 1,205	\$ 1,021
Real estate taxes and insurance	329	328	677	677
Apartment expenses	<u>\$ 965</u>	<u>\$ 862</u>	<u>\$ 1,882</u>	<u>\$ 1,698</u>

Geographic Concentration Risk

As of June 30, 2018, the Company's real estate investments in California and New York represented 53.2% and 11.4%, respectively, of the Company's total assets. As a result, the geographic concentration of the Company's portfolio makes it particularly susceptible to adverse economic developments in the California and New York 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 make distributions to stockholders.

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

As of June 30, 2018 and December 31, 2017, 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	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Cost	\$ 18,510	\$ 19,006	\$ 99	\$ 99	\$ (12,527)	\$ (12,869)
Accumulated Amortization	(5,355)	(3,473)	(25)	(16)	3,576	2,086
Net Amount	<u>\$ 13,155</u>	<u>\$ 15,533</u>	<u>\$ 74</u>	<u>\$ 83</u>	<u>\$ (8,951)</u>	<u>\$ (10,783)</u>

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Increases (decreases) in net income as a result of amortization of the Company's tenant origination and absorption costs, above-market lease assets and below-market lease liabilities for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands):

	<u>Tenant Origination and Absorption Costs</u>		<u>Above-Market Lease Assets</u>		<u>Below-Market Lease Liabilities</u>	
	<u>For the Three Months Ended June 30,</u>		<u>For the Three Months Ended June 30,</u>		<u>For the Three Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Amortization	\$ (1,164)	\$ (716)	\$ (5)	\$ (1)	\$ 885	\$ 158

	<u>Tenant Origination and Absorption Costs</u>		<u>Above-Market Lease Assets</u>		<u>Below-Market Lease Liabilities</u>	
	<u>For the Six Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Amortization	\$ (2,378)	\$ (1,713)	\$ (9)	\$ (3)	\$ 1,832	\$ 332

As of June 30, 2018 and December 31, 2017, the Company had recorded a housing subsidy intangible asset, net of amortization, which is included in prepaid expenses and other assets in the accompanying balance sheets, of \$2.4 million, which is amortized on a straight line basis over 31.8 years. During each of the three months ended June 30, 2018 and 2017, the Company recorded amortization expense of \$20,000 related to the housing subsidy intangible asset. During each of the six months ended June 30, 2018 and 2017, the Company recorded amortization expense of \$40,000 related to the housing subsidy intangible asset.

Additionally, as of June 30, 2018 and December 31, 2017, the Company had recorded property tax abatement intangible assets, net of amortization, which are included in prepaid expenses and other assets in the accompanying balance sheets, of \$2.5 million and \$2.8 million, respectively, which are amortized on a straight line basis over a range of 0.7 to 6.6 years. During the three and six months ended June 30, 2018, the Company recorded amortization expense of \$0.1 million and \$0.3 million, respectively, related to the property tax abatement intangible assets.

5. REAL ESTATE LOAN RECEIVABLE

As of December 31, 2017, the Company had originated one real estate loan receivable. On January 12, 2018, the real estate loan receivable was repaid in full. Information for the real estate loan receivable was as follows (in thousands):

<u>Loan Name</u> <u>Location of Related Property</u> <u>or Collateral</u>	<u>Date</u> <u>Originated</u>	<u>Property</u> <u>Type</u>	<u>Loan</u> <u>Type</u>	<u>Outstanding Principal</u> <u>Balance as of</u> <u>June 30, 2018</u>	<u>Book Value as of</u> <u>June 30, 2018</u> ⁽¹⁾	<u>Book Value as of</u> <u>December 31, 2017</u> ⁽¹⁾	<u>Contractual</u> <u>Interest</u> <u>Rate</u>	<u>Annualized</u> <u>Effective</u> <u>Interest Rate</u>	<u>Maturity</u> <u>Date</u>
655 Summer Street First Mortgage									
Boston, Massachusetts	09/04/2014	Office	Mortgage	\$ —	\$ —	\$ 3,500	9.25%	(2)	(2)

⁽¹⁾ Book value of the real estate loan receivable represents outstanding principal balance adjusted for unamortized origination fees and direct origination and acquisition costs.

⁽²⁾ On January 12, 2018, the real estate loan receivable was repaid in full.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

The following summarizes the activity related to the real estate loan receivable for the six months ended June 30, 2018 (in thousands):

Real estate loan receivable - December 31, 2017	\$ 3,500
Principal repayment	(3,500)
Real estate loan receivable - June 30, 2018	<u>\$ —</u>

For the three and six months ended June 30, 2018 and 2017, interest income from the real estate loan receivable consisted of the following (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Contractual interest income	\$ —	\$ 82	\$ 10	\$ 162
Amortization of closing costs and origination fees, net	—	19	—	38
Interest income from real estate loan receivable	<u>\$ —</u>	<u>\$ 101</u>	<u>\$ 10</u>	<u>\$ 200</u>

6. REAL ESTATE EQUITY SECURITIES

During the six months ended June 30, 2018, the Company purchased 852,797 shares of common stock of Franklin Street Properties Corp. (NYSE Ticker: FSP) for an aggregate purchase price of \$7.0 million. The Company's real estate equity securities are carried at their estimated fair value based on quoted market prices for the security. Transaction costs that are directly attributable to the acquisition of real estate equity securities are capitalized to its cost basis. Unrealized gains and losses on real estate equity securities are recognized in earnings.

The following summarizes the activity related to real estate equity securities for the six months ended June 30, 2018 (in thousands):

	Amortized Cost Basis	Unrealized Gain	Total
Real estate equity securities - December 31, 2017	\$ —	\$ —	\$ —
Acquisition of real estate equity securities	6,800	—	6,800
Acquisition fee to affiliate and purchase commission	186	—	186
Unrealized change in market value of real estate equity securities	—	314	314
Real estate equity securities - June 30, 2018	<u>\$ 6,986</u>	<u>\$ 314</u>	<u>\$ 7,300</u>

7. INVESTMENT IN UNCONSOLIDATED ENTITY

On June 28, 2016, the Company originated a participating loan facility in an amount up to €2.6 million (\$2.9 million at closing). The Company funded approximately €2.1 million (\$2.3 million at closing). The proceeds were used by STAM to fund a 5% general partner interest in a joint venture acquiring a portfolio of light industrial properties located throughout France. The total acquisition cost of the portfolio was approximately €95.5 million (\$105.6 million at closing). Under the terms of the participating loan facility, the Company participates in the expected residual profits of the portfolio and the terms are structured in a manner such that the risks and rewards of the arrangement are similar to those associated with an investment in a real estate joint venture. Accordingly, the participating loan facility is accounted for under the equity method of accounting. In addition to the amount funded at closing, the Company also capitalized an additional \$0.2 million of acquisition costs and fees. During the three and six months ended June 30, 2018, the Company recognized \$116,000 and \$131,000, respectively, of income with respect to this investment. During the three and six months ended June 30, 2017, the Company recognized \$13,000 and \$26,000, respectively, of income with respect to this investment.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

8. NOTES PAYABLE

As of June 30, 2018 and December 31, 2017, the Company's notes payable consisted of the following (in thousands):

	Book Value as of June 30, 2018	Book Value as of December 31, 2017	Contractual Interest Rate ⁽¹⁾	Effective Interest Rate ⁽¹⁾	Payment Type	Maturity Date
Springmaid Beach Resort Mortgage Loan	\$ 37,640	\$ 38,000	One-month LIBOR + 3.00%	4.98%	Principal & Interest	12/30/2018
Q&C Hotel Mortgage Loan	26,524	28,330	One-month LIBOR + 3.25%	5.23%	Principal & Interest	12/17/2018
2200 Paseo Verde Mortgage Loan ⁽²⁾	7,947	7,947	One-month LIBOR + 2.25%	4.23%	Interest Only ⁽²⁾	07/01/2020
Lincoln Court Mortgage Loan	33,500	33,500	One-month LIBOR + 1.75%	3.84%	Interest Only	06/01/2020
Lofts at NoHo Commons Mortgage Loan	72,100	72,100	One-month LIBOR + 2.66%	4.66%	Interest Only	12/01/2019
210 West 31st Street Mortgage Loan ⁽³⁾	37,516	35,763	One-month LIBOR + 5.50%	7.48%	Interest Only	12/01/2019
Oakland City Center Mortgage Loan ⁽⁴⁾	94,500	94,500	One-month LIBOR + 1.75%	3.73%	Interest Only ⁽⁴⁾	09/01/2022
Madison Square Mortgage Loan ⁽⁵⁾	21,895	21,895	One-month LIBOR + 4.05% ⁽⁵⁾	6.12%	Interest Only	10/09/2020
Total notes payable principal outstanding	331,622	332,035				
Deferred financing costs, net	(2,948)	(3,684)				
Total notes payable, net	<u>\$ 328,674</u>	<u>\$ 328,351</u>				

⁽¹⁾ Contractual interest rate represents the interest rate in effect under the loan as of June 30, 2018. Effective interest rate is calculated as the actual interest rate in effect as of June 30, 2018 (consisting of the contractual interest rate, contractual floor rates and the effects of interest rate caps, if applicable), using interest rate indices at June 30, 2018, where applicable.

⁽²⁾ As of June 30, 2018, \$7.9 million had been disbursed to the Company and up to \$1.6 million is available for future disbursements to be used for tenant improvement costs, capital improvements costs and leasing commissions, subject to certain terms and conditions contained in the loan documents. Beginning August 1, 2019, monthly payments include principal amortization payments of \$10,000 per month.

⁽³⁾ As of June 30, 2018, \$37.5 million had been disbursed to the Company and up to \$9.6 million is available for future disbursements to be used for capital improvement costs, tenant improvement costs, leasing commissions and operating/interest shortfall, subject to certain terms and conditions contained in the loan documents.

⁽⁴⁾ As of June 30, 2018, \$94.5 million had been disbursed to the Company and up to \$8.9 million is available for future disbursements to be used for tenant improvements and leasing commissions, subject to certain terms and conditions contained in the loan documents. Beginning October 1, 2020, monthly payments will include principal and interest with principal payments of \$110,000 or, in the event the Company repays any principal of the loan amount, with principal payments calculated using an amortization schedule of 30 years and an annual interest rate of 6.0%, subject to certain terms and conditions contained in the loan documents.

⁽⁵⁾ As of June 30, 2018, \$21.9 million had been disbursed to the Company and up to \$12.2 million is available for future disbursements to be used for tenant improvements and leasing expenses, subject to certain terms and conditions contained in the loan documents. The Madison Square Mortgage Loan bears interest at a floating rate of 405 basis points over one-month LIBOR, but at no point shall the interest rate be less than 5.05%. The property securing this mortgage loan was formerly known as Grace Court and was re-named Madison Square in connection with the Company's re-branding strategy of the property.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 1. Financial Statements (continued)****KBS STRATEGIC OPPORTUNITY REIT II, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2018

(unaudited)

During the three and six months ended June 30, 2018, the Company incurred \$3.4 million and \$6.3 million, respectively, of interest expense. During the three and six months ended June 30, 2017, the Company incurred \$1.8 million and \$3.5 million, respectively, of interest expense. Included in interest expense was: (i) the amortization of deferred financing costs of \$0.4 million and \$0.8 million for three and six months ended June 30, 2018, respectively, and \$0.4 million and \$0.8 million for the three and six months ended June 30, 2017, respectively, (ii) the capitalization of interest to construction in progress related to its redevelopment project at 210 West 31st Street, which decreased interest expense by \$1.3 million and \$2.6 million for three and six months ended June 30, 2018, respectively, and \$0.9 million and \$1.7 million for three and six months ended June 30, 2017, respectively, and (iii) an unrealized loss of \$20,000 and an unrealized gain of \$10,000 on interest rate cap agreements for the three and six months ended June 30, 2018, respectively, and unrealized losses related to interest rate cap agreements of \$23,000 and \$73,000 for the three and six months ended June 30, 2017, respectively. As of June 30, 2018 and December 31, 2017, the Company's interest payable was \$1.3 million and \$1.1 million, respectively.

The following is a schedule of maturities, including principal amortization payments, for all notes payable outstanding as of June 30, 2018 (in thousands):

July 1, 2018 through December 31, 2018	\$	64,164
2019		109,666
2020		63,622
2021		1,320
2022		92,850
	\$	<u>331,622</u>

The Company's notes payable contain financial and non-financial debt covenants. As of June 30, 2018, the Company was in compliance with all debt covenants, except that the borrowers under the Q&C Hotel Mortgage Loan and Madison Square Mortgage Loan were out of debt service coverage compliance. Such non-compliance does not constitute an event of default under the applicable loan agreements. Under the Q&C Hotel Mortgage Loan, as a result of such non-compliance, the Company is required to make a principal paydown. Under the Madison Square Mortgage Loan, as a result of such non-compliance, the Company is required to maintain an interest shortfall reserve.

The Company's note payable with respect to the Springmaid Beach Resort Mortgage Loan requires the Company to maintain a minimum working capital reserve in an amount sufficient to fund the working capital requirements of the Springmaid Beach Resort through the off-peak season, which amount shall be reduced by any amounts for working capital reserved by the third-party hotel operator. In addition, until certain renovations are complete, the loan documents impose a "cash trap" which restricts the use of accumulated cash from the Springmaid Beach Resort to the payment of working capital shortfalls, renovation expenditures and distributions required to satisfy the Company's REIT requirements. The working capital reserve was included in restricted cash on the accompanying consolidated balance sheets.

