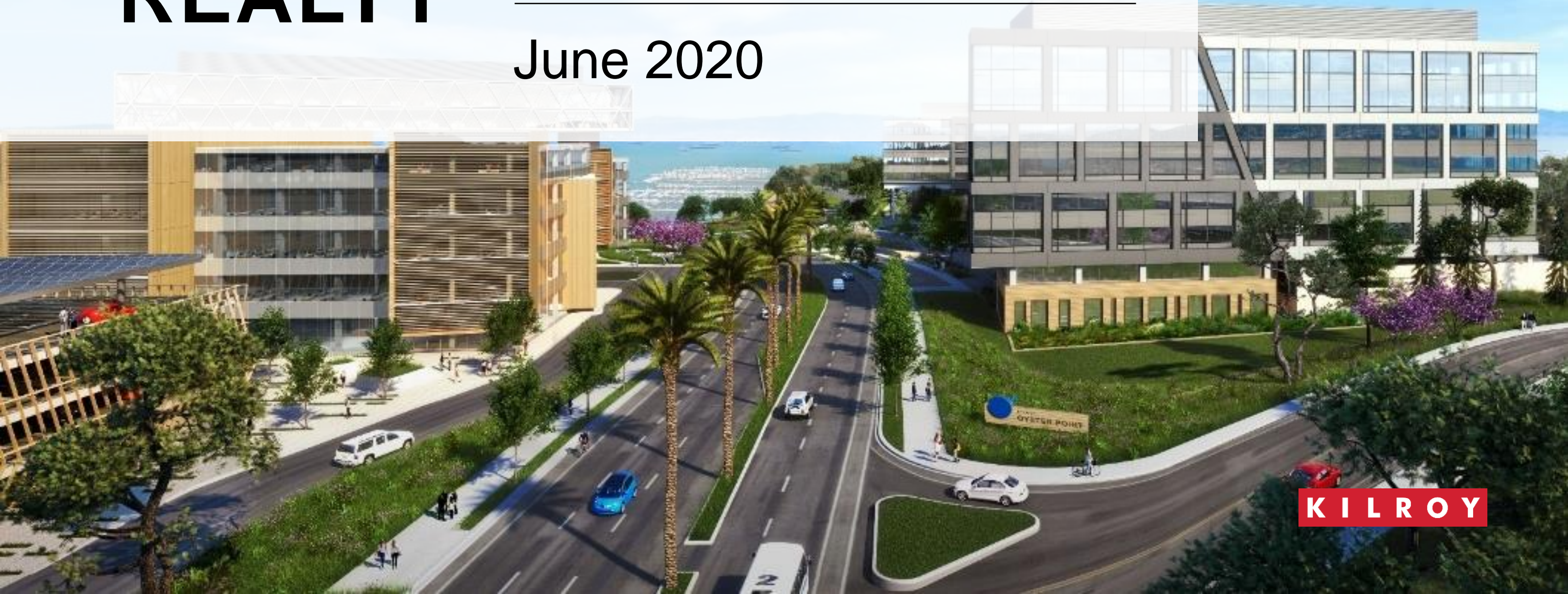


# KILROY REALTY

## COMPANY UPDATE

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June 2020



**KILROY**



# DISCLAIMER

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are inherently subject to uncertainties, risks, changes in circumstances, trends and factors that are difficult to predict, many of which are outside of our control. Accordingly, actual performance, results and events may vary materially from those indicated or implied in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future performance, results or events. Numerous factors could cause actual future performance, results and events to differ materially from those indicated in the forward-looking statements, including, among others: global market and general economic conditions and their effect on our liquidity and financial conditions and those of our tenants; adverse economic or real estate conditions generally, and specifically, in the States of California and Washington; risks associated with our investment in real estate assets, which are illiquid, and with trends in the real estate industry; defaults on or non-renewal of leases by tenants; any significant downturn in tenants' businesses; our ability to re-lease property at or above current market rates; costs to comply with government regulations, including environmental remediation; the availability of cash for distribution and debt service and exposure to risk of default under debt obligations; increases in interest rates and our ability to manage interest rate exposure; the availability of financing on attractive terms or at all, which may adversely impact our future interest expense and our ability to pursue development, redevelopment and acquisition opportunities and refinance existing debt; a decline in real estate asset valuations, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing, and which may result in write-offs or impairment charges; significant competition, which may decrease the occupancy and rental rates of properties; potential losses that may not be covered by insurance; the ability to successfully complete acquisitions and dispositions on announced terms; the ability to successfully operate acquired, developed and redeveloped properties; the ability to successfully complete development and redevelopment projects on schedule and within budgeted amounts; delays or refusals in obtaining all necessary zoning, land use and other required entitlements, governmental permits and authorizations for our development and redevelopment properties; increases in anticipated capital expenditures, tenant improvement and/or leasing costs; defaults on leases for land on which some of our properties are located; adverse changes to, or enactment or implementations of, tax laws or other applicable laws, regulations or legislation, as well as business and consumer reactions to such changes; risks associated with joint venture investments, including our lack of sole decision-making authority, our reliance on co-venturers' financial condition and disputes between us and our co-venturers; environmental uncertainties and risks related to natural disasters; our ability to maintain our status as a REIT; and uncertainties regarding the impact of the COVID-19 pandemic, and restrictions intended to prevent its spread, on our business and the economy generally. These factors are not exhaustive and additional factors could adversely affect our business and financial performance. For a discussion of additional factors that could materially adversely affect our business and financial performance, see the factors included under the caption "Risk Factors" in our quarterly report on Form 10-Q for the period ending March 31, 2020 and in our annual report on Form 10-K for the year ended December 31, 2019 and our other filings with the Securities and Exchange Commission. All forward-looking statements are based on currently available information and speak only as of the dates on which they are made. We assume no obligation to update any forward-looking statement made in this press release that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws.

An architectural rendering of the Kilroy Oyster Point Phase 1 development. The image shows a modern waterfront complex with several multi-story buildings. One building features a prominent black and white checkered facade. The development is situated along a body of water, with a rocky shoreline in the foreground. A small pier with a blue-roofed structure extends into the water, where several boats are docked. People are visible walking along a paved path and sitting on a curved bench in a landscaped area with trees and shrubs. The sky is blue with scattered white clouds.

# AGENDA

## 01

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### **Key Covid-19 Updates**

- April and May Rent Collection
- Portfolio Credit Highlights
- Office Demand Considerations

## 02

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### **Better Positioned Today**

