

# KILROY REALTY

## COMPANY UPDATE

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September 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 June 30, 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.



# AGENDA

01

## Key Company Highlights

- Strong Foundation
- 2Q 2020 and August Rent Collections
- Portfolio Credit Highlights
- State-of-the-Art Portfolio

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- Playing Defense and Offense

# KEY COMPANY HIGHLIGHTS



# STRONG FOUNDATION



**\$1.6B of Liquidity**



**State-of-the-Art  
Portfolio**



**Development is  
Fully Funded and  
90% Leased<sup>(2)</sup>**



**Growing Life  
Science Portfolio**



**No Debt Maturities  
Until 2023<sup>(1)</sup>**



**Limited Lease Expirations:  
6% / Year Through 2023**



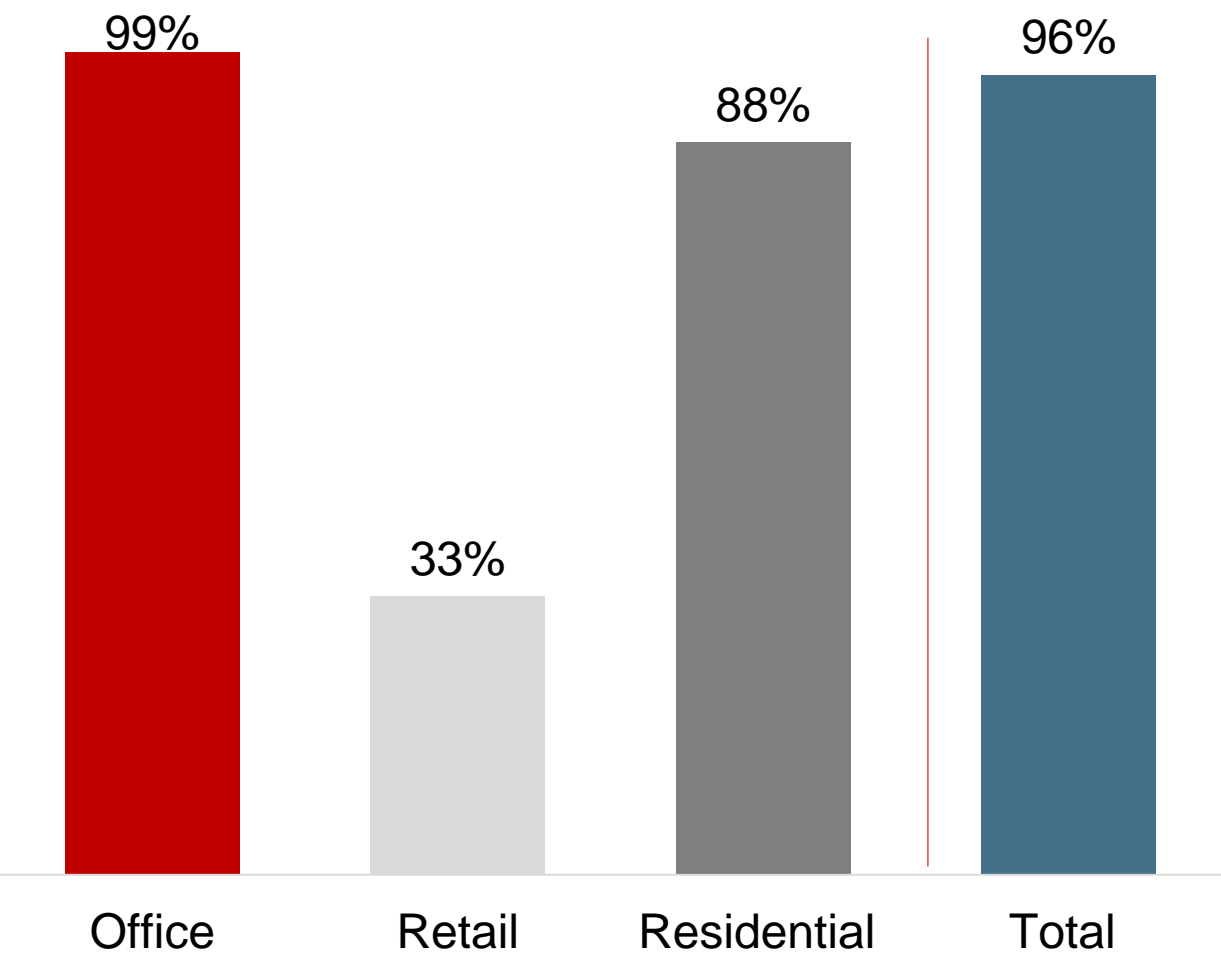
**Diversified Future  
Development Pipeline**

(1) Excludes credit facility maturity in 2022.