9. 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 the derivatives for speculative purposes.

The Company enters into interest rate caps to mitigate its exposure to rising interest rates on its variable rate notes payable. The values of interest rate caps are 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 interest rate caps. As the remaining life of an interest rate cap decreases, the value of the instrument will generally decrease towards zero.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

As of June 30, 2018, the Company had four interest rate caps outstanding, which were not designated as hedging instruments. The following table summarizes the notional amount and other information related to the Company's derivative instruments as of June 30, 2018 and December 31, 2017. 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	Effective Date	Maturity Date	Notional Value	Reference Rate	Fair Value of Asset		Balance Sheet Location
					June 30, 2018	December 31, 2017	
Interest Rate Cap	12/29/2014	01/01/2018	\$ 26,000	One-month LIBOR at 3.00%	\$ —	\$ —	Prepaid expenses and other assets
Interest Rate Cap	12/15/2015	12/23/2018	\$ 28,330	One-month LIBOR at 3.00%	—	—	Prepaid expenses and other assets
Interest Rate Cap	12/01/2016	12/01/2019	\$ 47,110	One-month LIBOR at 3.00%	21	9	Prepaid expenses and other assets
Interest Rate Cap	10/03/2017	10/15/2019	\$ 34,125	One-month LIBOR at 3.00%	10	4	Prepaid expenses and other assets
Interest Rate Cap	02/02/2018	12/30/2018	\$ 26,000	One-month LIBOR at 3.00%	—	—	Prepaid expenses and other assets
Total Derivative Instruments not designated as hedging instruments					<u>\$ 31</u>	<u>\$ 13</u>	

During the three months ended June 30, 2018, the Company recorded an unrealized loss of \$20,000 on interest rate cap agreements, which is included in interest expense on the accompanying consolidated statements of operations. During the six months ended June 30, 2018, the Company recorded an unrealized gain of \$10,000 on interest rate cap agreements, which is included as an offset to interest expense on the accompanying consolidated statements of operations. During the three and six months ended June 30, 2017, the Company recorded an unrealized loss of \$23,000 and \$73,000, respectively, on interest rate cap agreements, which is included in interest expense on the accompanying consolidated statements of operations.

The Company enters into foreign currency forward contracts to mitigate its exposure to foreign currency exchange rate movements on its investment in unconsolidated entity. The foreign currency forward contract is a commitment to deliver a certain amount of currency at a certain price on a specific date in the future.

The following table summarizes the notional amount and other information related to the Company's foreign currency forward contract as of June 30, 2018. 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 (currency in thousands):

Derivative Instrument	Notional Amount	Strike Price	Trade Date	Maturity Date
<i>Derivative instrument not designated as hedging instrument</i>				
Foreign currency forward contract	\$ 2,668	1.2704 USD-EUR	09/05/2017	09/07/2021

During the three and six months ended June 30, 2018, the Company recorded a foreign currency gain of \$135,000 and \$51,000, respectively, on foreign currency forward contract, which is included as an offset to general and administrative expenses on the accompanying consolidated statements of operations. The fair value of the foreign currency forward contract was \$27,000 and \$79,000 liability as of June 30, 2018 and December 31, 2017, respectively, included in other liabilities on the accompanying balance sheets.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

10. FAIR VALUE DISCLOSURES

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

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

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

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

Real estate equity securities: The Company's real estate equity securities are presented at fair value on the accompanying consolidated balance sheet. The fair values of real estate equity securities were based on a quoted price in an active market on a major stock exchange. The Company classifies these inputs as Level 1 inputs.

Real estate loan receivable: The Company's real estate loan receivable is presented in the accompanying consolidated balance sheets at its amortized cost net of recorded loan loss reserves (if any) and not at fair value. The fair value of real estate loan receivable was estimated using an internal valuation model that considered the expected cash flows for the loan, underlying collateral value (for collateral-dependent loans) and estimated yield requirements of institutional investors for loans with similar characteristics, including remaining loan term, loan-to-value, type of collateral and other credit enhancements. The Company classifies these inputs as Level 3 inputs.

Derivative instruments: The Company's derivative instruments are presented at fair value on the accompanying consolidated balance sheets. The valuation of these instruments are 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 value of interest rate caps (floors) are determined using the market standard methodology of discounting the future expected cash payments (receipts) which would occur if variable interest rates rise above (below) the strike rate of the caps (floors). The variable interest rates used in the calculation of projected payments (receipts) on the cap (floor) are based on an expectation of future interest rates derived from observed market interest rate curves and volatilities. The fair value of foreign currency forward contract are valued by comparing the contracted forward exchange rate to the current market exchange rate.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Notes payable: The fair value 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 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 or similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. The Company classifies these inputs as Level 3 inputs.

The following were the face value, carrying amount and fair value of the Company's financial instruments as of June 30, 2018 and December 31, 2017, which carrying amounts do not approximate the fair values (in thousands):

	June 30, 2018			December 31, 2017		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial asset:						
Real estate loan receivable	\$ —	\$ —	\$ —	\$ 3,500	\$ 3,500	\$ 3,500
Financial liability:						
Notes payable	\$ 331,622	\$ 328,674	\$ 333,932	\$ 332,035	\$ 328,351	\$ 333,336

Disclosure of the fair value of financial instruments is based on pertinent information available to the Company as of the period end and requires a significant amount of judgment. Despite increased capital market and credit market activity, transaction volume for certain financial instruments remains relatively low. This has 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 June 30, 2018, the Company measured the following assets 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	\$ 7,300	\$ 7,300	\$ —	\$ —
Asset derivatives - interest rate caps	\$ 31	\$ —	\$ 31	\$ —
Liability derivative - foreign currency forward contract	\$ 27	\$ —	\$ 27	\$ —

11. RELATED PARTY TRANSACTIONS

The Company has entered into the Advisory Agreement with the Advisor and dealer manager agreements with the Dealer Manager, with respect to the Private Offering and the Public Offering. These agreements entitle the Advisor and the Dealer Manager to specified fees upon the provision of certain offering-related services and the investment of funds in real estate-related investments, among other services, as well as reimbursement of organization and offering costs 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 described in the Advisory Agreement. The Advisor also serves as the advisor for KBS Real Estate Investment Trust, Inc. ("KBS REIT I"), KBS Real Estate Investment Trust II, Inc. ("KBS REIT II"), KBS Real Estate Investment Trust III, Inc. ("KBS REIT III"), KBS Legacy Partners Apartment REIT, Inc. ("KBS Legacy Partners Apartment REIT"), KBS Strategic Opportunity REIT, Inc. ("KBS Strategic Opportunity REIT") and KBS Growth & Income REIT, Inc. ("KBS Growth & Income REIT"). The Dealer Manager also serves as the dealer manager for the KBS dividend reinvestment plan offerings for KBS Strategic Opportunity REIT, KBS REIT III and KBS Growth & Income REIT.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

On January 6, 2014, the Company, together with KBS REIT I, KBS REIT II, KBS REIT III, KBS Legacy Partners Apartment REIT, KBS Strategic Opportunity REIT, the Dealer Manager, the Advisor and other KBS-affiliated entities, entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage are 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. The allocation of these shared coverage costs is proportionate to the pricing by the insurance marketplace for the first tiers of directors and officers liability coverage purchased individually by each REIT. The Advisor's and the Dealer Manager's portion of the shared lower tiers' cost is proportionate to the respective entities' prior cost for the errors and omissions insurance. In June 2015, KBS Growth & Income REIT was added to the insurance program at terms similar to those described above. KBS REIT I elected to cease participation in the program at the June 2017 renewal and obtained separate insurance coverage. At renewal in June 2018, the Company, KBS Strategic Opportunity REIT and KBS Legacy Partners Apartment REIT elected to cease participation in the program and obtain separate insurance coverage. The Company, together with KBS Strategic Opportunity REIT, entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage are shared. The cost of these lower tiers is allocated by the Advisor and its insurance broker among each REIT covered by the program, and is billed directly to each REIT. The program is effective through June 30, 2019.

During the three and six months ended June 30, 2018 and 2017, no other business transactions occurred between the Company and these other KBS-sponsored programs.

The Advisory Agreement has a one-year term that expires August 12, 2018. The Company may terminate the Advisory Agreement on 60 days' written notice. The Advisor in its sole discretion may defer any fee payable to it under the Advisory Agreement. All or any portion of such fee not taken may be deferred without interest and paid when the Advisor determines.

Pursuant to the terms of these agreements, summarized below are the related-party costs incurred by the Company for the three and six months ended June 30, 2018 and 2017, respectively, and any related amounts payable as of June 30, 2018 and December 31, 2017 (in thousands):

	Incurred				Payable as of	
	Three Months Ended June 30,		Six Months Ended June 30,		June 30, 2018	December 31, 2017
	2018	2017	2018	2017		
Expensed						
Asset management fees	\$ 986	\$ 577	\$ 1,920	\$ 1,081	\$ 20	\$ 22
Reimbursable operating expenses ⁽¹⁾	132	71	224	174	50	42
Capitalized						
Acquisition fees	108	9	215	25	114	76
Asset management fees	—	—	—	67	—	—
Additional Paid-in Capital						
Sales commissions	223	759	424	1,761	—	—
Dealer manager fees	136	437	245	1,047	—	—
Stockholder servicing fees ⁽²⁾	3	432	16	536	180	680
Reimbursable other offering costs ⁽³⁾	68	185	129	496	1,171	1,042
	<u>\$ 1,656</u>	<u>\$ 2,470</u>	<u>\$ 3,173</u>	<u>\$ 5,187</u>	<u>\$ 1,535</u>	<u>\$ 1,862</u>

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

⁽¹⁾ Reimbursable operating expenses primarily consists of internal audit personnel costs, accounting software and cyber-security 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 \$0.1 million and \$0.2 million for the three and six months ended June 30, 2018, respectively, and \$0.1 million and \$0.2 million for the three and six months ended June 30, 2017, respectively, and were the only employee costs reimbursed under the Advisory Agreement for the three and six months ended June 30, 2018 and 2017. The Advisor may seek reimbursement for certain other employee costs under the Advisory Agreement. The Company will not reimburse for employee costs in connection with services for which the Advisor earns acquisition or origination fees or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers. In addition to the amounts above, the Company reimburses the Advisor for certain of the Company's direct costs incurred from third parties that were initially paid by the Advisor on behalf of the Company.

⁽²⁾ Reflects the estimated amount of the stockholder servicing fee payable based on the terms of the Class T Shares.

⁽³⁾ See "Other Offering Costs" below.

During the six months ended June 30, 2018 and 2017, the Advisor reimbursed the Company \$35,000 and \$21,000, respectively, for a property insurance rebate.

Other Offering Costs

Organization and offering costs (other than selling commissions, dealer manager fees and the stockholder servicing fee) of the Company may be paid by the Advisor, the Dealer Manager or their affiliates on behalf of the Company or may be paid directly by the Company. These offering costs include all expenses incurred by the Company in connection with the Private Offering and the Public Offering. Organization costs include all expenses incurred by the Company in connection with the formation of the Company, including but not limited to legal fees and other costs to incorporate the Company.

The Company recorded \$1.0 million of offering costs (other than selling commissions and dealer manager fees) related to the Private Offering, all of which was initially paid by the Advisor or its affiliates on behalf of the Company and subsequently reimbursed by the Company. In addition, the Company paid \$1.9 million in selling commissions and dealer manager fees related to the Private Offering.

During the Public Offering, pursuant to the Advisory Agreement and the Dealer Manager Agreement, the Company is obligated to reimburse the Advisor, the Dealer Manager or their affiliates, as applicable, for organization and other offering costs paid by them on behalf of the Company, provided that no reimbursements made by the Company to the Advisor or the Dealer Manager may cause total organization and offering expenses incurred by the Company in connection with the Public Offering (including selling commissions, dealer manager fees and the stockholder servicing fee) to exceed 15% of the aggregate gross proceeds from the Public Offering as of the date of reimbursement. In addition, the Advisor and its affiliates will reimburse the Company to the extent that the organization and other offering expenses (which exclude selling commissions, dealer manager fees and stockholder servicing fees) paid directly or reimbursed by the Company in connection with the primary portion of the Public Offering, regardless of when incurred, exceed 1.0% of gross offering proceeds from the primary portion of the Public Offering. The Advisor and its affiliates will be responsible for any organization and other offering expenses related to the primary portion of the Public Offering to the extent they exceed 1.0% of gross proceeds from the primary portion of the Public Offering.

Through June 30, 2018, the Advisor and its affiliates had incurred organization and other offering costs (which exclude selling commissions dealer manager fees and stockholder servicing fees) on the Company's behalf in connection with the Public Offering of approximately \$10.8 million. As of June 30, 2018, the Company had recorded \$14.2 million in selling commissions and dealer manager fees and \$1.7 million of stockholder servicing fees. As of June 30, 2018, the Company had recorded \$2.3 million of other organization and offering expenses, which amounts represent the Company's maximum liability for organization and other offering costs as of June 30, 2018 based on the 1.0% limitation described above.

