

# **KILROY** **REALTY** CORPORATION

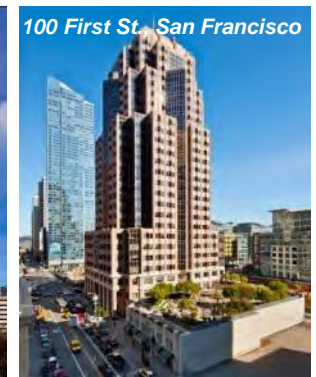
**NAREIT**  
**Company Update**  
**November 12, 2012**



# Agenda

## ■ Management Presentation (4:30 to 5:30pm)

- Tyler Rose Introduction
- John Kilroy Strategic Update
- Eli Khouri Bay Area Market Fundamentals
- David Simon Hollywood Update
- Jeff Hawken Operations
- Tyler Rose Funding
- Q&A



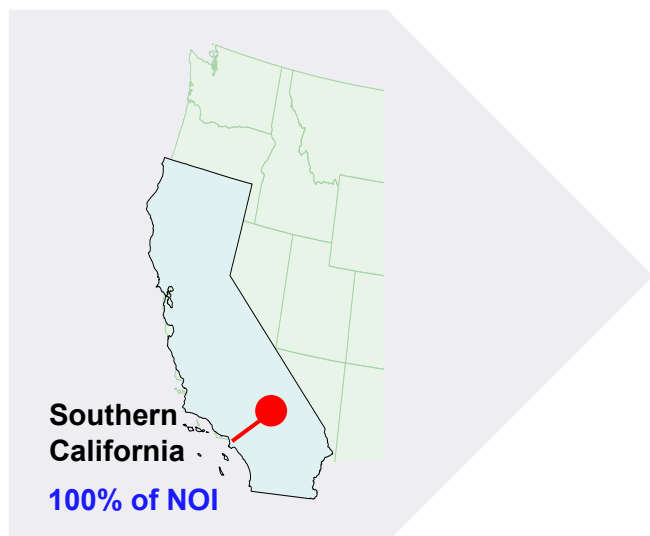
# **John Kilroy, Jr.**

*President and Chief Executive Officer*

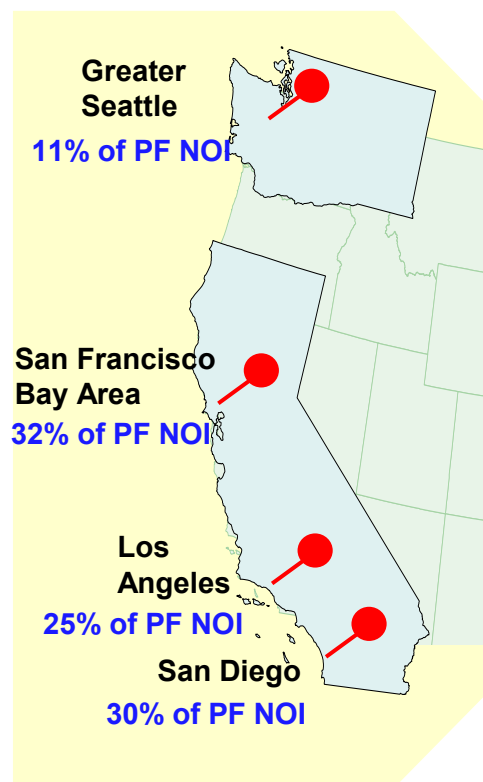
## **Strategic Update**

# Dominant West Coast Franchise

December 2009



September 2012



## Diversified Capabilities

- Operations, acquisitions and development platform

## Premier Portfolio

- Diversified across high-growth, knowledge based markets
- One of the largest LEED portfolios

## Experienced Management Team

- Extensive regional knowledge
- 65 year history

## Strong Balance Sheet

- Successful capital recycling program
- Investment grade rated
- Access to diverse capital sources

**Team, Platform, Strong Balance Sheet Driving Future Growth**

*Note: Reflects pro forma, annualized results for closed acquisitions, closed and pending dispositions and stabilized development and redevelopment projects assuming a full year, stabilized GAAP NOI results as of September 30, 2012.*

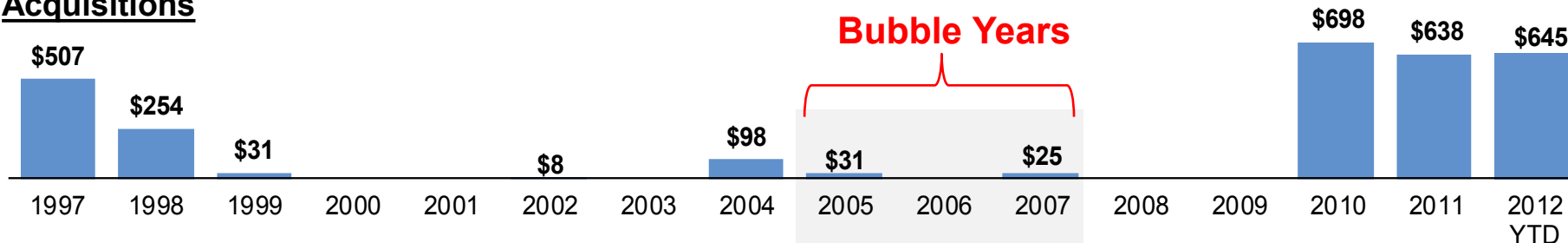
# KRC Focused on Creating Value

- **On track for another substantial leasing year**
  - Pushing rents as the markets improve
- **\$645 million of acquisitions at ~25% discount to replacement cost**
- **Redevelopment portfolio generating strong returns**
  - TD Ameritrade and DTV rent commencement in 4Q
  - Significant progress at 360 Third Street
- **Growing development program in irreplaceable West Coast locations**
  - Managing risk through experienced team, pre-leasing, and phasing
- **Strong balance sheet through low leverage and capital recycling**

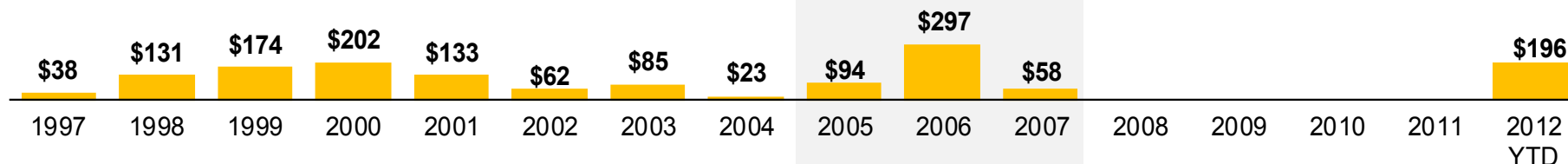
# Disciplined Approach to Capitalizing on Market Cycles

Total To Date Property Acquisitions: \$2.9 billion  
Total To Date Development Starts: \$1.5 billion  
Total To Date Property Dispositions: \$1.1 billion <sup>(1)</sup>