## 03

### **Creating Value in Current Environment**

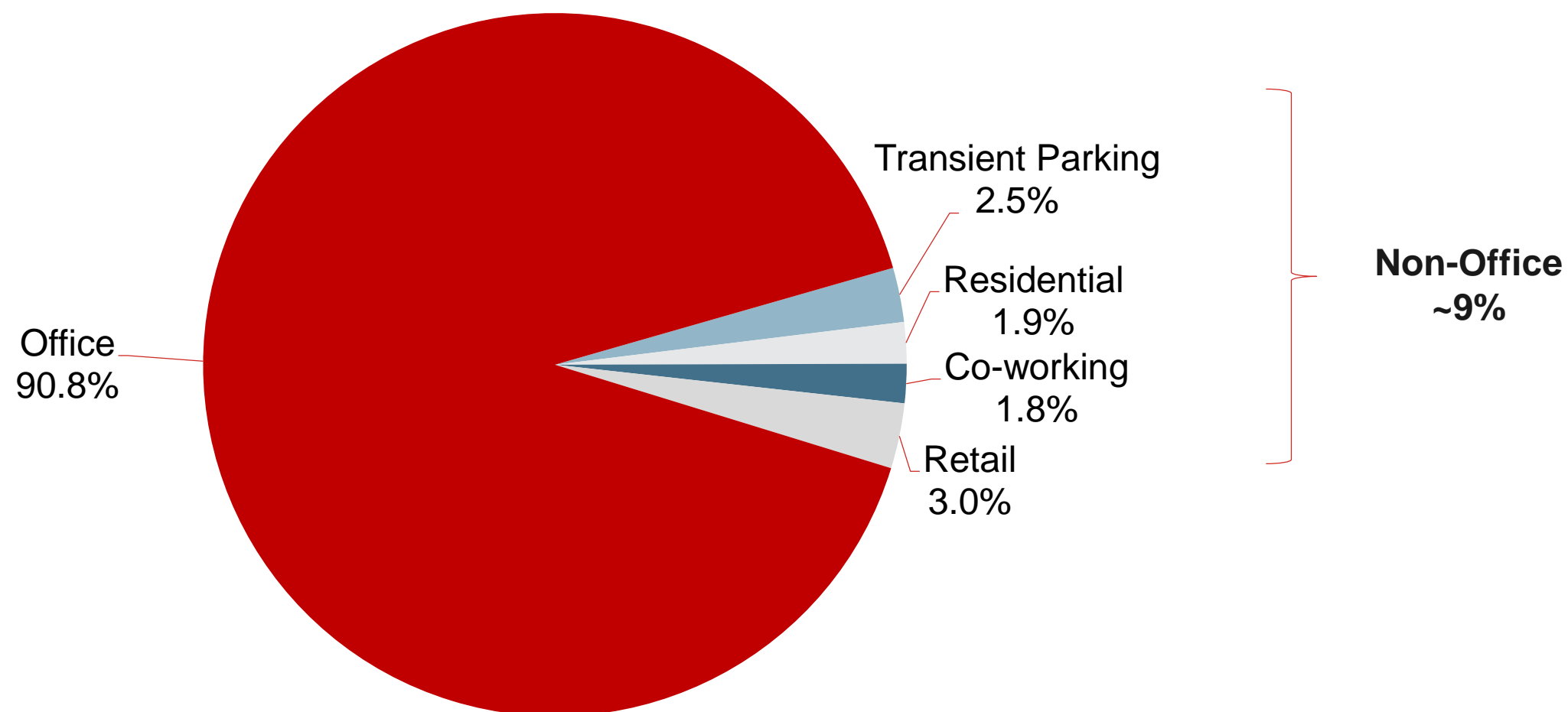
- Stabilized Portfolio
- Development Under Construction
