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 000-54382

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

Maryland	**26-3842535**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
800 Newport Center Drive, Suite 700 Newport Beach, California	**92660**
(Address of Principal Executive Offices)	(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 54,640,201 outstanding shares of common stock of KBS Strategic Opportunity REIT, Inc.

KBS STRATEGIC OPPORTUNITY REIT, INC.

FORM 10-Q

June 30, 2018

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Real estate held for investment, net	$ 811,338	$ 502,222
Real estate held for sale, net	30,684	30,645
Real estate equity securities	98,627	90,063
Real estate debt securities, net	17,879	17,751
Total real estate and real estate-related investments, net	958,528	640,681
Cash and cash equivalents	49,867	366,512
Restricted cash	11,008	10,670
Investments in unconsolidated joint ventures	50,986	55,577
Rents and other receivables, net	12,464	8,755
Above-market leases, net	3,587	10
Assets related to real estate held for sale, net	1,945	1,965
Prepaid expenses and other assets	16,069	17,404
Total assets	$ 1,104,454	$ 1,101,574
Liabilities and equity		
Notes and bonds payable, net		
Notes and bonds payable related to real estate held for investment, net	$ 739,650	$ 575,528
Notes payable related to real estate held for sale, net	27,566	27,515
Notes and bonds payable, net	767,216	603,043
Accounts payable and accrued liabilities	18,700	16,686
Due to affiliate	39	26
Distribution payable	—	187,914
Below-market leases, net	6,011	2,843
Other liabilities	14,614	16,966
Redeemable common stock payable	421	8,595
Total liabilities	807,001	836,073
Commitments and contingencies (Note 14)		
Redeemable common stock	2,720	4,518
Equity		
KBS Strategic Opportunity REIT, Inc. stockholders' equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value; 1,000,000,000 shares authorized, 54,682,660 and 52,053,817 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	547	521
Additional paid-in capital	434,935	388,800
Cumulative distributions and net income	(143,397)	(155,454)
Accumulated other comprehensive income	—	25,146
Total KBS Strategic Opportunity REIT, Inc. stockholders' equity	292,085	259,013
Noncontrolling interests	2,648	1,970
Total equity	294,733	260,983
Total liabilities and equity	$ 1,104,454	$ 1,101,574

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, 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:				
Rental income	$ 18,915	$ 31,704	$ 34,096	$ 62,350
Tenant reimbursements	3,703	6,456	6,384	12,094
Other operating income	952	987	1,173	2,540
Interest income from real estate debt securities	511	601	1,012	760
Dividend income from real estate equity securities	1,209	489	2,260	489
Total revenues	25,290	40,237	44,925	78,233
Expenses:				
Operating, maintenance, and management	7,571	11,299	13,058	22,207
Real estate taxes and insurance	3,435	5,415	5,773	10,152
Asset management fees to affiliate	2,217	2,856	4,043	5,603
General and administrative expenses	2,250	1,378	4,302	3,123
Foreign currency transaction (gain) loss, net	(10,111)	2,426	(9,114)	7,097
Depreciation and amortization	9,042	15,307	16,307	29,908
Interest expense	7,819	10,324	14,410	19,709
Total expenses	22,223	49,005	48,779	97,799
Other income (loss):				
Income from unconsolidated joint venture	131	—	185	1,869
Equity in loss of unconsolidated joint ventures	(2,373)	(1,622)	(4,751)	(1,776)
Other interest income	419	171	1,349	196
Unrealized gain (loss) on real estate equity securities	8,724	—	(7,287)	—
Gain on sale of real estate	25	34,028	649	34,028
Total other income (loss), net	6,926	32,577	(9,855)	34,317
Net income (loss)	9,993	23,809	(13,709)	14,751
Net loss attributable to noncontrolling interests	43	37	64	3
Net income (loss) attributable to common stockholders	$ 10,036	$ 23,846	$ (13,645)	$ 14,754
Net income (loss) per common share, basic and diluted	$ 0.16	$ 0.42	$ (0.22)	$ 0.26
Weighted-average number of common shares outstanding, basic and diluted	61,910,602	56,714,180	62,216,998	56,748,125

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, 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 income (loss)	$ 9,993	$ 23,809	$ (13,709)	$ 14,751
Other comprehensive income:				
Unrealized gain on real estate securities	—	849	—	849
Total other comprehensive income	—	849	—	849
Total comprehensive income (loss)	9,993	24,658	(13,709)	15,600
Total comprehensive loss attributable to noncontrolling interests	43	37	64	3
Total comprehensive income (loss) attributable to common stockholders	$ 10,036	$ 24,695	$ (13,645)	$ 15,603

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, 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 Income	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amounts						
Balance, December 31, 2016	56,775,767	$ 568	$ 455,373	$ (162,289)	$ —	$ 293,652	$ 1,898	$ 295,550
Net income (loss)	—	—	—	210,644	—	210,644	(64)	210,580
Other comprehensive income	—	—	—	—	25,146	25,146	—	25,146
Issuance of common stock	585,192	6	8,660	—	—	8,666	—	8,666
Transfers to redeemable common stock	—	—	(498)	—	—	(498)	—	(498)
Redemptions of common stock	(5,307,142)	(53)	(74,727)	—	—	(74,780)	—	(74,780)
Distributions declared	—	—	—	(203,809)	—	(203,809)	—	(203,809)
Other offering costs	—	—	(8)	—	—	(8)	—	(8)
Noncontrolling interests contributions	—	—	—	—	—	—	158	158
Distributions to noncontrolling interests	—	—	—	—	—	—	(22)	(22)
Balance, December 31, 2017	52,053,817	$ 521	$ 388,800	$ (155,454)	$ 25,146	$ 259,013	$ 1,970	$ 260,983
Cumulative effect adjustments to retained earnings	—	—	—	27,618	(25,146)	2,472	—	2,472
Net loss	—	—	—	(13,645)	—	(13,645)	(64)	(13,709)
Issuance of common stock	83,855	1	963	—	—	964	—	964
Stock distribution issued	13,069,487	130	150,169	—	—	150,299	—	150,299
Transfers from redeemable common stock	—	—	9,969	—	—	9,969	—	9,969
Redemptions of common stock	(10,524,499)	(105)	(114,966)	—	—	(115,071)	—	(115,071)
Distributions declared	—	—	—	(1,916)	—	(1,916)	—	(1,916)
Noncontrolling interests contributions	—	—	—	—	—	—	742	742
Balance, June 30, 2018	54,682,660	$ 547	$ 434,935	$ (143,397)	$ —	$ 292,085	$ 2,648	$ 294,733

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30,	
	2018	**2017**
Cash Flows from Operating Activities:		
Net (loss) income	$ (13,709)	$ 14,751
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss due to property damages	600	430
Equity in loss of unconsolidated joint ventures	4,751	1,776
Depreciation and amortization	16,307	29,908
Unrealized loss on real estate equity securities	7,287	—
Gain on real estate	(649)	(34,028)
Unrealized loss on interest rate caps	31	88
Deferred rent	(1,670)	(1,370)
Bad debt recovery	(218)	(58)
Amortization of above- and below-market leases, net	(500)	(2,037)
Amortization of deferred financing costs	1,699	2,592
Interest accretion on real estate debt securities	(128)	(348)
Net amortization of discount and (premium) on bond and notes payable	29	23
Foreign currency transaction (gain) loss, net	(9,114)	7,097
Changes in assets and liabilities:		
Rents and other receivables	(1,854)	(1,524)
Prepaid expenses and other assets	(3,606)	(3,618)
Accounts payable and accrued liabilities	911	(1,090)
Due to affiliates	13	(29)
Other liabilities	388	294
Net cash provided by operating activities	568	12,857
Cash Flows from Investing Activities:		
Acquisitions of real estate	(312,348)	(82,235)
Improvements to real estate	(14,108)	(18,784)
Proceeds from sales of real estate, net	2,567	94,914
Reimbursement of construction costs	1,636	—
Insurance proceeds received for property damages	—	744
Purchase of interest rate cap	(163)	(107)
Contributions to unconsolidated joint venture	(1,320)	—
Distributions of capital from unconsolidated joint venture	1,160	59,157
Investment in real estate equity securities	(15,851)	(38,995)
Investment in real estate debt securities, net	—	(12,514)
Proceeds for future development obligations	—	1,368
Funding of development obligations	(892)	(753)
Net cash (used in) provided by investing activities	(339,319)	2,795
Cash Flows from Financing Activities:		
Proceeds from notes and bonds payable	184,351	124,556
Principal payments on notes and bonds payable	(5,711)	(69,019)
Payments of deferred financing costs	(2,702)	(1,793)
Payments to redeem common stock	(115,071)	(7,511)
Payments of prepaid other offering costs	(295)	(196)
Distributions paid	(38,567)	(4,728)
Noncontrolling interests contributions	742	11
Distributions to noncontrolling interests	—	(10)
Net cash provided by financing activities	22,747	41,310
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(303)	596
Net (decrease) increase in cash, cash equivalents and restricted cash	(316,307)	57,558
Cash, cash equivalents and restricted cash, beginning of period	377,182	64,450
Cash, cash equivalents and restricted cash, end of period	$ 60,875	$ 122,008

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018
(unaudited)

1. ORGANIZATION

KBS Strategic Opportunity REIT, Inc. (the "Company") was formed on October 8, 2008 as a Maryland corporation and elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2010. The Company conducts its business primarily through KBS Strategic Opportunity (BVI) Holdings, Ltd. ("KBS Strategic Opportunity BVI"), a private company limited by shares according to the British Virgin Islands Business Companies Act, 2004, which was incorporated on December 18, 2015 and is authorized to issue a maximum of 50,000 common shares with no par value. Upon incorporation, KBS Strategic Opportunity BVI issued one certificate containing 10,000 common shares with no par value to KBS Strategic Opportunity Limited Partnership (the "Operating Partnership"), a Delaware limited partnership formed on December 10, 2008. The Company is the sole general partner of, and owns a 0.1% partnership interest in the Operating Partnership. KBS Strategic Opportunity Holdings LLC ("REIT Holdings"), a Delaware limited liability company formed on December 9, 2008, owns the remaining 99.9% interest in the Operating Partnership and is its sole limited partner. The Company is the sole member and manager of REIT Holdings.

Subject to certain restrictions and limitations, the business of the Company is externally managed by KBS Capital Advisors LLC (the "Advisor"), an affiliate of the Company, pursuant to an advisory agreement the Company renewed with the Advisor on October 8, 2017 (the "Advisory Agreement"). The Advisor conducts the Company's operations and manages its portfolio of real estate, real estate-related debt securities and other real estate-related investments.

On January 8, 2009, the Company filed a registration statement on Form S-11 with the Securities and Exchange Commission (the "SEC") to offer a minimum of 250,000 shares and a maximum of 140,000,000 shares of common stock for sale to the public (the "Offering"), of which 100,000,000 shares were registered in a primary offering and 40,000,000 shares were registered to be sold under the Company's dividend reinvestment plan. The SEC declared the Company's registration statement effective on November 20, 2009. The Company ceased offering shares of common stock in its primary offering on November 14, 2012 and continues to offer shares under its dividend reinvestment plan.

The Company sold 56,584,976 shares of common stock in its primary offering for gross offering proceeds of $561.7 million. As of June 30, 2018, the Company had sold 6,704,217 shares of common stock under its dividend reinvestment plan for gross offering proceeds of $75.0 million. Also, as of June 30, 2018, the Company had redeemed 21,972,263 shares for $266.9 million. As of June 30, 2018, the Company had issued 13,069,487 shares of common stock in connection with the December 2017 special dividend. Additionally, on December 29, 2011 and October 23, 2012, the Company issued 220,994 shares and 55,249 shares of common stock, respectively, for $2.0 million and $0.5 million, respectively, in private transactions exempt from the registration requirements pursuant to Section 4(2) of the Securities Act of 1933.

On March 2, 2016, KBS Strategic Opportunity BVI filed a final prospectus with the Israel Securities Authority for a proposed offering of up to 1,000,000,000 Israeli new Shekels of Series A debentures (the "Debentures") at an annual interest rate not to exceed 4.25%. On March 1, 2016, KBS Strategic Opportunity BVI commenced the institutional tender of the Debentures and accepted application for 842.5 million Israeli new Shekels. On March 7, 2016, KBS Strategic Opportunity BVI commenced the public tender of the Debentures and accepted 127.7 million Israeli new Shekels. In the aggregate, KBS Strategic Opportunity BVI accepted 970.2 million Israeli new Shekels (approximately $249.2 million as of March 8, 2016) in both the institutional and public tenders at an annual interest rate of 4.25%. KBS Strategic Opportunity BVI issued the Debentures on March 8, 2016. The terms of the Debentures require principal installment payments equal to 20% of the face value of the Debentures on March 1st of each year from 2019 to 2023.

In connection with the above-referenced offering, on March 8, 2016, the Operating Partnership assigned to KBS Strategic Opportunity BVI all of its interests in the subsidiaries through which the Company indirectly owns all of its real estate and real estate-related investments. The Operating Partnership owns all of the issued and outstanding equity of KBS Strategic Opportunity BVI. As a result of these transactions, the Company now holds all of its real estate and real estate-related investments indirectly through KBS Strategic Opportunity BVI.

As of June 30, 2018, the Company consolidated seven office properties (of which one office property was held for sale), one office portfolio consisting of four office buildings and 14 acres of undeveloped land, one office/flex/industrial portfolio consisting of 21 buildings, one retail property, two apartment properties and three investments in undeveloped land with approximately 1,100 developable acres. The Company also owned three investments in unconsolidated joint ventures, an investment in real estate debt securities and three investments in real estate equity securities.

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. 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, KBS Strategic Opportunity BVI 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.

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.

Redeemable Common Stock

The Company has adopted a share redemption program that may enable stockholders to sell their shares to the Company in limited circumstances.

Pursuant to the share redemption program there are several limitations on the Company's 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), the Company may not redeem shares until the stockholder has held the shares for one year.
- During each calendar year, redemptions are limited to the amount of net proceeds from the sale of shares under the dividend reinvestment plan during the prior calendar year.

- The Company may not redeem more than $3.0 million of shares in a given quarter (excluding shares redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence"). To the extent that the Company redeems less than $3.0 million of shares (excluding shares redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence") in a given fiscal quarter, any remaining excess capacity to redeem shares in such fiscal quarter will be added to the Company's capacity to otherwise redeem shares (excluding shares redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence") during succeeding fiscal quarters. The last $1.0 million of net proceeds from the dividend reinvestment plan during the prior year is reserved exclusively for shares redeemed in connection with a stockholder's death, "qualifying disability," or "determination of incompetence". The share redemption plan also provides that, to the extent that in the last month of any calendar year the amount of redemption requests in connection with a stockholder's death, "qualifying disability or "determination of incompetence" is less than the $1.0 million reserved for such redemptions under the share redemption plan, any excess funds may be used to redeem shares not requested in connection with a stockholder's death, "qualifying disability or "determination of incompetence" during such month. The Company may increase or decrease this limit upon ten business days' notice to stockholders. The Company's board of directors may approve an increase in this limit to the extent that the Company has received proceeds from asset sales or the refinancing of debt or for any other reason deemed appropriate by the board of directors. Based on the amount of net proceeds raised from the sale of shares under the dividend reinvestment plan during 2017, as of June 30, 2018, the Company had $2.2 million available for all share redemption requests for the remainder of 2018. On August 9, 2018, the Company's board of directors approved an additional $6.0 million of funds available for the redemption of shares in 2018.
- During any calendar year, the Company may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- The Company has no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

Effective December 30, 2016, pursuant to the tenth amended and restated share redemption program, except for redemptions made upon a stockholder's death, "qualifying disability" or "determination of incompetence", the price at which the Company began to redeem shares is 95% of the Company's most recent estimated value per share as of the applicable redemption date. Upon the death, "qualifying disability" or "determination of incompetence" of a stockholder, the redemption price continued to be equal to the Company's most recent estimated value per share.