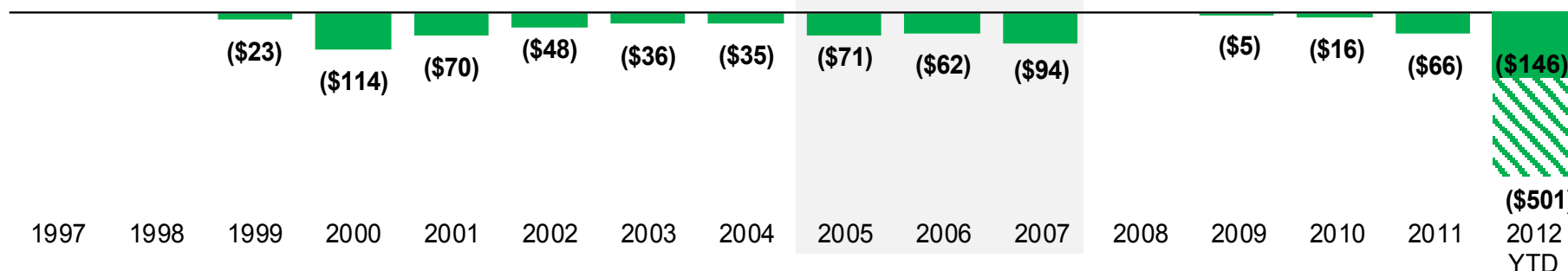
## Acquisitions



## Development Starts



## Dispositions



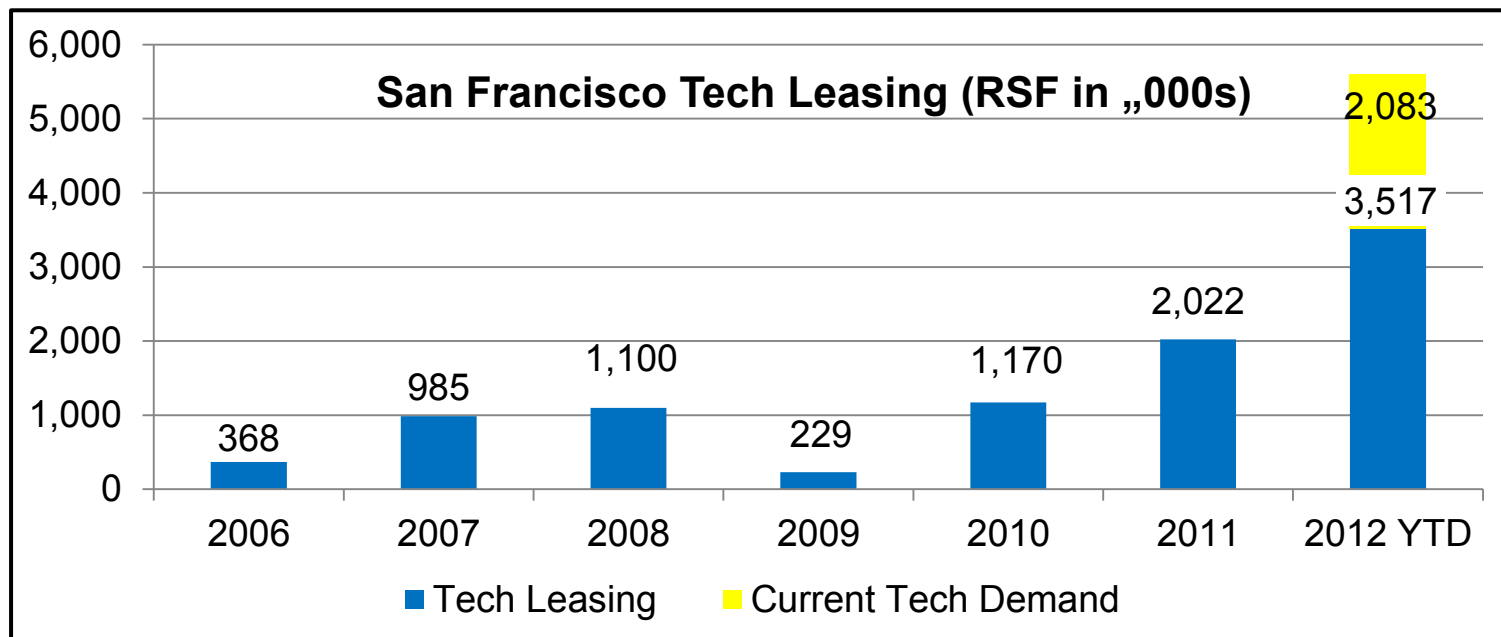
**KRC developed close to \$450M of projects during the bubble years at yields of 300 or more bps higher than acquisition cap rates at the time**

(1) Includes pending dispositions of the Orange County Industrial portfolio and Camarillo buildings.



# Significant Leasing Progress/ Demand

- **KRC ahead of 2011 office leasing pace (excl. DTV) which was best year ever**
  - More leases executed, more LOIs in-place, higher change in rents
- **Bay Area tech demand increasing after slower second quarter**
  - Companies looking to cluster in modern facilities
  - Significant activity in all size ranges; more than 20 requirements >90,000 SF
- **A number of big North of Market tenants pursuing SOMA spaces**
- **Fourth quarter on track to be another strong quarter of leases and LOIs**



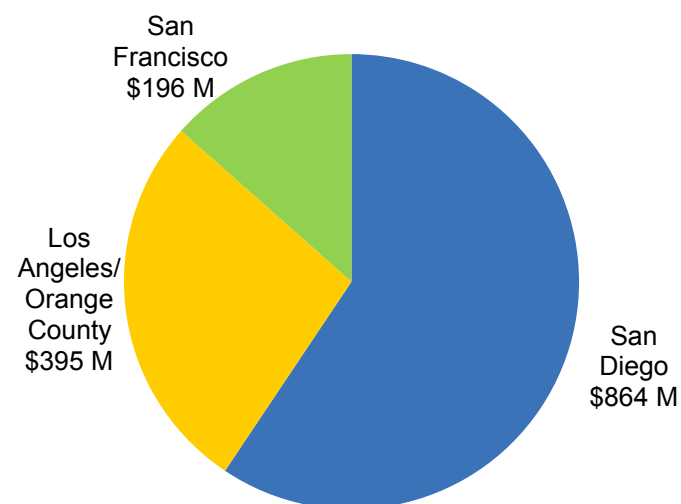
Source: CAC Group.

# Experienced Developer

## Extensive Development Experience

- \$1.5 billion in development starts since IPO
- In-house expertise, including design, project and construction management and construction accounting
- Strong corporate development team supported by experienced regional development and construction expertise
- Existing KRC team has developed over 7 million square feet in the Bay Area, including Foundry Square I, 500 Terry Francois and the SF Blu High-Rise Condo

## KRC Development Starts Since 1997



**65 years of experience in developing and delivering state of the art properties**



# Proven Development Track Record

	2004 – 2007 <sup>(1)</sup>	Today
Total Development Starts	\$472 million	\$241 million <sup>(2)</sup>
Market Capitalization	\$2.4 billion	\$5.5 billion
Development % of Market Capitalization	20%	4%
Debt / Market Capitalization	34% (Unrated)	34% (Investment Grade Rated)
Employee Headcount	~130	~200
Average Mgmt. Team Development Experience	22 years	27 years

- Disciplined and conservative development strategy
- Historical average of ~70% pre-leasing at the start of construction and 90% leased upon stabilization

(1) Balance sheet data reflects 12/31/2004 and "Today" reflects results as of 9/30/12.

(2) Reflects two committed projects: 690 Middlefield and the Silicon Valley build to suit project.