- Development Pipeline

# KEY COVID-19 UPDATES



# PORTFOLIO REVENUE BY PRODUCT TYPE

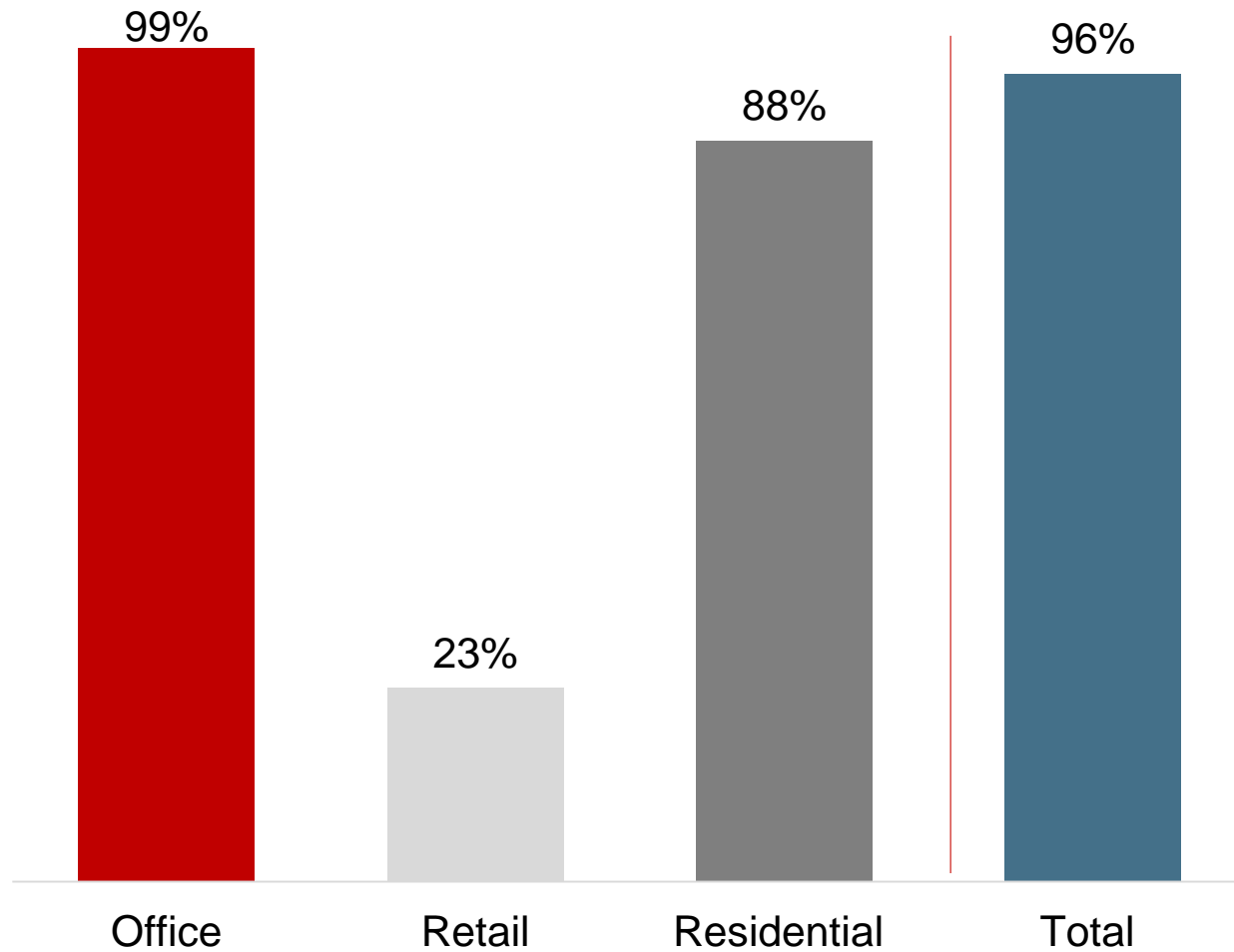
## MARCH TOTAL GAAP REVENUE <sup>(1)</sup>