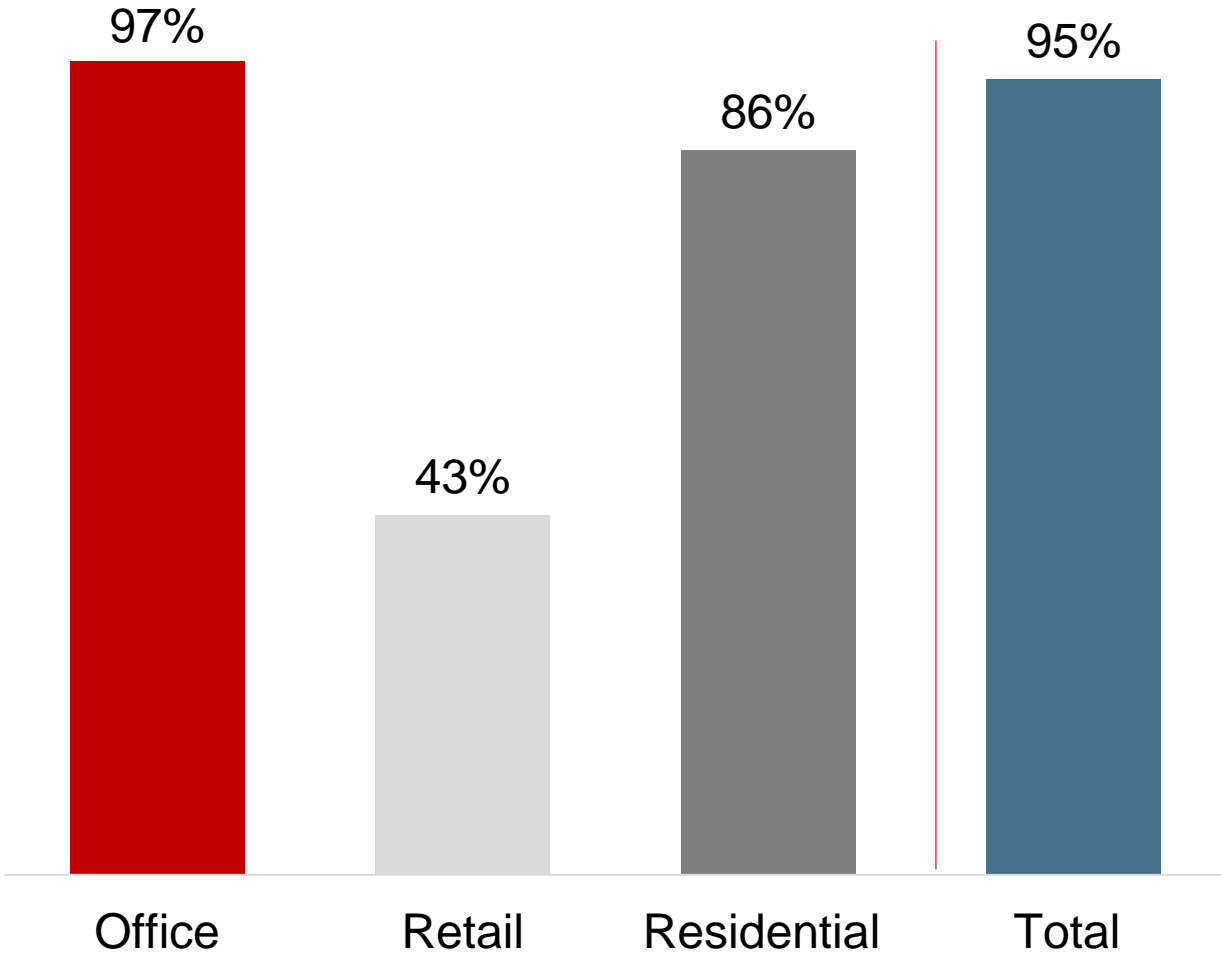
(2) Development projects under construction. KRC data as of 2Q20 with liquidity reflecting August bond offering.