The Company's board of directors may amend, suspend or terminate the share redemption program with ten business days' notice to its stockholders. The Company may provide this notice by including such information in a Current Report on Form 8-K or in the Company's annual or quarterly reports, all publicly filed with the SEC, or by a separate mailing to its stockholders.

In anticipation of a self-tender offer in order to make liquidity available to stockholders in excess of that permitted under the share redemption program, on March 14, 2018, the Company's board of directors approved a temporary suspension of the share redemption program starting with the March 2018 redemption period, including any unsatisfied requests from prior redemption periods. In connection with its approval of the Self-Tender (defined below), the Company's board of directors approved the reopening of the share redemption program for the June 2018 redemption period, meaning no redemptions were made in March, April or May 2018 (including those requested following a stockholder's death, qualifying disability or determination of incompetence).

On April 23, 2018, the Company commenced a self-tender offer (the "Self-Tender") for up to 8,234,217 shares of common stock at a price of $10.93 per share, or approximately $90.0 million of shares. The Company increased the number of shares accepted for payment in the Self-Tender by up to 1,294,910 shares at a price of $10.93 per share, or approximately $14.1 million of shares. On June 1, 2018, the Company accepted for purchase 9,527,724 shares at a purchase price of $10.93 per share, or approximately $104.1 million of shares, excluding fees and expenses related to the Self-Tender.

The Company records amounts that are redeemable under the share redemption program as redeemable common stock in its consolidated balance sheets because the shares will be redeemable at the option of the holder and therefore their redemption will be outside the control of the Company. However, because the amounts that can be redeemed will be determinable and only contingent on an event that is likely to occur (e.g., the passage of time), the Company presents the net proceeds from the current year and prior year DRP, net of current year redemptions, as redeemable common stock in its consolidated balance sheets.

The Company classifies as liabilities financial instruments that represent a mandatory obligation of the Company to redeem shares. The Company's redeemable common shares are redeemable at the option of the holder. When the Company determines it has a mandatory obligation to repurchase shares under the share redemption program, it will reclassify such obligations from temporary equity to a liability based upon their respective settlement values.

The Company limits the dollar value of shares that may be redeemed under the program as described above. During the six months ended June 30, 2018, the Company had redeemed $10.9 million of common stock, of which $4.4 million relates to delayed December 2017 redemptions. The Company recorded $0.4 million and $8.6 million of other liabilities on the Company's balance sheet as of June 30, 2018 and December 31, 2017, respectively, related to unfulfilled redemption requests received in good order under the share redemption program. Based on the amount of net proceeds raised from the sale of shares under the dividend reinvestment plan during 2017, the Company has $2.2 million available for redemptions in the remainder of 2018 as of June 30, 2018, including shares that are redeemed in connection with a stockholders' death, "qualifying disability" or "determination of incompetence," subject to the limitations described above.

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 sales of real estate, other operating income and tenant reimbursements for substantial services earned at the Company's properties. The recognition of such revenue will occur when the services are provided and the performance obligations are satisfied. For the three and six months ended June 30, 2018, tenant reimbursements for substantial services accounted for under ASU No. 2014-09 were $0.5 million and $0.9 million, respectively, which were included in tenant reimbursements on the accompanying statements of operations.

Sale of Real Estate

Prior to January 1, 2018, gains on real estate sold were recognized using the full accrual method at closing when collectibility of the sales price was reasonably assured, the Company was not obligated to perform additional activities that may be considered significant, the initial investment from the buyer was sufficient and other profit recognition criteria had been satisfied. Gain on sales of real estate may have been deferred in whole or in part until the requirements for gain recognition had been met.

Effective January 1, 2018, the Company adopted the guidance of ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets* ("ASC 610-20"), which applies to sales or transfers to noncustomers of nonfinancial assets or in substance nonfinancial assets that do not meet the definition of a business. Generally, the Company's sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20.

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-09. Under ASC 610-20, if the Company determines it does not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, the Company would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer. As a result of the adoption of ASC 610-20 on January 1, 2018, the Company recorded a cumulative effect adjustment to increase retained earnings by $2.5 million to recognize the deferred gain from the sale of 102 developable acres at Park Highlands that closed on May 1, 2017, as control of the sold acres had transferred to the buyers at closing.

As of January 1, 2018 and June 30, 2018, the Company had recorded contract liabilities of $1.7 million and $2.0 million, respectively, related to deferred proceeds received from the buyers of the Park Highlands land sales and another developer for the value of land that was contributed to a master association that is consolidated by the Company, which was included in other liabilities on the accompanying consolidated balance sheets.

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, net of any discounts for restrictions on the sale of the security. Any discount for lack of marketability is estimated using an option pricing model. Transaction costs that are directly attributable to the acquisition of real estate equity securities are capitalized to its cost basis.

Prior to the Company's 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, the Company classified its investments in real estate equity securities as available-for-sale and unrealized gains and losses were reported in accumulated other comprehensive income (loss). Upon the sale of a security, the previously recognized unrealized gain (loss) would be reversed out of accumulated other comprehensive income (loss) and the actual realized gain (loss) recognized in earnings. Effective January 1, 2018, unrealized gains and losses on real estate equity securities are recognized in earnings. Upon adoption of ASU No. 2016-01 on January 1, 2018, the Company recorded a $25.1 million cumulative effect adjustment to retained earnings related to the unrealized gain on real estate equity securities previously reported in accumulated other comprehensive income prior to January 1, 2018.

Investment in Unconsolidated Joint Ventures

Equity Investment Without Readily Determinable Value

Prior to the adoption of ASU No. 2016-01 on January 1, 2018, the Company accounted for investments in unconsolidated joint venture entities in which the Company did not have the ability to exercise significant influence and had virtually no influence over partnership operating and financial policies using the cost method of accounting. Under the cost method, income distributions from the partnership were recognized in other income. Distributions that exceed the Company's share of earnings were applied to reduce the carrying value of the Company's investment and any capital contributions increased the carrying value of the Company's investment. On a quarterly basis, the Company evaluated its cost method investment in an unconsolidated joint venture for other-than-temporary impairments. The fair value of a cost method investment was not estimated if there were no identified events or changes in circumstances that indicated a significant adverse effect on the fair value of the investment.

In accordance with ASU No. 2016-01, the Company may elect to measure an equity investment without a readily determinable value that does not qualify for the practical expedient to estimate fair value using the net asset value per share, at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company elected to measure its investment in the NIP Joint Venture (defined in Note 12) in accordance with the above guidance, applying it prospectively, and as of January 1, 2018 and June 30, 2018, recorded its investment in the NIP Joint Venture at a cost basis of $3.7 million and $2.5 million, respectively.

Reclassifications

Certain amounts in the Company's prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of the prior period. As of June 30, 2018, the Company had classified one office property as held for sale. As a result, certain assets and liabilities were reclassified as held for sale on the consolidated balance sheets for all periods presented.

Segments

The Company has invested in opportunistic real estate and other real estate-related assets. In general, the Company intends to hold its investments in opportunistic real estate 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.

Per Share Data

Basic net income (loss) per share of common stock is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock issued and outstanding during such period. Diluted net income (loss) per share of common stock equals basic net income (loss) per share of common stock as there were no potentially dilutive securities outstanding during the three and six months ended June 30, 2018 and 2017.

Distributions declared per share were $0.01597500 and $0.03195000 during the three and six months ended June 30, 2018, respectively, and $0.09349315 and $0.18595890 during the three and six months ended June 30, 2017, respectively.

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.

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.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments* ("ASU No. 2016-13"). ASU No. 2016-13 affects entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments in ASU No. 2016-13 require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. ASU No. 2016-13 also amends the impairment model for available-for-sale securities. An entity will recognize an allowance for credit losses on available-for-sale debt securities as a contra-account to the amortized cost basis rather than as a direct reduction of the amortized cost basis of the investment, as is currently required. ASU No. 2016-13 also requires new disclosures. For financial assets measured at amortized cost, an entity will be required to disclose information about how it developed its allowance for credit losses, including changes in the factors that influenced management's estimate of expected credit losses and the reasons for those changes. For financing receivables and net investments in leases measured at amortized cost, an entity will be required to further disaggregate the information it currently discloses about the credit quality of these assets by year of the asset's origination for as many as five annual periods. For available for sale securities, an entity will be required to provide a roll-forward of the allowance for credit losses and an aging analysis for securities that are past due. ASU No. 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is still evaluating the impact of adopting ASU No. 2016-13 on its financial statements, but does not expect the adoption of ASU No. 2016-13 to have a material impact on its financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018
(unaudited)

3. REAL ESTATE HELD FOR INVESTMENT

As of June 30, 2018, the Company owned six office properties, one office portfolio consisting of four office buildings and 14 acres of undeveloped land, one office/flex/industrial portfolio consisting of 21 buildings and one retail property, encompassing, in the aggregate, approximately 3.8 million rentable square feet. As of June 30, 2018, these properties were 77% occupied. In addition, the Company owned two apartment properties, containing 383 units and encompassing approximately 0.3 million rentable square feet, which were 94% occupied. The Company also owned three investments in undeveloped land with approximately 1,100 developable acres. The following table summarizes the Company's real estate held for investment as of June 30, 2018 and December 31, 2017, respectively (in thousands):

	June 30, 2018	December 31, 2017
Land	$ 196,052	$ 155,046
Buildings and improvements	624,299	361,118
Tenant origination and absorption costs	39,677	23,212
Total real estate, cost	860,028	539,376
Accumulated depreciation and amortization	(48,690)	(37,154)
Total real estate, net	$ 811,338	$ 502,222

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

Property	Date Acquired or Foreclosed on	City	State	Property Type	Land	Building and Improvements	Tenant Origination and Absorption	Total Real Estate, at Cost	Accumulated Depreciation and Amortization	Total Real Estate, Net	Ownership %
Richardson Portfolio:											
Palisades Central I	11/23/2011	Richardson	TX	Office	$ 1,037	$ 10,709	$ —	$ 11,746	$ (2,479)	$ 9,267	90.0%
Palisades Central II	11/23/2011	Richardson	TX	Office	810	18,397	—	19,207	(4,230)	14,977	90.0%
Greenway I	11/23/2011	Richardson	TX	Office	561	2,113	—	2,674	(692)	1,982	90.0%
Greenway III	11/23/2011	Richardson	TX	Office	702	4,061	559	5,322	(1,858)	3,464	90.0%
Undeveloped Land	11/23/2011	Richardson	TX	Undeveloped Land	3,134	—	—	3,134	—	3,134	90.0%
Total Richardson Portfolio					6,244	35,280	559	42,083	(9,259)	32,824	
Park Highlands [(1)]	12/30/2011	North Las Vegas	NV	Undeveloped Land	33,430	—	—	33,430	—	33,430	[(1)]
Burbank Collection	12/12/2012	Burbank	CA	Retail	4,175	12,536	725	17,436	(2,769)	14,667	90.0%
Park Centre	03/28/2013	Austin	TX	Office	3,251	27,228	—	30,479	(4,144)	26,335	100.0%
1180 Raymond	08/20/2013	Newark	NJ	Apartment	8,292	38,260	—	46,552	(5,980)	40,572	100.0%
Park Highlands II	12/10/2013	North Las Vegas	NV	Undeveloped Land	25,234	—	—	25,234	—	25,234	100.0%
424 Bedford	01/31/2014	Brooklyn	NY	Apartment	8,860	25,837	—	34,697	(3,204)	31,493	90.0%
Richardson Land II	09/04/2014	Richardson	TX	Undeveloped Land	3,418	—	—	3,418	—	3,418	90.0%
Westpark Portfolio	05/10/2016	Redmond	WA	Office/Flex/ Industrial	36,085	92,354	6,588	135,027	(10,557)	124,470	100.0%
Crown Pointe	02/14/2017	Dunwoody	GA	Office	22,590	62,613	5,559	90,762	(5,734)	85,028	100.0%
125 John Carpenter	09/15/2017	Irving	TX	Office	2,755	76,010	8,840	87,605	(3,416)	84,189	100.0%
Marquette Plaza	03/01/2018	Minneapolis	MN	Office	10,387	71,385	4,470	86,242	(1,334)	84,908	100.0%
City Tower	03/06/2018	Orange	CA	Office	13,930	128,787	8,150	150,867	(2,166)	148,701	100.0%
Eight & Nine Corporate Centre	06/08/2018	Franklin	TN	Office	17,401	54,009	4,786	76,196	(127)	76,069	100.0%
					$ 196,052	$ 624,299	$ 39,677	$ 860,028	$ (48,690)	$ 811,338	

[(1)] On September 7, 2016, a subsidiary of the Company that owns a portion of Park Highlands, sold 820 units of 10% Class A non-voting preferred membership units for $0.8 million to accredited investors. The amount of the Class A non-voting preferred membership units raised, net of offering costs, is included in other liabilities on the accompanying consolidated balance sheets.

Operating Leases

Certain of the Company’s real estate properties are leased to tenants under operating leases for which the terms and expirations vary. As of June 30, 2018, the leases, excluding options to extend and apartment leases (which have terms that are generally one year or less), had remaining terms of up to 13.9 years with a weighted-average remaining term of 4.6 years. Some of the leases have provisions to extend the lease agreements, options for early termination 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 tenants 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 leases and the creditworthiness of the tenant, but generally are not significant amounts. 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 and assumed in real estate acquisitions related to tenant leases are included in other liabilities in the accompanying consolidated balance sheets and totaled $5.2 million and $4.3 million as of June 30, 2018 and December 31, 2017, respectively.

During the six months ended June 30, 2018 and 2017, the Company recognized deferred rent from tenants of $1.7 million and $1.4 million, respectively, 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 $8.6 million and $6.6 million, respectively, and is included in rents and other receivables on the accompanying balance sheets. The cumulative deferred rent balance included $1.0 million and $0.8 million of unamortized lease incentives as of June 30, 2018 and December 31, 2017, respectively.

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

July 1, 2018 through December 31, 2018	$	30,024
2019		58,632
2020		52,340
2021		45,997
2022		38,248
Thereafter		124,051
	$	349,292

As of June 30, 2018, the Company’s commercial real estate properties were leased to approximately 350 tenants over a diverse range of industries and geographic areas. No tenant industry concentration accounted for more than 10% of annualized base rent and no tenant accounted for more than 10% of annualized base rent. No material tenant credit issues have been identified at this time.

Geographic Concentration Risk

As of June 30, 2018, the Company’s real estate investments in California, Texas and Washington represented 14.8%, 13.3% and 11.3%, 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, Texas and Washington 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.

Recent Acquisitions

Marquette Plaza

On March 1, 2018, the Company, through an indirect wholly owned subsidiary, acquired an office property containing 522,656 rentable square feet located on 2.5 acres of land in Minneapolis, Minnesota ("Marquette Plaza"). The seller is not affiliated with the Company or the Advisor. The purchase price (net of closing credits) of Marquette Plaza was $88.3 million plus $1.1 million of capitalized acquisition costs. The Company recorded this acquisition as an asset acquisition and recorded $10.4 million to land, $71.4 million to building and improvements, $4.5 million to tenant origination and absorption costs, $3.7 million to above-market lease assets and $0.6 million to below-market lease liabilities. The intangible assets and liabilities acquired in connection with this acquisition have weighted-average amortization periods as of the date of acquisition of 6.6 years for tenant origination and absorption costs, 11.7 years for above-market lease assets and 2.4 years for below-market lease liabilities.