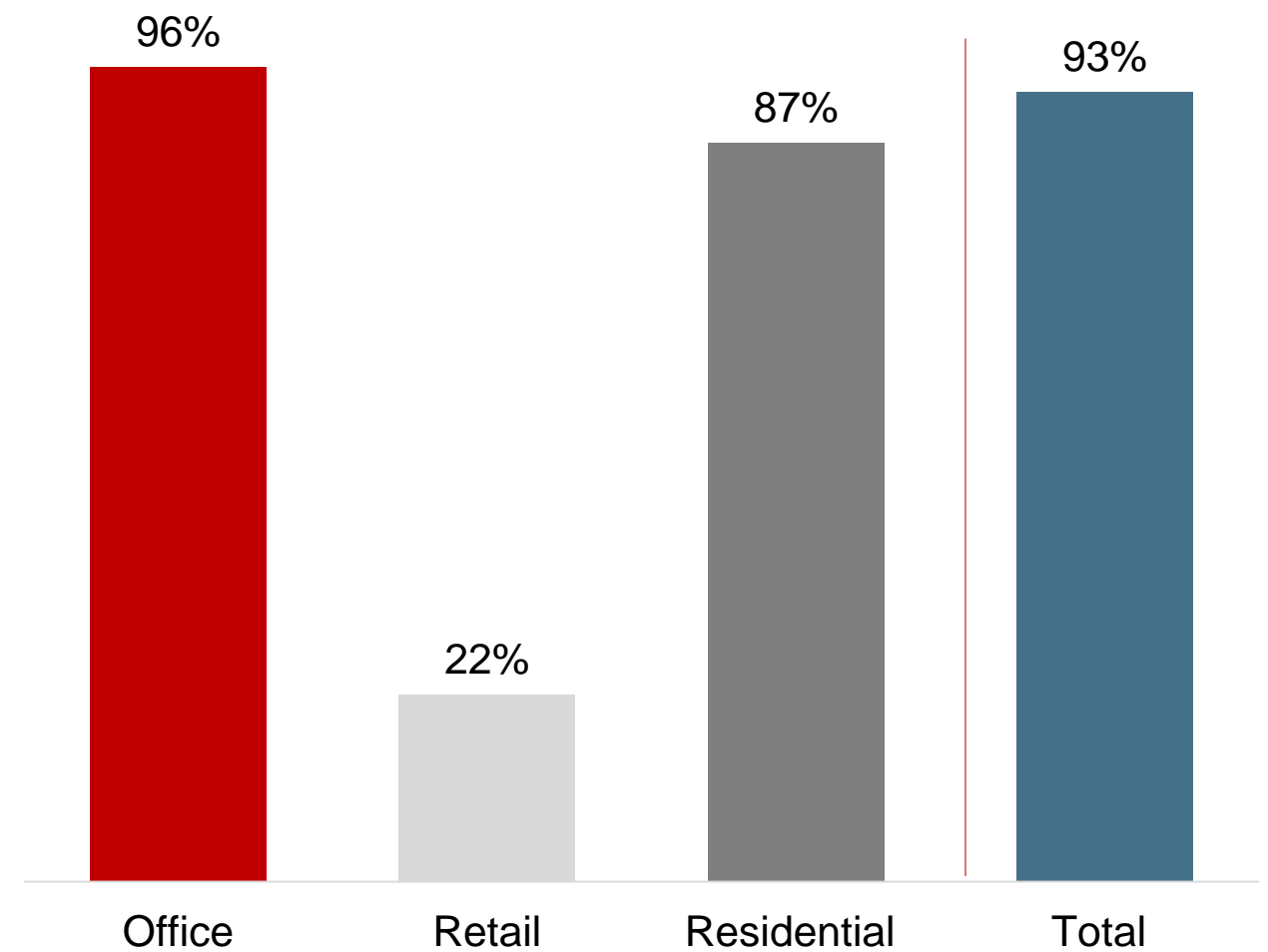
(1) Excludes 1Q20 revenue reversals. Contractual parking included in office component.

