KILROY REALTY CORPORATION

Acquisition Strategy and Update
October 2010

Program

- **John B. Kilroy, Jr.** — **Acquisition Strategy and Update**
- **Chris Corpuz** — **San Francisco Office Market and TransBay Terminal**
- **Property Tour** — **303 Second Street**

12400 High Bluff Drive, San Diego

999 Sepulveda Blvd, El Segundo

West Side Media Center, Los Angeles

KILROY REALTY CORPORATION

John B. Kilroy, Jr.

President

Chief Executive Officer

Acquisition Strategy and Update

KRC Overview

- **Leading owner/operator of office and industrial properties in California**
  - 141 properties totaling approximately 13.7 million square feet
  - 1.6 million square feet of LEED certified buildings
  - 1.5 million square feet of properties are ENERGY STAR Certified or eligible for certification
- **Consistent strategy since IPO 13 years ago**
  - Acquire when it makes sense and develop when it makes sense
  - Focused on major markets along the West Coast
  - Simple structure with no joint ventures; all properties owned outright
- **Seasoned management team**
  - Company has operated for over 60 years through multiple cycles
  - Vertically-integrated with expertise in owning, operating, acquiring, developing and financing office and industrial assets
- **Conservative financial strategy**
  - Investment grade credit ratings from Moody's and S&P
  - Low leverage, with current debt to market capitalization of 38%

2211 Michelson, Irvine

Mission City Corporate Center

303 Second, San Francisco

Three Key KRC Priorities

Leasing

- Primary focus is leasing core portfolio
- Executed over 1.4 million square feet of leases and LOIs since the 2Q conference call
- 2011 expirations are manageable at less than 9%

Acquisitions/ Development

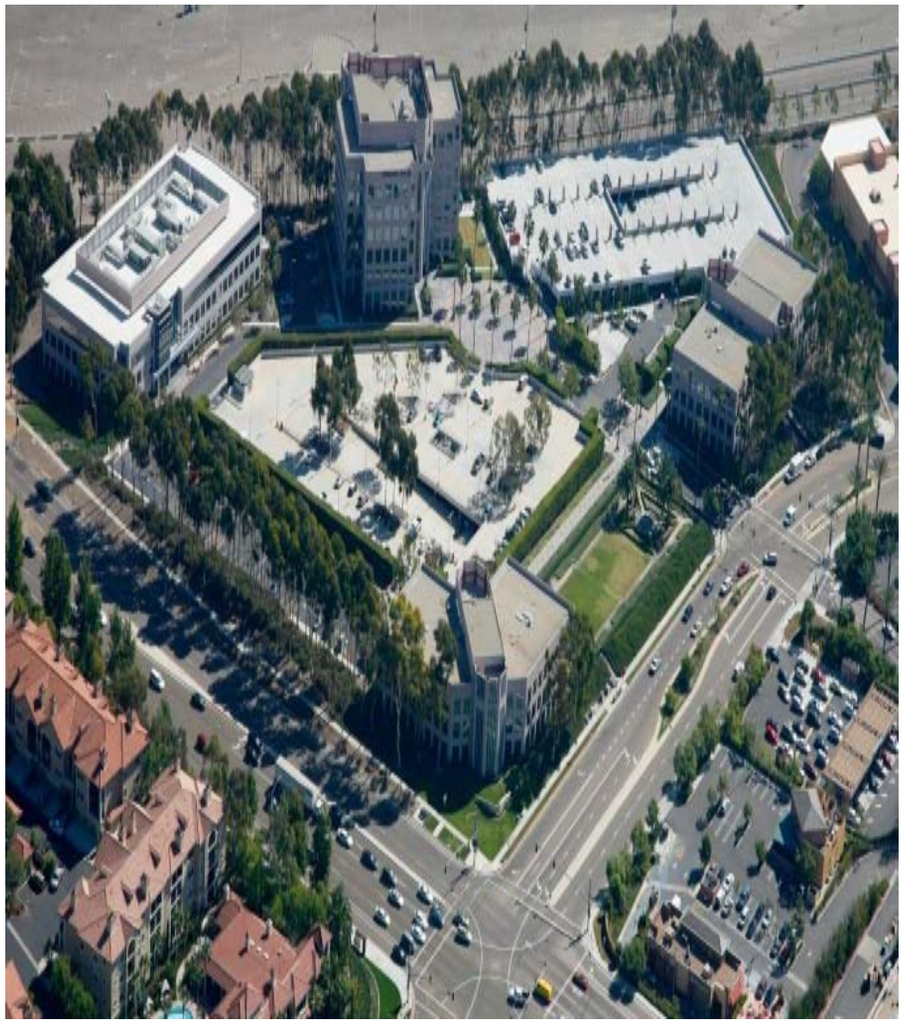
- Seek to expand portfolio in key West Coast markets
- Acquired 1.4 million square feet of office properties totaling $429 million year-to-date
- Develop when it makes sense with significant pre-leasing and enhance entitlements