City Tower

On March 6, 2018, the Company, through an indirect wholly owned subsidiary, acquired an office building containing 431,007 rentable square feet located on approximately 4.9 acres of land in Orange, California ("City Tower"). The seller is not affiliated with the Company or the Advisor. The purchase price (net of closing credits) of City Tower was $147.1 million plus $1.6 million of capitalized acquisition costs. The Company recorded this acquisition as an asset acquisition and recorded $13.9 million to land, $127.9 million to building and improvements, $8.1 million to tenant origination and absorption costs and $1.2 million to below-market lease liabilities. The intangible assets and liabilities acquired in connection with this acquisition have weighted-average amortization periods as of the date of acquisition of 5.2 years for tenant origination and absorption costs and 6.6 years for below-market lease liabilities.

Eight & Nine Corporate Centre

On June 8, 2018, the Company, through an indirect wholly owned subsidiary, acquired an office building consisting of two buildings containing an aggregate of 311,864 rentable square feet located on approximately 27.6 acres of land in Franklin, Tennessee ("Eight & Nine Corporate Centre"). The seller is not affiliated with the Company or the Advisor. The purchase price (net of closing credits) of Eight & Nine Corporate Centre was $73.0 million plus $1.2 million of capitalized acquisition costs. The Company recorded this acquisition as an asset acquisition and recorded $17.4 million to land, $54.0 million to building and improvements, $4.8 million to tenant origination and absorption costs and $2.0 million to below-market lease liabilities. The intangible assets and liabilities acquired in connection with this acquisition have weighted-average amortization periods as of the date of acquisition of 6.4 years for tenant origination and absorption costs and 7.4 years for below-market lease liabilities.

Recent Real Estate Land Sale

On February 28, 2018, the Company sold approximately 26 developable acres of Park Highlands undeveloped land for an aggregate sales price, net of closing credits, of $2.5 million, excluding closing costs. The purchasers are not affiliated with the Company or the Advisor. The Company recognized a gain on sale of $0.7 million related to the land sale, which is net of deferred profit of $0.3 million related to proceeds received from the purchaser for the value of land that was contributed to a master association which is consolidated by the Company.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

4. TENANT ORIGINATION 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	$ 39,677	$ 23,212	$ 3,731	$ 17	$ (7,298)	$ (3,636)
Accumulated Amortization	(8,331)	(5,733)	(144)	(7)	1,287	793
Net Amount	$ 31,346	$ 17,479	$ 3,587	$ 10	$ (6,011)	$ (2,843)

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):

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	For the Three Months Ended June 30,		For the Three Months Ended June 30,		For the Three Months Ended June 30,	
	2018	2017	2018	2017	2018	2017
Amortization	$ (2,088)	$ (3,135)	$ (111)	$ (78)	$ 385	$ 1,221

	Tenant Origination and Absorption Costs		Above-Market Lease Assets		Below-Market Lease Liabilities	
	For the Six Months Ended June 30,		For the Six Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017	2018	2017
Amortization	$ (3,625)	$ (6,078)	$ (155)	$ (167)	$ 655	$ 2,204

Additionally, as of June 30, 2018 and December 31, 2017, the Company had recorded tax abatement intangible assets, net of amortization, which are included in prepaid expenses and other assets in the accompanying balance sheets, of $4.8 million and $5.3 million, respectively. During the three and six months ended June 30, 2018, the Company recorded amortization expense of $0.2 million and $0.5 million, respectively, related to tax abatement intangible assets. During the three and six months ended June 30, 2017, the Company recorded amortization expense of $0.2 million and $0.5 million, respectively, related to tax abatement intangible assets.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018
(unaudited)

5. REAL ESTATE EQUITY SECURITIES

As of June 30, 2018, the Company owned three investments in real estate equity securities. The following table sets forth the number of shares owned by the Company and the related carrying value of the shares as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018		December 31, 2017	
Real Estate Equity Security	**Number of Shares Owned**	**Total Carrying Value**	**Number of Shares Owned**	**Total Carrying Value**
Whitestone REIT	3,768,189	$ 47,027	3,603,189	$ 51,922
Keppel-KBS US REIT	43,999,500	38,102	43,999,500	38,141
Franklin Street Properties Corp.	1,576,809	13,498	—	—
	49,344,498	$ 98,627	47,602,689	$ 90,063

During the six months ended June 30, 2018, the Company purchased 165,000 shares of common stock of Whitestone REIT (NYSE Ticker: WSR) for an aggregate purchase price of $1.9 million and 1,576,809 shares of common stock of Franklin Street Properties Corp. (NYSE Ticker: FSP) for an aggregate purchase price of $14.0 million.

On November 8, 2017, the Company acquired 43,999,500 shares of common units of Keppel-KBS US REIT (SGX Ticker: CMOU) in connection with the sale of 11 properties to Keppel-KBS US REIT. The Company agreed not to sell, transfer or assign 21,999,750 units of the Keppel-KBS US REIT issued to the Company at closing of the transaction until May 8, 2018 and the remaining 21,999,750 units until November 8, 2018 (the "Unit Lockout Periods"). As of June 30, 2018 and December 31, 2017, a lack of marketability discount of $0.6 million and $1.7 million, respectively, was recorded as a result of the remaining Unit Lockout Period.

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 Gains (Losses) [1]	Total
Real estate equity securities - December 31, 2017	$ 64,917	$ 25,146	$ 90,063
Acquisition of real estate equity securities	15,676	—	15,676
Acquisition fee to affiliate and purchase commission	175	—	175
Unrealized change in market value of real estate equity securities	—	(7,287)	(7,287)
Real estate equity securities - June 30, 2018	$ 80,768	$ 17,859	$ 98,627

[1] As of December 31, 2017, unrealized gain (losses) due to the change in market value of real estate equity securities was recorded to accumulated other comprehensive income. Effective January 1, 2018, upon the adoption of ASU No. 2016-01, unrealized gain (losses) on real estate equity securities are recorded in earnings on the accompanying consolidated statement of operations.

During the three and six months ended June 30, 2018, the Company recognized $1.2 million and $2.3 million, respectively, of dividend income from real estate equity securities. During the three and six months ended June 30, 2017, the Company recognized $0.5 million of dividend income from real estate equity securities.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018
(unaudited)

6. REAL ESTATE DEBT SECURITIES

As of June 30, 2018, the Company owned an investment in real estate debt securities. The Company's investment in real estate debt securities is classified as held to maturity, as the Company has the intent and ability to hold its investment until maturity, and it is not more likely than not that the Company would be required to sell its investment before recovery of the Company's amortized cost basis. The information for those real estate debt securities as of June 30, 2018 and December 31, 2017 is set forth below (in thousands):

Debt Securities Name	Dates Acquired	Debt Securities Type	Outstanding Principal Balance as of June 30, 2018 [(1)]	Book Value as of June 30, 2018 [(2)]	Book Value as of December 31, 2017[(2)]	Contractual Interest Rate [(3)]	Annualized Effective Interest Rate [(3)]	Maturity Date
Battery Point Series B Preferred Units	10/28/2016 / 03/30/2017 / 05/12/2017	Series B Preferred Units	$ 17,500	$ 17,879	$ 17,751	12.0%	11.1%	10/28/2019

(1) Outstanding principal balance as of June 30, 2018 represents principal balance outstanding under the real estate debt securities.

(2) Book value of the real estate debt securities represents outstanding principal balance adjusted for unamortized acquisition discounts, origination fees and direct origination and acquisition costs and additional interest accretion.

(3) Contractual interest rate is the stated interest rate on the face of the real estate securities. Annualized effective interest rate is calculated as the actual interest income recognized in 2018, using the interest method, annualized (if applicable) and divided by the average amortized cost basis of the investment. The annualized effective interest rate and contractual interest rate presented are as of June 30, 2018.

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

Real estate debt securities - December 31, 2017	$ 17,751
Deferred interest receivable and interest accretion	104
Accretion of commitment fee, net of closing costs	24
Real estate debt securities - June 30, 2018	$ 17,879

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Contractual interest income	$ 490	$ 321	$ 884	$ 412
Interest accretion	9	78	104	121
Accretion of commitment fee, net of closing costs and acquisition fee	12	202	24	227
Interest income from real estate debt securities	$ 511	$ 601	$ 1,012	$ 760

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018
(unaudited)

7. REAL ESTATE SALES

As of June 30, 2018, the Company classified one office property as held for sale. During the three and six months ended June 30, 2018, the Company did not dispose of any real estate properties. During the year ended December 31, 2017, the Company disposed of 12 office properties.

The following summary presents the major components of assets and liabilities related to real estate held for sale as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Assets related to real estate held for sale		
Real estate, cost	$ 35,739	$ 35,308
Accumulated depreciation and amortization	(5,055)	(4,663)
Real estate, net	30,684	30,645
Other assets	1,945	1,965
Total assets related to real estate held for sale	$ 32,629	$ 32,610
Liabilities related to real estate held for sale		
Notes payable, net	27,566	27,515
Total liabilities related to real estate held for sale	$ 27,566	$ 27,515

The operations of properties sold and real estate held for sale and related gain on sales are included in continuing operations on the accompanying statements of operations. The following table summarizes certain revenue and expenses related to these properties 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
Revenues				
Rental income	$ 1,049	$ 17,621	$ 2,070	$ 36,134
Tenant reimbursements and other operating income	111	5,477	251	10,482
Total revenues	$ 1,160	$ 23,098	$ 2,321	$ 46,616
Expenses				
Operating, maintenance, and management	$ 506	$ 6,208	$ 433	$ 12,751
Real estate taxes and insurance	154	3,376	287	6,479
Asset management fees to affiliate	137	1,401	272	2,826
Depreciation and amortization	122	7,825	483	16,232
Interest expense	282	3,676	540	7,000
Total expenses	$ 1,201	$ 22,486	$ 2,015	$ 45,288

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018
(unaudited)

8. NOTES AND BONDS PAYABLE

As of June 30, 2018 and December 31, 2017, the Company's notes and bonds payable, including notes payable related to real estate held for sale, consisted of the following (dollars in thousands):

	Book Value as of June 30, 2018	Book Value as of December 31, 2017	Contractual Interest Rate as of June 30, 2018 [(1)]	Effective Interest Rate at June 30, 2018 [(1)]	Payment Type	Maturity Date [(2)]
Richardson Portfolio Mortgage Loan	$ 32,586	$ 36,886	One-Month LIBOR + 2.10%	4.08%	Principal & Interest	11/01/2018
Portfolio Mortgage Loan [(3)]	9,140	9,877	One-Month LIBOR + 2.25%	4.23%	Principal & Interest	07/01/2019
Burbank Collection Mortgage Loan	10,837	10,958	One-Month LIBOR + 2.35%	4.41%	Principal & Interest	09/30/2018
1180 Raymond Bond Payable	6,370	6,460	6.50%	6.50%	Principal & Interest	09/01/2036
Central Building Mortgage Loan	27,600	27,600	One-Month LIBOR + 1.75%	3.73%	Interest Only	11/13/2018[(4)]
424 Bedford Mortgage Loan	23,998	24,282	3.91%	3.91%	Principal & Interest	10/01/2022
1180 Raymond Mortgage Loan	30,821	31,000	One-Month LIBOR + 2.25%	4.23%	Principal & Interest	12/01/2018
KBS SOR (BVI) Holdings, Ltd. Series A Debentures [(5)]	265,285	278,801	4.25%	4.25%	[(5)]	03/01/2023
Westpark Portfolio Mortgage Loan	85,200	85,200	One-Month LIBOR + 2.50%	4.48%	Interest Only [(6)]	07/01/2020
Crown Pointe Mortgage Loan	51,171	50,500	One-Month LIBOR + 2.60%	4.58%	Interest Only	02/13/2020
125 John Carpenter Mortgage Loan	50,130	50,130	[(7)]	3.74%	Interest Only	10/01/2022
City Tower Mortgage Loan	89,000	—	One-Month LIBOR + 1.55%	3.53%	Interest Only	03/05/2021
Marquette Plaza Mortgage Loan	50,800	—	One-Month LIBOR + 1.55%	3.56%	Interest Only	06/06/2021
Eight & Nine Corporate Centre Mortgage Loan	43,880	—	One-Month LIBOR + 1.60%	3.58%	Interest Only	06/08/2021
Total Notes and Bonds Payable principal outstanding	776,818	611,694				
Net Premium/(Discount) on Notes and Bonds Payable [(8)]	167	137				
Deferred financing costs, net	(9,769)	(8,788)				
Total Notes and Bonds Payable, net	$ 767,216	$ 603,043				

[(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 and contractual floor rates), using interest rate indices at June 30, 2018, where applicable.

[(2)] Represents the initial maturity date or the maturity date as extended as of June 30, 2018; subject to certain conditions, the maturity dates of certain loans may be extended beyond the date shown.

[(3)] The Portfolio Mortgage Loan is secured by Park Centre.

[(4)] On July 17, 2018, the Central Building Mortgage Loan was repaid. See note 15, "Subsequent Events – Real Estate Disposition Subsequent to June 30, 2018."

[(5)] See " – Israeli Bond Financing" below.

[(6)] Represents the payment type required under the loan as of June 30, 2018. Certain future monthly payments due under this loan also include amortizing principal payments. For more information of the Company's contractual obligations under its notes and bonds payable, see five-year maturity table below.

[(7)] The 125 John Carpenter Mortgage Loan bears interest at a floating rate of the greater of (a) 2.0% or (b) 175 basis points over one-month LIBOR.

[(8)] Represents the unamortized premium/discount on notes and bonds payable due to the above- and below-market interest rates when the debt was assumed. The discount/premium is amortized over the remaining life of the notes and bonds payable.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, 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 $7.8 million and $14.4 million, respectively, of interest expense. Included in interest expense for the three and six months ended June 30, 2018 was $0.9 million and $1.7 million, respectively, of amortization of deferred financing costs. Additionally, during the three and six months ended June 30, 2018, the Company capitalized $0.6 million and $1.3 million, respectively, of interest related to its investments in undeveloped land. During the three and six months ended June 30, 2017, the Company incurred $10.3 million and $19.7 million, respectively, of interest expense. Included in interest expense for the three and six months ended June 30, 2017 was $1.3 million and $2.6 million, respectively, of amortization of deferred financing costs. Additionally, during the three and six months ended June 30, 2017, the Company capitalized $0.6 million and $1.1 million, respectively, of interest related to its investments in undeveloped land.

As of June 30, 2018 and December 31, 2017, the Company's interest payable was $5.4 million and $5.1 million, respectively.

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

July 1, 2018 through December 31, 2018	$	103,416
2019		63,350
2020		188,742
2021		237,616
2022		125,227
Thereafter		58,467
	$	776,818

The Company's notes payable contain financial debt covenants. As of June 30, 2018, the Company was in compliance with all of these debt covenants.

Israeli Bond Financing

On March 2, 2016, KBS Strategic Opportunity BVI, a wholly owned subsidiary of the Company, filed a final prospectus with the Israel Securities Authority for a proposed offering of up to 1,000,000,000 Israeli new Shekels of Series A debentures (the "Debentures") at an annual interest rate not to exceed 4.25%. On March 1, 2016, KBS Strategic Opportunity BVI commenced the institutional tender of the Debentures and accepted application for 842.5 million Israeli new Shekels. On March 7, 2016, KBS Strategic Opportunity BVI commenced the public tender of the Debentures and accepted 127.7 million Israeli new Shekels. In the aggregate, KBS Strategic Opportunity BVI accepted 970.2 million Israeli new Shekels (approximately $249.2 million as of March 8, 2016) in both the institutional and public tenders at an annual interest rate of 4.25%. KBS Strategic Opportunity BVI issued the Debentures on March 8, 2016. The terms of the Debentures require principal installment payments equal to 20% of the face value of the Debentures on March 1st of each year from 2019 to 2023. As of June 30, 2018, the Company has one foreign currency option for an aggregate notional amount of $285.4 million to hedge its exposure to foreign currency exchange rate movements. See note 9, "Derivative Instruments" for a further discussion on the Company's foreign currency option.