In addition, as of June 30, 2018, the Advisor had incurred \$31,000 in organization and offering costs on behalf of the Company in connection with a proposed follow-on offering the Company filed with the SEC on August 10, 2017. As of June 30, 2018, the Company had not commenced the follow-on offering and therefore had not recorded any of these organization and offering expenses as they are subject to the 1.0% limitation described above.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

12. COMMITMENTS AND CONTINGENCIES

Management Agreement

Springmaid Beach Resort

The consolidated joint venture entity through which the Company leases the operations for Springmaid Beach Resort has entered into a management agreement with Doubletree Management LLC, an independent third-party hotel operator (the “Operator”) pursuant to which the Operator will manage and operate the Springmaid Beach Resort. The hotel was branded a DoubleTree by Hilton in September 2016 (the “Brand Commencement Date”).

The management agreement expires on December 31 of the 20th full year following the Brand Commencement Date. Upon mutual agreement, the parties may extend the term of the agreement for two successive periods of five years each. If an event of default occurs and continues beyond any applicable notice and cure periods set forth in the management agreement, the non-defaulting party generally has, among other remedies, the option of terminating the management agreement upon written notice to the defaulting party with no termination fee payable to Doubletree. In addition, the Company has the right to terminate the management agreement without the payment of a termination fee if Doubletree fails to achieve certain criteria relating to the performance of the hotel for any two consecutive years following the Brand Commencement Date. Under certain circumstances following a casualty or condemnation event, either party may terminate the management agreement provided Doubletree receives a termination fee an amount equal to two years of the base fee. The Company is permitted to terminate the management agreement upon a sale, lease or other transfer of the Springmaid Beach Resort any time so long as the buyer is approved for, and enters into a DoubleTree by Hilton franchise agreement for the balance of the agreement’s term. Finally, the Company is restricted in its ability to assign the management agreement upon a sale, lease or other transfer the Springmaid Beach Resort unless the transferee is approved by Doubletree to assume the management agreement.

Pursuant to the management agreement the Operator receives the following fees:

- a base fee, which is a percentage of total operating revenue that starts at 2.5% and increases to 2.75% in the second year following the Brand Commencement Date and further increases in the third year following the Brand Commencement Date and thereafter to 3.0%;
- a campground area management fee, which is 2% of any campground revenue;
- an incentive fee, which is 15% of operating cash flow (after deduction for capital renewals reserve and the joint venture owner’s priority, which is 12% of the joint venture owner’s total investment);
- an additional services fee in the amount reasonably determined by the Operator from time to time; and
- a brand services fee in the amount of 4% of total rooms revenue, and an other brand services fee in an amount determined by the Operator from time to time.

The management agreement contains specific standards for the operation and maintenance of the hotel, which allows the Operator to maintain uniformity in the system created by the Operator’s franchise. Such standards generally regulate the appearance of the hotel, quality and type of goods and services offered, signage and protection of trademarks. Compliance with the management agreement will require the Company to make significant expenditures for capital improvements.

During the three and six months ended June 30, 2018, the Company incurred \$0.2 million and \$0.3 million, respectively, of fees related to the management agreement, which are included in hotel expenses on the accompanying consolidated statements of operations. During each of the three and six months ended June 30, 2017, the Company incurred \$0.1 million of fees related to the management agreement, which are included in hotel expenses on the accompanying consolidated statements of operations.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Q&C Hotel

A wholly owned subsidiary of the joint venture through which the Company leases the operations of the Q&C Hotel (“Q&C Hotel Operations”) has entered into a management agreement with Encore Hospitality, LLC (“Encore Hospitality”), an affiliate of the joint venture partner, pursuant to which Encore Hospitality will manage and operate the Q&C Hotel. The management agreement expires on December 17, 2035. Subject to certain conditions, Encore Hospitality may extend the term of the agreement for a period of five years. Pursuant to the management agreement Encore Hospitality will receive a base fee, which is 4.0% of gross revenue (as defined in the management agreement). During the three and six months ended June 30, 2018, the Company incurred \$0.1 million and \$0.2 million, respectively, of fees related to the management agreement, which are included in hotel expenses on the accompanying consolidated statements of operations. During the three and six months ended June 30, 2017, the Company incurred \$0.1 million and \$0.2 million, respectively, of fees related to the management agreement, which are included in hotel expenses on the accompanying consolidated statements of operations.

Q&C Hotel Operations has also entered into a franchise agreement with Marriott International (“Marriott”) pursuant to which Marriott has granted Q&C Hotel Operations a limited, non-exclusive license to establish and operate the Q&C Hotel using certain of Marriott’s proprietary marks and systems and the hotel was branded as a Marriott Autograph Collection hotel on May 25, 2016. The franchise agreement will expire on May 25, 2041. Pursuant to the franchise agreement, Q&C Hotel Operations pays Marriott a monthly franchise fee equal to a percent of gross room sales on a sliding scale that is initially 2% and increases to 5% on May 25, 2019 and a monthly marketing fund contribution fee equal to 1.5% of the Q&C Hotel’s gross room sales. In addition, the franchise agreement requires the maintenance of a reserve account to fund all renovations at the hotel based on a percentage of gross revenues which starts at 2% of gross revenues and increases to 5% of gross revenues on May 25, 2019. Q&C Hotel Operations is also responsible for the payment of certain other fees, charges and costs as set forth in the agreement. During the three and six months ended June 30, 2018, the Company incurred \$0.3 million and \$0.6 million, respectively, of fees related to the Marriott franchise agreement. During the three and six months ended June 30, 2017, the Company incurred \$0.3 million and \$0.4 million, respectively, of fees related to the Marriott franchise agreement.

In addition, in connection with the execution of the franchise agreement, SOR US Properties II is providing an unconditional guarantee that all Q&C Hotel Operations’ obligations under the franchise agreement will be punctually paid and performed. Finally, certain transfers of the Q&C Hotel or an ownership interest therein are subject to a notice and consent requirement, and the franchise agreement further provides Marriott with a right of first refusal with respect to a sale of the hotel to a competitor of Marriott.

Lease Obligations

As of June 30, 2018, the Company had leasehold interests expiring on various expiration dates between July 1, 2018 and 2114. Future minimum lease payments owed by the Company under the capital leases as of June 30, 2018 are as follows (in thousands):

July 1, 2018 through December 31, 2018	\$	240
2019		635
2020		680
2021		735
2022		935
Thereafter		53,841
Total expected minimum lease obligations		<u>57,066</u>
Less: Amount representing interest ⁽¹⁾		(48,752)
Present value of net minimum lease payments ⁽²⁾	<u>\$</u>	<u>8,314</u>

⁽¹⁾ Interest includes the amount necessary to reduce the total expected minimum lease obligations to present value calculated at the Company’s incremental borrowing rate at acquisition.

⁽²⁾ The present value of net minimum lease payments are presented in other liabilities in the accompanying consolidated balance sheets.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Economic Dependency

The Company is dependent on the Advisor and the Dealer Manager for certain services that are essential to the Company, including the sale of the Company's shares of common stock; 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 these companies are unable to provide the respective services, the Company will be required to obtain such services from other sources.

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. Although there can be no assurance, the Company is not aware of any environmental liability that could have a material adverse effect on its financial condition or results of operations as of June 30, 2018. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company's properties, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to the properties could result in future environmental liabilities.

Legal Matters

From time to time, the Company is a 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 the 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.

13. SUBSEQUENT EVENTS

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

Status of the Offering

The Company commenced the Public Offering on August 12, 2014 and broke escrow on January 7, 2015. The Company ceased offering shares of common stock in the primary offering on July 31, 2018 and is continuing to process subscriptions. Subscriptions must be dated on or before July 31, 2018, and subscriptions and all related documents and funds must be received by the Company in good order no later than September 28, 2018. As of August 7, 2018, the Company had sold 12,446,971 and 11,615,607 shares of Class A and Class T common stock, respectively, in the Public Offering for aggregate gross offering proceeds of \$233.6 million. Included in these amounts were 531,570 and 162,456 shares of Class A and Class T common stock, respectively, sold under the Company's dividend reinvestment plan for aggregate gross offering proceeds of \$6.4 million.

Cash Distributions Paid

On July 3, 2018, the Company paid distributions of \$0.4 million related to cash distributions on the outstanding shares of the common stock based on daily record dates for the period from June 1, 2018 through June 30, 2018. On August 1, 2018, the Company paid distributions of \$0.4 million related to cash distributions on the outstanding shares of the common stock based on daily record dates for the period from July 1, 2018 through July 31, 2018. Distributions for the period from June 1, 2018 through July 31, 2018 were calculated based on stockholders of record each day during these periods at a rate of (i) \$0.00052548 per share per day less (ii) the applicable daily stockholder servicing fees accrued for and allocable to any class of common stock, divided by the number of shares of common stock of such class outstanding as of the close of business on each respective record date.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

Stock Dividends Issued

On May 10, 2018, the Company's board of directors authorized stock dividends for the month of June 2018, in the amount of 0.001667 shares of each class of the Company's common stock on each outstanding share of common stock issuable to all common stockholders of record as of the close of business on June 30, 2018. The Company issued the June 2018 stock dividend, consisting of 48,994 shares, on July 5, 2018.

On May 10, 2018, the Company's board of directors authorized stock dividends for the month of July 2018, in the amount of 0.001667 shares of each class of the Company's common stock on each outstanding share of common stock issuable to all common stockholders of record as of the close of business on July 31, 2018. The Company issued the July 2018 stock dividends, consisting of 49,556 shares, on August 2, 2018.

Distributions Declared

On July 13, 2018, the Company's board of directors declared cash distributions on the outstanding shares of all classes of its common stock based on daily record dates for the period from August 1, 2018 through August 31, 2018, which the Company expects to pay in September 2018. Investors may choose to receive cash distributions or purchase additional shares through the Company's dividend reinvestment plan. Distributions for these periods will be calculated based on stockholders of record each day during this period at a rate of \$0.00052548 per share per day.

Also on July 13, 2018, the Company's board of directors authorized a stock dividend for the month of August 2018 in the amount of 0.001667 shares of common stock on each outstanding share of common stock, issuable to all common stockholders of record as of the close of business on August 31, 2018. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend. The Company expects to issue this stock dividend in September 2018.

On August 9, 2018, the Company's board of directors declared cash distributions on the outstanding shares of all classes of its common stock based on daily record dates for the periods from September 1, 2018 through September 30, 2018 and October 1, 2018 through October 31, 2018, which the Company expects to pay in October 2018 and November 2018, respectively. Investors may choose to receive cash distributions or purchase additional shares through the Company's dividend reinvestment plan. Distributions for these periods will be calculated based on stockholders of record each day during these periods at a rate of \$0.00052548 per share per day.

Also on August 9, 2018, the Company's board of directors authorized a stock dividend for the months of September 2018 and October 2018 in the amount of 0.001667 shares of common stock on each outstanding share of common stock, issuable to all common stockholders of record as of the close of business on September 30, 2018 and October 31, 2018, respectively. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend. The Company expects to issue these stock dividends in October 2018 and November 2018, respectively.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Strategic Opportunity REIT II, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as “may,” “will,” “seeks,” “anticipates,” “believes,” “estimates,” “expects,” “plans,” “intends,” “should” or similar expressions. Actual results may differ materially from those contemplated by such forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, unless required by law.

The following are some of the risks and uncertainties, although not all of the risks and uncertainties, that could cause our actual results to differ materially from those presented in our forward-looking statements:

- We have a limited operating history and as of June 30, 2018, our total assets were \$588.0 million. You will not have an opportunity to evaluate our investments before we make them, making our future operations speculative.
- We depend on our advisor to identify suitable investments and conduct our operations and our dealer manager to conduct our offering.
- 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 other KBS-affiliated entities. As a result, they face conflicts of interest, including significant conflicts created by our advisor’s compensation arrangements with us and other KBS-advised programs and investors and conflicts in allocating time among us and these other programs and investors. These conflicts could result in unanticipated actions.
- We raised substantially less than the maximum offering amount in our initial public offering. Therefore, we will not be able to invest in as diverse a portfolio of properties as we otherwise would, which will cause the value of our stockholders’ investment to vary more widely with the performance of specific assets, and cause our general and administrative expenses to constitute a greater percentage of our revenue.
- Our board of directors has begun to explore strategic alternatives for the company. If we consummate a merger or pursue another exit strategy in the near term, stockholders may not receive an amount per share equal to our current offering prices or our estimated NAV per share.
- Our advisor and its affiliates receive fees in connection with transactions involving the origination, acquisition and management of our investments. These fees will be based on the cost of the investment, and not based on the quality of the investment or the quality of the services rendered to us. This may influence our advisor to recommend riskier transactions to us and increase our stockholders’ risk of loss.
- Our distribution policy is generally not to use offering proceeds to pay distributions. However, we may pay distributions from any source, including, without limitation, from offering proceeds or borrowings (which may constitute a return of capital). If we pay distributions from sources other than our cash flow from operations, we will have less funds available for investment in properties and other assets, the overall return to our stockholders may be reduced and subsequent investors may experience dilution.
- If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay distributions.
- Our policies do not limit us from incurring 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. During the early stages of our initial public offering, and to the extent financing in excess of this limit is available on attractive terms, our conflicts committee may approve debt such that our total liabilities would exceed this limit. High debt levels could limit the amount of cash we have available to distribute and could result in a decline in the value of an investment in us.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

- Disruptions in the financial markets and uncertain economic conditions could adversely affect our ability to implement our business strategy and generate returns to stockholders.
- Except with respect to unimproved or non-incoming producing property, we are not limited in the percentage of net proceeds that we may allocate to a specific real estate asset type. Thus, we may make all of our investments in investments which present an increased risk of loss. In addition, we may change our targeted investments and investment guidelines at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments we initially expect to focus on.
- We expect to focus our investments in real estate-related loans and real estate-related debt securities in distressed debt, which involves more risk than in performing debt.
- Our opportunistic property-acquisition strategy involves a higher risk of loss than would a strategy of investing in stabilized properties.
- We have made foreign investments and will be susceptible to risks associated with such investments, including changes in currency exchange rates, adverse political or economic developments, lack of uniform accounting standards and changes in foreign laws.