# In-Process and Pending Development Pipeline

	Submarket	Est. Completion	Total Costs to Date (\$ in 000s) <sup>(1)</sup>	Estimated Total Investment (\$ in 000s) <sup>(1)</sup>	Estimated Total RSF	Estimated \$ Inv / SF	% Leased
<b>Committed Starts:</b>							
690 Middlefield	Mountain View	2015	\$87,600	\$196,300	341,000	\$576	100%
Silicon Valley Build-to-Suit <sup>(2)</sup>	Silicon Valley	2013	\$0	\$45,000	88,000	\$511	100%
<b>Total Committed</b>			<b>\$87,600</b>	<b>\$241,300</b>	<b>429,000</b>	<b>\$562</b>	<b>100%</b>
<b>In-Process:</b>							
333 Brannan	San Francisco	2015	\$18,800	\$85,000	175,000	\$486	0%
Columbia Square	Hollywood	TBD	66,400	315,000	600,000	\$525	0%
350 Mission	San Francisco	2015	52,000	250,000	400,000	\$625	0%
<b>Total In-Process</b>			<b>\$137,200</b>	<b>\$650,000</b>	<b>1,175,000</b>	<b>\$553</b>	<b>0%</b>
<b>Pending:</b>							
Redwood Towers	Redwood City	TBD	\$0	\$160,000	300,000	\$533	0%
<b>Total Pending</b>			<b>\$0</b>	<b>\$160,000</b>	<b>300,000</b>	<b>\$533</b>	<b>0%</b>
<b>TOTAL DEVELOPMENT <sup>(3)</sup></b>			<b>\$224,800</b>	<b>\$1,051,300</b>	<b>1,904,000</b>	<b>\$552</b>	<b>23%</b>

**20% of total investment spent to date**

- Only 2 projects committed and both are 100% leased
- Subject to leasing, potential spending of \$300 million in 2013

**Disciplined approach by emphasizing pre-leasing, phasing and cost-control**

(1) Costs to date and total investments as of 10/30/12.

(2) Pending closing, which is expected in 4Q12.

(3) In-process and pending development pipeline as of 10/30/12.

# Recent Additions to KRC's Development Pipeline

## 350 Mission



## Columbia Square



Location	San Francisco	Hollywood
Approximate Size	400,000 SF <sup>(1)</sup>	Current plan for 600,000 SF
Est. Completion	2015	TBD
Est. Total Investment	~\$250 million	~\$315 million upon full build out <sup>(2)</sup>
Investment Highlights	<ul style="list-style-type: none"> <li>Fully entitled development site with plans 85% complete</li> <li>27-story office building</li> <li>Close proximity to the BART and adjacent to the TransBay Transit terminal</li> <li>State-of-the art, LEED Platinum-certified, concrete office building</li> <li>75' x 40' digital wall</li> </ul>	<ul style="list-style-type: none"> <li>4.7 acre site is fully-entitled for 875,000 sq. ft.</li> <li>Full city block</li> <li>Redevelop existing historic buildings; build new office, retail and residential</li> <li>Located in an amenity rich, 24/7-live, work, play area with easy access to transportation and in close proximity to major entertainment studios</li> <li>To be developed in phases</li> </ul>

(1) Project could expand to build 30-story building encompassing approximately 450,000 square feet.

(2) Total projected investment reflects current plans for 600,000 square feet build-out.

# Re-entitlement Projects Create Significant Value



## Planned One Paseo Mixed-Use Project

- 400,000 to 500,000 square feet of office space in two phases
- 250,000 +/- square feet of retail space
- 600 +/- units of residential in three phases
- First LEED certified Neighborhood Development project

**BEFORE**



**AFTER**



## 9455 Towne Centre Drive, UTC

- Existing 45,000 square foot building
- Re-entitlement in process
- Increase density 2 to 3 times
- Change permitted use to MOB
- Minimal costs to obtain entitlements

# Positioned to Capitalize on a Changing Workforce

- **Traditional office users need less square footage as they densify**
  - Can afford higher rent as cost per employee goes down
- **KRC at forefront of acquiring, developing and redeveloping buildings that meet changing tenant needs**
  - Location near transportation and amenities
  - Physicality – light, systems, open floorplates, ceiling heights, etc.
- **High percentage of KRC properties LEED and Energy Star certified**
  - Sustainability is critical for West Coast tenants

**Companies need high quality space in the best locations to attract and retain their workforces**

**KRC is leading provider of modern workspace**



# Capital Recycling Update



## San Diego Office Buildings

## Industrial Portfolio Camarillo buildings

Transaction Date	January 2012	Q4 2012
Sales Price	\$146 million	~ \$355 million
Rentable SF	253,676	3.7 million
Price Per SF	\$576	~ \$100

**Creating significant value through capital recycling:**

- Dispositions at low 5%
- Acquisitions, redevelopment and development in the 6% to 8% initial return range with more upside potential over time

**Expect significant additional capital recycling over the next several years**



# Key Takeaways

- **West Coast markets continue to improve**
- **Leasing progress in all regions**
- **Stabilized portfolio rents currently at market**
- **Redevelopment and development portfolios position the company for significant growth**
  - **Creating space for the modern workforce**
- **Platform, team and balance sheet in-place to manage execution risk**
- **Will continue capital recycling through targeted dispositions**

**Premier West Coast Franchise, Platform and Team**

# Eli Khouri

*Executive Vice President and Chief Investment Officer*

## Bay Area Market Fundamentals

# Review of Investment Strategy

- **Focused on value creation opportunities in the best West Coast markets**
  - Strong barriers to entry
  - 24/7 gateway cities / innovation centers
  - Highly amenitized with proximity to public transit
  - In areas where strong companies are clustering
  - Not just focused on tech/media but support services and FIRE category
- **Attractive economics**
  - Discount to replacement cost on value-add acquisitions
  - Superior yields on development
- **Physical attributes that perform well over time**
- **Sustainability focused**
- **Strong regional team in-place to maximum investment potential**

**KRC's market knowledge and relationships lead to opportunities**

# Tech and Media Driving Real Estate Trends

## Drivers

- **Changing Workforce**
  - Largely comprised of the under 30 year old “Millennial” generation
- **Movement Towards Urbanization**
  - Preference for 24/7 live, work, play submarkets
  - Limited parking requires public transportation
- **Proximity to Large Established High-Tech Firms**
  - Clustering brings together intellectual human capital creating critical mass

## Impact on Office Space

- Work is evolving from a “place” to an “activity” and along with it employee expectations
- Emphasizing collaboration, teamwork, flexibility and choice
- High ceilings and large floor plates
- Reduced occupancy costs with more employees per square foot
  - 8 to 12/1000 compared to 4/1000 ~5 years ago
- LEED and Energy Star



# Tech Landscape Today vs Dot.com

## Real Estate Landscape

### Today

- Much demand driven by mature companies – Google, Apple, Amazon, etc.
- Companies **not over-hiring** ahead of revenue-growth → **not over-leasing** ahead of head count
- New supply not built to anticipate future hiring

## Venture Capital and IPO Funding

- **VC → 4x less than dot.com**
- **IPO → 9x less than 1999: 35 IPOs<sup>(1)</sup>**

## Valuation

- Early stage companies generate more meaningful revenues, better tested business models