The deed of trust that governs the terms of the Debentures contains various financial covenants. As of June 30, 2018, the Company was in compliance with all of these financial debt covenants.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018
(unaudited)

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 and foreign currency exchange rate movements. The primary goal of the Company's risk management practices related to interest rate risk is to prevent changes in interest rates from adversely impacting the Company's ability to achieve its investment return objectives. The Company does not enter into derivatives for speculative purposes.

The Company enters into foreign currency options and foreign currency collars to mitigate its exposure to foreign currency exchange rate movements on its bonds payable outstanding denominated in Israeli new Shekels. A foreign currency collar consists of a purchased call option to buy and a sold put option to sell Israeli new Shekels. A foreign currency collar guarantees that the exchange rate of the currency will not fluctuate beyond the range of the options' strike prices. A foreign currency option consists of a call option to buy Israeli new Shekels.

As of June 30, 2018, the Company had entered into a foreign currency option, a USD put/ILS call option, to hedge against a change in the exchange rate of the Israeli new Shekel versus the U.S. Dollar as it has the right, but not the obligation, to purchase up to 970.2 million Israeli Shekels at the rate of ILS 3.4 per USD. The cost of the foreign currency option was $3.4 million. The following table summarizes the notional amount and other information related to the Company's foreign currency option 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
Derivative instrument not designated as hedging instrument				
Foreign currency option	$ 285,361	3.40 ILS-USD	08/03/2017	08/03/2018

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.

As of June 30, 2018, the Company had entered into two interest rate caps, which were not designated as a hedging instruments. The following table summarizes the notional amounts and other information related to the Company's derivative instruments as of June 30, 2018. The notional amount is an indication of the extent of the Company's involvement in the instrument at that time, but does not represent exposure to credit, interest rate or market risks (dollars in thousands):

Derivative Instrument	Effective Date	Maturity Date	Notional Value	Reference Rate
Interest rate cap	02/21/2017	02/13/2020	$ 46,875	One-month LIBOR at 3.00%
Interest rate cap	04/02/2018	03/05/2021	$ 77,513	One-month LIBOR at 3.50%

The following table sets forth the fair value of the Company's derivative instruments as well as their classification on the consolidated balance sheets as of June 30, 2018 and December 31, 2017 (dollars in thousands):

		June 30, 2018		December 31, 2017	
Derivative Instruments	Balance Sheet Location	Number of Instruments	Fair Value	Number of Instruments	Fair Value
Derivative instruments not designated as hedging instruments					
Interest rate caps	Prepaid expenses and other assets	2	$ 146	1	$ 14
Foreign currency option	Prepaid expenses and other assets	1	$ —	1	$ 4,243

The change in fair value of foreign currency options and collars that are not designated as cash flow hedges are recorded as foreign currency transaction gains or losses in the accompanying consolidated statements of operations. During the three months ended June 30, 2018, the Company recognized a $2.2 million loss related to the foreign currency option, which is shown net against $12.3 million of foreign currency transaction gain in the accompanying consolidated statements of operations as foreign currency transaction gain, net. During the six months ended June 30, 2018, the Company recognized a $4.3 million loss related to the foreign currency option, which is shown net against $13.4 million of foreign currency transaction gain in the accompanying consolidated statements of operations as foreign currency transaction gain, net. During the three months ended June 30, 2017, the Company recognized a $7.8 million gain related to the foreign currency collars, which is shown net against $10.2 million of foreign currency transaction loss in the accompanying consolidated statements of operations as foreign currency transaction loss, net, respectively. During the six months ended June 30, 2017, the Company recognized a $19.0 million gain related to the foreign currency collars, which is shown net against $26.1 million of foreign currency transaction loss in the accompanying consolidated statements of operations as foreign currency transaction loss, net. During the three and six months ended June 30, 2018, the Company recorded unrealized losses of $62,000 and $31,000, respectively, on interest rate caps, which were included in interest expense on the accompanying consolidated statements of operations. During the three and six months ended June 30, 2017, the Company recorded unrealized losses of $31,000 and $88,000, respectively, on interest rate caps, which were included in interest expense on the accompanying consolidated statements of operations.

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 valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company’s financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available and for which markets contain orderly transactions will generally have a higher degree of price transparency than financial instruments for which markets are inactive or consist of non-orderly trades. The Company evaluates several factors when determining if a market is inactive or when market transactions are not orderly. The following is a summary of the methods and assumptions used by management in estimating the fair value of each class of financial instruments 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 Whitestone REIT and Franklin Street Properties Corp. real estate equity securities are presented at fair value on the accompanying consolidated balance sheet. The fair values of Whitestone REIT and Franklin Street Properties Corp. real estate equity securities were based on quoted prices in an active market on a major stock exchange. The Company classifies these inputs as Level 1 inputs. As of June 30, 2018, the Company owned 43,999,500 shares of common units of Keppel-KBS US REIT. The fair value measurement on 21,999,750 shares are based on a quoted price in an active market on a major stock exchange. The Company classifies these inputs as Level 1 inputs. The fair value measurement on the remaining 21,999,750 shares are based on a quoted price in an active market on a major stock exchange, adjusted for the lack of marketability during the remaining Unit Lockout Period. The Company utilized inputs, all of which were deemed to be significant, including the quoted stock price, risk-free rate and expected volatility, in determining the value of the shares and the Company notes that the most significant input in its valuation model is the quoted price in an active market. However, as the valuation of the stock is adjusted for the lack of marketability using market-corroborated inputs, the Company categorizes the measurement of such securities as Level 2 inputs.

Real estate debt securities: The Company's real estate debt securities are presented in the accompanying consolidated balance sheets at their amortized cost net of recorded loss reserves (if any) and not at fair value. The fair value of real estate debt securities was estimated using an internal valuation model that considers the expected cash flows for the loans, underlying collateral values (for collateral dependent loans) and estimated yield requirements of institutional investors for real estate debt securities 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.

Notes and bonds payable: The fair values of the Company's notes and bonds 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 Company's bonds issued in Israel are publicly traded on the Tel-Aviv Stock Exchange. The Company used the quoted price as of June 30, 2018 for the fair value of its bonds issued in Israel. The Company classifies this input as a Level 1 input.

Derivative instruments: The Company's derivative instruments are presented at fair value on the accompanying consolidated balance sheets. The valuation of these instruments is determined using a proprietary model that utilizes observable inputs. As such, the Company classifies these inputs as Level 2 inputs. The 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 option is based on a Black-Scholes model tailored for currency derivatives.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

The following were the face values, carrying amounts and fair values 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 debt securities	$ 17,500	$ 17,879	$ 17,461	$ 17,500	$ 17,751	$ 17,386
Financial liabilities:						
Notes and bond payable	$ 511,533	$ 507,452	$ 516,473	$ 332,893	$ 330,727	$ 335,212
KBS SOR (BVI) Holdings, Ltd. Series A Debentures	$ 265,285	$ 259,764	$ 274,093	$ 278,801	$ 272,316	$ 296,069

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. 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):

		Fair Value Measurements Using		
	Total	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	$ 98,627	$ 79,885	$ 18,742	$ —
Asset derivative - interest rate caps	$ 146	$ —	$ 146	$ —
Asset derivative - foreign currency option	$ —	$ —	$ —	$ —

11. RELATED PARTY TRANSACTIONS

The Advisory Agreement entitles the Advisor to specified fees upon the provision of certain services with regard to the investment of funds in real estate and real estate-related investments and the disposition of real estate and real estate-related investments (including the discounted payoff of non-performing loans) among other services, as well as reimbursement of certain costs incurred by the Advisor in providing services to the Company. The Advisory Agreement may also entitle the Advisor to certain back-end cash flow participation fees. The Company also entered into a fee reimbursement agreement (the "AIP Reimbursement Agreement") with KBS Capital Markets Group LLC, the dealer manager for the Company's initial public offering (the "Dealer Manager"), pursuant to which the Company agreed to reimburse the Dealer Manager for certain fees and expenses it incurs for administering the Company's participation in the Depository Trust & Clearing Corporation Alternative Investment Product Platform with respect to certain accounts of the Company's investors serviced through the platform. The Advisor and Dealer Manager also serve as, or previously served as, the advisor and dealer manager, respectively, 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 II, Inc. ("KBS Strategic Opportunity REIT II") and KBS Growth & Income REIT, Inc. ("KBS Growth & Income REIT").

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, 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 II, 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 II 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 II, 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.

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,			
	2018	2017	2018	2017	June 30, 2018	December 31, 2017
Expensed						
Asset management fees	$ 2,217	$ 2,856	$ 4,043	$ 5,603	$ —	$ —
Reimbursable operating expenses [(1)]	115	64	198	133	39	26
Disposition fees [(2)]	—	785	—	785	—	—
Capitalized						
Acquisition fees on real estate	734	—	3,094	836	—	—
Acquisition fees on real estate equity securities	9	386	157	386	—	—
	$ 3,075	$ 4,091	$ 7,492	$ 7,743	$ 39	$ 26

[(1)] The Advisor may seek reimbursement for certain employee costs 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 $78,000 and $161,000 for the three and six months ended June 30, 2018, respectively, and $64,000 and $119,000 for the three and six months ended June 30, 2017, respectively, and were the only employee costs reimbursed under the Advisory Agreement during these periods. The Company will not reimburse for employee costs in connection with services for which the Advisor earns acquisition, origination or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers. In addition to the amounts above, the Company reimburses the Advisor for certain of the Company's direct costs incurred from third parties that were initially paid by the Advisor on behalf of the Company.

[(2)] Disposition fees with respect to real estate sold are included in the gain on sale of real estate in the accompanying consolidated statements of operations.

During the three and six months ended June 30, 2018, the Advisor reimbursed the Company $0.1 million for a property insurance rebate. During the three and six months ended June 30, 2017, the Advisor reimbursed the Company $0.4 million for expenses incurred to evaluate certain strategic transactions for which the Advisor has agreed to reimburse the Company and $0.1 million for a property insurance rebate.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

On November 8, 2017, the Company sold 11 properties to Keppel-KBS US REIT. Keppel-KBS US REIT is externally managed by a joint venture (the "Manager") between (i) an entity in which Keith D. Hall, the Company's Chief Executive Officer and a director, and Peter McMillan III, the Company's President and Chairman of the board of directors, have an indirect ownership interest and (ii) Keppel Capital Holding Pte. Ltd., which is not affiliated with the Company. Keppel-KBS US REIT is expected to pay certain purchase and sale commissions and asset management fees to the Manager in exchange for the provision of certain management services.

12. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of June 30, 2018 and December 31, 2017, the Company's investments in unconsolidated joint ventures were composed of the following (dollars in thousands):

				Investment Balance at	
Joint Venture	**Number of Properties**	**Location**	**Ownership %**	**June 30, 2018**	**December 31, 2017**
NIP Joint Venture	4	Various	Less than 5.0%	$ 2,514	$ 3,674
110 William Joint Venture	1	New York, New York	60.0%	4,058	7,160
353 Sacramento Joint Venture	1	San Francisco, California	55.0%	44,414	44,743
				$ 50,986	$ 55,577

Investment in National Industrial Portfolio Joint Venture

On May 18, 2012, the Company, through an indirect wholly owned subsidiary, entered into a joint venture (the "NIP Joint Venture") with OCM NIP JV Holdings, L.P. and HC KBS NIP JV, LLC ("HC-KBS"). The NIP Joint Venture has invested in a portfolio of industrial properties. The Company made an initial capital contribution of $8.0 million which represents less than a 5.0% ownership interest in the NIP Joint Venture as of June 30, 2018. Prior to the Company's adoption of ASU No. 2016-01 on January 1, 2018, the Company accounted for its investment in the NIP Joint Venture using the cost method of accounting. Effective January 1, 2018, the Company elected to measure its investment in the NIP Joint Venture, which is an equity investment without a readily determinable value, at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

Prior to January 17, 2018, KBS REIT I, an affiliate of the Advisor, was a member of HC-KBS and had a participation interest in certain future potential profits generated by the NIP Joint Venture. However, KBS REIT I did not have any equity interest in the NIP Joint Venture. On January 17, 2018, KBS REIT I assigned its participation interest in the NIP Joint Venture to one of the other joint venture partners in the NIP Joint Venture. None of the other joint venture partners are affiliated with the Company or the Advisor.

As of June 30, 2018 and December 31, 2017, the book value of the Company's investment in the NIP Joint Venture was $2.5 million and $3.7 million, respectively. During the three months ended June 30, 2018, the Company received a distribution of $0.9 million related to its investment in the NIP Joint Venture. The Company recognized $0.1 million of income distributions and $0.8 million of return of capital from the NIP Joint Venture. During the six months ended June 30, 2018, the Company received a distribution of $1.3 million related to its investment in the NIP Joint Venture. The Company recognized $0.2 million of income distributions and $1.1 million of return of capital from the NIP Joint Venture. During the three months ended June 30, 2017, the Company did not receive any distributions related to its investment in the NIP Joint Venture. During the six months ended June 30, 2017, the Company received a distribution of $2.9 million related to its investment in the NIP Joint Venture. The Company recognized $1.9 million of income distributions and $1.0 million of return of capital from the NIP Joint Venture.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018
(unaudited)

Investment in 110 William Joint Venture

On December 23, 2013, the Company, through an indirect wholly owned subsidiary, entered into an agreement with SREF III 110 William JV, LLC (the "110 William JV Partner") to form a joint venture (the "110 William Joint Venture"). On May 2, 2014, the 110 William Joint Venture acquired an office property containing 928,157 rentable square feet located on approximately 0.8 acres of land in New York, New York ("110 William Street"). Each of the Company and the 110 William JV Partner hold a 60% and 40% ownership interest in the 110 William Joint Venture, respectively.

The Company exercises significant influence over the operations, financial policies and decision making with respect to the 110 William Joint Venture but significant decisions require approval from both members. Accordingly, the Company has accounted for its investment in the 110 William Joint Venture under the equity method of accounting. Income, losses, contributions and distributions are generally allocated based on the members' respective equity interests.

As of June 30, 2018 and December 31, 2017, the book value of the Company's investment in the 110 William Joint Venture was $4.1 million and $7.2 million, respectively, which includes $1.5 million of unamortized acquisition fees and expenses incurred directly by the Company. During the six months ended June 30, 2017, the 110 William Joint Venture made a $58.2 million return of capital distribution to the Company and a $38.8 million return of capital distribution to the 110 William JV Partner funded with proceeds from the 110 William refinancing.