# 2Q 2020 AND AUGUST RENT COLLECTIONS

2Q 2020 COLLECTIONS

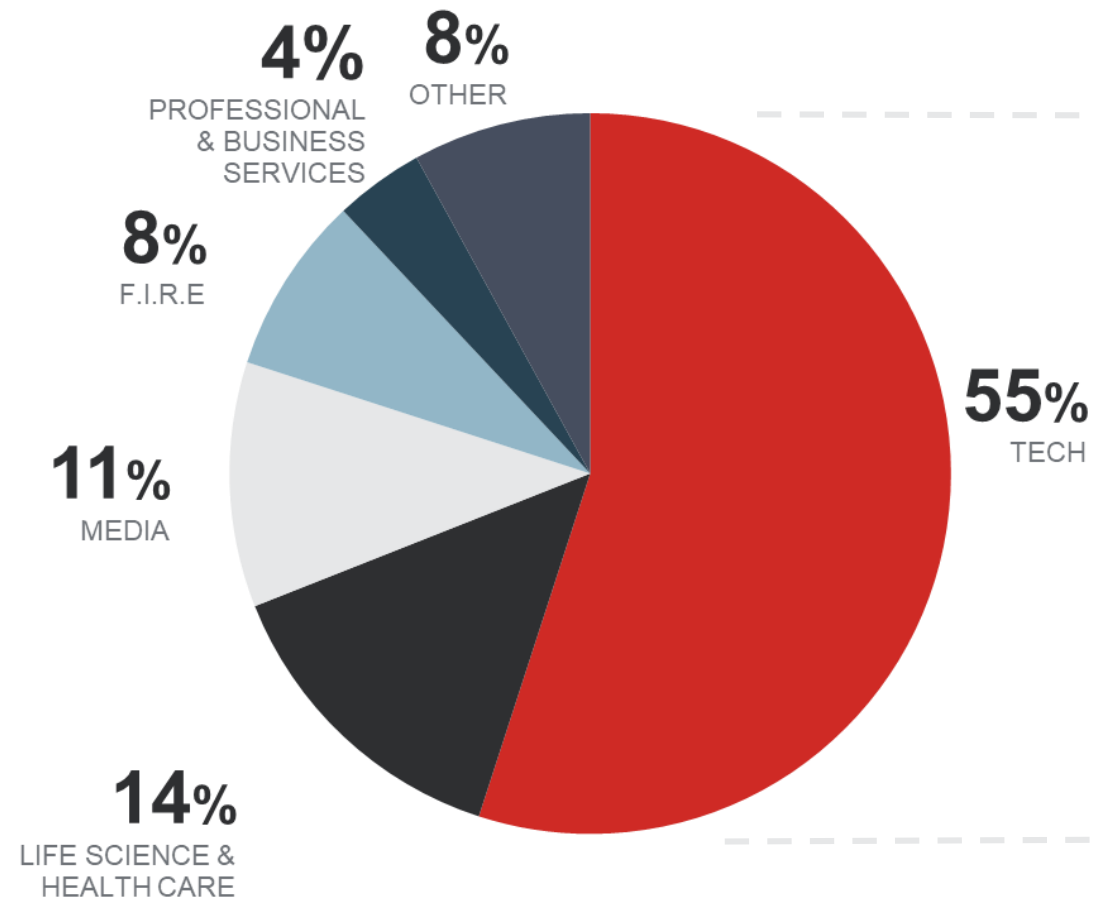


AUGUST COLLECTIONS

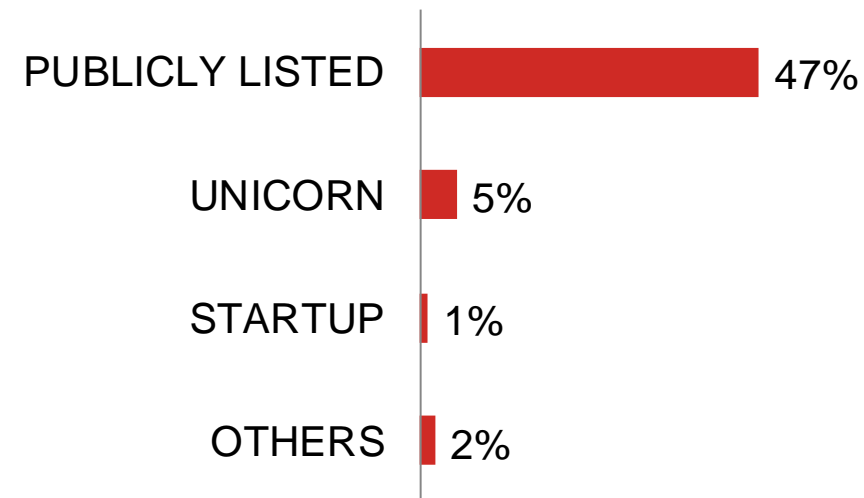


Note: Rent collection on a “gross” basis as of August 31, 2020.

# PORTFOLIO CREDIT HIGHLIGHTS



## TECH BREAKDOWN



**~47%** OF REVENUES FROM  
**TOP FIFTEEN TENANTS**  
(14 publicly listed and 9 investment grade rated)

**BEYOND TOP 15, ANOTHER  
~28%**  
PUBLICLY LISTED OR  
INVESTMENT GRADE RATED

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

Note: Data as of 06.30.20 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.



# STATE-OF-THE-ART PORTFOLIO; RESPONDS TO POST-COVID WORLD



## Well-Capitalized Landlord

- Investing in people and infrastructure to ensure a safe environment



## Average Age of ~10 Years<sup>(1)</sup>



## Flexible Physical Workspaces

- Provides tenants with greater ability to control their space
  - Lobbies, common areas, elevators built to minimize physical interaction with outsiders and enhance security



## Well-Designed Portfolio

- ~85% consists of mid-rise buildings (less than 20-stories)
- ~90% offers large, flexible floorplates (>20K SF)
- ~90% offers rooftop decks / outdoor patios



333 Brannan, San Francisco / Full-Floor Roof Deck



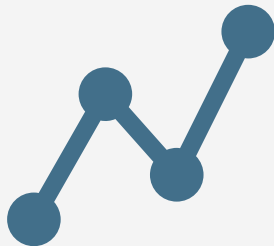
303 Second Street / SOMA, San Francisco

(1) Average age calculated based on time since construction completion or most recent renovation having the effect of modernizing the building.



# PIONEERING FIRSTS

## Wellness and Sustainability



- ✓ First Northern American REIT to commit to carbon neutral operations by year end 2020
- ✓ First to obtain Well certification for residential rental units
- ✓ First to earn LEED Core and Shell certification in San Diego
- ✓ First / inaugural class of Green Lease leaders
- ✓ First American REIT to launch an innovation lab
- ✓ First North American REIT to audit critical suppliers on ESG and publish results
- ✓ Member of first group of REITs to obtain a listing on the Bloomberg Gender Equality Index
- ✓ First REIT to include ESG factors in NEO compensation
- ✓ First publicly traded American corporation to align SEC 10K with SASB
- ✓ First American REIT to align our 10K with TCFD