All forward-looking statements should be read in light of the risks identified herein in Part II, Item 1A “Risk Factors” and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ended March 31, 2018, as filed with the Securities and Exchange Commission (the “SEC”).

Overview

We were formed on February 6, 2013 as a Maryland corporation and elected to be taxed as a real estate investment trust (“REIT”) beginning with the taxable year ending December 31, 2014. On July 3, 2013, we commenced a private placement offering exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), to offer a maximum of \$105,000,000 of shares of common stock for sale to certain accredited investors, of which \$5,000,000 of shares were offered pursuant to our dividend reinvestment plan. We ceased offering shares in our private offering on August 11, 2014. KBS Capital Markets Group LLC, an affiliate of our advisor, served as the dealer manager of the offering pursuant to a dealer manager agreement and was responsible for marketing our shares in the offering.

On November 14, 2013, we filed a registration statement on Form S-11 with the Securities and Exchange Commission (the “SEC”) to register for sale to the public a maximum of 180,000,000 shares of common stock, of which 80,000,000 shares were to be offered pursuant to our dividend reinvestment plan. The SEC declared our registration statement effective on August 12, 2014 and we retained KBS Capital Markets Group LLC to serve as the dealer manager of the initial public offering pursuant to a dealer manager agreement. On February 11, 2016, we filed an amended registration statement on Form S-11 with the SEC to offer a second class of common stock designated as Class T shares and to designate our initially offered and outstanding common stock as Class A shares. Pursuant to the amended registration statement, we are offering to sell any combination of Class A and Class T shares in our primary offering and dividend reinvestment plan offering but in no event may we sell more than 180,000,000 of shares of our common stock pursuant to the offering. We commenced offering our Class T shares of our common stock for sale to the public on February 17, 2016. The dealer manager is responsible for marketing our shares in the initial public offering.

On August 10, 2017, we filed a registration statement on Form S-11 with the SEC to register a proposed follow-on offering. Pursuant to the follow-on offering registration statement, we propose to register up to \$500.0 million of shares of common stock for sale to the public in a primary offering. We also propose to register up to \$125.0 million of shares of common stock pursuant to our dividend reinvestment plan in the follow-on offering. We can give no assurance that we will commence or complete the follow-on offering.

We ceased offering shares of common stock in our primary public offering on July 31, 2018 and are continuing to process subscriptions. Subscriptions must be dated on or before July 31, 2018, and subscriptions and all related documents and funds must be received by us in good order no later than September 28, 2018.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

We intend to use substantially all of the net proceeds from our offerings to invest in and manage a diverse portfolio of real estate-related loans, opportunistic real estate, real estate-related debt securities and other real estate-related investments located in the United States and Europe. Such investments will include the acquisition of distressed debt, the origination and acquisition of mortgage, mezzanine, bridge and other real estate-related loans, investment in opportunistic real estate and investments in real estate-related debt securities such as residential and commercial mortgage-backed securities and collateralized debt obligations. We may also invest in entities that make similar investments. Although this is our current target portfolio, we may make adjustments to our target portfolio based on real estate market conditions and investment opportunities. We will not forego what we believe to be a good investment because it does not precisely fit our expected portfolio composition. As of June 30, 2018, we had invested in two hotel properties, four office properties, one apartment building, an investment in an unconsolidated entity and an investment in real estate equity securities. Additionally, as of June 30, 2018, we had entered into a joint venture to develop one retail property, which is currently under construction.

As of June 30, 2018, we had sold 12,242,387 and 11,443,519 shares of Class A and Class T common stock, respectively, for aggregate gross offering proceeds of \$230.0 million in our initial public offering, including 496,426 and 146,459 shares of Class A and Class T common stock, respectively, under our dividend reinvestment plan for aggregate gross offering proceeds of \$6.0 million. Also as of June 30, 2018, we had redeemed 410,408 and 61,671 shares of Class A and Class T common stock, respectively, for \$4.1 million.

We sold 3,619,851 shares of Class A common stock for gross offering proceeds of \$32.2 million in our private offering. Additionally, on each of April 2, 2014 and July 31, 2014, we issued 120,106 shares of Class A common stock to an entity affiliated with two of our officers and affiliated directors for \$1.0 million in separate private transactions exempt from the registration requirements of the Securities Act. On July 14, 2017 and February 13, 2018, we issued 214,175 shares and 10,935 shares, respectively, of Class A common stock to a business associate of two of our officers and affiliated director for \$2.0 million and \$0.1 million, respectively, in a separate private transaction exempt from the registration requirements of the Securities Act.

We have no employees and KBS Capital Advisors LLC (“KBS Capital Advisors”) has served as our external advisor since commencement of the private offering. As our advisor, KBS Capital Advisors manages our day-to-day operations and manages our portfolio of real estate properties and real estate-related investments. KBS Capital Advisors will make 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, marketing, investor-relations and other administrative services on our behalf.

We have formed a strategic relationship with STAM, a commercial real estate investment and asset management firm headquartered in Paris, France to support us and our advisor in connection with any investments we may make in Europe. We can give no assurances as to the number, if any, of investments we may make in Europe.

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. Increases in the cost of financing due to higher interest rates may cause difficulty in refinancing debt obligations prior to or at maturity or at terms as favorable as the terms of existing indebtedness. Market conditions can change quickly, potentially negatively impacting the value of real estate investments. Management continuously reviews our investment and debt financing strategies to optimize our portfolio and the cost of our debt exposure.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Liquidity and Capital Resources**

Our principal demand for funds during the short and long-term is and will be for the payment of operating expenses, capital expenditures and general and administrative expenses; payments under debt obligations; redemptions of common stock; capital commitments and development expenses under our joint venture agreements; and payments of distributions to stockholders.

To date, we have had four primary sources of capital for meeting our cash requirements:

- Proceeds from the primary portion of our initial public offering;
- Proceeds from our dividend reinvestment plan;
- Debt financings; and
- Cash flow generated by our real estate investments.

As of June 30, 2018, we had sold 12,242,387 and 11,443,519 shares of Class A and Class T common stock, respectively, for aggregate gross offering proceeds of \$230.0 million in our initial public offering. Additionally, we sold 3,619,851 shares of common stock in our private offering for gross offering proceeds of \$32.2 million. We ceased offering shares of common stock in our primary public offering on July 31, 2018 and are continuing to process subscriptions. Subscriptions must be dated on or before July 31, 2018, and subscriptions and all related documents and funds must be received by us in good order no later than September 28, 2018.

To date, we have invested a significant amount of the proceeds from the primary public offering in real estate and do not anticipate making additional real estate acquisitions due to the termination of the primary portion of our initial public offering on July 31, 2018. We intend to use our cash on hand, cash flow generated by our real estate operations and proceeds from our dividend reinvestment plan as our primary sources of immediate and long-term liquidity.

As of June 30, 2018, we had invested in two hotel properties, four office properties, one apartment building, an investment in an unconsolidated entity and an investment in real estate equity securities. Additionally, as of June 30, 2018, we had entered into a joint venture to develop one retail property, which is currently under construction.

Our office and apartment 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 office and apartment properties is primarily dependent upon the occupancy level of our properties, the net effective rental rates on our leases, the collectibility of rent and operating recoveries from our tenants and how well we manage our expenditures. As of June 30, 2018, we owned four office properties that were 72% occupied and one apartment property that was 94% occupied.

Our hotel properties generate cash flow in the form of room, food, beverage and convention services, campground and other revenues, which are reduced by hotel expenses, capital expenditures, debt service payments, the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from our hotel properties are primarily dependent upon the occupancy levels of our hotels, the average daily rates and how well we manage our expenditures. The following table provides summary information regarding our hotel properties as of June 30, 2018:

Property	Number of Rooms	Percentage Occupied for the Six Months Ended June 30, 2018	Average Revenue per Available Room	Average Daily Rate
Springmaid Beach Resort	452	57.8%	\$88.52	\$153.16
Q&C Hotel	196	80.5%	\$137.19	\$170.43

Investments in real estate equity securities generate cash flow in the form of dividend income, which is reduced by asset management fees. As of June 30, 2018, we had an investment in real estate equity securities outstanding with a total book value of \$7.3 million.

As of June 30, 2018, we had mortgage debt obligations in the aggregate principal amount of \$331.6 million, with a weighted-average remaining term of 2.1 years. As of June 30, 2018, an aggregate amount of \$32.3 million was available under our mortgage loans for future disbursements to be used for capital improvement costs, tenant improvement costs, leasing commissions and expenses and operating/interest shortfall, subject to certain terms and conditions contained in the loan documents.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

In addition to making investments in accordance with our investment objectives, we expect to use our capital resources to make certain payments to our advisor and the dealer manager. During our organization and offering stage, these payments include payments to the dealer manager for selling commissions, the dealer manager fee and the stockholder servicing fee and payments to the dealer manager and our advisor for reimbursement of certain commercially reasonable organization and offering expenses, provided that no reimbursements made by us to our advisor or dealer manager may cause total organization and offering expenses incurred by us in connection with our initial public offering (including selling commissions, dealer manager fees, stockholder servicing fees and all other items of organization and offering expenses) to exceed 15% of the aggregate gross proceeds from our public offering as of the date of reimbursement. As of June 30, 2018, our advisor has incurred organization and offering expenses on our behalf related to our initial public offering of approximately \$10.8 million. In addition, our advisor and its affiliates will reimburse us to the extent that the organization and other offering expenses (which exclude selling commissions, dealer manager fees and stockholder servicing fees) paid directly or reimbursed by us in connection with the primary portion of our initial public offering, regardless of when incurred, exceed 1.0% of gross offering proceeds from the primary portion of our initial public offering. Our advisor and its affiliates will be responsible for any organization and other offering expenses related to the primary portion of our initial public offering to the extent they exceed 1.0% of gross proceeds from the primary portion of the initial public offering. There was no limit on the organization and offering expenses we could incur in connection with our private offering. As of June 30, 2018, our advisor had incurred offering expenses on our behalf related to our private offering of \$1.0 million, all of which have been reimbursed from proceeds from our now terminated private offering. During our acquisition and development stage, we expect to make payments to our advisor in connection with the selection and origination or purchase of investments, the management of our assets and costs incurred by our advisor in providing services to us. We will also continue to make payments to our dealer manager related to the stockholder servicing fees based on the terms of the Class T Shares. Our currently effective advisory agreement expires August 12, 2018 and may be renewed for an unlimited number of successive one-year periods upon the mutual consent of KBS Capital Advisors and our conflicts committee.

Among the fees payable to our advisor is an asset management fee. We pay our advisor a monthly fee equal to the lesser of one-twelfth of (i) 1.0% of the cost of our investments and (ii) 2.0% of the sum of the cost of our investments, less any debt secured by or attributable to the investments. The cost of the real property investments is calculated as the amount paid or allocated to acquire the real property, including the cost of any subsequent development, construction or improvements to the property and including fees and expenses related thereto (but excluding acquisition fees paid or payable our advisor). The cost of the loans and any investments other than real property is calculated as the lesser of (x) the amount actually paid or allocated to acquire or fund the loan or other investment, including fees and expenses related thereto (but excluding acquisition fees paid or payable to our advisor) and (y) the outstanding principal amount of such loan or other investment, including fees and expenses related to the acquisition or funding of such investment (but excluding acquisition fees paid or payable to our advisor) as of the time of calculation. In the case of investments made through joint ventures, the asset management fee is determined based on our proportionate share of the underlying investment.

In addition, an affiliate of our advisor, KBS Management Group, was recently formed to provide property management services with respect to certain properties owned by KBS-advised companies. In the future, we may engage KBS Management Group with respect to one or more of our properties to provide property management services. With respect to any such properties, we would expect to pay KBS Management Group a monthly fee equal to a percentage of the rent (to be determined on a property by property basis, consistent with current market rates).

We elected to be taxed and to operate as a REIT beginning with our taxable year ended December 31, 2014. To maintain our qualification as a REIT, we will be required to make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income (computed without regard to the dividends paid deduction and excluding net capital gain). Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level.

Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the four most recently completed fiscal quarters, as these terms are defined in our charter, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expense reimbursements for the four fiscal quarters ended June 30, 2018 did not exceed the charter imposed limitation.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Cash Flows from Operating Activities

We commenced operations on September 4, 2014 in connection with our first investment. As of June 30, 2018, we had invested in two hotel properties, four office properties, one apartment building, an investment in an unconsolidated entity and an investment in real estate equity securities. Additionally, as of June 30, 2018, we had entered into a joint venture to develop one retail property, which is currently under construction. During the six months ended June 30, 2018, net cash provided by operating activities was \$2.6 million. We expect that our cash flows from operating activities will generally increase in future periods as a result of leasing additional space that is currently unoccupied, the development and subsequent operation of 210 West 31st Street, which is currently under construction, and owning real estate securities acquired during 2018 for an entire period.