Maintaining a Top Credit Profile

- Prudent balance sheet management that provides financial flexibility
- Strong credit statistics
- Low secured debt

West Coast Acquisition Market Update

- **Acquisition opportunities slowly increasing**
- **Cap rates ranging from 5% to 7% for quality stabilized assets**
  - ➢ Low interest rates pushing down cap rates
- **Financial capacity and surety of execution are key**
  - ➢ Sellers underwriting buyers
- **Most properties have above-market leases**
- **In some cases, buyers under-estimating capital expenditure needs**



Mission City Corporate Center, Mission Valley

KRC's Acquisition Strategy

- **Window of opportunity to create value for the long-term**
  - Buy quality assets in quality locations at discount to replacement cost
- **Both offensive and defensive strategy**
  - Opportunity to increase rents over time
  - Current cash flow from well-leased properties
- **Pursue opportunities in key West Coast markets**
  - Value-add and Best in Class assets
  - Significant amenities, including access to transportation and publicly-funded infrastructure

303 Second Street, San Francisco

Target Markets

San Francisco Bay Area

- Build on 303 Second Street success to expand in the Bay Area
- International gateway city with positive long-term growth prospects
- Currently focusing on opportunities in San Francisco CBD
- Will pursue Silicon Valley and the East Bay over time

Seattle

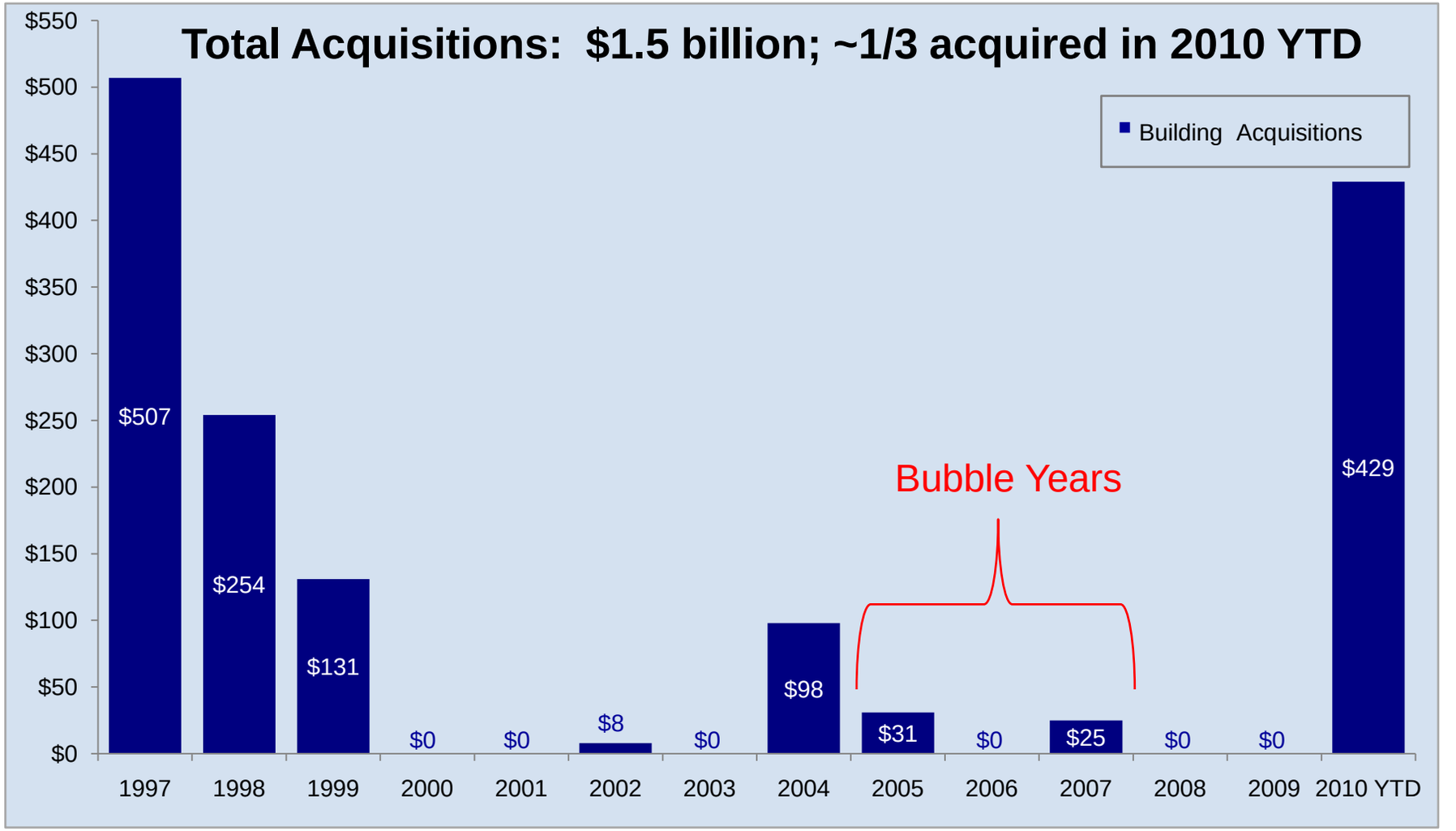
- KRC in Seattle from mid-1970's to 2007
  - Sold at peak of the market
- East side recovering more quickly than CBD
- Pursuing opportunities in the Bellevue and Redmond markets (Bel-Red Corridor)