# LEADERSHIP ACCOLADES

## Wellness and Sustainability



### GRESB

#1 Ranking in the Americas across all asset types



### Dow Jones

Sustainability World Index

- 3x inclusion



### FITWEL

Most certified projects of any non-government owner



### Bloomberg

Gender Equality Index

- 2020



### NAREIT

Leader in the Light Award, Office Sector

- 6x winner



### GREEN LEASE LEADERS

- 5x winner



### ENERGY STAR

Partner of the Year Award

- 4x winner in Sustained Excellence
- 7x winner overall



### THE CLIMATE GROUP

Climate Leadership Award,  
Organization Category

- 2020

# GROWING LIFE SCIENCE PORTFOLIO





# AMONG TOP THREE LARGEST PORTFOLIOS OF LIFE SCIENCE AND HEALTHCARE TENANTS

Based on Annualized Base Rent<sup>(1)</sup>

Company	Life Science & Healthcare Tenant Concentration
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ARE	81%
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PEAK	22%
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<b>KRC</b>	<b>14%</b>
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VTR	6%
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CUZ	5%
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BDN	3%
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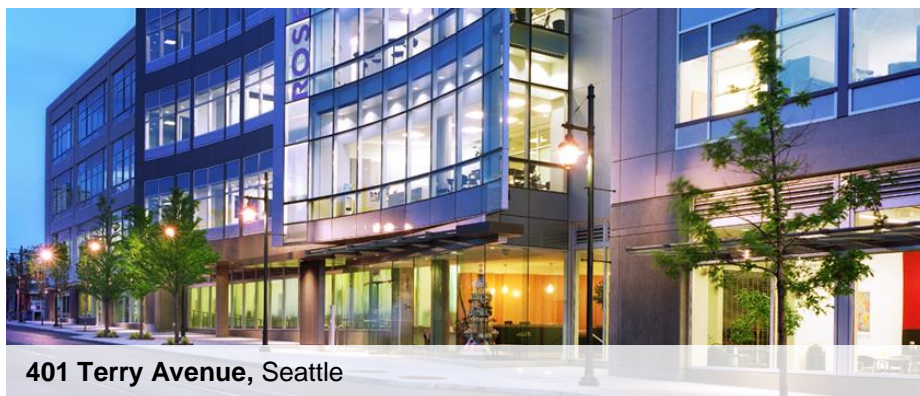
Life science and health care tenant concentration to increase by approximately 150% on a pro forma basis <sup>(2)</sup>

(1) Based on publicly traded REITs using annualized base rent (ABR) data as of 2Q20 from life science and health care tenants occupying either office and life science buildings.

(2) Pro forma for all development under construction and future development based on ABR as of 2Q20. Assumes KOP 1-5 development are life science build-outs.

Source: Company filings and various broker support.

# KILROY'S LIFE SCIENCE PORTFOLIO: “Life Science Company Within A Company”



## ~5M SF Pro Forma Footprint <sup>(1)</sup>

- ~1.2M SF stabilized portfolio
- ~0.9M SF life science-capable assets
- ~2.9M SF Kilroy Oyster Point development

**Public Market Life Science Cap Rate: ~4%<sup>(2)</sup>**



**Significant Value**

**Retrophin**

  
Cytokinetics

**NEKTAR**

 23andMe

 **LabCorp**

 **neurocrine**  
BIOSCIENCES

 **Stanford**  
Children's Health

 **Stanford**  
MEDICINE

 Institute for  
Systems Biology

(1) Pro forma includes the following within: (i) stabilized portfolio- Kilroy Centre Del Mar, El Camino Real campus, 401 Terry Ave North, 1701 Page Mill Road and OPTC, (ii) life-science capable assets -1800 Owens Street and 9455 Towne Centre Drive and (iii) development -KOP Phases 1-5. (2) Based on Green St estimates for life science implied cap rates.

# KILROY LIFE SCIENCE UPDATES

## Leasing Activity:

- Signed 160K SF of life science leases in 1H 2020:
  - ACADIA Pharmaceuticals / 32K SF / 10-year expansion lease
  - Evofem Biosciences / 9K SF / 5-year new lease
  - Scripps Health / 119K SF / 5-year renewal

## Tenant Milestones:

- FDA granted Cytokinetics fast track designation for heart failure medication
- Cytokinetics successfully raised over \$200M in a July equity offering
- Neurocrine Biosciences reported positive phase II data for adrenal gland disorder
- Retrophin successfully raised over \$100M in a June equity offering





# KILROY OYSTER POINT - PH 2 – 5

## KOP 2-4 – Fully-Entitled

- Phase 2: ~1 M SF across three buildings
  - Potential 2021 start, subject to market conditions
  - Three-year construction
  - Can be developed in phases
  - Likely multi-tenant
- Phases 3-4: ~1 M SF across four buildings
  - Start is subject to market conditions
  - Can be developed in phases

**KOP 5** – ~550K SF – entitlement process underway

## South San Francisco Market Observations

- Significant life science pre-leasing is not typical for this market
- Smaller life science companies are less apt to plan three to four years away
- Large pharma has a large existing presence in South SF
- *KOP leasing likely to be oriented towards innovative and rapidly growing biotechnology companies*



# KEY WEST COAST LIFE SCIENCE - MARKET FUNDAMENTALS

	Market Size (SF)	Direct Vacancy	Class-A Asking Rent (NNN)	Demand
<b>San Francisco</b> South San Francisco	9,299,438	1.9%	\$66.00	3.9M+ SF
<b>Seattle</b> Seattle/SLU	5,642,194	1.2%	\$65.00	400K+ SF
<b>San Diego</b> UTC	4,601,986	2.7%	\$60.00	1.3M+ SF