### 1999 – 2000 Timeframe

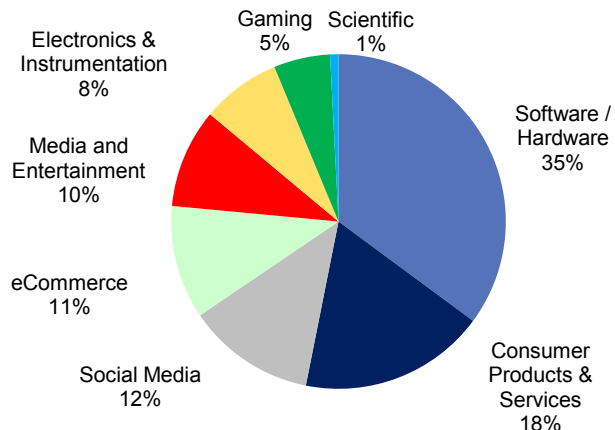
- Highest demand from start-up companies
- Superfluous hiring and expansion ahead of revenue
- Surplus of new supply for future phantom employees
- More than \$100 billion of VC funding at peak in 2000
- More than 300 IPOs
- Claim then was that “it’s all about eyeballs” and not revenues

**Today’s tech demand vs. supply picture:  
A different ballgame vs. the dot.com bubble**

# San Francisco & Silicon Valley - Technology Tenant Composition/Diversity

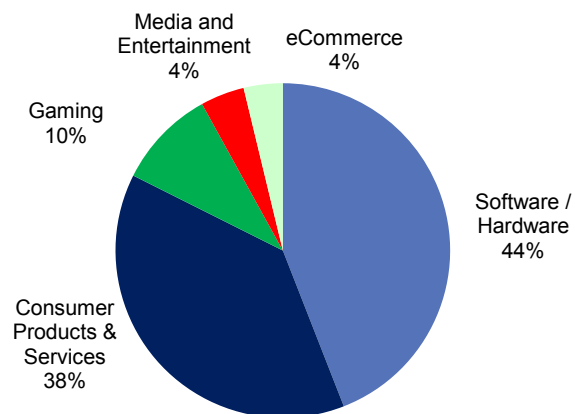
## SAN FRANCISCO

### Existing Tenants



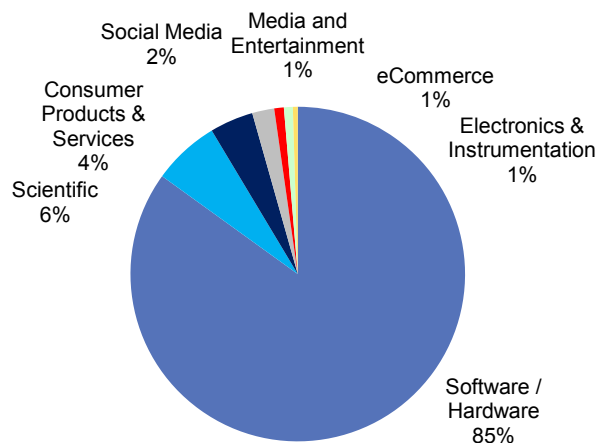
- Diverse tech tenant mix
- Social media only represents 12%

### Pipeline of Tenants in the Market



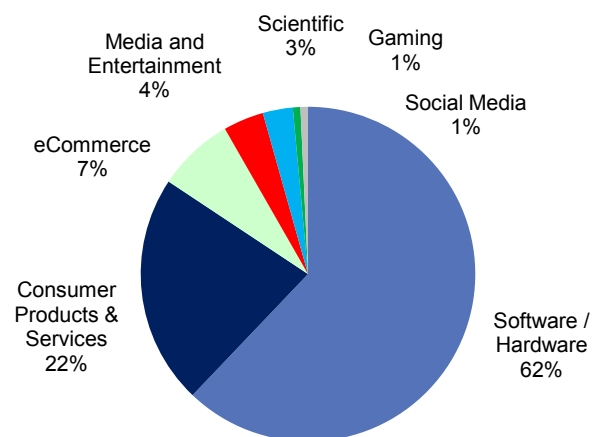
## SILICON VALLEY

### Existing Tenants



- Tenant mix is less diverse offset by
- Large concentration of established, mature tech companies