Southern California

- Target opportunities that fit well with existing portfolio in Los Angeles, Orange County and San Diego
- Continue to focus on coastal, high barrier-to-entry markets
  - Unlikely to pursue downtown markets

Disciplined Approach to Acquisitions

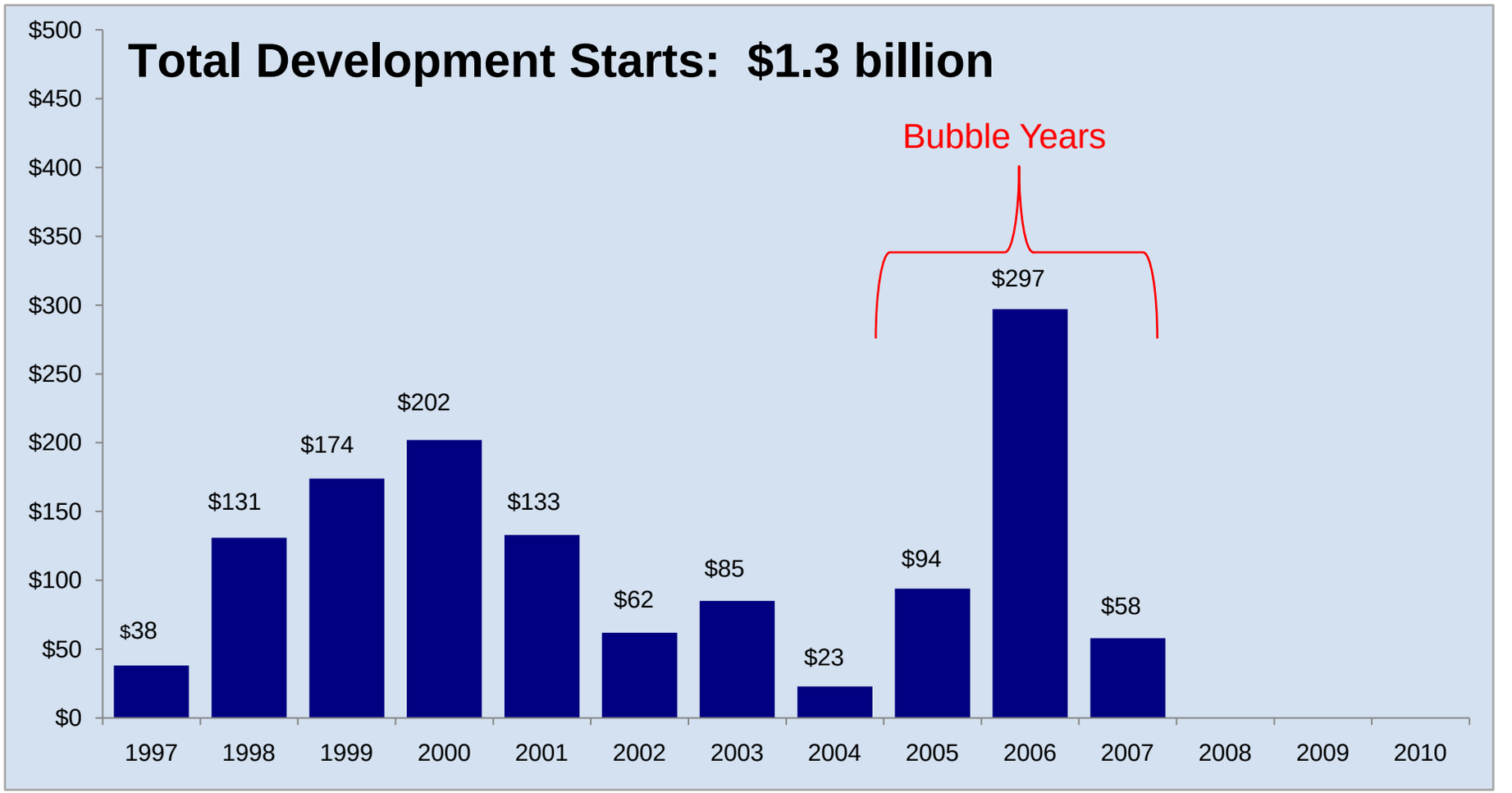
($ in millions)