Summarized financial information for the 110 William Joint Venture follows (in thousands):

	June 30, 2018	December 31, 2017
Assets:		
Real estate assets, net of accumulated depreciation and amortization	$ 240,577	$ 248,269
Other assets	34,886	32,331
Total assets	$ 275,463	$ 280,600
Liabilities and equity:		
Notes payable, net	$ 263,377	$ 260,108
Other liabilities	7,745	11,016
Partners' capital	4,341	9,476
Total liabilities and equity	$ 275,463	$ 280,600

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$ 9,951	$ 9,322	$ 19,760	$ 17,714
Expenses:				
Operating, maintenance, and management	2,296	2,370	4,763	4,766
Real estate taxes and insurance	1,655	1,472	3,290	3,088
Depreciation and amortization	4,126	4,381	8,345	7,614
Interest expense	4,418	3,799	8,535	5,198
Total expenses	12,495	12,022	24,933	20,666
Other income	24	14	38	28
Net loss	$ (2,520)	$ (2,686)	$ (5,135)	$ (2,924)
Company's equity in loss of unconsolidated joint venture	$ (1,522)	$ (1,622)	$ (3,102)	$ (1,776)

Investment in 353 Sacramento Joint Venture

On July 6, 2017, the Company, through an indirect wholly owned subsidiary, entered into an agreement with the Migdal Members to form the 353 Sacramento Joint Venture. On July 6, 2017, the Company sold a 45% equity interest in an entity that owns 353 Sacramento to the Migdal Members. The sale resulted in 353 Sacramento being owned by the 353 Sacramento Joint Venture, in which the Company indirectly owns 55% of the equity interests and the Migdal Members indirectly own 45% in the aggregate of the equity interests.

The Company exercises significant influence over the operations, financial policies and decision making with respect to the 353 Sacramento Joint Venture but significant decisions require approval from both members. Accordingly, the Company has accounted for its investment in the 353 Sacramento Joint Venture under the equity method of accounting. Income, losses, contributions and distributions are generally allocated based on the members' respective equity interests.

As of June 30, 2018 and December 31, 2017, the book value of the Company's investment in the 353 Sacramento Joint Venture was $44.4 million and $44.7 million, respectively. During the three and six months ended June 30, 2018, the Company made a $1.3 million contribution to the 353 Sacramento Joint Venture.

Summarized financial information for the 353 Sacramento Joint Venture follows (in thousands):

	June 30, 2018	December 31, 2017
Assets:		
Real estate assets, net of accumulated depreciation and amortization	$ 172,339	$ 171,066
Other assets	8,574	6,472
Total assets	$ 180,913	$ 177,538
Liabilities and equity:		
Notes payable, net	$ 94,191	$ 89,423
Other liabilities	6,393	7,313
Partners' capital	80,329	80,802
Total liabilities and equity	$ 180,913	$ 177,538

	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
Revenues	$ 2,627	$ 5,296
Expenses:		
Operating, maintenance, and management	891	1,769
Real estate taxes and insurance	605	1,217
Depreciation and amortization	1,387	2,837
Interest expense	1,348	2,587
Total expenses	4,231	8,410
Net loss	$ (1,604)	$ (3,114)
Company's equity in loss of unconsolidated joint venture	$ (851)	$ (1,649)

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS STRATEGIC OPPORTUNITY REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

(unaudited)

13. SUPPLEMENTAL CASH FLOW AND SIGNIFICANT NONCASH TRANSACTION DISCLOSURES

Supplemental cash flow and significant noncash transaction disclosures were as follows (in thousands):

	Six Months Ended June 30,	
	2018	**2017**
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of capitalized interest of $1,282 and $1,142 for the six months ended June 30, 2018 and 2017, respectively	$ 12,247	$ 16,257
Supplemental Disclosure of Significant Noncash Transactions:		
Application of escrow deposits to acquisition of real estate	—	2,000
Increase in accrued improvements to real estate	1,265	3,551
Distributions paid to common stockholders through common stock issuances pursuant to the dividend reinvestment plan	964	5,817
Distributions paid to common stockholders through common stock issuances pursuant to the December 2017 special dividend	150,299	—

14. COMMITMENTS AND CONTINGENCIES

Economic Dependency

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

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. 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.

Participation Fee Liability

Pursuant to the Advisory Agreement currently in effect with the Advisor, the Advisor is due a subordinated participation in the Company's net cash flows (the "Incentive Fee") if, after the stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to the share redemption program, and (ii) a 7.0% per year cumulative, noncompounded return on such net invested capital, the Advisor is entitled to receive 15.0% of the Company's net cash flows, whether from continuing operations, net sale proceeds or otherwise. Net sales proceeds means the net cash proceeds realized by the Company after deduction of all expenses incurred in connection with a sale, including disposition fees paid to the Advisor. The 7.0% per year cumulative, noncompounded return on net invested capital is calculated on a daily basis. In making this calculation, the net invested capital is reduced to the extent distributions in excess of a cumulative, noncompounded, annual return of 7.0% are paid (from whatever source), except to the extent such distributions would be required to supplement prior distributions paid in order to achieve a cumulative, noncompounded, annual return of 7.0% (invested capital is only reduced as described in this sentence; it is not reduced simply because a distribution constitutes a return of capital for federal income tax purposes). The 7.0% per year cumulative, noncompounded return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of the stockholders to have received any minimum return in order for the Advisor to participate in the Company's net cash flows. In fact, if the Advisor is entitled to participate in the Company's net cash flows, the returns of the stockholders will differ, and some may be less than a 7.0% per year cumulative, noncompounded return. This fee is payable only if we are not listed on an exchange.

On April 4, 2018, the Company's stockholders approved the acceleration of the payment of such incentive compensation, subject to certain conditions. Such accelerated payment would require approval by a special committee of the Company's board of directors in connection with the anticipated conversion of the Company into a net asset value REIT. The Advisor estimated the fair value of this liability to be as much as $34 million as of June 30, 2018, based on a hypothetical liquidation of the assets and liabilities at their estimated fair values, after considering the impact of any potential closing costs and fees related to the disposition of real estate properties. The fair value of the Incentive Fee liability as of June 30, 2018 is based on the estimated fair values of the Company's assets and liabilities as of that date and changes to the fair values of assets and liabilities could have a material impact to the Incentive Fee calculation. The Incentive Fee is not currently payable to the Advisor, as it remains subject to further approval by the special committee and the Company's conversion to a perpetual-life NAV REIT, and there is no guarantee that it will ever be payable.

15. SUBSEQUENT EVENTS

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

Partial Real Estate Land Sale Subsequent to June 30, 2018

Park Highlands

On July 2, 2018, the Company sold approximately 83 developable acres of Park Highlands undeveloped land for an aggregate sales price, net of closing credits, of $18.2 million, excluding closing costs. The purchasers are not affiliated with the Company or the Advisor.

Real Estate Disposition Subsequent to June 30, 2018

Central Building

On July 17, 2018, the Company sold the Central Building to a purchaser unaffiliated with the Company or the Advisor, for $67.5 million before closing costs and credits. As of June 30, 2018, the carrying value of the Central Building was $32.6 million, which was net of $5.1 million of accumulated depreciation and amortization.

On July 17, 2018, in connection with the disposition of the Central Building, the Company repaid $27.6 million of the outstanding principal balance due under the Central Building mortgage loan.

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, Inc. and the notes thereto. As used herein, the terms “we,” “our” and “us” refer to KBS Strategic Opportunity REIT, Inc., a Maryland corporation, and, as required by context, KBS Strategic Opportunity Limited Partnership, a Delaware limited partnership, which we refer to as the “Operating Partnership,” and to their subsidiaries.

Forward-Looking Statements

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

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 depend on tenants for our revenue and, accordingly, our revenue is dependent upon the success and economic viability of our tenants. Revenues from our property investments could decrease due to a reduction in tenants (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases) and/or lower rental rates, limiting our ability to pay distributions to our stockholders.
- Our opportunistic investment strategy involves a higher risk of loss than would a strategy of investing in some other types of real estate and real estate-related investments.
- We have paid distributions from financings and in the future we may not pay distributions solely from our cash flow from operations or gains from asset sales. To the extent that we pay distributions from sources other than our cash flow from operations or gains from asset sales, we will have less funds available for investment in loans, properties and other assets, the overall return to our stockholders may be reduced and subsequent investors may experience dilution.
- All of our executive officers and some of our directors and other key real estate and debt finance professionals are also officers, directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor, 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. Fees paid to our advisor in connection with transactions involving the origination, acquisition and management of our investments are based on the cost of the investment, not on the quality of the investment or services rendered to us. This arrangement could influence our advisor to recommend riskier transactions to us.
- We pay substantial fees to and expenses of our advisor and its affiliates. These payments increase the risk that our stockholders will not earn a profit on their investment in us and increase our stockholders’ risk of loss.
- We cannot predict with any certainty how much, if any, of our dividend reinvestment plan proceeds will be available for general corporate purposes, including, but not limited to, the redemption of shares under our share redemption program, future funding obligations under any real estate loans receivable we acquire, the funding of capital expenditures on our real estate investments or the repayment of debt. If such funds are not available from the dividend reinvestment plan offering, then we may have to use a greater proportion of our cash flow from operations to meet these cash requirements, which would reduce cash available for distributions and could limit our ability to redeem shares under our share redemption program.
- We have focused, and may continue to focus, our investments in non-performing real estate and real estate-related loans, real estate-related loans secured by non-stabilized assets and real estate-related securities, which involve more risk than investments in performing real estate and real estate-related assets

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

Overview

We were formed on October 8, 2008 as a Maryland corporation, elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2010 and intend to operate in such manner. KBS Capital Advisors LLC ("KBS Capital Advisors") is our advisor. As our advisor, KBS Capital Advisors manages our day-to-day operations and our portfolio of investments. KBS Capital Advisors also has the authority to make all of the decisions regarding our investments, subject to the limitations in our charter and the direction and oversight of our board of directors. KBS Capital Advisors also provides asset-management, marketing, investor-relations and other administrative services on our behalf. We have sought 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. We conduct our business primarily through our operating partnership, of which we are the sole general partner.

On January 8, 2009, we filed a registration statement on Form S-11 with the SEC to offer a minimum of 250,000 shares and a maximum of 140,000,000 shares of common stock for sale to the public, of which 100,000,000 shares were registered in our primary offering and 40,000,000 shares were registered under our dividend reinvestment plan. We ceased offering shares of common stock in our primary offering on November 14, 2012. We sold 56,584,976 shares of common stock in the primary offering for gross offering proceeds of $561.7 million. We continue to offer shares of common stock under the dividend reinvestment plan. As of June 30, 2018, we had sold 6,704,217 shares of common stock under the dividend reinvestment plan for gross offering proceeds of $75.0 million. Also as of June 30, 2018, we had redeemed 21,972,263 of the shares sold in our offering for $266.9 million. As of June 30, 2018, we had issued 13,069,487 shares of common stock in connection with the December 2017 special dividend. Additionally, on December 29, 2011 and October 23, 2012, we issued 220,994 shares and 55,249 shares of common stock, respectively, for $2.0 million and $0.5 million, respectively, in private transactions exempt from the registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On March 2, 2016, KBS Strategic Opportunity (BVI) Holdings, Ltd. ("KBS Strategic Opportunity BVI"), our wholly owned subsidiary, filed a final prospectus with the Israel Securities Authority for a proposed offering of up to 1,000,000,000 Israeli new Shekels of Series A debentures (the "Debentures") at an annual interest rate not to exceed 4.25%. On March 1, 2016, KBS Strategic Opportunity BVI commenced the institutional tender of the Debentures and accepted application for 842.5 million Israeli new Shekels. On March 7, 2016, KBS Strategic Opportunity BVI commenced the public tender of the Debentures and accepted 127.7 million Israeli new Shekels. In the aggregate, KBS Strategic Opportunity BVI accepted 970.2 million Israeli new Shekels (approximately $249.2 million as of March 8, 2016) in both the institutional and public tenders at an annual interest rate of 4.25%. KBS Strategic Opportunity BVI issued the Debentures on March 8, 2016. The terms of the Debentures require principal installment payments equal to 20% of the face value of the Debentures on March 1st of each year from 2019 to 2023.

As of June 30, 2018, we consolidated seven office properties (of which one office property was held for sale), one office portfolio consisting of four office buildings and 14 acres of undeveloped land, one office/flex/industrial portfolio consisting of 21 buildings, one retail property, two apartment properties, three investments in undeveloped land with approximately 1,100 developable acres, and owned three investments in unconsolidated joint ventures, an investment in real estate debt securities and three investments in real estate equity securities.

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 acquisition of real estate and real estate-related investments, payment of operating expenses, capital expenditures and general and administrative expenses, payments under debt obligations, redemptions and purchases of our common stock and payments of distributions to stockholders. To date, we have had six 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;
- Proceeds from our public bond offering in Israel;
- Debt financing;
- Proceeds from the sale of real estate and the repayment of real estate-related investments; and
- Cash flow generated by our real estate and real estate-related investments.

We sold 56,584,976 shares of common stock in the primary portion of our initial public offering for gross offering proceeds of $561.7 million. We ceased offering shares in the primary portion of our initial public offering on November 14, 2012. We continue to offer shares of common stock under the dividend reinvestment plan. As of June 30, 2018, we had sold 6,704,217 shares of common stock under the dividend reinvestment plan for gross offering proceeds of $75.0 million. To date, we have invested all of the net proceeds from our initial public offering in real estate and real estate-related investments. We intend to use our cash on hand, proceeds from asset sales, proceeds from debt financing, cash flow generated by our real estate operations and real estate-related investments and proceeds from our dividend reinvestment plan as our primary sources of immediate and long-term liquidity.

Our investments in real estate generate cash flow in the form of rental revenues and tenant reimbursements, which are reduced by operating expenditures and corporate general and administrative expenses. Cash flow from operations from our real estate investments is primarily dependent upon the occupancy levels 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, our office and retail properties were collectively 77% occupied and our apartment properties were collectively 94% occupied.

Investments in real estate debt securities generate cash flow in the form of interest income, which are reduced by loan service fees, asset management fees and corporate general and administrative expenses. 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 debt securities outstanding with a total book value of $17.9 million and three investments in real estate equity securities outstanding with a total carrying value of $98.6 million.

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 of our board of directors 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.

For the six months ended June 30, 2018, our cash needs for capital expenditures, redemptions of common stock and debt servicing were met with proceeds from debt financing, proceeds from our dividend reinvestment plan and cash on hand. Operating cash needs during the same period were met through cash flow generated by our real estate and real estate-related investments and cash on hand. As of June 30, 2018, we had outstanding debt obligations in the aggregate principal amount of $776.8 million, with a weighted-average remaining term of 1.9 years. As of June 30, 2018, we had a total of $158.2 million of debt obligations scheduled to mature within 12 months of that date. We plan to exercise our extension options available under our loan agreements or pay down or refinance the related notes payable prior to their maturity dates.

We have elected to be taxed as a REIT and intend to operate as a REIT. To maintain our qualification as a REIT, we are 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.

Cash Flows from Operating Activities

As of June 30, 2018, we consolidated seven office properties (of which one office property was held for sale), one office portfolio consisting of four office buildings and 14 acres of undeveloped land, one office/flex/industrial portfolio consisting of 21 buildings, one retail property, two apartment properties, three investments in undeveloped land with approximately 1,100 developable acres, and owned three investments in unconsolidated joint ventures, an investment in real estate debt securities and three investments in real estate equity securities. During the six months ended June 30, 2018, net cash provided by operating activities was $0.6 million. We expect that our cash flows from operating activities will increase in future periods as a result of owning assets acquired during 2018 for an entire period, leasing additional space that is currently unoccupied and anticipated future acquisitions of real estate and real estate-related investments. However, our cash flows from operating activities may decrease to the extent that we dispose of additional assets.