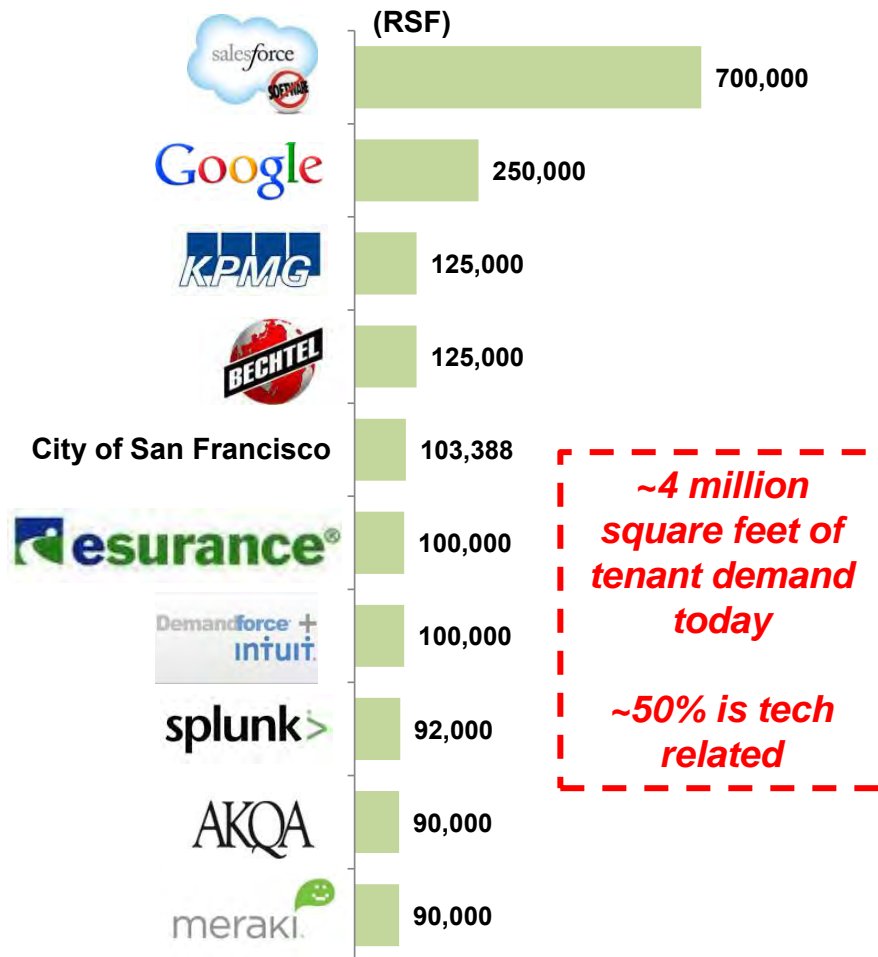
### Pipeline of Tenants in the Market



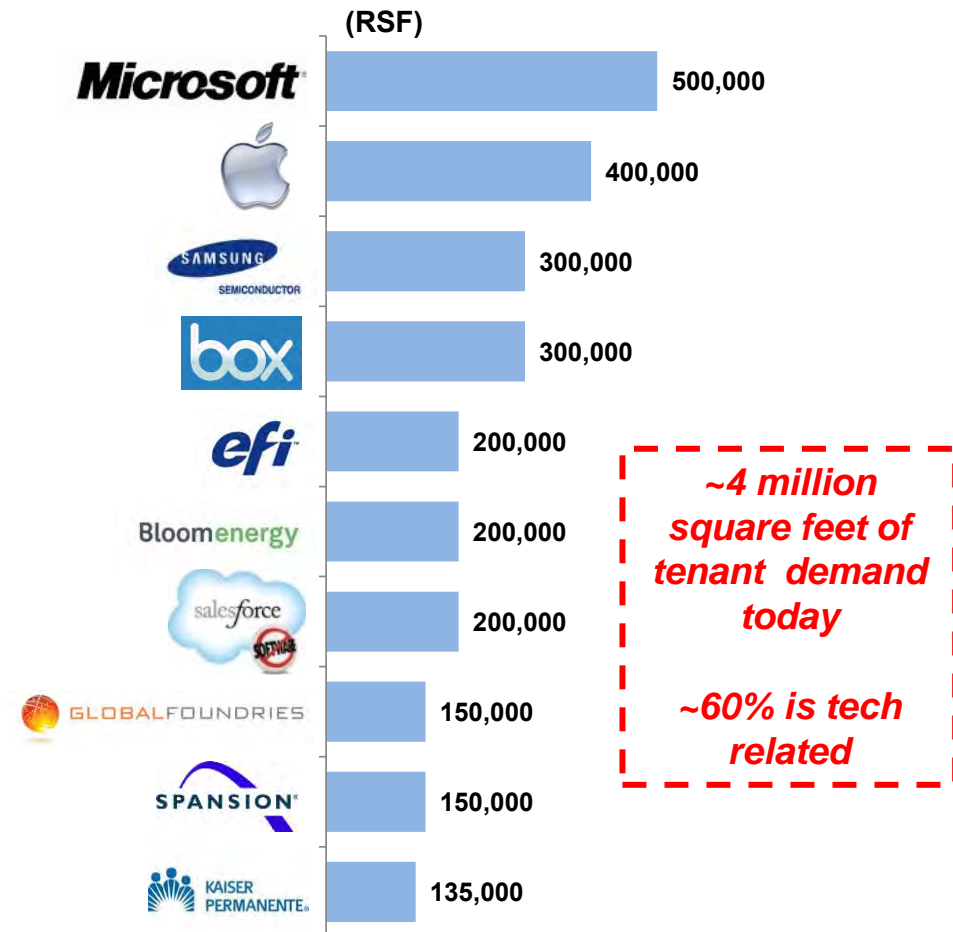


# Robust Pipeline of Bay Area Tenant Demand

## Select Tenant Demand in San Francisco



## Select Tenant Demand in Silicon Valley/Peninsula



**Total demand pipeline of ~8 million square feet in the Bay Area**

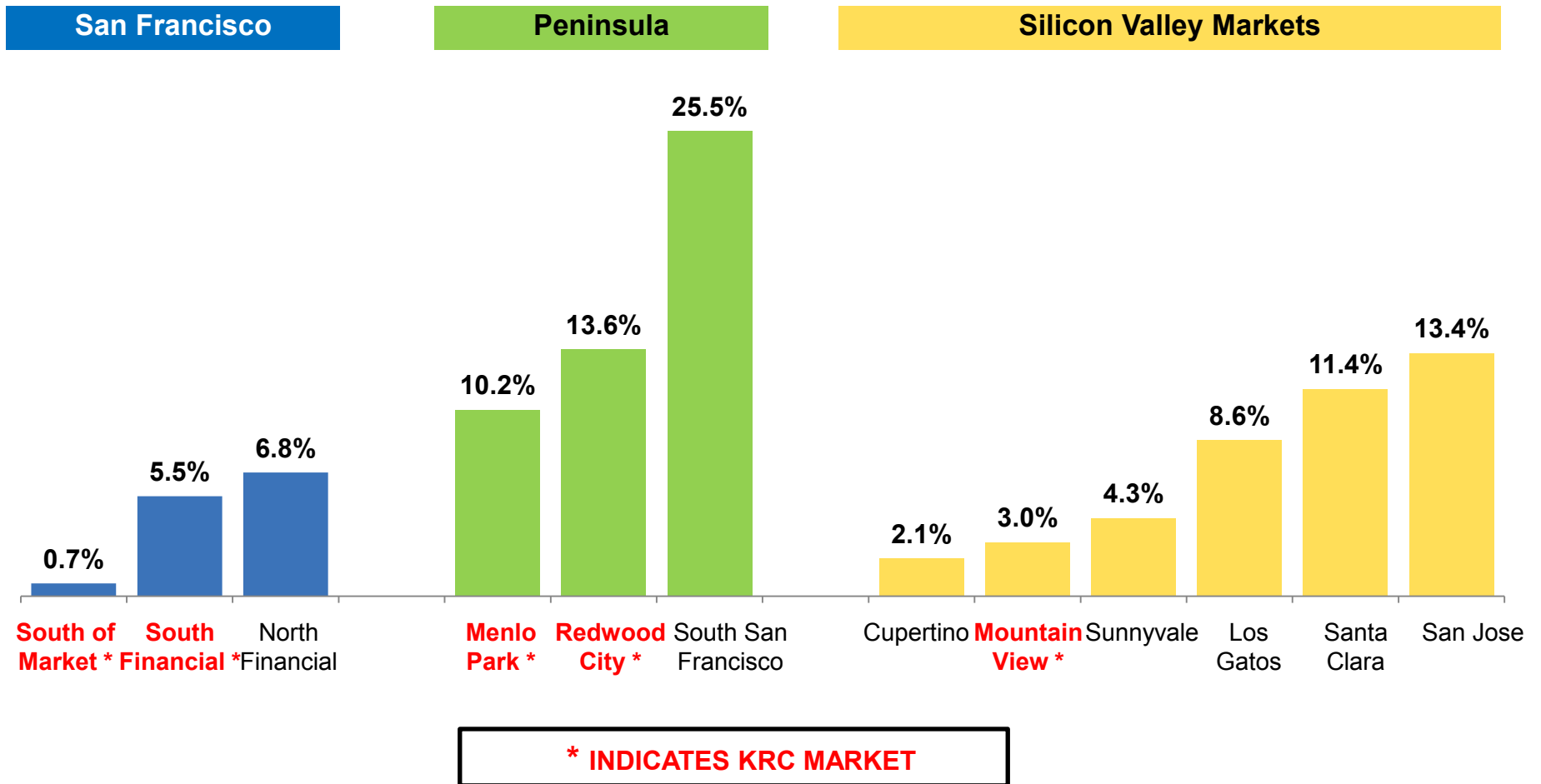
# Established Tech Companies Increasing Presence in San Francisco

Clustering of tech companies in San Francisco drive demand



Tenants continue to migrate to San Francisco, making it  
the new headquarters city

# Select Bay Area Class A Vacancy Rates



**KRC's properties are located in the best Bay Area markets**

Source: Jones Lang LaSalle and Cornish & Carey Commercial research as of 3Q12.  
Note: South of Market area as defined per Jones Lang LaSalle.

