

# Pacific Oak Strategic Opportunity REITs to Merge and Create \$2.6 Billion REIT

<https://thediwire.com/pacific-oak-strategic-opportunity-reits-to-merge-and-create-2-6-billion-reit/>

February 21, 2020



Pacific Oak Strategic Opportunity REIT Inc. (POSOR I) and Pacific Oak Strategic Opportunity REIT II Inc. (POSOR II), two publicly registered non-traded REITs formerly known as KBS Strategic Opportunity REIT and KBS Strategic Opportunity REIT II, have agreed to merge in a stock-for-stock transaction, creating a combined company with approximately \$2.6 billion in gross real estate and real estate-related assets.

The transaction is expected to close in the second half of 2020, with the approval by POSOR II stockholders and other closing conditions, and is intended to qualify as a tax-free reorganization. The combined company will retain the name “Pacific Oak Strategic Opportunity REIT.”

The REITs said that the proposed merger “is expected to deliver enhanced value to all stockholders and allow each company’s stockholders to participate in a larger, stronger and more diversified combined company.” Other



potential benefits include expanded access to capital, lower administrative expenses, and improved interest coverage, debt covenant compliance, and ratings on bond issuances for the surviving company, the companies said.

The combined company would have a capital structure of 48 percent debt (net of cash and marketable securities) vs. 52 percent equity. The REITs' external advisor has agreed to waive the receipt of acquisition fees and disposition fees in the merger.

If the merger were to occur today, the combined portfolio would consist of 12 office properties with 5 million rentable square feet and 80 percent leased occupancy (based on data as of September 30, 2019), two hotel properties, two apartment properties, one residential home portfolio consisting of 993 single-family rental homes, three investments in undeveloped land with approximately 1,000 developable acres, an investment in an office/retail property redevelopment, and investments in real estate equity securities.

Under the terms of the agreement, in exchange for each share of POSOR II common stock owned, POSOR II stockholders will receive 0.9643 shares of POSOR I common stock.

After the merger closes, current POSOR I stockholders will own approximately 69 percent, and current POSOR II stockholders will own approximately 31 percent of the combined company, on a fully diluted basis.

POSOR I and POSOR II expect to suspend payment of distributions until the joint proxy statement/prospectus for the merger has been filed with the SEC, which is expected to occur in mid- to late April 2020.

Once filed, both REITs are expected to declare a "catch up" distribution to make up for this brief suspension of regular distributions and then to resume paying distributions generally in accordance with past practices, the companies said.

The REITs will also suspend all redemptions under their respective share redemption programs.

After the filing of the joint proxy statement/prospectus, POSOR I and POSOR II are expected to resume processing redemptions requested in the event of a stockholder's death, qualifying disability or determination of incompetence.

The merger agreement includes a 45-day "go-shop" provision, where POSOR II will solicit competing acquisition proposals through April 4, 2020.

Pacific Oak Strategic Opportunity REIT and Pacific Oak Strategic Opportunity REIT II invest in opportunistic real estate and other real estate-related investments.

Pacific Oak Strategic Opportunity REIT launched its initial public offering in November 2009 and has raised approximately \$638 million in investor equity from the offering and its distribution reimbursement plan, as of the third quarter 2019. In November 2019, the REIT completed a merger with Reven Housing REIT Inc. (NASDAQ: RVEN), a publicly traded REIT, for approximately \$56.6 million in cash, or \$5.13 per share of Reven common stock.



Pacific Oak Strategic Opportunity REIT II launched in August 2014, and through a private placement offering and a subsequent initial public offering, raised a total of \$270 million in investor equity as of the third quarter of 2019, including distribution reinvestment shares. The REIT closed its primary offering in September 2018.

[Click here to visit The DI Wire directory sponsor page.](#)



Not for public use, for reference only