# DEVELOPMENT PROJECTS UNDER CONSTRUCTION





# DEVELOPMENT UNDER CONSTRUCTION

Significant NOI Generation Upon Stabilization

Project	Submarket	Total Investment	% Leased (Office / LS)	Current Status	
				Est. Delivery <sup>(1)</sup>	NOI Commenced <sup>(2)</sup>
333 Dexter	South Lake Union	~\$410M	100%	Q3 2020	49%
Netflix // On Vine	Hollywood	~\$300M	100%	Q4 2020	
Living // On Vine	Hollywood	~\$195M	N/A	Q1 2021	
One Paseo Office	Del Mar	~\$205M	91%	Q3 2020	20%
One Paseo Resi- Ph 3	Del Mar	~\$95M	N/A	Q3 2020	
9455 Towne Centre Drive	UTC	~\$110M	100%	Q1 2021	
KOP Phase 1	South San Francisco	~\$570M	100%	Q4 2021	
2100 Kettner	Little Italy	~\$140M	--%	Q1 2021	
<b>Total</b>		<b>~\$2.0B</b>	<b>~90%</b>		

**\$145M CASH NOI TO BE DELIVERED OVER THE NEXT 15-18 MONTHS <sup>(3)</sup>**

(1) Reflects date of core & shell completion.

(2) Reflects portion of projects that have commenced GAAP revenue recognition.

(3) Reflects projected stabilized, annualized NOI and assumes stabilization for 2100 Kettner in 1Q22.

# WEST COAST MARKET OBSERVATIONS





333 Brannan, San Francisco / Full-Floor Roof Deck



The Exchange, San Francisco / Covered Roof Deck

# HISTORICAL CONTEXT ON THE RESILIENCY OF OFFICE SPACE / CULTURE

## PRIOR REAL ESTATE INDUSTRY THREATS:

- **September 11<sup>th</sup> Terrorist Attacks**
  - Many worried that companies would be too frightened to work in high rises and urban areas
  - What ensued: Time heals and the urban landscape attracted millennials
- **Dot-com boom of late 1990s and early 2000s**
  - Predictions that teleconferencing would be the future of work
  - What actually happened: office environments evolved into a live, work, play culture and spurred innovation
- **Covid-19 Pandemic**
  - Headlines of Work From Home (WFH) replacing the office
  - Our prediction: WFH and workplace flexibility will work with the office and not replace it



# OBSERVATIONS ON THE FUTURE OF OFFICE SPACE

## MARKET OBSERVATIONS

- #1 near-term priority is health and safety for re-entry of workforce to office
- Tech companies remain focused on growth as use of technology continues to accelerate
- Growth (hiring) accelerated by providing workforce more flexibility in terms of where they want to work
- Key West Coast markets (San Francisco, Silicon Valley, Seattle and Hollywood) remain the core hubs for innovation and creativity
- Big tech companies continue to drive office demand
  - Amazon leased 2M SF in Bellevue
  - Google plans to develop more than 2.6M SF of mixed-use projects in Mountain View
  - Facebook leased 730K SF in NYC
  - Netflix CEO has publicly stated that WFH does not allow for collaboration



**One Paseo, San Diego** / Expansive Terrace



**Flower Mart, San Francisco** / Multi-level Terrace



# RECENT THOUGHTS FROM CORPORATE REAL ESTATE EXECUTIVES ON OFFICE DEMAND AND WORK FROM HOME

## FEEDBACK FROM A MAJOR MEDIA COMPANY

- Existing work-in-office culture; work from home (WFH) does not develop teams effectively nor provide for collaboration
- Evaluating additional space requirements as de-densification studies are underway
- Investigating technology to track space usage, access points, etc.

## FEEDBACK FROM \$250BN MKT CAP TECH CO, HQ IN SILICON VALLEY

- Pre-covid, 10% employees were WFH, expect this to go to 20% without any impact on space due to social distancing
- “Team meetings” will require everyone to come to the office at certain times

## FEEDBACK FROM \$250BN MKT CAP TECH CO, HQ IN SAN FRANCISCO

- Pre-covid, 15%-20% WFH, expect a modest increase
- Engineers enthusiastic about returning to office
- Looking at selective suburban markets but think new graduates will prefer the urban core environment