# David Simon

*Executive Vice President, Los Angeles*

## Hollywood Update

# Hollywood's Resurgence

- **Hollywood office market is benefiting from the area's on-going revitalization**
  - Regaining its historic place as entertainment capital
  - 24/7 live, work, play - "hip" environment
  - More than \$3 billion of investment from public and private institutions
  - Home to Academy Awards, Grauman's Chinese Theater, Capitol Records, Live Nation, Time Warner, Nielson Holdings, CNN/Turner (West Coast Broadcasting)
  - One of the most attractive transit-oriented submarkets in Los Angeles
  - Strong appeal to the entertainment and media industry given its adjacency to the studios, and executive and workforce housing



**Hollywood's long legacy appeals to the growing entertainment, media and tech industries**

# Increasing Demand for Office Space

- **Limited quality office space available to meet growing demand from entertainment and media tenants that are clustering in the area**
  - Estimate that only a third of office supply is Class A
  - Universal, Disney, Lionsgate and OWN currently in the market for space
- **Expanding amenities within this 19 square mile area**
  - Approximately 2.8 million square feet of retail
  - Approximately 2,000 Class A multi-family housing units
- **KRC's media and entertainment portfolio, including, Sunset Media Center, Westside Media Center, Santa Monica Media Center, Tribeca West, Columbia Square, MTV and DirecTV campuses, allows for significant marketing synergies**



**KRC's media and entertainment portfolio well positioned to capture market demand**



# Los Angeles In-Process Development: Columbia Square Mixed Use Project



	6121 Sunset Blvd (Columbia Square)
Transaction Date	Q3 2012
Estimated Investment	~\$315 million upon full build out <sup>(1)</sup>
Rentable Square Feet	Current plan for 600,000 SF
Investment Highlights	<ul style="list-style-type: none"> <li>■ 4.7 acre site is fully-entitled for 875,000 square feet through a 15-year development agreement</li> <li>■ Takes advantage of Hollywood revitalization and growing demand from entertainment and media tenant that want a Hollywood presence</li> <li>■ Multi-phase redevelopment of existing historic buildings and development of new creative office and multi-family space</li> <li>■ Construction to commence in 2013</li> </ul>

**Lack of new, modern office and the growing demand for residential space support a new mixed-used project**

<sup>(1)</sup> Total projected investment reflects current plans for 600,000 square feet build-out.

# Recent Los Angeles Acquisition Activity



	Sunset Media Center (Hollywood)	Tribeca West (West Los Angeles)
Transaction Date	July 2012	October 2012
Total Purchase Price	\$79 million	\$73 million
Rentable Square Feet	322,000	151,000
Price Per Square Foot	\$245	\$483
Investment Highlights	<ul style="list-style-type: none"> <li>■ Class A office tower in Hollywood's media and entertainment focused market</li> <li>■ Repositioning the property into a state of the art media and office center</li> <li>■ Close proximity to Metro Rail Red transit line</li> <li>■ Value-add opportunity <ul style="list-style-type: none"> <li>➢ Extremely low basis significantly below replacement cost</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Prime West Los Angeles location</li> <li>■ Well-leased with roster of media and entertainment tenants</li> <li>■ Synergistic with Sunset Media Center acquisition and KRC's media and entertainment portfolio, including post production spaces</li> <li>■ Excellent access to major transportation arteries</li> </ul>

**Acquisitions compare favorably to current market pricing**

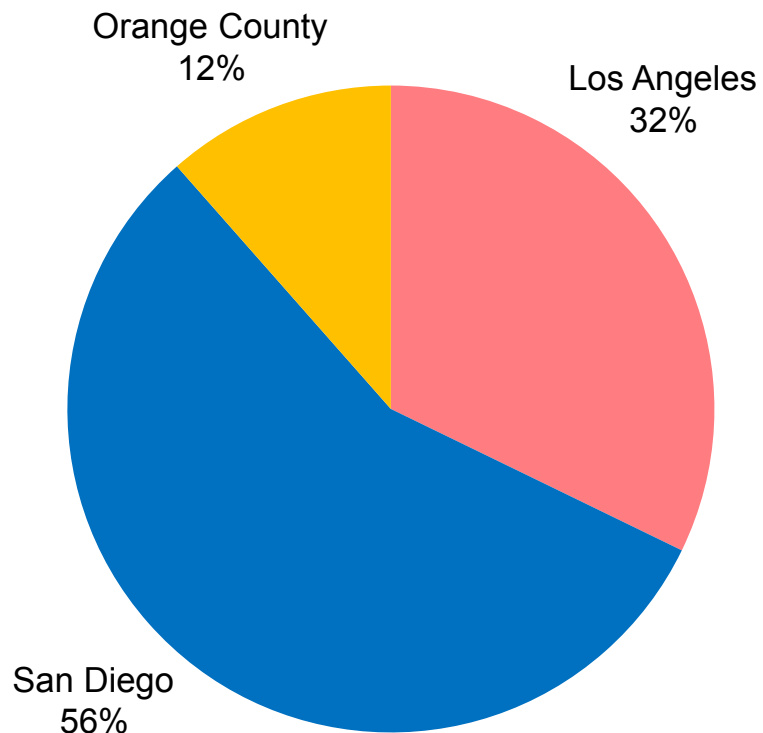
# Jeff Hawken

*Executive Vice President and Chief Operating Officer*

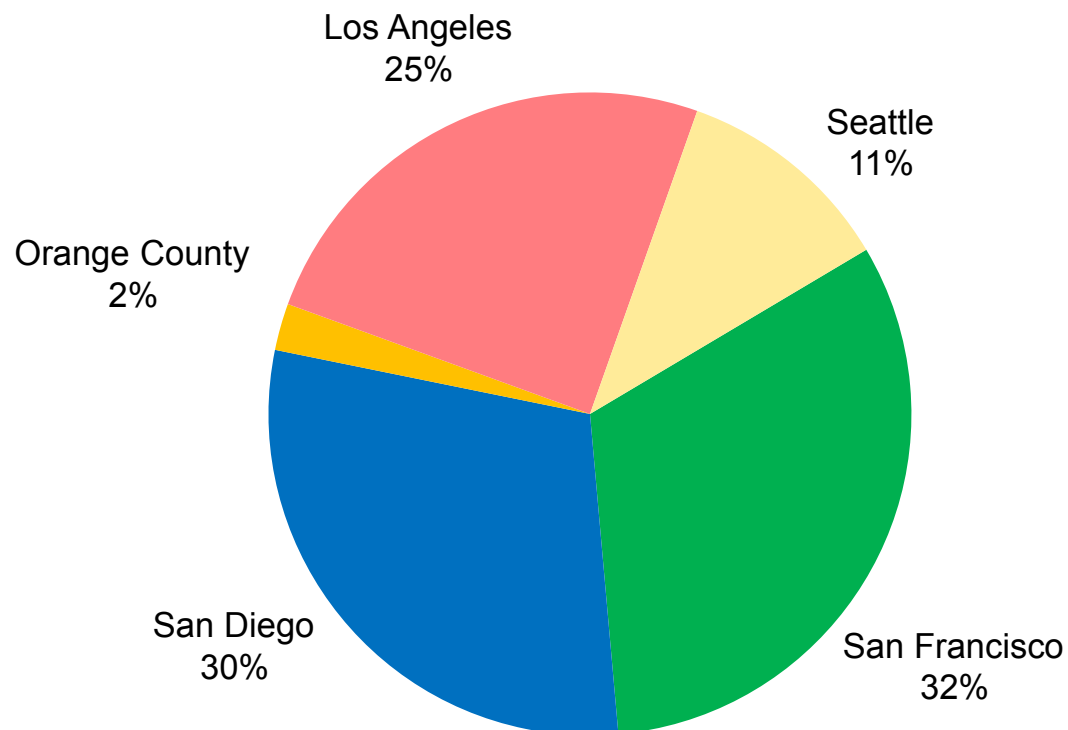
**Operations**

# Diversified in Key West Coast Markets

**NOI – Actual FY 2009**



**NOI – PF Annualized 9/30/2012 <sup>(1)</sup>**



**NOI is diversified in strong, knowledge based West Coast markets**

(1) Reflects pro forma, annualized results for closed acquisitions, closed and pending dispositions and stabilized development and redevelopment projects assuming a full year, stabilized GAAP NOI results as of September 30, 2012.