- KRC was not a significant buyer during the bubble years
- KRC buys when it makes sense

Development Program Keyed to Market Cycles

($ in millions)



KRC developed close to $450M of projects during the bubble years at yields 300 to 500 bps higher than acquisition cap rates at the time

KRC's Competitive Advantage with Acquisitions

Kilroy Sabre Springs, I-15

2211 Michelson, Irvine

- **Extensive knowledge of markets**
- **Streamlined due diligence**
- **No financing contingencies**
- **Various structuring options, including O.P. units**
- **Public company transparency**

Recent Acquisition Activity

Mission City

- $70.6 million, 279,000 SF
- Substantial discount to replacement cost
- Previous owner had limited available capital
- Excellent location with freeway accessibility and proximity to amenities
- Value-add property that fits well with Kilroy Realty's existing San Diego portfolio

303 Second Street

- $233 million, 732,000 SF
- Substantial discount to replacement cost
- Majority leased during recession
- Certified LEED Gold
- Full city block with tremendous access and location next to amenities and transportation

2211 Michelson

- $103 million, 272,000 SF
- Substantial discount to replacement cost
- Best in Class office property; built in 2007 and certified LEED Silver
- Premier building in the region with significant long-term value
- High quality tenant base with limited rollover in the next few years

999 Town & Country

- $22 million, 99,000 SF
- Substantial discount to replacement cost
- Strong and stable cash flow to 2018
- Future development opportunity for 500K SF of office/ MOB space (0.6 to 3.0 FAR)
- Single tenant property with strong credit quality

Acquisition Case Study

Commodity Property Acquisition

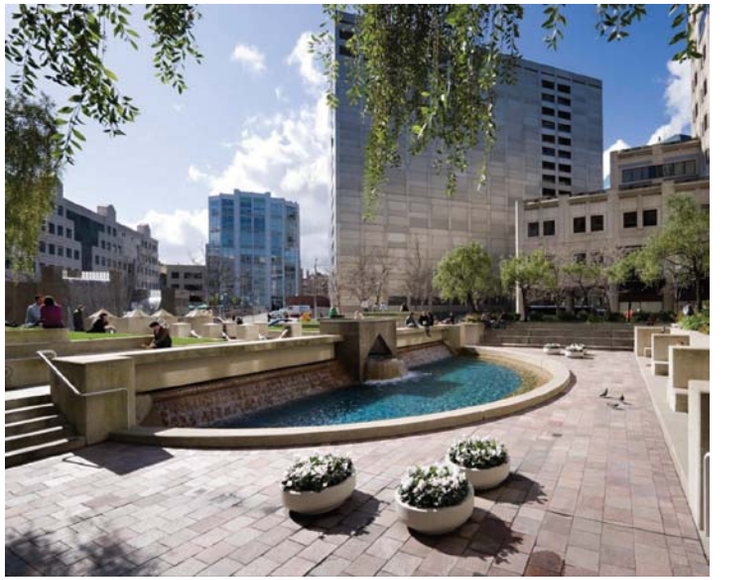
- Purchase price of $250/SF
  - Older buildings
  - 60% leased, with near-term rollover
  - Commodity space
  - Significant repositioning costs
    - Base building
    - Downtime
    - Lease-up
    - Commissions
    - Total approximately $100/SF
  - Estimated investment after capex and lease up of approximately $350/SF
  - Requires significant management time
- Need substantial discount to make this work in a choppy market