Cash Flows from Investing Activities

Net cash used in investing activities was \$11.3 million for the six months ended June 30, 2018 and primarily consisted of the following:

- \$7.0 million investment in real estate equity securities;
- \$4.8 million of improvements to real estate;
- \$3.5 million of cash received in connection with the real estate loan receivable payoff;
- \$3.2 million of payments for construction in progress; and
- \$0.2 million of proceeds from insurance claims.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$7.8 million for the six months ended June 30, 2018 and primarily consisted of the following:

- \$11.3 million of net cash provided by offering proceeds related to our initial public offering, net of payments of commissions, dealer manager fees and stockholder servicing fees of \$1.2 million;
- \$2.1 million of cash used for redemptions of common stock;
- \$0.8 million of net cash distributions, after giving effect to distributions reinvested by stockholders of \$1.4 million;
- \$0.5 million of net cash used in debt and other financings as a result of principal payments on notes payable of \$2.2 million and payments of deferred financing costs of \$0.1 million, partially offset by proceeds from notes payable of \$1.8 million;
- \$0.5 million of noncontrolling interest contributions;
- \$0.4 million of distributions to noncontrolling interest; and
- \$0.2 million of principal payments on capital lease obligations.

In order to execute our investment strategy, we utilize secured debt and we may, to the extent available, utilize unsecured debt, to finance a portion of our investment portfolio. Management remains vigilant in monitoring the risks inherent with the use of debt in our portfolio and is taking actions to ensure that these risks, including refinancing and interest risks, are properly balanced with the benefit of using leverage. Once we have fully invested the proceeds from our offering stage, we expect our debt financing will be 60% or less 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 any single investment. Our charter limits our total liabilities such that our total liabilities may not exceed 75% of the cost of our tangible assets (before deducting depreciation or other non-cash reserves); however, we may exceed that limit if a majority of the Conflicts Committee approves each borrowing in excess of our charter limitation and we disclose such borrowing to our common stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. As of June 30, 2018, our borrowings and other liabilities were approximately 60% of the cost (before depreciation and other noncash reserves) and book value (before depreciation) of our tangible assets.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of June 30, 2018 (in thousands):

Contractual Obligations	Total	Payments Due During the Years Ending December 31,			
		Remainder of 2018	2019-2020	2021-2022	Thereafter
Outstanding debt obligations ⁽¹⁾	\$ 331,622	\$ 64,164	\$ 173,288	\$ 94,170	\$ —
Interest payments on outstanding debt obligations ⁽²⁾	30,904	7,702	17,423	5,779	—
Stockholder servicing fee liability ⁽³⁾	180	180	—	—	—
Capital lease obligations	57,066	240	1,315	1,670	53,841

⁽¹⁾ Amounts include principal payments only.

⁽²⁾ Projected interest payments are based on the outstanding principal amounts and interest rates in effect at June 30, 2018. We incurred interest expense of \$8.1 million, excluding amortization of deferred financing costs of \$0.8 million and unrealized gain on interest rate cap of \$10,000 and including interest capitalized of \$2.6 million for the six months ended June 30, 2018.

⁽³⁾ Stockholder servicing fee is an annual fee of 1.0% of the purchase price per Class T share sold in our primary public offering for services rendered to Class T stockholders by the broker dealer of record after the initial sale of the Class T share. The stockholder servicing fee will accrue daily and be paid monthly in arrears for up to the fourth anniversary of the issuance of the Class T share. The amount shown is the amount estimated as payable as of June 30, 2018 based on the terms of the Class T shares.

In addition, as of June 30, 2018, we expect to incur approximately \$10.9 million of development costs related to 210 West 31st Street.

Results of Operations

Overview

As of June 30, 2017, we had invested in two hotel properties, two office properties, one apartment building, an investment in an unconsolidated entity and one first mortgage loan. Additionally, as of June 30, 2017, we had entered into a joint venture to develop one retail property, which was under construction. As of June 30, 2018, we had invested in two hotel properties, four office properties, one apartment building, an investment in an unconsolidated entity and an investment in real estate equity securities. Additionally, as of June 30, 2018, we had entered into a joint venture to develop one retail property, which is currently under construction. We funded the acquisitions of these investments with proceeds from our terminated private offering, initial public offering and debt financing. Our results of operations for the three and six months ended June 30, 2018 are not indicative of those in future periods as we commenced operations on September 4, 2014 in connection with our first investment and we have acquired additional investments since that time. In general, we expect that our revenue and expenses related to our portfolio will increase in future periods as our development of one retail property is completed and the occupancies at our properties stabilize as discussed below. Additionally, our investment objectives include acquiring properties with significant possibilities for short-term capital appreciation, such as non-stabilized properties, properties with moderate vacancies or near-term lease rollovers, poorly managed and positioned properties, properties owned by distressed sellers and built-to-suit properties. As of June 30, 2018, the occupancy in our properties has not been stabilized. However, due to the amount of near-term lease expirations, we do not put significant emphasis on quarterly changes in occupancy (positive or negative) in the short run. Our underwriting and valuations are generally more sensitive to “terminal values” that may be realized upon the disposition of the assets in the portfolio and less sensitive to ongoing cash flows generated by the portfolio in the years leading up to an eventual sale. There are no guarantees that occupancies of our assets will increase, or that we will recognize a gain on the sale of our assets. In general, we expect that our income and expenses related to our portfolio will increase in future periods as a result of leasing additional space, improving our properties and acquiring additional assets but decrease due to disposition activity.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Comparison of the three months ended June 30, 2018 versus the three months ended June 30, 2017

The following table provides summary information about our results of operations for the three months ended June 30, 2018 and 2017 (dollar amounts in thousands):

	Three Months Ended June 30,		Increase (Decrease)	Percentage Change	\$ Change Due to Acquisitions/ Repayments ⁽¹⁾	\$ Change Due to Investments Held Throughout Both Periods ⁽²⁾
	2018	2017				
Office revenues	\$ 7,361	\$ 1,782	\$ 5,579	313 %	\$ 5,601	\$ (22)
Hotel revenues	10,263	6,470	3,793	59 %	—	3,793
Apartment revenues	1,803	1,699	104	6 %	—	104
Dividend income from real estate equity securities	36	—	36	n/a	36	—
Interest income from real estate loan receivable	—	101	(101)	(100)%	(101)	—
Office expenses	3,039	597	2,442	409 %	2,481	(39)
Hotel expenses	6,265	4,788	1,477	31 %	—	1,477
Apartment expenses	965	862	103	12 %	—	103
Asset management fees to affiliate	986	577	409	71 %	347	62
General and administrative expenses	604	772	(168)	(22)%	n/a	n/a
Depreciation and amortization	5,069	2,614	2,455	94 %	2,519	(64)
Interest expense	3,407	1,834	1,573	86 %	n/a	n/a
Other interest income	91	193	(102)	(53)%	n/a	n/a
Equity in income of unconsolidated entity	116	13	103	792 %	—	103
Unrealized gain on real estate equity securities	400	—	400	n/a	400	—
Income tax benefit	—	428	(428)	(100)%	—	(428)

⁽¹⁾ Represents the dollar amount increase (decrease) for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 related to real estate and real estate-related investments acquired or repaid on or after April 1, 2017.

⁽²⁾ Represents the dollar amount increase (decrease) for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 with respect to real estate and real estate-related investments owned by us during the entire periods presented.

Office revenues increased from \$1.8 million for the three months ended June 30, 2017 to \$7.4 million for the three months ended June 30, 2018 primarily as a result of the growth in our real estate portfolio. We expect office revenues to vary in future periods based on occupancy rates and rental rates of our office properties.

Hotel revenues increased from \$6.5 million for the three months ended June 30, 2017 to \$10.3 million for the three months ended June 30, 2018 primarily due to the impact of Hurricane Matthew in October 2016, the result of which placed certain rooms at Springmaid Beach Resort out of service during the three months ended June 30, 2017. We expect hotel revenues to vary in future periods based on occupancy and room rates.

Interest income from our real estate loan receivable, recognized using the interest method, was \$0.1 million for the three months ended June 30, 2017. The real estate loan receivable was repaid in full on January 12, 2018.

Office expenses increased from \$0.6 million for the three months ended June 30, 2017 to \$3.0 million for the three months ended June 30, 2018 primarily as a result of the growth in our real estate portfolio. Hotel expenses increased from \$4.8 million for the three months ended June 30, 2017 to \$6.3 million for the three months ended June 30, 2018 primarily due to an increase in occupancy rates. Apartment expenses increased from \$0.9 million for the three months ended June 30, 2017 to \$1.0 million for the three months ended June 30, 2018. We expect total expenses to vary in future periods based on occupancy rates.

Asset management fees to affiliate increased from \$0.6 million for the three months ended June 30, 2017 to \$1.0 million for the three months ended June 30, 2018 primarily as a result of the growth of our real estate portfolio. We expect asset management fees to increase in future periods as a result of any improvements we make to our properties and as a result of owning our investment in real estate equity securities acquired in 2018 for an entire period. Approximately \$20,000 of asset management fees incurred were payable as of June 30, 2018.

PART I. FINANCIAL INFORMATION (CONTINUED)
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General and administrative expenses decreased from \$0.8 million for the three months ended June 30, 2017 to \$0.6 million for the three months ended June 30, 2018, primarily due to a foreign currency gain of \$0.1 million on our foreign currency forward contract. We expect general and administrative expenses to fluctuate based on our legal expenses and investment and disposition activity.

Depreciation and amortization expenses increased from \$2.6 million for the three months ended June 30, 2017 to \$5.1 million for the three months ended June 30, 2018 primarily due to the growth of our real estate portfolio, partially offset by the effect of fully amortized assets related to properties held throughout both periods. We expect depreciation and amortization expenses to vary in future periods as a result of a decrease in amortization related to fully amortized tenant origination and absorption costs and increase as a result of the development and subsequent operation of 210 West 31st Street.

Interest expense increased from \$1.8 million for the three months ended June 30, 2017 to \$3.4 million for the three months ended June 30, 2018 primarily due to increased borrowings in connection with our acquisition activity and increased one-month LIBOR rates during the three months ended June 30, 2018. Excluded from interest expense was \$1.3 million and \$0.9 million of interest capitalized to our construction in progress during the three months ended June 30, 2018 and 2017, respectively. Our interest expense in future periods will vary based on our level of future borrowings, which will depend on the amount of proceeds raised in our ongoing initial public offering, the availability and cost of debt financing and the opportunity to acquire real estate and real estate-related investments meeting our investment objectives. The increase in interest expense due to increases in LIBOR rates would be minimized to the extent rates are above the strike rates on our interest rate cap instruments.

Unrealized gain on real estate equity securities was \$0.4 million during the three months ended June 30, 2018, primarily as a result of an increase in share price of our investment in real estate equity securities.

Comparison of the six months ended June 30, 2018 versus the six months ended June 30, 2017

The following table provides summary information about our results of operations for the six months ended June 30, 2018 and 2017 (dollar amounts in thousands):

	Six Months Ended June 30,		Increase (Decrease)	Percentage Change	\$ Change Due to Acquisitions/ Repayments ⁽¹⁾	\$ Change Due to Investments Held Throughout Both Periods ⁽²⁾
	2018	2017				
Office revenues	\$ 14,960	\$ 3,606	\$ 11,354	315 %	\$ 11,286	\$ 68
Hotel revenues	15,773	11,313	4,460	39 %	—	4,460
Apartment revenues	3,519	3,438	81	2 %	—	81
Dividend income from real estate equity securities	36	—	36	n/a	36	—
Interest income from real estate loan receivable	10	200	(190)	(95)%	(190)	—
Office expenses	5,710	1,177	4,533	385 %	4,630	(97)
Hotel expenses	11,055	9,032	2,023	22 %	—	2,023
Apartment expenses	1,882	1,698	184	11 %	—	184
Asset management fees to affiliate	1,920	1,081	839	78 %	684	155
General and administrative expenses	1,244	1,346	(102)	(8)%	n/a	n/a
Depreciation and amortization	10,172	5,467	4,705	86 %	5,084	(379)
Interest expense	6,304	3,544	2,760	78 %	n/a	n/a
Other interest income	152	289	(137)	(47)%	n/a	n/a
Equity in income of unconsolidated entity	131	26	105	404 %	—	105
Unrealized gain on real estate equity securities	314	—	314	n/a	314	—
Income tax benefit	9	437	(428)	(98)%	—	(428)

⁽¹⁾ Represents the dollar amount increase (decrease) for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 related to real estate and real estate-related investments acquired or repaid on or after January 1, 2017.

⁽²⁾ Represents the dollar amount increase (decrease) for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 with respect to real estate and real estate-related investments owned by us during the entire periods presented.

