KBS Real Estate Investment Trust I, Inc.

KBS Real Estate Investment Trust launched its public offering in January 2006 and invested in commercial real estate and real estate related investments. As of the third quarter 2012, the REIT had $3 billion in assets in 811 properties totaling 18.2 million square feet. The REIT closed to new investments in May 2008 and the REIT is now in the Maturing Lifestage of Closed REITS that is marked by a refinement of the portfolio through dispositions, strategic acquisitions and debt. The investment style of this REIT is considered to be “Core,” which is typically defined as a REIT that generates a high percentage of its total return from income and a modest percentage from asset appreciation. REITs in this category are also expected to exhibit low volatility in asset values.

Key Highlights

- Given the magnitude of changes in the REIT’s portfolio and debt obligations, the REIT is managing its portfolio to comply with financing agreements and maintain liquidity reserves.
- A significant portion of the REIT’s debt is due to be repaid prior to 2017 exposing the portfolio to interest rate and refinance risks.
- The REIT has taken losses on its mezzanine loans and has taken additional impairments in anticipation of further real estate related asset losses.
- In September 2011, the REIT took possession of the Gramercy Portfolio through the rights it had in its mezzanine loan. The portfolio consisted of 867 properties including 576 bank branch properties and 291 office buildings and other facilities. The REIT obtained equity interest in the portfolio and also assumed debt ($1.4 billion as of third quarter) as a result of its assumption.
- As of the third quarter, some properties in the Gramercy Portfolio have been sold and a portion of the debt has been paid down.
- Lenders to the REIT have imposed restrictive debt covenants regarding loan-to-value and debt service coverage. Failure to maintain the covenants will result in further restrictions including limits on future borrowing and restriction of use of cash. Two mortgage loans were out of compliance at the end of the third quarter.
- By charter, the REIT was to list or liquidate by November 2012 unless a majority of the independent directors determined that liquidation was not in the best interest of investors at present and that liquidation will be revisited within the year to determine if conditions within the portfolio have improved to allow for liquidation. The board has already announced that liquidation will be unlikely in 2013 as well.
- In 2009, the REIT began valuing its shares and has a current share price of $5.16 with the next share price update expected in December 2012.
- During 2012, the distribution was suspended and redemptions remained severely limited to improve liquidity.

Capital Stack Review

- Debt – With a debt ratio of 63.9%, the REIT is above median for the Maturing LifeStage. 66% of the REITs debt is fixed rate.
- Debt Maturity – 45.2% of the company’s debt is due to be repaid in 2013-2014.
- Loan Activity – A $154.9 million loan, the Goldman Mortgage Loan, associated with the Gramercy Portfolio matured without repayment. In addition, a $6.1 million loan has matured in October. The REIT is in negotiations with the lenders on a resolution to the issues. A $43.5 million loan was foreclosed upon in July 2012. A mezzanine loan was entered into for $39 million to pay off outstanding amounts due related to the Gramercy Portfolio.
- Cash on Hand – 3.0% of total assets.

Metrics

- Distribution – The board of directors suspended the distribution in March 2012.
- Distribution Source – Not meaningful.
- MFFO Payout Ratio – This ratio is not applicable due to the suspension of the distribution.
- Fee Waivers and Deferrals – None reported
- Interest Coverage Ratio – 1.6, below Maturing LifeStage median of 2.5.
- Impairments – $18.2 million in impairments have been reported for 2012.

Real Estate

- Acquisitions – None reported.
- Occupancy – 86%, up 1% from year-end 2011.
- Lease Expirations – 59% of leases expire in 2017 or later.
- Dispositions – Several sales transactions of real estate, securities and debt totaling over $400 million have occurred to reduce the portfolio during the past year. In addition, the REIT:
  - Entered into an agreement to sell 115 properties worth approximately $485 million to an affiliate of Gramercy
  - In November, entered into an agreement to sell 41 properties for $250 million.
- Diversification – geographic concentration exists in North Carolina (10.6%) and in tenancy with Bank of America (25.5%) and Wells Fargo Bank (25.8%).

Debt Ratio to YTD Interest Coverage Ratio