2211 Michelson

- Purchase price of $380/SF
  - Best in Class
  - New construction
  - Leased during downturn
  - Limited near-term rollover
  - 92% occupied
  - Below replacement cost
  - Amenity rich
  - Limited capex requirements
- Secure near-term acquisition with upside over time

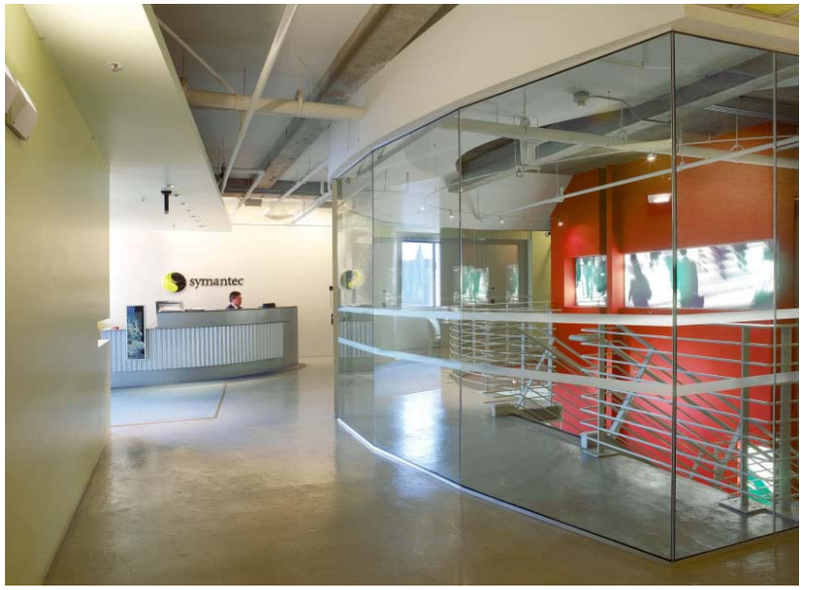
303 Second Street

- Key location south of Market
- Entire city block, 732,000 square feet
- Purchase price of $325 per square foot, mid 6% cap rate at closing
- 89% leased at closing, currently 96% leased
- Recent market transactions in $300 to $500 per square foot range with 5% +/- cap rates
- Media and technology tenants driving demand



303 Second Street: Tenancy

- Symantec Corporation (SYMC)
  - $12 billion market cap; provider of security, storage, and systems management solutions
- Young & Rubicam
  - One of the world's largest marketing and communications company
- Wells Fargo (WFC)
  - $130 billion market cap
- Hewlett Packard Co. (HPQ)
  - $96 billion market cap
- Advent Software (ADVS)
  - $1.3 billion market cap



Agenda

Chris Corpuz

Executive Vice President,
Acquisitions

San Francisco Office Market and TransBay Terminal

San Francisco Office Market

- San Francisco market totals 73 million square feet
  - 18% vacant
- South Financial District totals 23 million square feet
  - 12% vacant
  - Area in transformation
- Demand coming from media and technology companies
  - Zynga recently signed 270,000 square foot lease
  - Others looking for significant space include Twitter, Dolby and MetaCafe
  - Collaborative work space

San Francisco Aerial

TransBay Terminal will Enhance Value of Adjacent Buildings

- 303 Second Street will directly benefit from the area's redevelopment plans
- $1.4 billion public-sector financed multi-modal transit infrastructure project
- Repositions the downtown San Francisco south of Market Street area
- Plan includes 2,600 new homes, 3 million square feet of new office space and significant retail
- Current plan features 5.4 acre of public park on the roof of the Transit Center
- Dubbed the "Grand Central Station of the West"
- Expected completion of Phase I in 2015

TransBay Terminal – Significant Infrastructure Investment

Cross section of the planned project

Transbay Terminal – Significant Value Enhancement to Existing Owners

Summary

- **Unique window to position KRC for growth over the next several years**
- **Opportunity to purchase quality assets below replacement cost with the ability to increases rents over time**
- **Disciplined approach to acquisitions and development**
- **Conservative balance sheet**

West Side Media Center, Los Angeles

3811 Valley Center Drive, San Diego

Santa Monica Media Center, Santa Monica