Cash Flows from Investing Activities

Net cash used in investing activities was $339.3 million for the six months ended June 30, 2018 and primarily consisted of the following:

- Acquisition of three office properties for $312.3 million;
- Investment in real estate equity securities of $15.9 million;
- Improvements to real estate of $14.1 million;
- Proceeds from the sale of 26 acres of undeveloped land of $2.6 million;
- Reimbursement of construction costs of $1.6 million;
- Contribution to an unconsolidated joint venture of $1.3 million;
- Distribution of capital from an unconsolidated joint venture of $1.2 million;
- Funding of development obligations of $0.9 million; and
- Purchase of an interest rate cap for $0.2 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was $22.7 million for the six months ended June 30, 2018 and consisted primarily of the following:

- $176.0 million of net cash provided by debt and other financings as a result of proceeds from notes payable of $184.4 million, partially offset by principal payments on notes and bonds payable of $5.7 million and payments of deferred financing costs of $2.7 million;
- $115.1 million of cash used for redemptions of common stock;
- $38.6 million of net cash distributions to stockholders, after giving effect to distributions reinvested by stockholders of $1.0 million;
- $0.7 million of contributions from noncontrolling interests; and
- $0.3 million of payments made in connection with a potential offering.

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. 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; 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 72% and 70% and of the cost (before depreciation and other noncash reserves) and book value (before depreciation) of our tangible assets, respectively.

In March 2016, we, through a wholly-owned subsidiary, issued 970.2 million Israeli new Shekels (approximately $249.2 million as of March 8, 2016) in 4.25% bonds to investors in Israel pursuant to a public offering registered in Israel. The bonds have a seven year term, with principal payable in five equal annual installments from 2019 to 2023. We have used a majority of the proceeds from the issuance of these bonds to make additional investments.

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 use or have used our capital resources to make certain payments to our advisor and our dealer manager. During our offering stage, these payments included payments to our dealer manager for selling commissions and dealer manager fees related to sales in our primary offering and payments to our dealer manager and our advisor for reimbursement of certain organization and other offering expenses related both to the primary offering and the dividend reinvestment plan. During our acquisition and development stage, we expect to continue 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 as well as for any dispositions of assets (including the discounted payoff of non-performing loans). In addition, an affiliate of our advisor, KBS Management Group, was 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).

The advisory agreement has a one-year term but may be renewed for an unlimited number of successive one-year periods upon the mutual consent of our advisor and our conflicts committee.

Among the fees payable to our advisor is an asset management fee. With respect to investments in loans and any investments other than real property, the asset management fee is a monthly fee calculated, each month, as one-twelfth of 0.75% of the lesser of (i) the amount actually paid or allocated to acquire or fund the loan or other investment, inclusive of fees and expenses related thereto and the amount of any debt associated with or used to acquire or fund such investment and (ii) the outstanding principal amount of such loan or other investment, plus the fees and expenses related to the acquisition or funding of such investment, as of the time of calculation. With respect to investments in real property, the asset management fee is a monthly fee equal to one-twelfth of 0.75% of the sum of the amount paid or allocated to acquire the investment, plus the cost of any subsequent development, construction or improvements to the property, and inclusive of fees and expenses related thereto and the amount of any debt associated with or used to acquire such investment. In the case of investments made through joint ventures, the asset management fee will be determined based on our proportionate share of the underlying investment, inclusive of our proportionate share of any fees and expenses related thereto.

Contractual Commitments and Contingencies

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

		Payments Due During the Years Ending December 31,			
Contractual Obligations	Total	Remainder of 2018	2019-2020	2021-2022	Thereafter
Outstanding debt obligations [1]	$ 776,818	$ 103,416	$ 252,092	$ 362,843	$ 58,467
Interest payments on outstanding debt obligations [2]	77,637	15,299	44,294	14,905	3,139

[1] Amounts include principal payments only.

[2] Projected interest payments are based on the outstanding principal amounts, maturity dates, foreign currency rates and interest rates in effect at June 30, 2018. We incurred interest expense of $14.0 million, excluding amortization of deferred financing costs of $1.7 million and including interest capitalized of $1.3 million, for the six months ended June 30, 2018.

Participation Fee Liability

Pursuant to the advisory agreement currently in effect with our advisor, our advisor is due a subordinated participation in our net cash flows (the "Incentive Fee") if, after the stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to the share redemption program, and (ii) a 7.0% per year cumulative, noncompounded return on such net invested capital, our advisor is entitled to receive 15.0% of our net cash flows, whether from continuing operations, net sale proceeds or otherwise. Net sales proceeds means the net cash proceeds we realized after deduction of all expenses incurred in connection with a sale, including disposition fees paid to our advisor. The 7.0% per year cumulative, noncompounded return on net invested capital is calculated on a daily basis. In making this calculation, the net invested capital is reduced to the extent distributions in excess of a cumulative, noncompounded, annual return of 7.0% are paid (from whatever source), except to the extent such distributions would be required to supplement prior distributions paid in order to achieve a cumulative, noncompounded, annual return of 7.0% (invested capital is only reduced as described in this sentence; it is not reduced simply because a distribution constitutes a return of capital for federal income tax purposes). The 7.0% per year cumulative, noncompounded return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of the stockholders to have received any minimum return in order for our advisor to participate in our net cash flows. In fact, if our advisor is entitled to participate in our net cash flows, the returns of the stockholders will differ, and some may be less than a 7.0% per year cumulative, noncompounded return. This fee is payable only if we are not listed on an exchange.

On April 4, 2018, our stockholders approved the acceleration of the payment of such incentive compensation, subject to certain conditions. Such accelerated payment would require approval by a special committee of our board of directors in connection with our anticipated conversion into a net asset value REIT. Our advisor estimated the fair value of this liability to be as much as $34 million as of June 30, 2018, based on a hypothetical liquidation of the assets and liabilities at their estimated fair values, after considering the impact of any potential closing costs and fees related to the disposition of real estate properties. The fair value of the Incentive Fee liability as of June 30, 2018 is based on the estimated fair values of our assets and liabilities as of that date and changes to the fair values of assets and liabilities could have a material impact to the Incentive Fee calculation. The Incentive Fee is not currently payable to our advisor, as it remains subject to further approval by the special committee and our conversion to a perpetual-life NAV REIT, and there is no guarantee that it will ever be payable.

Results of Operations

Overview

As of June 30, 2017, we owned 11 office properties, one office campus consisting of nine office buildings, one office portfolio consisting of four office buildings and 14 acres of undeveloped land, one office portfolio consisting of three office properties, one office/flex/industrial portfolio consisting of 21 buildings, one retail property, two apartment properties, three investments in undeveloped land with approximately 1,100 developable acres, two investments in unconsolidated joint ventures, an investment in real estate debt securities and an investment in real estate equity securities. As of June 30, 2018, we owned seven office properties (of which one office property was held for sale), one office portfolio consisting of four office buildings and 14 acres of undeveloped land, one office/flex/industrial portfolio consisting of 21 buildings, one retail property, two apartment properties, three investments in undeveloped land with approximately 1,100 developable acres, three investments in unconsolidated joint ventures, an investment in real estate debt securities and three investments in real estate equity securities. Our results of operations for the three and six months ended June 30, 2018 may not be indicative of those in future periods due to acquisition and disposition activities. Additionally, the occupancy in our properties has not been stabilized. As of June 30, 2018, our office and retail properties were collectively 77% occupied. 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 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/ Originations/ Dispositions [1]	$ Change Due to Investments Held Throughout Both Periods [2]
	2018	2017				
Rental income	$ 18,915	$ 31,704	$ (12,789)	(40)%	$ (12,889)	$ 100
Tenant reimbursements	3,703	6,456	(2,753)	(43)%	(2,999)	246
Other operating income	952	987	(35)	(4)%	(33)	(2)
Interest income from real estate debt securities	511	601	(90)	(15)%	—	(90)
Dividend income from real estate equity securities	1,209	489	720	147 %	720	—
Operating, maintenance, and management costs	7,571	11,299	(3,728)	(33)%	(3,826)	98
Real estate taxes and insurance	3,435	5,415	(1,980)	(37)%	(2,076)	96
Asset management fees to affiliate	2,217	2,856	(639)	(22)%	(672)	33
General and administrative expenses	2,250	1,378	872	63 %	n/a	n/a
Foreign currency transaction (gain) loss, net	(10,111)	2,426	(12,537)	(517)%	n/a	n/a
Depreciation and amortization	9,042	15,307	(6,265)	(41)%	(5,328)	(937)
Interest expense	7,819	10,324	(2,505)	(24)%	(2,936)	431
Income from unconsolidated joint venture	131	—	131	n/a	—	131
Equity in loss of unconsolidated joint ventures	(2,373)	(1,622)	(751)	46 %	(851)	100
Other interest income	419	171	248	145 %	n/a	n/a
Unrealized gain on real estate equity securities	8,724	—	8,724	n/a	8,724	—
Gain on sale of real estate	25	34,028	(34,003)	(100)%	(34,003)	—

[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, originated, repaid, disposed or deconsolidated 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 entirety of both periods presented.

Rental income and tenant reimbursements decreased from $31.7 million and $6.5 million, respectively, for the three months ended June 30, 2017 to $18.9 million and $3.7 million, respectively, for the three months ended June 30, 2018, primarily as a result of the sale of 11 properties to a newly formed real estate investment trust that was listed on the Singapore Stock Exchange (the “the Singapore Portfolio”) and 50 Congress Street, partially offset by properties acquired in 2018. The occupancy of our office and retail properties, collectively, held throughout both periods decreased from 78% as of June 30, 2017 to 77% as of June 30, 2018 and the occupancy of our apartment properties, collectively, held throughout both periods decreased from 96% as of June 30, 2017 to 94% as of June 30, 2018. Annualized base rent per square foot increased from $19.27 as of June 30, 2017 to $20.22 as of June 30, 2018 related to properties (excluding apartments) held throughout both periods. We expect rental income and tenant reimbursements to increase in future periods as a result of owning the properties acquired during 2018 for an entire period, leasing additional space and to the extent we acquire additional properties, but to decrease to the extent we dispose of properties.

Dividend income from real estate equity securities increased from $0.5 million for the three months ended June 30, 2017 to $1.2 million for the three months ended June 30, 2018, as a result of additional real estate equity securities acquired. We expect dividend income from real estate equity securities to increase in future periods as a result of owning the real estate equity securities acquired in 2018 for an entire period but to decrease to the extent we sell any of the securities.

Property operating costs and real estate taxes and insurance decreased from $11.3 million and $5.4 million, respectively, for the three months ended June 30, 2017 to $7.6 million and $3.4 million, respectively, for the three months ended June 30, 2018, primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street, partially offset by real estate investments made in 2018. We expect property operating costs and real estate taxes and insurance to increase in future periods as a result of owning real estate acquired in 2018 for an entire period, future acquisitions of real estate, increasing occupancy of our real estate assets and inflation, but to decrease to the extent we dispose of properties.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Asset management fees decreased from $2.9 million for the three months ended June 30, 2017 to $2.2 million for the three months ended June 30, 2018, primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street. We expect asset management fees to increase in future periods as a result of owning real estate investments acquired in 2018 for an entire period, future acquisitions of real estate and capital expenditures, but to decrease to the extent we dispose of properties. All asset management fees incurred as of June 30, 2018 have been paid.

General and administrative expenses increased from $1.4 million for the three months ended June 30, 2017 to $2.3 million for the three months ended June 30, 2018, primarily due to increased legal expenses and printing and marketing expenses incurred to complete certain proxy campaigns. We expect general and administrative expenses to fluctuate based on investment and disposition activity.

We recognized $2.4 million of foreign currency transaction loss, net, for the three months ended June 30, 2017 and $10.1 million of foreign currency transaction gain, net, for the three months ended June 30, 2018 related to the issuance of Series A debentures in Israel. These debentures are denominated in Israeli new Shekels and we expect to recognize foreign transaction gains and losses based on changes in foreign currency exchange rates, but expect our exposure to be limited to the extent that we have entered into foreign currency options and foreign currency collars. As of June 30, 2018, we had entered into one foreign currency option, a USD put/ILS call option, to hedge against a change in the exchange rate of the Israeli new Shekel versus the U.S. Dollar. The foreign currency option expired in August 2018 and had an aggregate U.S. Dollar notional amount of $285.4 million. For the three months ended June 30, 2018, the foreign currency transaction gain, net, consists of $12.3 million of foreign currency transaction gain, offset by a $2.2 million loss related to our foreign currency option.

Depreciation and amortization decreased from $15.3 million for the three months ended June 30, 2017 to $9.0 million for the three months ended June 30, 2018, primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street, partially offset by real estate investments made in 2018. We expect depreciation and amortization to increase in future periods as a result of owning real estate acquired in 2018 for an entire period and future acquisitions of real estate properties, but to decrease as a result of amortization of tenant origination costs related to lease expirations and disposition of properties.

Interest expense decreased from $10.3 million for the three months ended June 30, 2017 to $7.8 million for the three months ended June 30, 2018, primarily as a result of the paydown of debt on disposed properties. Excluded from interest expense was $0.6 million of interest capitalized to our investments in undeveloped land during each of the three months ended June 30, 2018 and 2017. Our interest expense in future periods will vary based on interest rate fluctuations, the amount of interest capitalized and our level of future borrowings, which will depend on the availability and cost of debt financing and the opportunity to acquire real estate and real estate-related investments meeting our investment objectives and will decrease to the extent we dispose of properties and paydown debt.

During the three months ended June 30, 2018, we received a distribution of $0.9 million related to our investment in the NIP Joint Venture. We recognized $0.1 million of income distributions and $0.8 million of return of capital from the NIP Joint Venture. During the three months ended June 30, 2017, we did not receive any distributions related to our investment in the NIP Joint Venture.

Equity in loss of unconsolidated joint ventures increased from $1.6 million for the three months ended June 30, 2017 to $2.4 million for the three months ended June 30, 2018, primarily as a result of the equity in loss related to 353 Sacramento, which has been accounted for as an unconsolidated joint venture under the equity method of accounting beginning July 2017.

Other interest income increased from $0.2 million for the three months ended June 30, 2017 to $0.4 million for the three months ended June 30, 2018, primarily as a result of increased dividends from our investment in money market mutual funds using the net cash proceeds from the sale of properties in 2017.

Unrealized gain on real estate equity securities was $8.7 million during the three months ended June 30, 2018, primarily as a result of increases in share prices of our investments in real estate equity securities and the adoption of ASU No. 2016-01.

During the three months ended June 30, 2017, we sold one office property and 102 acres of undeveloped land that resulted in a gain on sale of $34.0 million. We recognized a gain on sale of $29.4 million related to the disposition of the office property. We recognized a gain on sale related to the disposition of the undeveloped land based on the percentage of completion method due to our continuing development obligations to the purchasers. We recognized a gain on sale of $4.6 million related to the land sale, which is net of deferred profit of $3.3 million. In addition, we deferred $1.7 million related to proceeds received from the purchasers and another developer for the value of land that was contributed to a master association that we consolidated.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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/ Originations/ Dispositions [1]	$ Change Due to Investments Held Throughout Both Periods [2]
	2018	2017				
Rental income	$ 34,096	$ 62,350	$ (28,254)	(45)%	$ (29,044)	$ 790
Tenant reimbursements	6,384	12,094	(5,710)	(47)%	(6,227)	517
Other operating income	1,173	2,540	(1,367)	(54)%	(823)	(544)
Interest income from real estate debt securities	1,012	760	252	33 %	—	252
Dividend income from real estate equity securities	2,260	489	1,771	362 %	1,771	—
Operating, maintenance, and management costs	13,058	22,207	(9,149)	(41)%	(9,800)	651
Real estate taxes and insurance	5,773	10,152	(4,379)	(43)%	(4,696)	317
Asset management fees to affiliate	4,043	5,603	(1,560)	(28)%	(1,599)	39
General and administrative expenses	4,302	3,123	1,179	38 %	n/a	n/a
Foreign currency transaction (gain) loss, net	(9,114)	7,097	(16,211)	(228)%	n/a	n/a
Depreciation and amortization	16,307	29,908	(13,601)	(45)%	(12,837)	(764)
Interest expense	14,410	19,709	(5,299)	(27)%	(6,097)	798
Income from unconsolidated joint venture	185	1,869	(1,684)	(90)%	—	(1,684)
Equity in loss of unconsolidated joint ventures	(4,751)	(1,776)	(2,975)	168 %	(1,649)	(1,326)
Other interest income	1,349	196	1,153	588 %	n/a	n/a
Unrealized loss on real estate equity securities	(7,287)	—	(7,287)	n/a	(7,287)	—
Gain on sale of real estate	649	34,028	(33,379)	(98)%	(33,379)	—

[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, originated, repaid, disposed or deconsolidated 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 entirety of both periods presented.