# APRIL AND MAY TO DATE RENT COLLECTION

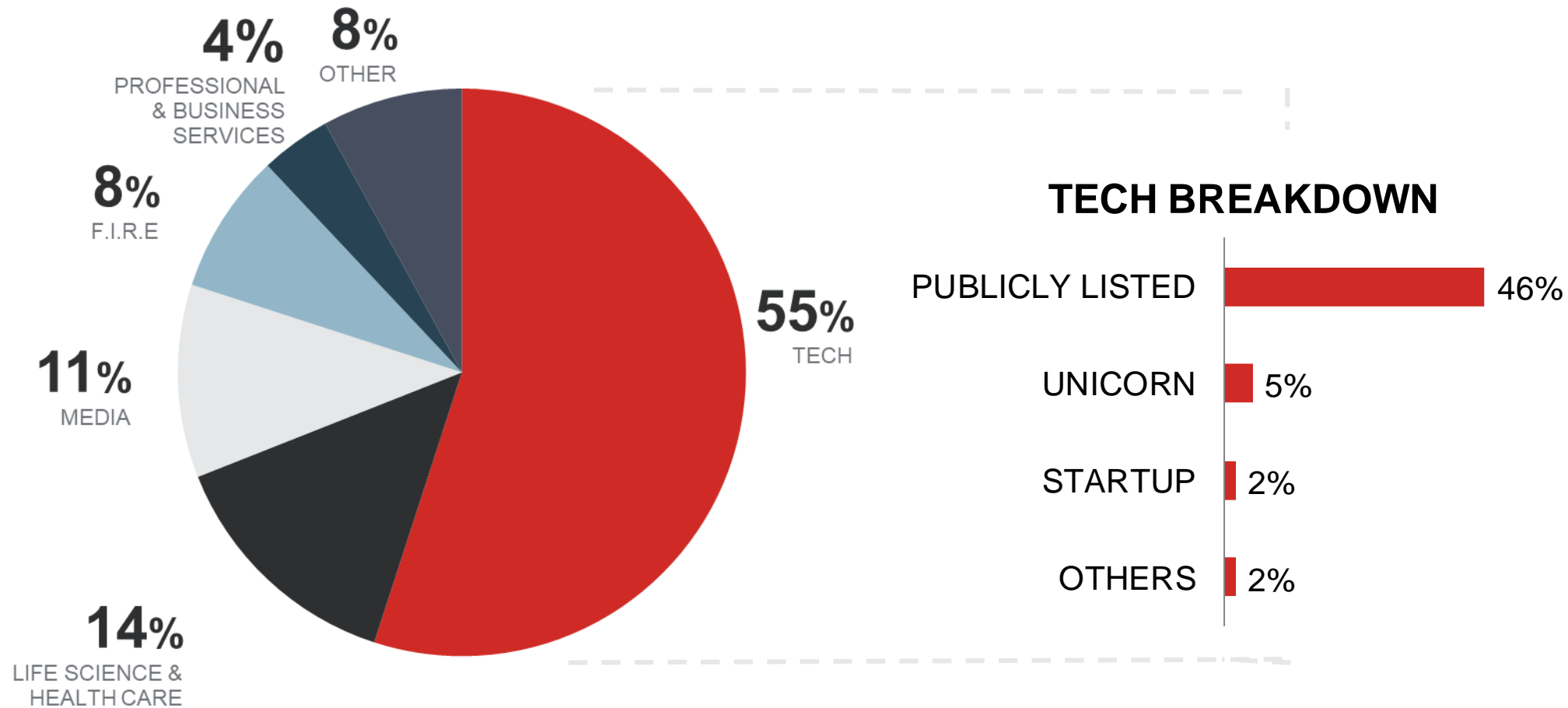
## APRIL COLLECTIONS



## MAY TO DATE COLLECTIONS



# PORTFOLIO CREDIT HIGHLIGHTS



**~50%** OF REVENUES FROM  
TOP FIFTEEN TENANTS  
(14 publicly listed and 9  
investment grade rated)

BEYOND TOP 15, ANOTHER  
**~25%**  
PUBLICLY LISTED OR  
INVESTMENT GRADE RATED

**< 5%**  
START-UPS, VC/PE FUNDED

Note: Data as of 03.31.20 based on annualized base revenues. F.I.R.E. represents Finance, Insurance