Office revenues increased from \$3.6 million for the six months ended June 30, 2017 to \$15.0 million for the six months ended June 30, 2018 primarily as a result of the growth in our real estate portfolio. We expect office revenues to vary in future periods based on occupancy rates and rental rates of our office properties.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Hotel revenues increased from \$11.3 million for the six months ended June 30, 2017 to \$15.8 million for the six months ended June 30, 2018 primarily due to the impact of Hurricane Matthew in October 2016, the result of which placed certain rooms at Springmaid Beach Resort out of service during the six months ended June 30, 2017. We expect hotel revenues to vary in future periods based on occupancy and room rates.

Interest income from our real estate loan receivable, recognized using the interest method, decreased from \$0.2 million for the six months ended June 30, 2017 to \$10,000 for the six months ended June 30, 2018 as a result of the real estate loan receivable being repaid in full on January 12, 2018.

Office expenses increased from \$1.2 million for the six months ended June 30, 2017 to \$5.7 million for the six months ended June 30, 2018 primarily as a result of the growth in our real estate portfolio. Hotel expenses increased from \$9.0 million for the six months ended June 30, 2017 to \$11.1 million for the six months ended June 30, 2018 primarily due to an increase in occupancy rates. Apartment expenses increased from \$1.7 million for the six months ended June 30, 2017 to \$1.9 million for the six months ended June 30, 2018. We expect total expenses to vary in future periods based on occupancy rates.

Asset management fees to affiliate increased from \$1.1 million for the six months ended June 30, 2017 to \$1.9 million for the six months ended June 30, 2018 primarily as a result of the growth of our real estate portfolio. We expect asset management fees to increase in future periods as a result of any improvements we make to our properties and as a result of owning our investment in real estate equity securities acquired in 2018 for an entire period. Approximately \$20,000 of asset management fees incurred were payable as of June 30, 2018.

General and administrative expenses decreased from \$1.3 million for the six months ended June 30, 2017 to \$1.2 million for the six months ended June 30, 2018, primarily due to a foreign currency gain of \$0.1 million on our foreign currency forward contract. We expect general and administrative expenses to fluctuate based on our legal expenses and investment and disposition activity.

Depreciation and amortization expenses increased from \$5.5 million for the six months ended June 30, 2017 to \$10.2 million for the six months ended June 30, 2018 primarily due to the growth of our real estate portfolio, partially offset by the effect of fully amortized assets related to properties held throughout both periods. We expect depreciation and amortization expenses to vary in future periods as a result of a decrease in amortization related to fully amortized tenant origination and absorption costs and increase as a result of the development and subsequent operation of 210 West 31st Street.

Interest expense increased from \$3.5 million for the six months ended June 30, 2017 to \$6.3 million for the six months ended June 30, 2018 primarily due to increased borrowings in connection with our acquisition activity and increased one-month LIBOR rates during the six months ended June 30, 2018. Excluded from interest expense was \$2.6 million and \$1.7 million of interest capitalized to our construction in progress during the six months ended June 30, 2018 and 2017, respectively. Our interest expense in future periods will vary based on our level of future borrowings, which will depend on the amount of proceeds raised in our ongoing initial public offering, the availability and cost of debt financing and the opportunity to acquire real estate and real estate-related investments meeting our investment objectives. The increase in interest expense due to increases in LIBOR rates would be minimized to the extent rates are above the strike rates on our interest rate cap instruments.

Unrealized gain on real estate equity securities was \$0.3 million during the six months ended June 30, 2018, primarily as a result of an increase in share price of our investment in real estate equity securities.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Funds from Operations, Modified Funds from Operations and Adjusted 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), impairment losses on real estate assets, depreciation and amortization of real estate assets, and adjustments for unconsolidated partnerships and joint ventures. We believe FFO facilitates comparisons of operating performance between periods and among other REITs. However, our computation of FFO may not be comparable to other REITs that do not define FFO in accordance with the NAREIT definition or that interpret the current NAREIT definition differently than we do. Our management believes that historical cost accounting for real estate assets in accordance with U.S. generally accepted accounting principles (“GAAP”) implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provides a more complete understanding of our performance relative to our competitors and provides a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

Changes in accounting rules have resulted in a substantial increase in the number of non-operating and non-cash items included in the calculation of FFO. As a result, our management also uses modified funds from operations (“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 Institute for Portfolio Alternatives (“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.

In addition, our management uses an adjusted MFFO (“Adjusted MFFO”) as an indicator of our ongoing performance as well as our dividend sustainability. Adjusted MFFO provides adjustments to reduce MFFO related to operating expenses that are capitalized with respect to certain of our investments in undeveloped land.

We believe that MFFO and Adjusted MFFO are helpful as measures of ongoing operating performance because they exclude costs that management considers more reflective of investing activities and other non-operating items included in FFO. Management believes that excluding acquisition costs (to the extent that such costs have been recorded as operating expenses) from MFFO and Adjusted MFFO provides investors with supplemental performance information that is consistent with management’s analysis of the operating performance of the portfolio over time, including periods after our acquisition stage. MFFO and Adjusted MFFO also exclude non-cash items such as straight-line rental revenue. Additionally, we believe that MFFO and Adjusted MFFO provide investors with supplemental performance information that is consistent with the performance indicators and analysis used by management, in addition to net income and cash flows from operating activities as defined by GAAP, to evaluate the sustainability of our operating performance. MFFO provides comparability in evaluating the operating performance of our portfolio with other non-traded REITs which typically have limited lives with short and defined acquisition periods and targeted exit strategies. MFFO, or an equivalent measure, is routinely reported by non-traded REITs, and we believe often used by analysts and investors for comparison purposes.

FFO, MFFO and Adjusted 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, MFFO and Adjusted 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, MFFO and Adjusted MFFO should not be considered as alternatives to net income as an indicator of our current and historical operating performance. In addition, FFO, MFFO and Adjusted 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, MFFO and Adjusted MFFO, in addition to net income and cash flows from operating activities as defined by GAAP, are meaningful supplemental performance measures.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Although MFFO includes other adjustments, the exclusion of straight-line rent, the amortization of above- and below-market leases and mark-to-market adjustments included in net income, 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; and
- *Mark to Market adjustments included in net income.* These are fair value adjustments to derivative instruments and real estate equity securities. We have excluded these adjustments in our calculation of MFFO to more appropriately reflect core operating performance.

Adjusted MFFO includes adjustments to reduce MFFO related to real estate taxes, property insurance and financing costs which are capitalized with respect to certain renovation projects. We have included adjustments for the costs incurred necessary to bring these investments to their intended use, as these costs are recurring operating costs that are capitalized in accordance with GAAP and not reflected in our net income (loss), FFO and MFFO.

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 calculations of MFFO and Adjusted MFFO, for the three and six months ended June 30, 2018 and 2017 (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss attributable to common stockholders	\$ (304)	\$ (1,280)	\$ (3,170)	\$ (3,728)
Depreciation of real estate assets	3,228	1,746	6,415	3,454
Amortization of lease-related costs	1,841	868	3,757	2,013
Adjustments for noncontrolling interests ⁽¹⁾	(226)	(172)	(450)	(368)
Adjustments for investment in unconsolidated entity ⁽²⁾	(18)	—	(18)	—
FFO attributable to common stockholders	4,521	1,162	6,534	1,371
Straight-line rent and amortization of above- and below-market leases	(1,280)	(157)	(2,865)	(340)
Amortization of discounts and closing costs	—	(19)	—	(38)
Unrealized gain on real estate equity securities	(400)	—	(314)	—
Unrealized losses on derivative instruments	(114)	23	(61)	73
Adjustments for noncontrolling interests ⁽¹⁾	(8)	(5)	(7)	(11)
MFFO attributable to common stockholders	2,719	1,004	3,287	1,055
Other capitalized operating expenses ⁽³⁾	(274)	(160)	(700)	(287)
Adjusted MFFO attributable to common stockholders	\$ 2,445	\$ 844	\$ 2,587	\$ 768

⁽¹⁾ Reflects adjustments to eliminate the noncontrolling interest holders' share of the adjustments to convert our net loss attributable to common stockholders to FFO, MFFO and Adjusted MFFO.

⁽²⁾ Reflects adjustments to add back our noncontrolling interest share of the adjustments to convert our net loss attributable to common stockholders to FFO for our equity investment in an unconsolidated entity.

⁽³⁾ Reflects financing costs that are capitalized with respect to certain renovation projects but excluding development projects. During the time in which we are incurring costs necessary to bring these investments to their intended use, certain financing costs are capitalized in accordance with GAAP and not reflected in our net loss, FFO and MFFO.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

FFO, MFFO and Adjusted MFFO may also be used to fund all or a portion of certain capitalizable items that are excluded from FFO, MFFO and Adjusted MFFO, such as tenant improvements, building improvements and deferred leasing costs. We expect FFO, MFFO and Adjusted MFFO to improve in future periods to the extent that we continue to lease up vacant space and acquire additional assets. We expect FFO, MFFO and Adjusted MFFO to increase as a result of acquisitions.

Organization and Offering Costs

Our organization and offering costs (other than selling commissions, dealer manager fees and the stockholder servicing fee) may be paid by our advisor, the dealer manager or their affiliates on our behalf or may be paid directly by us. These offering costs include all expenses incurred in connection with our offerings. Organization costs include all expenses incurred in connection with our formation, including but not limited to legal fees and other costs to incorporate.

We recorded \$1.0 million of offering costs (other than selling commissions and dealer manager fees) related to our private offering, all of which were initially paid by our advisor or its affiliates on our behalf and subsequently reimbursed by us. In addition, we paid \$1.9 million in selling commissions and dealer manager fees related to our private offering.

During our initial public offering, pursuant to the advisory agreement and dealer manager agreement, we are obligated to reimburse our advisor, the dealer manager or their affiliates, as applicable, for organization and other offering costs paid by them on behalf of us, provided that no reimbursements made by us to our advisor or the dealer manager may cause total organization and offering expenses incurred by us in connection with our initial public offering (including selling commissions, dealer manager fees and the stockholder servicing fees) to exceed 15% of the aggregate gross proceeds from our initial public offering as of the date of reimbursement. In addition, our advisor and its affiliates will reimburse us to the extent that the organization and other offering expenses (which exclude selling commissions, dealer manager fees and stockholder servicing fees) paid directly or reimbursed by us in connection with the primary portion of our initial public offering, regardless of when incurred, exceed 1.0% of gross offering proceeds from the primary portion of our initial public offering. Our advisor and its affiliates will be responsible for any organization and other offering expenses related to the primary portion of our initial public offering to the extent they exceed 1.0% of gross proceeds from the primary portion of the Public Offering as of the termination of the primary portion of our initial public offering.

Through June 30, 2018, our advisor and its affiliates had incurred organization and other offering costs (which exclude selling commissions dealer manager fees and stockholder servicing fees) on our behalf in connection with our initial public offering of approximately \$10.8 million. As of June 30, 2018, we had recorded \$14.2 million in selling commissions and dealer manager fees and \$1.7 million of stockholder servicing fees. As of June 30, 2018, we had recorded \$2.3 million of other organization and offering expenses, which amounts represent our maximum liability for organization and other offering costs as of June 30, 2018 based on the 1.0% limitation described above.

Distributions

To maintain our qualification as a REIT, we must make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income (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). If we meet the REIT qualification requirements, we generally will not be subject to federal income tax on the income that we distribute to our stockholders each year. In general, we anticipate making distributions to our stockholders of at least 100% of our REIT taxable income so that none of our income is subject to federal income tax. 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.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Until we have fully invested the proceeds of our public offering, and 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. Distributions declared, distributions paid and cash flow provided by operations were as follows for the first and second quarters of 2018 (in thousands, except per share amounts):

Period	Distributions Declared ⁽¹⁾	Distributions Declared Per Class A Share ⁽¹⁾⁽²⁾	Distributions Declared Per Class T Share ⁽¹⁾⁽²⁾	Distributions Paid ⁽³⁾			Cash Flows (Used in) Provided by Operations
				Cash	Reinvested	Total	
First Quarter 2018	\$ 1,082	\$ 0.047	\$ 0.024	\$ 407	\$ 665	\$ 1,072	\$ (1,928)
Second Quarter 2018	1,124	0.048	0.025	435	691	1,126	4,494
	<u>\$ 2,206</u>	<u>\$ 0.095</u>	<u>\$ 0.049</u>	<u>\$ 842</u>	<u>\$ 1,356</u>	<u>\$ 2,198</u>	<u>\$ 2,566</u>

⁽¹⁾ Distributions for the period from January 1, 2018 through June 30, 2018 were based on daily record dates and were calculated at a rate of (i) \$0.00052548 per share per day less (ii) the applicable daily stockholder servicing fees accrued for and allocable to any class of common stock.

⁽²⁾ Assumes share was issued and outstanding each day that was a record date for distributions during the period presented.

⁽³⁾ Distributions are paid on a monthly basis. Distributions for all record dates of a given month are paid on or about the first business day of the following month.

For the six months ended June 30, 2018, we paid aggregate distributions of \$2.2 million including \$0.8 million distributions paid in cash and \$1.4 million of distributions reinvested through our dividend reinvestment plan. Our net loss attributable to common stockholders for the six months ended June 30, 2018 was \$3.2 million and cash flow provided by operations was \$2.6 million. We funded our total distributions paid, which includes net cash distributions and dividends reinvested by stockholders, with \$1.1 million cash flow from current operating activities and \$1.1 million prior period cash flow from operating activities in excess of distributions paid. 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.