**East Village, San Diego** / Indoor-outdoor Connected Plazas

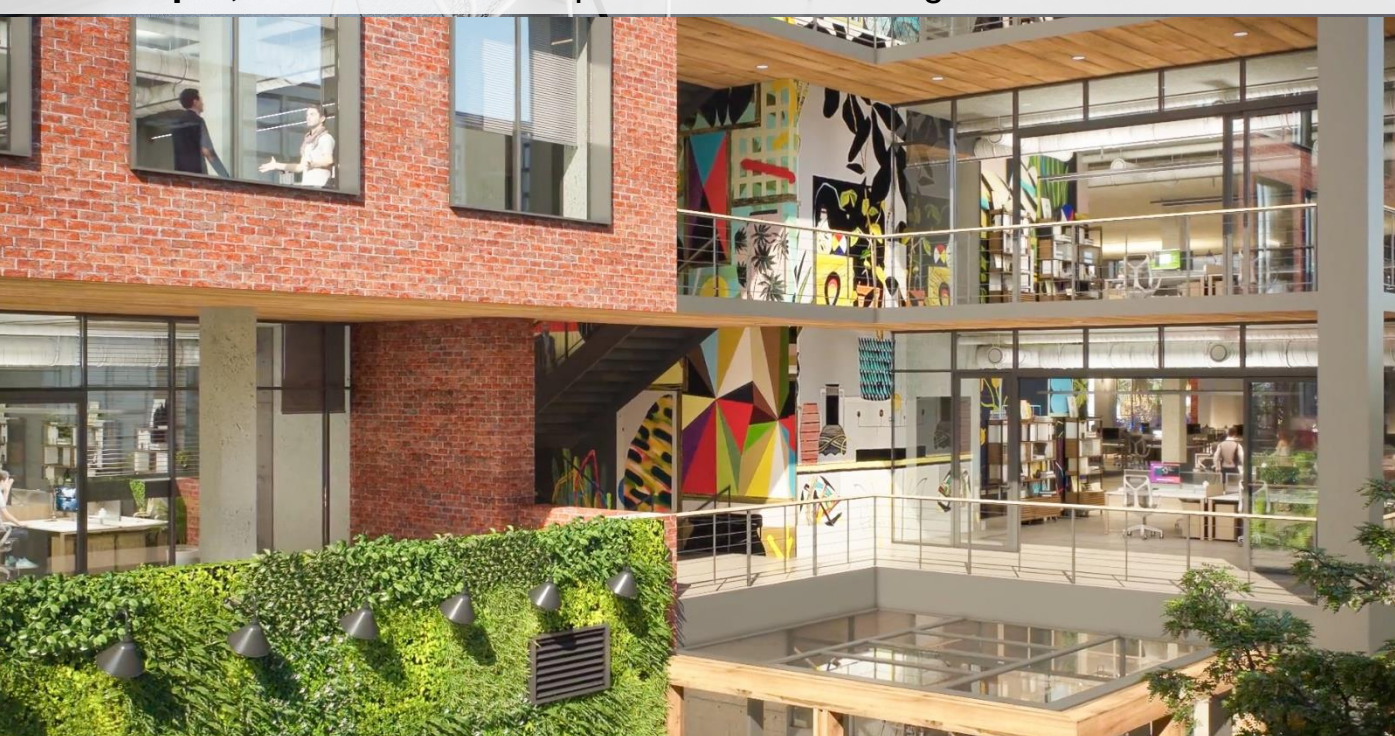


**Kilroy Oyster Point, South San Francisco** / Campus-wide Outdoor Plazas





**100 Hooper, San Francisco** / Open Connection Bridges



**2100 Kettner, San Diego** / Central Atrium & Open Stairwell

# WHAT TENANTS WANT IN THE OFFICE SPACE OF THE FUTURE

## I. AMENITIES

### What's important:

- Food service
- Nearby amenities
- Bike storage and repair
- Upscale showers and lockers

### What's less important:

- Onsite gyms, employee lounges
- Security kiosks and desks

## II. ACCESS TO FRESH AIR

- Plazas
- Terraces
- Roof decks
- Naturally ventilated atriums
- Operable windows

## III. ALTERNATIVE MODES OF VERTICAL CIRCULATION

- Multiple modes of access
- Elevator cabs: state-of-the-art density control technology
- Exit stairs: generously sized, upgraded quality of space
- Open air stairs in low rise buildings



# SAN FRANCISCO BAY AREA

## Subleasing Overview



### Inventory

- ~5.1M SF / ~6.5% inventory compares to prior peak of ~9% in 4Q 2001
- ~65% of sublease came on-line pre-covid
- Uber and Macys.com subleases totaled 980K SF; came on market pre-covid
  - Excluding these two subleases, sublease declines to 4.1M SF or ~5% inventory



### Segmenting the Details

- ~40% is big block (>50K SF) and ~60% is small block (<50K SF)
  - 7 subleases over 100K SF
    - 4 spaces are Uber and Macy's; the other three are Credit Karma and DropBox
  - 12 subleases over 50K (and less than 100K)