Rental income and tenant reimbursements decreased from $62.4 million and $12.1 million, respectively, for the six months ended June 30, 2017 to $34.1 million and $6.4 million, respectively, for the six months ended June 30, 2018, primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street, partially offset by properties acquired in 2018. The occupancy of our office and retail properties, collectively, held throughout both periods decreased from 80% as of June 30, 2017 to 78% as of June 30, 2018 and the occupancy of our apartment properties, collectively, held throughout both periods decreased from 96% as of June 30, 2017 to 94% as of June 30, 2018. Annualized base rent per square foot increased from $18.01 as of June 30, 2017 to $18.91 as of June 30, 2018 related to properties (excluding apartments) held throughout both periods. We expect rental income and tenant reimbursements to increase in future periods as a result of owning the properties acquired during 2018 for an entire period, leasing additional space and to the extent we acquire additional properties, but to decrease to the extent we dispose of properties.

Other operating income decreased from $2.5 million for the six months ended June 30, 2017 to $1.2 million for the six months ended June 30, 2018 primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street and an award of $0.5 million for legal fees incurred at the Burbank Collection during the six months ended June 30, 2017. We expect other operating income to increase in future periods as a result of owning the properties acquired during 2018 for an entire period, leasing additional space and increases in parking rates and to the extent we acquire additional properties.

Interest income from real estate debt securities increased from $0.8 million for the six months ended June 30, 2017 to $1.0 million for the six months ended June 30, 2018, as a result of additional real estate debt securities acquired. We expect interest income from real estate debt securities to remain consistent, but to decrease upon principal repayment or maturity.

Dividend income from real estate equity securities increased from $0.5 million for the six months ended June 30, 2017 to $2.3 million for the six months ended June 30, 2018, as a result of additional real estate equity securities acquired. We expect dividend income from real estate equity securities to increase in future periods as a result of owning the real estate equity securities acquired in 2018 for an entire period but to decrease to the extent we sell any of the securities.

Property operating costs and real estate taxes and insurance decreased from $22.2 million and $10.2 million, respectively, for the six months ended June 30, 2017 to $13.1 million and $5.8 million, respectively, for the six months ended June 30, 2018, primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street, partially offset by real estate investments made in 2018. We expect property operating costs and real estate taxes and insurance to increase in future periods as a result of owning real estate acquired in 2018 for an entire period, future acquisitions of real estate, increasing occupancy of our real estate assets and inflation, but to decrease to the extent we dispose of properties.

Asset management fees decreased from $5.6 million for the six months ended June 30, 2017 to $4.0 million for the six months ended June 30, 2018, primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street. We expect asset management fees to increase in future periods as a result of owning real estate investments acquired in 2018 for an entire period, future acquisitions of real estate and capital expenditures, but to decrease to the extent we dispose of properties. All asset management fees incurred as of June 30, 2018 have been paid.

General and administrative expenses increased from $3.1 million for the six months ended June 30, 2017 to $4.3 million for the six months ended June 30, 2018, primarily due to increased legal expenses and printing and marketing expenses incurred to complete certain proxy campaigns. We expect general and administrative expenses to fluctuate based on investment and disposition activity.

We recognized $7.1 million of foreign currency transaction loss, net, for the six months ended June 30, 2017 and $9.1 million of foreign currency transaction gain, net, for the six months ended June 30, 2018 related to the issuance of Series A debentures in Israel. These debentures are denominated in Israeli new Shekels and we expect to recognize foreign transaction gains and losses based on changes in foreign currency exchange rates, but expect our exposure to be limited to the extent that we have entered into foreign currency options and foreign currency collars. As of June 30, 2018, we had entered into one foreign currency option, a USD put/ILS call option, to hedge against a change in the exchange rate of the Israeli new Shekel versus the U.S. Dollar. The foreign currency option expired in August 2018 and had an aggregate U.S. Dollar notional amount of $285.4 million. For the six months ended June 30, 2018, the foreign currency transaction gain, net, consists of $13.4 million of foreign currency transaction gain, offset by a $4.3 million loss related to our foreign currency option.

Depreciation and amortization decreased from $29.9 million for the six months ended June 30, 2017 to $16.3 million for the six months ended June 30, 2018, primarily as a result of the sale of the Singapore Portfolio and 50 Congress Street, partially offset by real estate investments made in 2018. We expect depreciation and amortization to increase in future periods as a result of owning real estate acquired in 2018 for an entire period and future acquisitions of real estate properties, but to decrease as a result of amortization of tenant origination costs related to lease expirations and disposition of properties.

Interest expense decreased from $19.7 million for the six months ended June 30, 2017 to $14.4 million for the six months ended June 30, 2018, primarily as a result of the paydown of debt on disposed properties. Excluded from interest expense was $1.3 million and $1.1 million of interest capitalized to our investments in undeveloped land during each of the six months ended June 30, 2018 and 2017, respectively. Our interest expense in future periods will vary based on interest rate fluctuations, the amount of interest capitalized and our level of future borrowings, which will depend on the availability and cost of debt financing and the opportunity to acquire real estate and real estate-related investments meeting our investment objectives and will decrease to the extent we dispose of properties and paydown debt.

During the six months ended June 30, 2018, we received a distribution of $1.3 million related to our investment in the NIP Joint Venture. We recognized $0.2 million of income distributions and $1.1 million of return of capital from the NIP Joint Venture. During the six months ended June 30, 2017, we received a distribution of $2.9 million related to our investment in the NIP Joint Venture. We recognized $1.9 million of income distributions and $1.0 million of return of capital from the NIP Joint Venture.

Equity in loss of unconsolidated joint ventures increased from $1.8 million for the six months ended June 30, 2017 to $4.8 million for the six months ended June 30, 2018, primarily as a result of the equity in loss related to the 110 William Joint Venture, primarily due to increased interest expense, and the equity in loss related to 353 Sacramento, which has been accounted for as an unconsolidated joint venture under the equity method of accounting beginning July 2017.

Other interest income increased from $0.2 million for the six months ended June 30, 2017 to $1.3 million for the six months ended June 30, 2018, primarily as a result of increased dividends from our investment in money market mutual funds using the net cash proceeds from the sale of properties in 2017.

Unrealized loss on real estate equity securities was $7.3 million during the six months ended June 30, 2018, primarily as a result of decreases in share prices of our investments in real estate equity securities and the adoption of ASU No. 2016-01.

During the six months ended June 30, 2017, we sold one office property and 102 acres of undeveloped land that resulted in a gain on sale of $34.0 million. We recognized a gain on sale of $29.4 million related to the disposition of the office property. We recognized a gain on sale related to the disposition of the undeveloped land based on the percentage of completion method due to our continuing development obligations to the purchasers. We recognized a gain on sale of $4.6 million related to the land sale, which is net of deferred profit of $3.3 million. In addition, we deferred $1.7 million related to proceeds received from the purchasers and another developer for the value of land that was contributed to a master association that we consolidated. During the six months ended June 30, 2018, we sold 26 acres of undeveloped land that resulted in a gain on sale of $0.7 million, which is net of deferred profit of $0.3 million related to proceeds received from the purchaser for the value of land that was contributed to a master association that we consolidated.

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, prior to our early adoption of ASU No. 2017-01 on January 1, 2017, 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.

Although MFFO includes other adjustments, the exclusion of straight-line rent, the amortization of above- and below-market leases, the amortization of discounts and closing costs, unrealized loss on real estate equity securities and mark to market foreign currency transaction adjustment are the most significant adjustments for the periods presented. We have excluded these items based on the following economic considerations:

- *Adjustments for straight-line rent.* These are adjustments to rental revenue as required by GAAP to recognize contractual lease payments on a straight-line basis over the life of the respective lease. We have excluded these adjustments in our calculation of MFFO to more appropriately reflect the current economic impact of our in-place leases, while also providing investors with a useful supplemental metric that addresses core operating performance by removing rent we expect to receive in a future period or rent that was received in a prior period;
- *Amortization of above- and below-market leases.* Similar to depreciation and amortization of real estate assets and lease related costs that are excluded from FFO, GAAP implicitly assumes that the value of intangible lease assets and liabilities diminishes predictably over time and requires that these charges be recognized currently in revenue. Since market lease rates in the aggregate have historically risen or fallen with local market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the realized economics of the real estate;
- *Amortization of discounts and closing costs.* Discounts and closing costs related to debt investments are amortized over the term of the loan as an adjustment to interest income. This application results in income recognition that is different than the underlying contractual terms of the debt investments. We have excluded the amortization of discounts and closing costs related to our debt investments in our calculation of MFFO to more appropriately reflect the economic impact of our debt investments, as discounts will not be economically recognized until the loan is repaid and closing costs are essentially the same as acquisition fees and expenses on real estate (discussed below). We believe excluding these items provides investors with a useful supplemental metric that directly addresses core operating performance;
- *Unrealized losses on real estate equity securities.* Upon our adoption of ASU No. 2016-01 on January 1, 2018, unrealized gains and losses on real estate securities are recognized in earnings. This is a non-cash mark-to-market adjustment which is included in net income which we have excluded in our calculation of MFFO to more appropriately reflect our ongoing operating performance, as these gains or losses will not be realized until the real estate equity securities are sold; and
- *Mark-to-market foreign currency transaction adjustments.* The U.S. Dollar is our functional currency. Transactions denominated in currency other than our functional currency are recorded upon initial recognition at the exchange rate on the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are remeasured at each reporting date into the foreign currency at the exchange rate on that date. In addition, we have entered into foreign currency collars and foreign currency options that results in a foreign currency transaction adjustment. These amounts can increase or reduce net income. We exclude them from MFFO to more appropriately present the ongoing operating performance of our real estate investments on a comparative basis.

Adjusted MFFO includes adjustments to reduce MFFO related to real estate taxes, property insurance and financing costs which are capitalized with respect to certain of our investments in undeveloped land. 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 loss, FFO and MFFO.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

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 income (loss) attributable to common stockholders	$ 10,036	$ 23,846	$ (13,645)	$ 14,754
Depreciation of real estate assets	4,878	8,789	8,996	17,296
Amortization of lease-related costs	4,164	6,518	7,311	12,612
Gain on sale of real estate [(1)]	(25)	(34,028)	(649)	(34,028)
Adjustments for noncontrolling interests - consolidated entities [(2)]	(122)	(137)	(243)	(257)
Adjustments for investments in unconsolidated entities [(3)]	3,249	2,639	6,588	4,589
FFO attributable to common stockholders	22,180	7,627	8,358	14,966
Straight-line rent and amortization of above- and below-market leases	(1,199)	(1,588)	(2,100)	(3,407)
Amortization of discounts and closing costs	(21)	(279)	(128)	(348)
Unrealized (gain) loss on real estate equity securities	(8,724)	—	7,287	—
Amortization of net premium/discount on bond and notes payable	15	12	29	23
Unrealized loss on interest rate caps	62	31	31	88
Mark-to-market foreign currency transaction loss, net	(10,111)	2,426	(9,114)	7,097
Adjustments for noncontrolling interests - consolidated entities [(2)]	(1)	(10)	2	(23)
Adjustments for investments in unconsolidated entities [(3)]	(440)	(475)	(1,096)	(1,674)
MFFO attributable to common stockholders	1,761	7,744	3,269	16,722
Other capitalized operating expenses [(4)]	(693)	(659)	(1,439)	(1,308)
Adjusted MFFO attributable to common stockholders	$ 1,068	$ 7,085	$ 1,830	$ 15,414

[(1)] Reflects an adjustment to eliminate gain on sale of undepreciated land.

[(2)] 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.

[(3)] Reflects adjustments to add back our noncontrolling interest share of the adjustments to convert our net loss attributable to common stockholders to FFO, MFFO and Adjusted MFFO for our equity investments in unconsolidated joint ventures.

[(4)] Reflects real estate taxes, property insurance and financing costs that are capitalized with respect to certain of our investments in undeveloped land. During the periods in which we are incurring costs necessary to bring these investments to their intended use, certain normal recurring operating costs are capitalized in accordance with GAAP and not reflected in our net loss, FFO and MFFO.

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 decrease as a result of dispositions.

Distributions

Distributions declared, distributions paid and cash flows provided by operations were as follows for the first and second quarters of 2018 (in thousands, except per share amounts):

Period	Distribution Declared	Distributions Declared Per Share	Distributions Paid [(1)] Cash	Reinvested	Total	Cash Flows (Used In) Provided By Operations
First Quarter 2018	$ 1,034	$ 0.016	$ 38,170	$ 479	$ 38,649	$ (5,013)
Second Quarter 2018	882	0.016	397	485	882	5,581
	$ 1,916	$ 0.032	$ 38,567	$ 964	$ 39,531	$ 568

(1) On December 7, 2017, our board of directors authorized a Special Dividend of $3.61 per share of common stock payable in either shares of our common stock or cash to, and at the election of, the stockholders of record as of December 7, 2017 (the "Record Date"). The Special Dividend was paid on January 17, 2018 to stockholders of record as of the close of business on the Record Date. If stockholders elected all cash, their election was subject to adjustment such that the aggregate amount of cash to be distributed by us was a maximum of 20% of the total Special Dividend (the "Maximum Cash Distribution"), with the remainder paid in shares of common stock. The aggregate amount of cash paid by us pursuant to the Special Dividend and the actual number of shares of common stock issued pursuant to the Special Dividend depended upon the number of stockholders that elected cash or stock and whether the Maximum Cash Distribution was met. Accordingly, on January 17, 2018, we paid $37.6 million in cash. We issued $150.3 million in common stock pursuant to the Special Dividend on January 17, 2018, which has been excluded from the distributions paid in the table.

On March 8, 2018, our board of directors authorized a distribution in the amount of $0.01597500 per share of common stock to stockholders of record as of the close of business on March 16, 2018. We paid this distribution on March 21, 2018 and this was the only distribution declared during the first quarter of 2018.

On June 12, 2018, our board of directors authorized a distribution in the amount of $0.01597500 per share of common stock to stockholders of record as of the close of business on June 15, 2018. We paid this distribution on June 20, 2018 and this was the only distribution declared during the second quarter of 2018.

For the six months ended June 30, 2018, we paid aggregate distributions of $39.6 million, including $38.6 million of distributions paid in cash and $1.0 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 $13.6 million and our cash flows provided by operations were $0.6 million. Our cumulative distributions paid and net income attributable to common stockholders from inception through June 30, 2018 were $160.2 million (which excludes the $150.3 million in common stock issued pursuant to the Special Dividend discussed above) and $139.5 million, respectively. We have funded our cumulative distributions, which includes net cash distributions and distributions reinvested by stockholders, with proceeds from debt financing of $18.7 million, proceeds from the dispositions of property of $51.3 million and cash provided by operations of $90.2 million. To the extent that we pay distributions from sources other than our cash flow from operations or gains from asset sales, we will have fewer funds available for investment in real estate-related loans, opportunistic real estate, real estate-related debt securities and other real estate-related investments, the overall return to our stockholders may be reduced and subsequent investors may experience dilution.