and Real Estate. Statistics on publicly listed or investment grade rated companies also include subsidiary entities with public sponsorship.

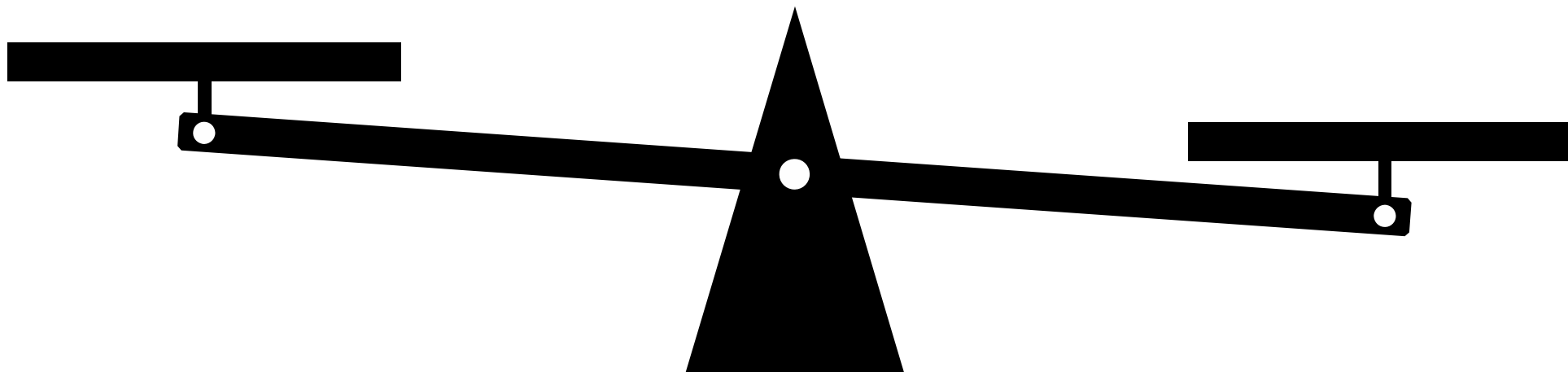
# EMPLOYERS WEIGHING WORK FROM HOME VS. THE OFFICE ENVIRONMENT

## POTENTIAL BENEFITS OF WFH

- **Cost Savings**
  - Savings potentially offset by de-densification
- **Higher Satisfaction for Some Employees (commute, flexibility)**
- **Broader Access to Work Force**
  - Hard to develop corporate culture