# KRC's 3Q12 Office Leasing Activity

## Leases Commenced

- 274,000 SF
- Cash rents up 5%
- GAAP rents up 12%

## Leases Executed

- 340,000 SF
- Cash rents up 18%
- GAAP rents up 29%

## LOIs

- 670,000 SF
- Cash rents up 25%
- GAAP rents up 32%

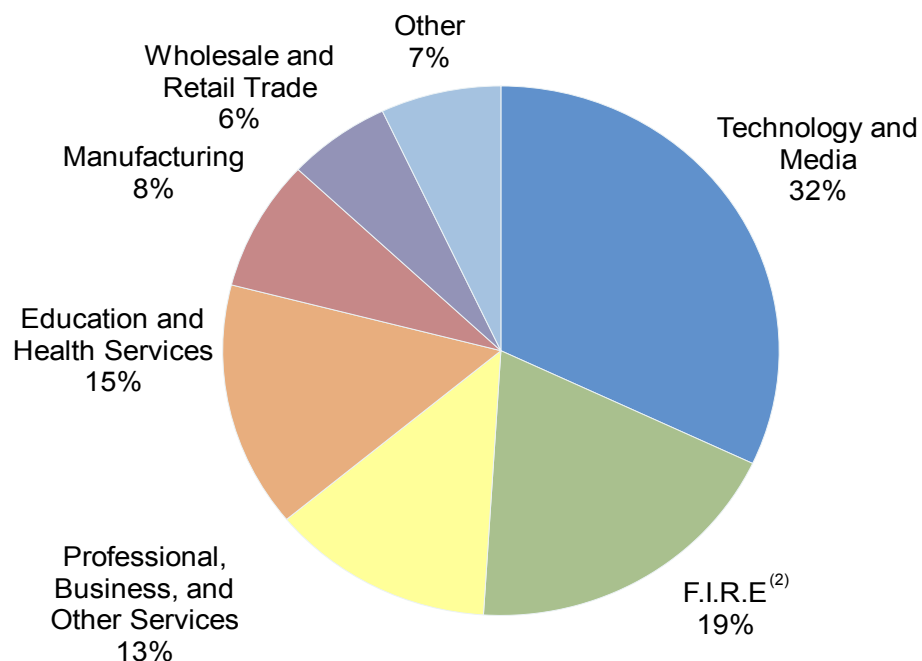
**Executed 1.1 million square feet of leases YTD at 3Q12<sup>(1)</sup>**

**➤ KRC's stabilized portfolio rents currently at market**

# Diverse Tenant Base

## Tenant base with significant industry diversification

Revenue by Industry <sup>(1)</sup>



Top Fifteen Tenants<sup>(1)</sup>

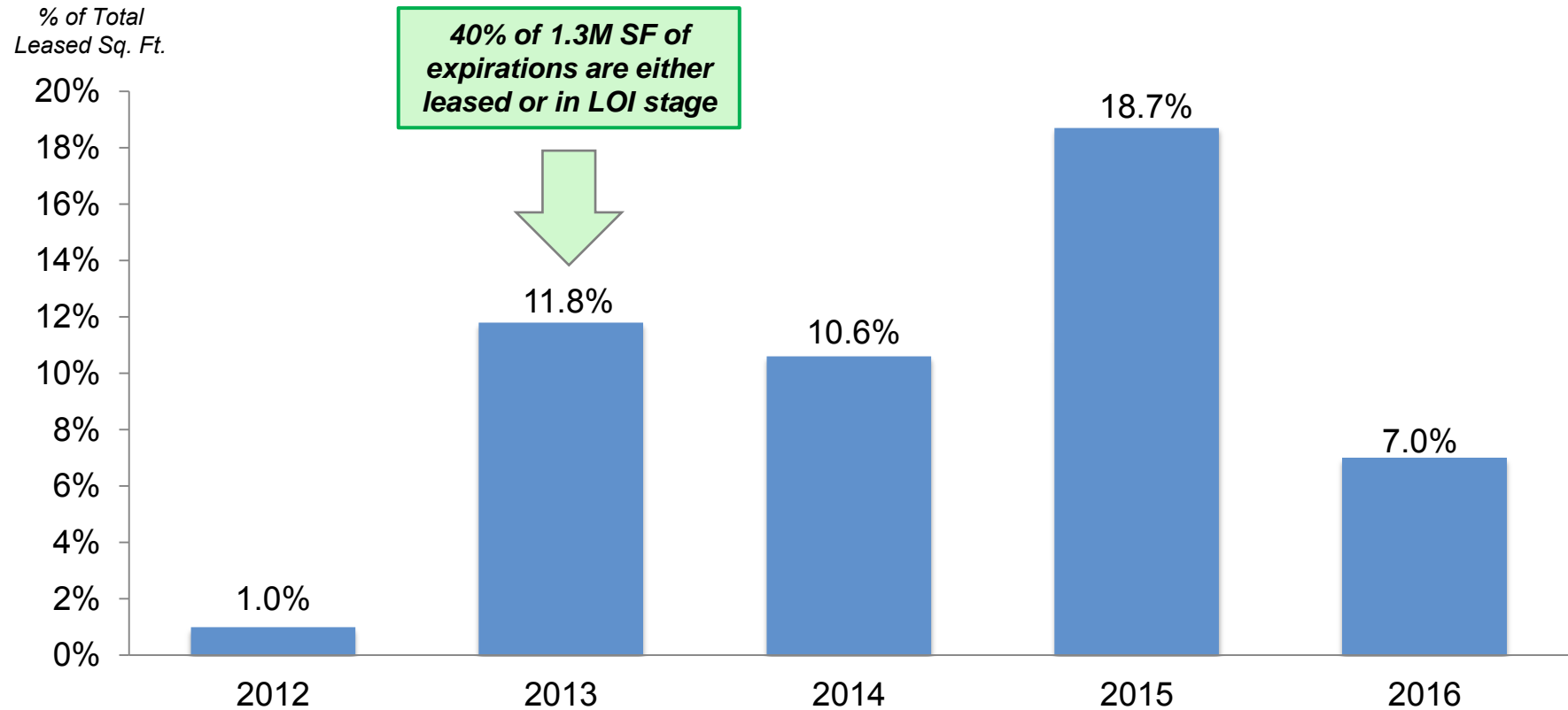
Intuit, Inc. (Baa1 / BBB)	4.3%
Bridgepoint Education, Inc.	4.3%
DIRECTV, LLC (BBB)	3.4%
Delta Dental of California	2.9%
CareFusion Manufacturing, LLC (Baa3 / BBB)	2.6%
AMN Healthcare, Inc. (Ba3 / B+)	2.3%
Adobe Systems, Inc. (Baa1 / BBB+)	1.9%
Wells Fargo (A2 / A+)	1.8%
Fish & Richardson P.C.	1.7%
Scripps Health	1.5%
BP Biofuels Advanced Tech (A2 / A)	1.5%
Epson America, Inc.	1.4%
Scan Health Plan	1.3%
Lucile Salter Packard (Stanford University Hospital)	1.3%
Avnet, Inc. (Baa3 / BBB-)	1.2%
<b>Total</b>	<b>33.4%</b>

(1) As of September 30, 2012.