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 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. 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 sales of real estate, other operating income and tenant reimbursements for substantial services earned at our properties. The recognition of such revenue will occur when the services are provided and the performance obligations are satisfied. For the three and six months ended June 30, 2018, tenant reimbursements for substantial services accounted for under ASU No. 2014-09 were $0.5 million and $0.9 million, respectively, which were included in tenant reimbursements on the accompanying statements of operations.

Sale of Real Estate

Prior to January 1, 2018, gains on real estate sold were recognized using the full accrual method at closing when collectibility of the sales price was reasonably assured, we were not obligated to perform additional activities that may be considered significant, the initial investment from the buyer was sufficient and other profit recognition criteria had been satisfied. Gain on sales of real estate may have been deferred in whole or in part until the requirements for gain recognition had been met.

Effective January 1, 2018, we adopted the guidance of ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets* ("ASC 610-20"), which applies to sales or transfers to noncustomers of nonfinancial assets or in substance nonfinancial assets that do not meet the definition of a business. Generally, our sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20.

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-09. Under ASC 610-20, if we determine it does not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, we would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer. As a result of the adoption of ASC 610-20 on January 1, 2018, we recorded a cumulative effect adjustment to increase retained earnings by $2.5 million to recognize the deferred gain from the sale of 102 developable acres at Park Highlands that closed on May 1, 2017, as control of the sold acres had transferred to the buyers at closing.

Real Estate Equity Securities

Our real estate equity securities are carried at their estimated fair value based on quoted market prices for the security, net of any discounts for restrictions on the sale of the security. Any discount for lack of marketability is estimated using an option pricing model. Transaction costs that are directly attributable to the acquisition of real estate equity securities are capitalized to its cost basis.

Prior to our 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, we classified our investments in real estate equity securities as available-for-sale and unrealized gains and losses were reported in accumulated other comprehensive income (loss). Upon the sale of a security, the previously recognized unrealized gain (loss) would be reversed out of accumulated other comprehensive income (loss) and the actual realized gain (loss) recognized in earnings. Effective January 1, 2018, unrealized gains and losses on real estate equity securities are recognized in earnings.

Investment in Unconsolidated Joint Ventures

Equity Investment Without Readily Determinable Value

Prior to the adoption of ASU No. 2016-01 on January 1, 2018, we accounted for investments in unconsolidated joint venture entities in which we did not have the ability to exercise significant influence and had virtually no influence over partnership operating and financial policies using the cost method of accounting. Under the cost method, income distributions from the partnership were recognized in other income. Distributions that exceed our share of earnings were applied to reduce the carrying value of our investment and any capital contributions increased the carrying value of our investment. On a quarterly basis, we evaluated our cost method investment in an unconsolidated joint venture for other-than-temporary impairments. The fair value of a cost method investment was not estimated if there were no identified events or changes in circumstances that indicated a significant adverse effect on the fair value of the investment.

In accordance with ASU No. 2016-01, we may elect to measure an equity investment without a readily determinable value that does not qualify for the practical expedient to estimate fair value using the net asset value per share, at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. We elected to measure our investment in the NIP Joint Venture in accordance with the above guidance, applying it prospectively.

Subsequent Events

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

Partial Real Estate Land Sale Subsequent to June 30, 2018

Park Highlands

On July 2, 2018, we sold approximately 83 developable acres of Park Highlands undeveloped land for an aggregate sales price, net of closing credits, of $18.2 million, excluding closing costs. The purchasers are not affiliated with us or our advisor.

Real Estate Disposition Subsequent to June 30, 2018

Central Building

On July 17, 2018, we sold the Central Building to a purchaser unaffiliated with us or our advisor, for $67.5 million before closing costs and credits. As of June 30, 2018, the carrying value of the Central Building was $32.6 million, which was net of $5.1 million of accumulated depreciation and amortization.

On July 17, 2018, in connection with the disposition of the Central Building, we repaid $27.6 million of the outstanding principal balance due under the Central Building mortgage loan.

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, fund distributions and to fund the refinancing of our real estate investment portfolio and operations. We may also be exposed to the effects of changes in interest rates as a result of the acquisition and origination of mortgage, mezzanine, bridge and other loans and the acquisition of real estate securities. We are also exposed to the effects of foreign currency changes in Israel with respect to the 4.25% bonds issued to investors in Israel in March 2016. 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. In order to limit the effects of changes in foreign currency on our operations, we may utilize a variety of foreign currency hedging strategies such as cross currency swaps, forward contracts, puts or calls. 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. Additionally, certain of these strategies may cause us to fund a margin account periodically to offset changes in foreign currency rates which may also reduce the funds available for payments to holders of our common stock.

As of June 30, 2018, we had entered into one foreign currency option, a USD put/ILS call option, to hedge against a change in the exchange rate of the Israeli new Shekel versus the U.S. Dollar. The foreign currency option expired in August 2018 and had an aggregate U.S. Dollar notional amount of $285.4 million. We had the right, but not the obligation, to purchase up to 970.2 million Israeli Shekels at the rate of ILS 3.4 per USD.

As of June 30, 2018, we held 0.1 million Israeli new Shekels and 21.8 million Israeli new Shekels in cash and restricted cash, respectively. In addition, as of June 30, 2018, we had bonds outstanding and the related interest payable in the amounts of 970.2 million Israeli new Shekels and 13.7 million Israeli new Shekels, respectively. 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. Based solely on the remeasurement for the six months ended June 30, 2018, if foreign currency exchange rates were to increase or decrease by 10%, our net income would increase or decrease by approximately $23.9 million and $29.2 million for the same period, respectively. The foreign currency transaction income or loss as a result of the change in foreign currency exchange rates does not take into account any gains or losses on our foreign currency option as a result of such change, which would reduce our foreign currency exposure.

We borrow funds at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. As of June 30, 2018, the fair value of our KBS SOR (BVI) Holdings, Ltd. Series A Debentures was $274.1 million and the outstanding principal balance was $265.3 million. As of June 30, 2018, excluding the KBS SOR (BVI) Holdings, Ltd. Series A Debentures, the fair value of our fixed rate debt was $31.9 million and the outstanding principal balance of our fixed rate debt was $30.4 million. The fair value estimate of our KBS SOR (BVI) Holdings, Ltd. Series A Debentures was calculated using the quoted bond price as of June 30, 2018 on the Tel Aviv Stock Exchange of 103.32 Israeli new Shekels. The fair value estimate of our fixed rate debt was calculated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated as of June 30, 2018. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting changes in fair value of our fixed rate instruments, would have a significant impact on our operations.

Conversely, 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 $481.2 million of variable rate debt outstanding. As of June 30, 2018, we had entered into one interest rate cap with a notional amount of $46.9 million that effectively limits one-month LIBOR at 3.0% effective February 21, 2017 through February 13, 2020 and one interest rate cap with a notional amount of $77.5 million that effectively limits one-month LIBOR at 3.5% effective April 2, 2018 through March 5, 2021. 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 $4.8 million.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)

The weighted-average interest rates of our fixed rate debt and variable rate debt as of June 30, 2018 were 4.3% and 4.0%, respectively. The interest rate and weighted-average interest rate represent the actual interest rate in effect as of June 30, 2018 (consisting of the contractual interest rate and the effect of contractual floor rates, 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 $98.6 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 $9.9 million.

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 Securities Exchange Act of 1934, as amended (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

None.

Item 1A. Risk Factors

Please see the risks discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 and in Part II, Item IA of our Quarterly Report on Form 10-Q for the period ended March 31, 2018, both as filed with the SEC.

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

a) During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933.

b) Not applicable.

c) We have adopted a share redemption program that may enable stockholders to sell their shares to us in limited circumstances.

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 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.
- During each calendar year, redemptions are limited to the amount of net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year.
- We may not redeem more than $3.0 million of shares in a given quarter (excluding shares redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence"). To the extent that we redeem less than $3.0 million of shares (excluding shares redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence") in a given fiscal quarter, any remaining excess capacity to redeem shares in such fiscal quarter will be added to our capacity to otherwise redeem shares (excluding shares redeemed in connection with a stockholder's death, "qualifying disability" or "determination of incompetence") during succeeding fiscal quarters. The last $1.0 million of net proceeds from the dividend reinvestment plan during the prior year is reserved exclusively for shares redeemed in connection with a stockholder's death, "qualifying disability," or "determination of incompetence" with any excess funds being available to redeem shares not requested in connection with a stockholder's death, "qualifying disability or "determination of incompetence" during the December redemption date in the current year. To the extent that, in the last month of any calendar year, the amount of special redemption requests is less than the amount of available funds reserved for special redemptions in accordance with the previous sentence, any excess funds may be used for all other redemptions during such month. We may increase or decrease this limit upon ten business days' notice to stockholders. Our board of directors may approve an increase in this limit to the extent that we have received proceeds from asset sales or the refinancing of debt or for any other reason deemed appropriate by the board of directors. Based on the amount of net proceeds raised from the sale of shares under our dividend reinvestment plan during 2017, as of June 30, 2018, we had $2.2 million available for all share redemption requests for the remainder of 2018. On August 9, 2018, our board of directors approved an additional $6.0 million of funds available for the redemption of shares in 2018.

We may amend, suspend or terminate the program upon 10 business days' notice to our stockholders. We may provide notice to our stockholders by including such information in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC, or by a separate mailing to our stockholders.

PART II. OTHER INFORMATION (CONTINUED)

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

In anticipation of a self-tender offer in order to make liquidity available to stockholders in excess of that permitted under the share redemption program, on March 14, 2018, our board of directors approved a temporary suspension of the share redemption program starting with the March 2018 redemption period, including any unsatisfied requests from prior redemption periods. In connection with its approval of the Self-Tender (defined below), our board of directors approved the reopening of the share redemption program for the June 2018 redemption period, meaning no redemptions were made in March, April or May 2018 (including those requested following a stockholder's death, qualifying disability or determination of incompetence). We cancelled all outstanding redemption requests under the share redemption program and did not accept any redemption requests under the share redemption program during the term of the Self-Tender.

On April 23, 2018, we commenced a self-tender offer (the "Self-Tender") for up to 8,234,217 shares of common stock at a price of $10.93 per share, or approximately $90.0 million of shares. We increased the number of shares accepted for payment in the Self-Tender by up to 1,294,910 shares at a price of $10.93 per share, or approximately $14.1 million of shares. On June 1, 2018, we accepted for purchase 9,527,724 shares at a purchase price of $10.93 per share, or approximately $104.1 million of shares, excluding fees and expenses related to the Self-Tender.

During the six months ended June 30, 2018, we fulfilled redemption requests eligible for redemption under our share redemption program and received in good order and funded redemptions under our share redemption program with the net proceeds from our dividend reinvestment plan and cash on hand. We redeemed shares pursuant to our 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	407,046	$	10.97	[2]
February 2018	12,526	$	11.50	[2]
March 2018	—	$	—	[2]
April 2018	—	$	—	[2]
May 2018	—	$	—	[2]
June 2018	577,203	$	10.95	[2]
Total	996,775			

[1] On December 8, 2016, our board of directors adopted a tenth amended and restated share redemption program (the "Tenth Amended Share Redemption Program"). Pursuant to the Tenth Amended Share Redemption Program, except for redemptions made upon a stockholder's death, "qualifying disability" or "determination of incompetence," the price at which we will redeem shares is 95% of our most recent estimated value per share as of the applicable redemption date. The Tenth Amended Share Redemption Program was effective on December 30, 2016. The Tenth Amended Share Redemption Program was suspended from March 2018 through May 2018, meaning no redemptions were made in March, April or May 2018 (including those requested following a stockholder's death, qualifying disability or determination of incompetence). We cancelled all outstanding redemption requests under the share redemption program and did not accept any redemption requests under the share redemption program during the term of the Self-Tender.

On December 7, 2017, our board of directors approved an estimated value per share of our common stock of $11.50. The change in the redemption price became effective for the January 2018 redemption date and is effective until the estimated value per share is updated. We expect to update our estimated value per share no later than December 2018. As a result of the Special Dividend paid in January 2018, our board of directors delayed the processing of redemptions that would otherwise occur on the last business day of December 2017 under the share redemption program until the last business day of January 2018. Any submission or withdrawal deadlines associated with such delayed redemptions were moved to their corresponding dates in January 2018. For purposes of all the volume and funding limitations under the share redemption program, such delayed redemptions and any other redemption requests received and processed in January are deemed to have occurred in December 2017 rather than January 2018.

[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 $10.9 million of common stock, of which $4.4 million relates to delayed December 2017 redemptions, which represented all redemption requests received in good order and eligible for redemption through the June 2018 redemption date, except for the $0.4 million of shares in connection with redemption requests not made upon a stockholder's death, "qualifying disability" or "determination of incompetence," which redemption requests will be fulfilled subject to the limitations described above. Based on the amount of net proceeds raised from the sale of shares under the dividend reinvestment plan during 2017, we have $2.2 million available for all redemptions in the remainder of 2018, including shares that are redeemed in connection with a stockholders' death, "qualifying disability" or "determination of incompetence" subject to the limitations described above. On August 9, 2018, our board of directors approved an additional $6.0 million of funds available for the redemption of shares in 2018.

PART II. OTHER INFORMATION (CONTINUED)

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Share Redemption Program

On August 9, 2018, our board of directors approved, pursuant to Sections 4(b) and 4(c) of the Tenth Amended Share Redemption Program, an additional $6.0 million of funds available for the redemption of shares in 2018.

For a stockholder's shares to be eligible for redemption in a given month or to withdraw a redemption request, the Company must receive a written notice from the stockholder or from an authorized representative of the stockholder in good order and on a form approved by the Company at least five business days before the redemption date, or by September 21, 2018 in the case of the September 28, 2018 redemption date.

The Tenth Amended Share Redemption Program was filed with the SEC on December 15, 2016 as an exhibit to a Form 8-K.

PART II. OTHER INFORMATION (CONTINUED)

Item 6. Exhibits

Ex.	Description
3.1	Second Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 of the Company’s Current Report on Form 8-K filed February 4, 2010
3.2	Second Amended and Restated Bylaws, incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed November 17, 2016
4.1	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 1 to the Company’s Registration Statement on Form S-11, Commission File No. 333-156633 filed February 25, 2009
4.2	Fifth Amended and Restated Dividend Reinvestment Plan, incorporated by reference to Exhibit 4.2 to the Company’s Quarterly Report on Form 10-Q filed May 14, 2015
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	Tenth Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed December 15, 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, 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)

Exhibit 31.1

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

I, Keith D. Hall, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBS Strategic Opportunity REIT, 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/ KEITH D. HALL

Keith D. Hall

Chief Executive Officer and Director

(principal executive officer)

Exhibit 31.2

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, 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)

Exhibit 32.1

Certification pursuant to 18 U.S.C. Section 1350,
as Adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of KBS Strategic Opportunity REIT, Inc. (the "Registrant") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Keith D. Hall, Chief Executive Officer and Director of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 10, 2018

By: /S/ KEITH D. HALL

Keith D. Hall

Chief Executive Officer and Director

(principal executive officer)

<u>Exhibit 32.2</u>

Certification pursuant to 18 U.S.C. Section 1350,
as Adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of KBS Strategic Opportunity REIT, Inc. (the “Registrant”) for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jeffrey K. Waldvogel, the Chief Financial Officer of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 10, 2018

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel

Chief Financial Officer

(principal financial officer)