### Expirations

- ~40% expires by end of 2023 and ~60% expiring 2024+

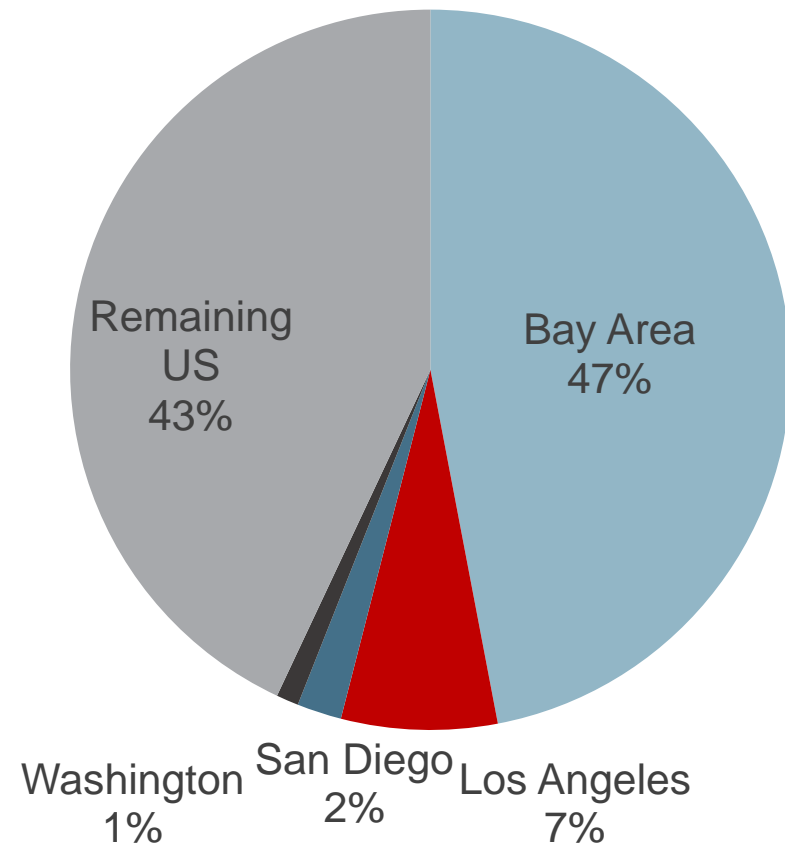


### Location: FIDI & SOMA

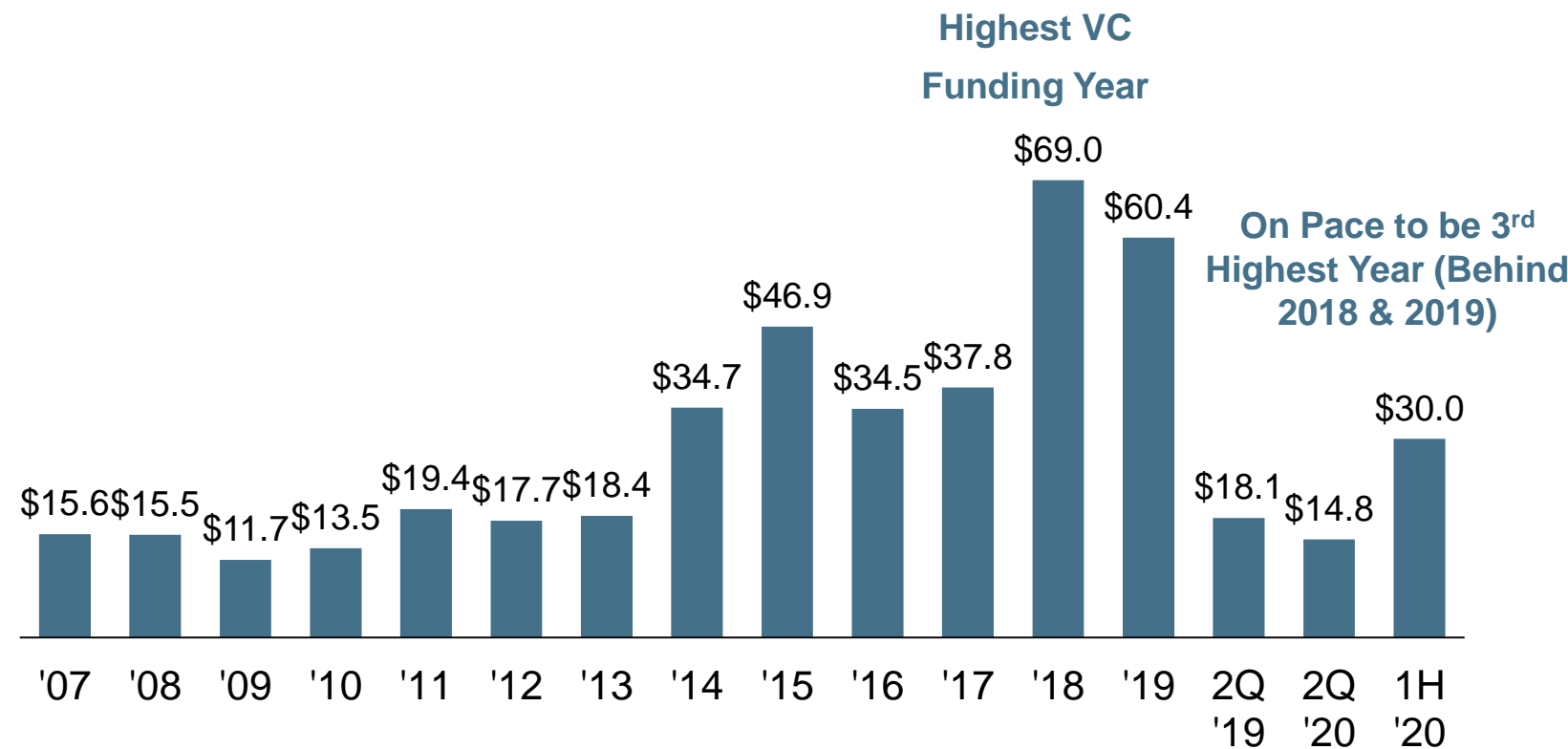
- ~40% FIDI and 60% SOMA/ So Financial district
  - Only 1.2M SF of subleases in SOMA

# WEST COAST VC FUNDING REMAINS HEALTHY

2Q 2020 U.S. VC Funding (\$26.9BN Total)



KRC West Coast Markets VC Funding (\$BN)



## 2Q20 Highlights

- KRC's west coast markets accounted for 57% of U.S. total
- Life Science accounted for ~24% of all funding with \$6.4 BN