(2) F.I.R.E. represents finance, insurance and real estate.

# Five Year Lease Expiration Schedule

(as of September 30, 2012)



**Average office expirations through 2016: ~10%**



# Best In Class Approach to Operations Management

- On-going effort to successfully integrate employees and assets as we expand
- Hiring best-in-class employees across all regions to manage new assets, develop and redevelop properties, and maintain appropriate controls
- Focused on training, with emphasis on delivering quality service and an understanding of KRC's culture and public company dynamics
- Constantly improving systems to allow for better efficiency in leasing, operations and accounting

**Commitment to maintain KRC's long-standing level of high-quality operations and customer service**

# Tyler Rose

*Executive Vice President and Chief Financial Officer*

## Funding

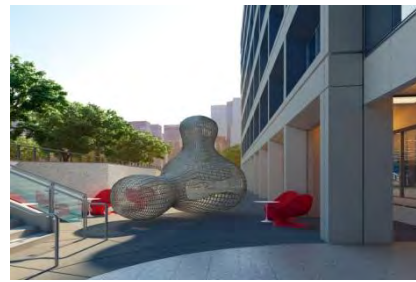
# Near-Term Funding Plan

## ■ Pending \$355 million sale of industrial portfolio will fund:

- Payoff of \$120 million bank line balance
- Planned 2012 development and capital spending of approximately \$80 million
- Payoff of \$84 million mortgage in January

## ■ Based on current development pipeline, development spending could total approximately \$300 million in 2013 assuming all projects are started<sup>(1)</sup>

- Leverage neutral funding through a combination of capital recycling, unsecured debt and ATM program

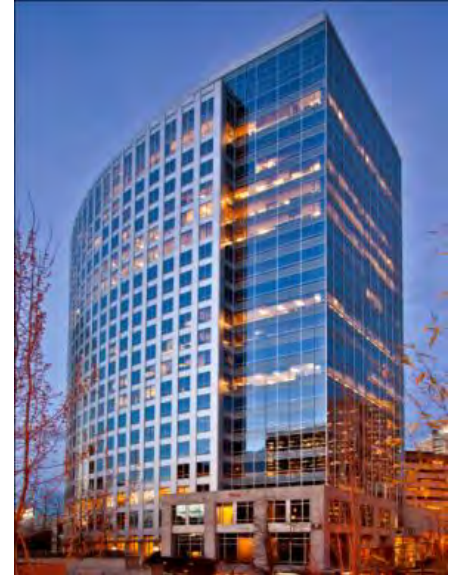


**Commitment to maintain low leverage and strong credit profile**

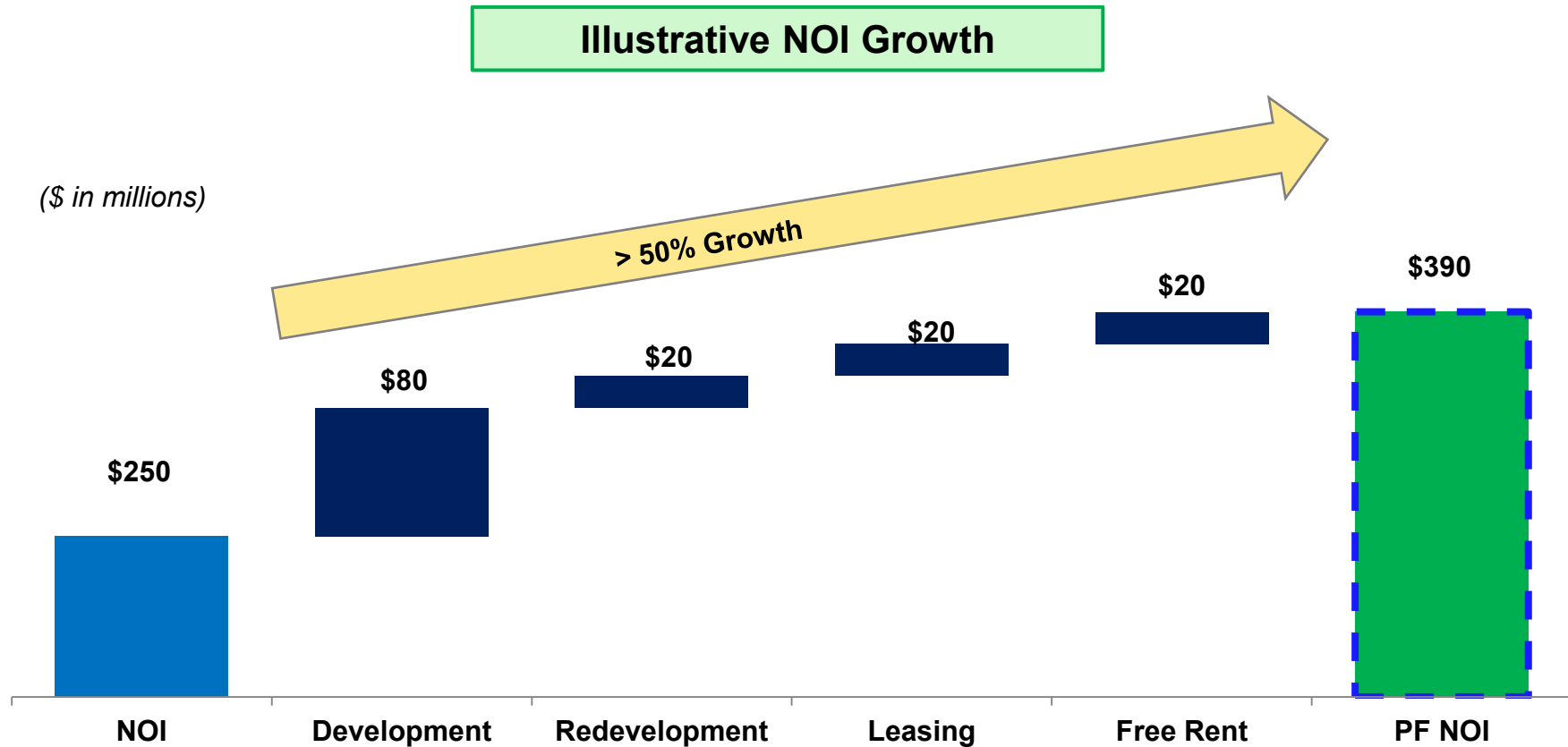
<sup>(1)</sup> In-process and pending development pipeline as of 10/30/12.

# Financial Controls

- **Management commitment to strong control environment**
- **Rigorous approvals process**
- **Team in-place to mitigate risk**
  - Project managers and development accountants on the ground in the Bay Area
- **New accounting system will enhance real-time reporting**
- **Proactive monitoring process with continuous communication among all team members**



# Creating Value Across the Franchise



**Significant embedded NOI will create meaningful growth**

**KILROY**  
**REALTY**  

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**CORPORATION**