To the extent that we pay distributions from sources other than our cash flow from operating activities, we will have less funds available for the acquisition of real estate investments, the overall return to our stockholders may be reduced and subsequent investors will experience dilution.

In addition, during the six months ended June 30, 2018, our board of directors declared stock dividends for each month based on a single record date at the end of each month in an amount that would equal a 2% annualized stock dividend per share of common stock if paid each month for a year. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend.

Going forward we expect our board of directors to continue to authorize and declare cash distributions based on daily record dates and to pay these distributions on a monthly basis and during our offering stage to continue to authorize and declare stock dividends based on a single record date as of the end of the month, and to issue these dividends on a monthly basis. Cash distributions and stock dividends will be determined by our board of directors based on our financial condition and such other factors as our board of directors deems relevant. Our board of directors has not pre-established a percentage rate of return for stock dividends or cash distributions to stockholders. We have not established a minimum dividend or distribution level, and our charter does not require that we make dividends or distributions to our stockholders.

We expect that we will fund these cash distributions from interest income on our debt investments, dividend income from real estate equity securities, rental and other income on our real property investments and to the extent we acquire investments with short maturities or investments that are close to maturity, we may fund distributions with the proceeds received at the maturity, payoff or settlement of those investments. We may also utilize strategic financings to fund cash distributions for investments that have appreciated in value after our acquisition. Generally, our distribution policy is not to pay cash distributions from sources other than cash flow from operations, investment activities and strategic financings. However, we may fund cash distributions from any source and there are no limits to the amount of distributions that we may pay from any source, including proceeds from our public offering or the proceeds from the issuance of securities in the future, other third party borrowings, advances from our advisor or sponsors or from our advisor's deferral of its fees under the advisory agreement. Distributions paid from sources other than current or accumulated earnings and profits may constitute a return of capital. From time to time, we may generate taxable income greater than our net income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to stockholders. In these situations we may make distributions in excess of our cash flow from operations, investment activities and strategic financings to satisfy the REIT distribution requirement. In such an event, we would look first to other third party borrowings to fund these distributions.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

During the early stages of our operations and until our cash flows stabilize, our board of directors believes the declaration of stock dividends is in our best interest because it will allow us to focus on our investment strategy of investing in opportunistic real estate investments that may generate limited cash flow but have the potential for appreciation. These stock dividends may reflect in part an increase or anticipated increase in portfolio value to the extent our board of directors believes assets in our portfolio have appreciated or will appreciate in value after acquisition or after we have taken control of the assets. In addition, these stock dividends may reflect in part cash flow from operations. However, we can provide no assurances that our stock dividends will reflect appreciation in our portfolio or cash flow from operations. Unless our assets appreciate in an amount sufficient to offset the dilutive effect of any stock dividends, the return per share for later investors purchasing our stock will be below the return per share of earlier investors. With respect to any non-performing assets that we acquire, we believe that within a relatively short time after acquisition or taking control of such investments via foreclosure or deed-in-lieu proceedings, we will often experience an increase in their value. For example, in most instances, we bring financial stability to the property, which reduces uncertainty in the market and alleviates concerns regarding the property's management, ownership and future. We also may have more capital available for investment in these properties than their prior owners and operators were willing to invest, and as such, we are able to invest in tenant improvements and capital expenditures with respect to such properties, which enables us to attract substantially increased interest from brokers and tenants.

Critical Accounting Policies

Our consolidated interim financial statements have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. A discussion of the accounting policies that management considers critical in that they involve significant management judgments, assumptions and estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC. There have been no significant changes to our policies during 2018, except for our adoption of the revenue recognition and financial instruments standards issued by the Financial Accounting Standards Board effective on January 1, 2018.

Revenue Recognition

Effective January 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU No. 2014-09"), using the modified retrospective approach, which requires a cumulative effect adjustment as of the date of the entity's adoption. Under the modified retrospective approach, an entity may also elect to apply this standard to either (i) all contracts as of January 1, 2018 or (ii) only to contracts that were not completed as of January 1, 2018. A completed contract is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP that was in effect before the date of initial application. We elected to apply this standard only to contracts that were not completed as of January 1, 2018.

Based on our evaluation of contracts within the scope of ASU No. 2014-09, revenue that is impacted by ASU No. 2014-09 includes revenue generated by other operating income and tenant reimbursements for substantial services earned at our office properties and hotel revenues. The recognition of such revenue will occur when the services are provided and the performance obligations are satisfied.

Hotel Revenue

We recognize revenue for hotels as hotel revenue when earned. Revenues are recorded net of any sales or occupancy tax collected from our guests. Additionally, some of our hotel rooms are booked through independent internet travel intermediaries. If the guest pays the independent internet travel intermediary directly, we book revenue for the room at the price we sold the room to the independent internet travel intermediary, less any discount or commission paid. If the guest pays us directly, we book revenue for the room on a gross basis. We participate in frequent guest programs sponsored by the brand owners of our hotels and we expense the charges associated with those programs, as incurred. Hotel operating revenues are disaggregated in the real estate footnote into the categories of rooms revenue, food, beverage and convention services revenue, campground revenue and other revenue to demonstrate how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Room revenue is generated through contracts with customers whereby the customer agrees to pay a daily rate for right to use a hotel room. Our contract performance obligations are fulfilled at the end of the day that the customer is provided the room and revenue is recognized daily at the contract rate. Payment from the customer is secured at the end of the contract upon check-out by the customer from our hotel. We record contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future stay at our hotels. Advanced deposits for room revenue are included in the balance of other liabilities on the consolidated balance sheet. Advanced deposits are recognized as revenue at the time of the guest's stay. We note no significant judgments regarding the recognition of rooms revenue.

Food, beverage and convention revenue is generated through contracts with customers whereby the customer agrees to pay a contract rate for restaurant dining services or convention services. Our contract performance obligations are fulfilled at the time that the meal is provided to the customer or when the convention facilities and related dining amenities are provided to the customer. We recognize food and beverage revenue upon the fulfillment of the contract with the customer. We record contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future banquet event at our hotels. Advanced deposits for food and beverage revenue are included in the balance of other liabilities on the consolidated balance sheet. Advanced deposits for banquet services are recognized as revenue following the completion of the banquet services. We note no significant judgements regarding the recognition of food and beverage revenue.

Campground revenue is recognized on a straight-line basis over the term of the lease when collectability is reasonably assured.

Real Estate Equity Securities

Our real estate equity securities are carried at their estimated fair value based on quoted market prices for the security. Transaction costs that are directly attributable to the acquisition of real estate equity securities are capitalized to its cost basis. Upon adoption of ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU No. 2016-01") on January 1, 2018, unrealized gains and losses on real estate equity securities are recognized in earnings.

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

Subsequent Events

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

Status of the Offering

We commenced our initial public offering on August 12, 2014 and broke escrow on January 7, 2015. We ceased offering shares of common stock in our primary public offering on July 31, 2018 and are continuing to process subscriptions. Subscriptions must be dated on or before July 31, 2018, and subscriptions and all related documents and funds must be received by us in good order no later than September 28, 2018. As of August 7, 2018, we had sold 12,446,971 and 11,615,607 shares of Class A and Class T common stock, respectively, in our initial public offering for aggregate gross offering proceeds of \$233.6 million. Included in these amounts were 531,570 and 162,456 shares of Class A and Class T common stock, respectively, sold under our dividend reinvestment plan for aggregate gross offering proceeds of \$6.4 million.

Cash Distributions Paid

On July 3, 2018, we paid distributions of \$0.4 million related to cash distributions on the outstanding shares of the common stock based on daily record dates for the period from June 1, 2018 through June 30, 2018. On August 1, 2018, we paid distributions of \$0.4 million related to cash distributions on the outstanding shares of the common stock based on daily record dates for the period from July 1, 2018 through July 31, 2018. Distributions for the period from June 1, 2018 through July 31, 2018 were calculated based on stockholders of record each day during the period at a rate of (i) \$0.00052548 per share per day less (ii) the applicable daily stockholder servicing fees accrued for and allocable to any class of common stock, divided by the number of shares of common stock of such class outstanding as of the close of business on each respective record date.

Stock Dividends Issued

On May 10, 2018, our board of directors authorized stock dividends for the month of June 2018, in the amount of 0.001667 shares of our common stock on each outstanding share of common stock issuable to all common stockholders of record as of the close of business on June 30, 2018. We issued the June 2018 stock dividend, consisting of 48,994 shares, on July 5, 2018.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

On May 10, 2018, our board of directors authorized stock dividends for the month of July 2018, in the amount of 0.001667 shares of our common stock on each outstanding share of common stock issuable to all common stockholders of record as of the close of business on July 31, 2018. We issued the July 2018 stock dividend, consisting of 49,556 shares, on August 2, 2018.

Distributions Declared

On July 13, 2018, our board of directors declared cash distributions on the outstanding shares of all classes of our common stock based on daily record dates for the period from August 1, 2018 through August 31, 2018, which we expect to pay in September 2018. Investors may choose to receive cash distributions or purchase additional shares through our dividend reinvestment plan. Distributions for this period will be calculated based on stockholders of record each day during this period at a rate of \$0.00052548 per share per day.

Also on July 13, 2018, our board of directors authorized a stock dividend for the month of August 2018 in the amount of 0.001667 shares of common stock on each outstanding share of common stock, issuable to all common stockholders of record as of the close of business on August 31, 2018. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend. We expect to issue this stock dividend in September 2018.

On August 9, 2018, our board of directors declared cash distributions on the outstanding shares of all classes of our common stock based on daily record dates for the periods from September 1, 2018 through September 30, 2018 and October 1, 2018 through October 31, 2018, which we expect to pay in October 2018 and November 2018, respectively. Investors may choose to receive cash distributions or purchase additional shares through our dividend reinvestment plan. Distributions for these periods will be calculated based on stockholders of record each day during this period at a rate of \$0.00052548 per share per day.

Also on August 9, 2018, our board of directors authorized a stock dividend for the months of September 2018 and October 2018 in the amount of 0.001667 shares of common stock on each outstanding share of common stock, issuable to all common stockholders of record as of the close of business on September 30, 2018 and October 31, 2018, respectively. Stock dividends are issued in the same class of shares as the shares for which such stockholder received the stock dividend. We expect to issue these stock dividends in October 2018 and November 2018, respectively.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the financing of our real estate investment portfolio and operations. We are also exposed to the effects of changes in interest rates as a result of the origination of a mortgage loan. We are also exposed to the effects of foreign currency changes in the Euro with respect to our €2.1 million participating loan facility. Foreign currency exchange rate risk is the possibility that our financial results could be better or worse than planned because of changes in foreign currency exchange rates. Our profitability and the value of our investment portfolio may be adversely affected during any period as a result of interest rate changes and foreign currency changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs. We may manage interest rate risk by maintaining a ratio of fixed rate, long-term debt such that floating rate exposure is kept at an acceptable level. In addition, we may utilize a variety of financial instruments, including interest rate caps, floors, and swap agreements, in order to limit the effects of changes in interest rates on our operations. When we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of our common stock and that the losses may exceed the amount we invested in the instruments.

Movements in interest rates on variable rate debt would change our future earnings and cash flows, but would not significantly affect the fair value of those instruments. However, changes in required risk premiums would result in changes in the fair value of floating rate instruments. As of June 30, 2018, we were exposed to market risks related to fluctuations in interest rates on \$331.6 million of variable rate debt outstanding. As of June 30, 2018, we have also entered into four interest rate cap agreements with an aggregate notional value of \$135.6 million, which effectively caps one-month LIBOR at 3.00%. The weighted-average remaining term of the interest rate caps is 0.9 years. Based on interest rates as of June 30, 2018, if interest rates were 100 basis points higher or lower during the 12 months ending June 30, 2019, interest expense on our variable rate debt would increase or decrease, respectively, by \$3.2 million and \$3.3 million, respectively.

The weighted-average interest rate of our variable rate debt as of June 30, 2018 was 4.8%. The weighted-average interest rate represents the actual interest rate in effect as of June 30, 2018 (consisting of the contractual interest rate and the effect of interest rate caps, if applicable), using interest rate indices as of June 30, 2018 where applicable.

We are exposed to financial market risk with respect to our real estate equity securities. Financial market risk is the risk that we will incur economic losses due to adverse changes in our real estate equity security prices. Our exposure to changes in real estate equity 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 the reported market value. Fluctuation in the market prices of a real estate equity 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. In addition, amounts realized in the sale of a particular security may be affected by the relative quantity of the real estate equity security being sold. We do not currently engage in derivative or other hedging transactions to manage our real estate equity security price risk. As of June 30, 2018, we owned real estate equity securities with a book value of \$7.3 million. Based solely on the prices of real estate equity securities for the three months ended June 30, 2018, if prices were to increase or decrease by 10%, our net income would increase or decrease, respectively, by approximately \$0.7 million.

For a discussion of the interest rate risks related to the current capital and credit markets, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Outlook” herein, and Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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 agencies.

Item 1A. Risk Factors

The following risk factor supplements the risks discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ended March 31, 2018.

We have paid distributions in part from financings and expect that 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, we will have less funds available for investment in properties and other assets, the overall return to our stockholders may be reduced and subsequent investors will experience dilution.

