

KBS Real Estate Investment Trust II became effective in 2008 and invests in a diverse portfolio of real estate and real estate related assets. The REIT has \$2.8 billion in assets in 26 properties totaling 11.1 million square feet plus 8 real estate related assets. Closing of capital raising occurred in December 2010. The REIT is 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

- The portfolio is projected to be 80-90% core real estate and 10-20% real estate related investments including loans, mezzanine debt, equity in real estate companies, securities and derivatives. Currently assets are balanced 87%/13% real estate to real estate related instruments.
- A significant portion of the REIT's debt is due to be repaid in the next three years exposing the portfolio to potential refinance and interest rate risks.

## Capital Stack Review

- Debt – With a debt ratio of 46.8%, the REIT is slightly higher than the median for the Maturing LifeStage. 88% of the REIT's debt is fixed rate.
- Debt Maturity – 46.6% of the company's debt is due to be repaid in 2015 with an additional 33.7% maturing in 2016.
- Loan Activity – A \$58.8 million note was originated in the first quarter of which \$52.3 million has been borrowed on the Summit I & II buildings.
- Cash on Hand – 1.8%, below median compared to other REITs in this LifeStage.

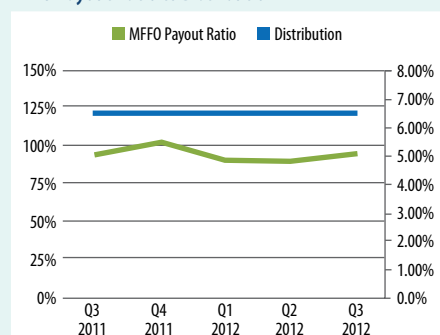
## Metrics

- Distribution – 6.50%, which has held steady for the past 13 quarters.
- Distribution Source – Paid from operating cash flow and sale of shares through DRIP.
- MFFO Payout Ratio – 89% year to date down from 100% at year-end 2011.
- Fee Waivers and Deferrals – None reported.
- Interest Coverage Ratio – 4.1, better than the Maturing LifeStage median of 2.5.
- Impairments – None reported.

## Real Estate

- Acquisitions – No acquisitions have been completed this year.
- Occupancy – 94%, down 2% from last quarter.
- Lease Expirations – 49.9% of non-cancelable operating leases expire in 2017 or later with an average remaining term of 6.1 years.
- Dispositions – Sold the Hartman II industrial building in Austell, GA for \$12.7 million (\$48.51 per square foot) resulting in a gain on sale of \$2.5 million.
- Diversification – The portfolio consists of 20 office properties, one office/flex, a portfolio of four industrial properties and one individual industrial property. Of the portfolio, 200 N. LaSalle in Chicago represents 20.2% of the assets of the REIT. In addition, Legal Services and Finance Industries make up 20.4% and 20.2% of the tenancy, respectively.

MFFO Payout Ratio to Distribution



Debt Ratio to YTD Interest Coverage Ratio