## WHAT THE OFFICE ENVIRONMENT HAS PROVIDED FOR DECADES

- **Collaboration / Innovation / Production**
  - Many jobs in life science, technology, media production and creative industries cannot WFH
- **Company Culture**
  - Mentoring, career advancement, onboarding, camaraderie
- **Higher Productivity / Quality Control**
  - Less distractions, WIFI, office resources
- **Higher Satisfaction for Some Employees**
  - Escape from tight living quarters; already live close to office
  - Access to food services, wellness amenities and social events
- **Better Work / Life Separation**
  - Physical separation between the office and home provides healthier lifestyle





## RECENT FEEDBACK FROM TENANTS AND OTHER ANECDOTES ON THE OFFICE ENVIRONMENT AND WORK FROM HOME



- “Don’t see anything changing in the way of main headquarter locations.” – *Nasim Yalpani, Head of Real Estate and Workplace Services, Dropbox*
- “WFH focused on experienced employees rather than new college grads, who need to be in the office more, for training.” – *Mark Zuckerberg, CEO, Facebook*
- “Office trends are constantly changing. It was just a year ago that WeWork was the answer to every CFOs’ complaint.” – *Mary Ann Tighe, CBRE Executive*
- Only ~12% of workers want to WFH full-time.  
- *Gensler 2020 WFH Survey*

# WEST COAST MARKET UPDATE – OFFICE

## PRE-COVID-19 MARKET STATISTICS



HEALTHY SUPPLY/  
DEMAND  
FUNDAMENTALS

**~4M SF**  
**/ 4.5% INVENTORY**

**SUBLEASING**  
**(San Francisco)**

No significant subleasing in  
other markets

**4.5% to**  
**low-single digits**

**DIRECT**  
**VACANCY**

**4%-5%**

**CAP RATES**

Varies by market, asset quality,  
cash flows

## MARKET OBSERVATIONS TODAY

- Supply remains limited
- # of tenants in market hasn't decreased materially; on pause
- Subleasing:
  - In San Francisco, excluding Uber sublease, two subleases >100K SF. Quality space seeing good activity
  - Beyond this, only five subleases > 50K SF
  - Not seeing any material increases in other markets
- Too early to tell on cap rates; limited/ no data points

# LIFE SCIENCE

Strong Industry Fundamentals and Statistics

## STRONG FUNDAMENTALS



### INNOVATION FOCUSED FDA

48 FDA approvals in 2019  
(second highest year)

# 18%

## OF GDP

in healthcare expenditures



### INCREASE IN BIOTECH INDEX

Outperformed S&P 500 over  
1, 3 & 10-year periods<sup>(1)</sup>

# 7% YoY

## ANNUAL GROWTH IN NIH BUDGET 2019 – 2020

## WEST COAST MARKETS

### 1Q20 Statistics:

- Direct Vacancy:
  - 1% to 2% in South San Francisco and Seattle
  - Mid-6% in San Diego
- Demand:
  - ~3M SF in S. San Francisco
  - ~500K SF in Seattle
  - ~1.2M SF in San Diego

### Market Observations Today:

- In light of Covid-19, certain fundamentals have positively accelerated, ie FDA approvals
- Very little subleasing across lab space

(1) Through 12.31.19. Note: Market data statistics from various brokers as of 1Q20.