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 financings and expect that 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 may also fund such distributions with proceeds from the sale of assets or from the maturity, payoff or settlement of debt investments. 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 or the maturity, payoff or settlement of debt investments, 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, we will have fewer funds available with which to make real estate investments, the overall return to our stockholders may be reduced and subsequent investors will experience dilution. 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.

During our public offering stage, when we may raise capital in this offering (and possibly future offerings) more quickly than we acquire income-producing assets, and from time to time during our operational stage, we may not pay distributions solely from our cash flow from operating activities.

For the six months ended June 30, 2018, we paid aggregate distributions of \$2.2 million, including \$0.8 million distributions paid in cash and \$1.4 million of distributions reinvested through our dividend reinvestment plan. Our net loss attributable to common stockholders for the six months ended June 30, 2018 was \$3.2 million and cash flow provided by operations was \$2.6 million. We funded our total distributions paid, which includes net cash distributions and dividends reinvested by stockholders, with \$1.1 million cash flow from current operating activities and \$1.1 million prior period cash flow from operating activities in excess of distributions paid. 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.

To the extent that we pay distributions from sources other than our cash flow from operating activities, we will have less funds available for the acquisition of real estate investments, the overall return to our stockholders may be reduced and subsequent investors will experience dilution.

We have a history of operating losses and cannot assure our stockholders that we will achieve profitability.

Since our inception in 2013, we have experienced net losses (calculated in accordance with GAAP) for each fiscal year, which have contributed to our cumulative net loss of \$17.5 million from inception through June 30, 2018. Our net loss attributable to common stockholders for the six months ended June 30, 2018 was \$3.2 million. Our net loss attributable to common stockholders for the year ended December 31, 2017, and from inception through December 31, 2017 was \$3.3 million and \$14.3 million, respectively. Our net loss attributable to common stockholders for the year ended December 31, 2016, and from inception through December 31, 2016 was \$6.5 million and \$11.1 million, respectively. The extent of our future operating losses and the timing of when we will achieve profitability are highly uncertain, and we may never achieve or sustain profitability.

PART II. OTHER INFORMATION (CONTINUED)

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

- a) During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933.
- b) On August 12, 2014, our Registration Statement on Form S-11 (File No. 333-192331), covering a public offering of up to 100,000,000 shares of common stock in a primary offering and 80,000,000 shares of common stock under our dividend reinvestment plan, was declared effective under the Securities Act of 1933. We commenced our initial public offering on August 12, 2014 upon retaining KBS Capital Markets Group LLC, an affiliate of our advisor, as the dealer manager of our offering. Initially, we were offering 100,000,000 shares of common stock in our primary offering at an aggregate offering price of up to \$1.0 billion, or \$10.00 per share with discounts available to certain categories of purchasers. The 80,000,000 shares offered under our dividend reinvestment plan were initially being offered at an aggregate offering price of \$760 million, or \$9.50 per share.

On February 11, 2016, we filed an amended registration statement on Form S-11 with the SEC to add a second class of common stock designated as Class T shares and to designate our currently outstanding common stock as Class A shares. Pursuant to the registration statement, as amended, effective February 17, 2016 through June 7, 2017, we offered Class A shares at a price of \$10.00 per share and Class T shares at a price of \$9.59 per share. Both classes of shares have discounts available to certain categories of purchasers. We also offered up to 76,366,006 in shares of our common stock pursuant to our dividend reinvestment plan: Class A shares at a price of \$9.50 per share and Class T shares at a price of \$9.12 per share. Effective June 8, 2017, Class A shares are being offered at \$10.00 per share and Class T shares at \$9.63 per share. We are offering to sell any combination of Class A and Class T shares in our primary offering and dividend reinvestment plan offering but in no event may we sell more than 180,000,000 of shares of our common stock pursuant to the offering. We reserve the right to reallocate shares between the primary offering and our dividend reinvestment plan offering. Based on our current estimates, we have allocated 103,633,994 and 76,366,006 shares of our common stock to our primary and dividend reinvestment plan offerings, respectively.

As of June 30, 2018, we had sold 12,242,387 and 11,443,519 shares of Class A and Class T common stock, respectively, in our ongoing initial public offering for aggregate gross offering proceeds of \$230.0 million in our initial public offering, including 496,426 and 146,459 shares of Class A and Class T common stock, respectively, under our dividend reinvestment plan for aggregate gross offering proceeds of \$6.0 million. As of June 30, 2018, we had incurred selling commissions, dealer manager fees and organization and other offering costs in connection with our initial public offering in the amounts set forth below. We pay selling commissions and dealer manager fees to KBS Capital Markets Group, and KBS Capital Markets Group realloves all selling commissions and a portion of the dealer manager fees to participating broker-dealers. In addition, we reimburse KBS Capital Advisors and KBS Capital Markets Group for certain offering expenses as described in our prospectus, as amended and supplemented.

We ceased offering shares of common stock in our primary public offering on July 31, 2018 and are continuing to process subscriptions. Subscriptions must be dated on or before July 31, 2018, and subscriptions and all related documents and funds must be received by us in good order no later than September 28, 2018.

Type of Expense Amount	Amount (in thousands)	Estimated/Actual
Selling commissions and dealer manager fees ⁽¹⁾	\$ 14,193	Actual
Organization and other offering costs (excluding selling commissions, dealer manager fees and stockholder servicing fees) ⁽²⁾	2,261	Actual
Total expenses	\$ 16,454	

⁽¹⁾ Except as described in the “Plan of Distribution” section of our prospectus, as amended and supplemented, an annual stockholder servicing fee of 1.0% of the purchase price per share (ignoring any discounts that may be available to certain categories of purchasers) for the Class T shares sold in the primary portion of our initial public offering will be paid to our dealer manager and will accrue daily and be paid monthly in arrears. Our dealer manager will realloves all of the stockholder servicing fees paid to it. The stockholder servicing fee is an ongoing fee that is not paid at the time of purchase and is not intended to be a principal use of offering proceeds; it is therefore not included in the table above. As of June 30, 2018, we had recorded approximately \$1.7 million in stockholder servicing fees, which is the estimated amount of the stockholder servicing fee payable with respect to all Class T shares sold in the primary portion of our initial public offering as of June 30, 2018.

⁽²⁾ Organization and other offering costs (which exclude selling commissions, dealer manager fees and stockholder servicing fees) are capped at 1.0% of gross offering proceeds from the primary portion of our initial public offering. KBS Capital Advisors and its affiliates are responsible for any organization and other offering costs related to the primary portion of our initial public offering that exceed this limit. The amount included above represents our maximum liability for organization and other offering costs based on the 1.0% limit. As of June 30, 2018, KBS Capital Advisors and its affiliates had incurred an additional \$8.5 million in organization and other offering costs on our behalf in connection with our initial public offering.

PART II. OTHER INFORMATION (CONTINUED)

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

We expect to use substantially all of the net proceeds from our initial public offering to invest in and manage a diverse portfolio of opportunistic real estate, real estate-related loans, real estate-related debt securities and other real estate-related investments located in the United States and Europe. Such investments will include the acquisition of distressed debt, the origination and acquisition of mortgage, mezzanine, bridge and other real estate-related loans, investment in opportunistic real estate and investments in real estate-related debt securities such as residential and commercial mortgage-backed securities and collateralized debt obligations. We may also invest in entities that make similar investments.

As of June 30, 2018, we had used the net proceeds from our now terminated private offering and our initial public offering and debt financing to invest \$568.4 million in two hotel properties, four office properties, one apartment building, an investment in an unconsolidated entity, a leasehold interest through a joint venture to develop one retail property, one first mortgage loan and an investment in real estate equity securities, including \$18.0 million of acquisition fees and closing costs and origination fees and expenses.

- c) On July 3, 2013, our board of directors adopted a share redemption program that has been amended at various times thereafter and that may enable stockholders to sell their shares to us in limited circumstances. The terms of the share redemption program described below are the terms as are currently in effect.

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

- Unless the shares are being redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence" (each as defined under the share redemption program), we may not redeem shares until the stockholder has held the shares for one year.
- During each calendar year, the share redemption program limits the number of shares we may redeem to those that we could purchase with the amount of the net proceeds from the issuance of shares under the dividend reinvestment plan during the prior calendar year. We may, however, increase or decrease the funding available for the redemption of shares pursuant to the program upon ten business days' notice to our stockholders.
- During any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- We have no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

On June 6, 2017, our board of directors approved an estimated NAV per share of our common stock of \$9.05. As a result, and unless the shares are being redeemed in connection with a stockholder's death, qualifying disability, or determination of incompetence, the price at which we redeem the shares is as follows:

- For those shares held by the redeeming stockholder for at least one year, 92.5% of our most recent estimated NAV per share as of the applicable redemption date;
- For those shares held by the redeeming stockholder for at least two years, 95.0% of our most recent estimated NAV per share as of the applicable redemption date;
- For those shares held by the redeeming stockholder for at least three years, 97.5% of our most recent estimated NAV per share as of the applicable redemption date; and
- For those shares held by the redeeming stockholder for at least four years, 100% of our most recent estimated NAV per share as of the applicable redemption date.

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 and shares 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. In addition, as described above, the shares owned by a stockholder may be redeemed at different prices depending on how long the stockholder has held each share submitted for redemption.

PART II. OTHER INFORMATION (CONTINUED)**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (continued)**

The terms of our share redemption program with respect to redemptions sought upon a stockholder's death, qualifying disability or determination of incompetence are as follows:

- There is no one-year holding requirement;
- Additional funds in an amount up to \$500,000 are available for redemption; and
- The redemption price is the estimated NAV of the shares, as determined by our board of directors.

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 to continue to have a redemption request related to any transferred shares considered by us must resubmit their redemption request.

Our board may amend, suspend or terminate the share redemption program upon 30 days' notice to stockholders, provided that we may increase or decrease the funding available for the redemption of shares pursuant to the share redemption program upon 10 business days' notice.

During the six months ended June 30, 2018, we fulfilled redemption requests and redeemed shares pursuant to the share redemption program as follows:

Month	Total Number of Shares Redeemed	Average Price Paid Per Share⁽¹⁾	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2018	72,262	\$ 8.82	(2)
February 2018	10,602	\$ 8.37	(2)
March 2018	11,025	\$ 8.57	(2)
April 2018	27,994	\$ 8.39	(2)
May 2018	36,198	\$ 8.53	(2)
June 2018	84,916	\$ 8.91	(2)
Total	242,997		

⁽¹⁾ Pursuant to the program, as amended, we will redeem shares at the purchase prices described above.

⁽²⁾ We limit the dollar value of shares that may be redeemed under the program as described above. During the six months ended June 30, 2018, we redeemed \$2.1 million of common stock, which represented all redemption requests received in good order and eligible for redemption through the June 2018 redemption date. Based on the amount of net proceeds raised from the sale of shares under the dividend reinvestment plan during 2018 and the \$0.2 million set aside for stockholder's death, qualifying disability or determination of incompetence, we have \$0.5 million available for redemptions during the remainder of 2018 as of June 30, 2018, subject to the limitations described above.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

PART II. OTHER INFORMATION (CONTINUED)**Item 6. Exhibits**

Ex.	Description
3.1	Second Articles of Amendment and Restatement adopted on August 11, 2014, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed September 19, 2014
3.2	Second Amended and Restated Bylaws adopted August 6, 2015, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed August 11, 2015
3.3	Articles Supplementary for the Class T Shares of common stock dated February 16, 2016, incorporated by reference to Exhibit 3.3 to Post-Effective Amendment no. 4 to the Company's Registration Statement on Form S-11, Commission File no. 333-192331, filed February 16, 2016
3.4	Articles Supplementary for the Class A Shares of common stock dated February 16, 2016, incorporated by reference to Exhibit 3.4 to Post-Effective Amendment no. 4 to the Company's Registration Statement on Form S-11, Commission File no. 333-192331, filed February 16, 2016
3.5	Articles of Amendment dated February 16, 2016, incorporated by reference to Exhibit 3.5 to Post-Effective Amendment no. 4 to the Company's Registration Statement on Form S-11, Commission File no. 333-192331, filed February 16, 2016
4.1	Form of Subscription Agreement, incorporated by reference to Appendix A to the prospectus filed in Post-Effective Amendment no. 10 to the Company's Registration Statement on Form S-11, Commission File no. 333-192331, filed April 18, 2017
4.2	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 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed September 19, 2014
4.3	Fourth Amended and Restated Dividend Reinvestment Plan adopted May 18, 2017, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed May 24, 2017
4.4	Escrow Agreement dated January 22, 2016, incorporated by reference to Exhibit 4.5 to Post-Effective Amendment no. 3 to the Company's Registration Statement on Form S-11, Commission File No. 333-192331, dated February 11, 2016
4.5	Amended and Restated Multiple Class Plan, effective as of May 18, 2017, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 24, 2017
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 created by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Third Amended and Restated Share Redemption Program adopted February 16, 2016, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed February 22, 2016
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

KBS STRATEGIC OPPORTUNITY REIT II, INC.

Date: August 10, 2018

By: /S/ KEITH D. HALL

Keith D. Hall

Chief Executive Officer and Director

(principal executive officer)

Date: August 10, 2018

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel

Chief Financial Officer, Treasurer and Secretary

(principal financial officer)

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

I, Jeffrey K Waldvogel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBS Strategic Opportunity REIT II, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2018

By: _____ /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer
(principal financial officer)