**STRONG FINANCIAL POSITION**



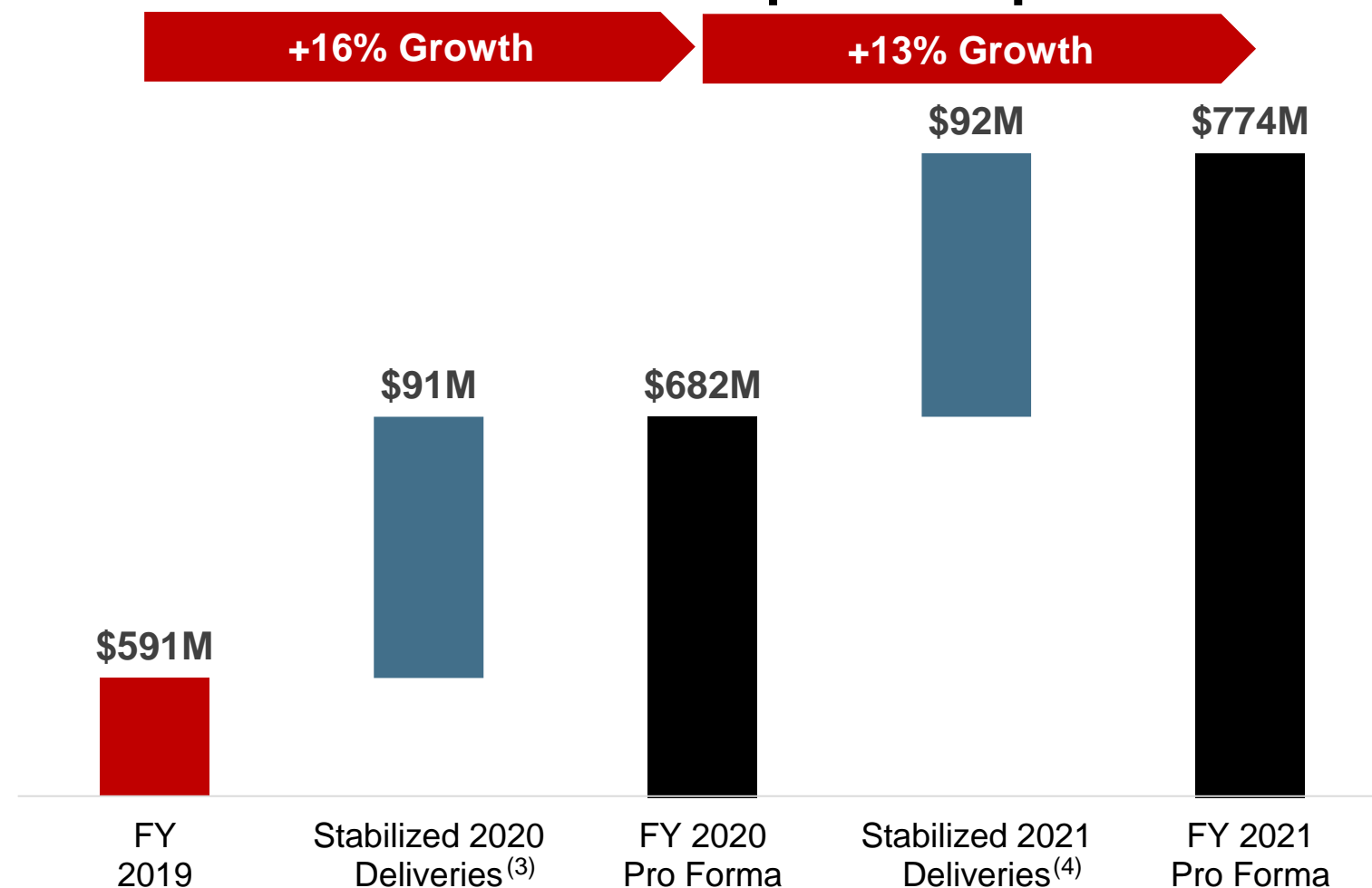
**PLAYING DEFENSE AND  
OFFENSE**



# STRONG FINANCIAL POSITION

- Balance Sheet Strength
  - ~\$1.6B of liquidity<sup>(1)</sup>
  - ~\$250M NOI cushion under bank covenants
  - 5.8x Net Debt / LQA EBITDA<sup>(2)</sup>
- Raised dividend 3.1%
  - Driven by strong NOI from development projects
  - 33.3% cumulative increase since 1Q 2016
- Strong YTD same-store cash NOI growth of +12.9%

## Substantial NOI Growth From 90% Leased Development Pipeline



(1) Includes cash on hand or investments in short-term securities and bank line availability. Pro forma for \$425M senior notes executed in August 2020 and \$150M term loan payoff.

(2) Based on annualized quarterly EBITDA pro rata for strategic ventures and excluding severance charge. Pro forma for \$425M senior notes executed in August 2020 and \$150M term loan payoff.

(3) Reflects stabilized NOI from remaining phase of The Exchange, first phase of Dexter, first phase of One Paseo Office, One Paseo Residential and Netflix on Vine.

(4) Reflects stabilized NOI from remaining phase of Dexter, remaining phase of One Paseo Office, Living on Vine, 9455 Towne Centre Drive and KOP Phase 1.



**K I L R O Y**

Where Innovation Works