**BETTER POSITIONED TODAY**





# BETTER POSITIONED TODAY

	Global Financial Crisis (Q4 2009)	TODAY (Q1 2020)
<b>Balance Sheet Strength</b> <ul style="list-style-type: none"> <li>• Immediate Liquidity<sup>(1)</sup></li> <li>• Net Debt / LQA EBITDA<sup>(2)</sup></li> <li>• Covenant NOI Cushion<sup>(3)</sup></li> <li>• Debt Maturities</li> </ul>	<ul style="list-style-type: none"> <li>• ~\$465M</li> <li>• 8.0x</li> <li>• ~\$60M</li> <li>• 2010</li> </ul>	<ul style="list-style-type: none"> <li>• ~\$1.4B</li> <li>• 5.6x</li> <li>• ~\$250M</li> <li>• 2023<sup>(4)</sup></li> </ul>
<b>Stabilized Portfolio</b> <ul style="list-style-type: none"> <li>• % Leased</li> <li>• Lease Expirations Over Next Three Years</li> </ul>	<ul style="list-style-type: none"> <li>• 82.8%</li> <li>• ~11% / year</li> </ul>	<ul style="list-style-type: none"> <li>• 97.3%</li> <li>• ~5% / year</li> </ul>
<b>Development Under Construction<sup>(5)</sup></b> <ul style="list-style-type: none"> <li>• Office / Life Science Leased</li> <li>• Remaining Funding</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• 90%</li> <li>• ~\$725M (FULLY FUNDED)</li> </ul>

(1) Includes cash on hand or investments in short-term securities and bank line availability. Q1 2020 data pro forma for \$350M private placement debt executed in April 2020.

(2) Based on annualized quarterly EBITDA pro rata for strategic ventures.

(3) Represents NOI cushion before bank line thresholds.

(4) Excludes credit facility maturity in 2022.

(5) Inclusive of projects placed in tenant improvement phase. Excludes The Exchange & One Paseo retail, which were placed in stabilized portfolio in Q1 2020.

# CREATING VALUE IN CURRENT ENVIRONMENT



# STABILIZED PORTFOLIO

- Young, modern, highly sustainable portfolio
  - Average age of ~10 years
  - ~42% of stabilized portfolio is Fitwell certified
    - Best in Building Health Award by The Center for Active Design for having the most Fitwel-certified buildings of any non-government real estate company worldwide
- Average lease term of ~7 years; leases contain 3% to 4% annual rent increases
- Leasing activity since 1Q20: ~200K SF
  - ~110K SF renewal/ expansion leases with gaming, social media/ technology, engineering and life science companies in Los Angeles and San Diego
  - In negotiations: ~80K SF new lease with a global technology company in Seattle
- Limited upcoming lease expirations
  - ~135K SF expiration in Los Angeles in 4Q20



Key Center / Bellevue, Seattle



360 Third Street / SOMA, San Francisco

# DEVELOPMENT UNDER CONSTRUCTION

Significant NOI Generation Upon Stabilization

Project	Submarket	Total Investment	% Leased (Office / LS)	Estimated Delivery Date <sup>(1)</sup>	
				Budget	Change
333 Dexter	South Lake Union	~\$410M	100%	Q3 2020	No Change
Netflix // On Vine	Hollywood	~\$300M	100%	Q4 2020	No Change
Living // On Vine	Hollywood	~\$195M	N/A	Q4 2020	~ 1-quarter delay
One Paseo Office	Del Mar	~\$205M	91%	Q2 2020	~ 2-month delay
One Paseo Resi- Ph 3	Del Mar	~\$95M	N/A	Q2 2020	No Change
9455 Towne Centre Drive	UTC	~\$110M	100%	Q1 2021	No Change
KOP Phase 1	South San Francisco	~\$570M	100%	Q4 2021	No Change
2100 Kettner	Little Italy	~\$140M	--%	Q1 2021	No Change
<b>Total</b>		<b>~\$2.0B</b>	<b>~90%</b>		

**\$145M CASH NOI TO BE DELIVERED OVER THE NEXT TWO YEARS<sup>(2)</sup>**

(1) Reflects date of core & shell completion.

(2) Reflects projected stabilized, annualized NOI.



# MULTI-PHASED FUTURE DEVELOPMENT PIPELINE

Continue to Make Entitlement Progress/ Prepare for Future Starts

Project	Submarket	Est Project Size (SF)
Flower Mart	Central SOMA	~2.3M
Kilroy Oyster Point (2-4)	South San Francisco	~2.0M
The East Village	Downtown San Diego	TBD
Blackwelder	Culver City	TBD
Seattle CBD Project	Seattle CBD	~925K

Note: Projections based on information as we know it today and timing of project starts assumes earliest possible start date, which will be highly dependent on market conditions.



**K I L R O Y**

Where Innovation Works

