Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15 (d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
July 25, 2018

KILROY REALTY CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	**1-12675**	**95-4598246**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California	**90064**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(310) 481-8400

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On July 25, 2018, Kilroy Realty Corporation issued a press release announcing its earnings for the quarter ended June 30, 2018 and distributed certain supplemental financial information. On July 25, 2018, Kilroy Realty Corporation also posted the supplemental information on its website located at www.kilroyrealty.com. The text of the supplemental information and the related press release are furnished herewith as Exhibits 99.1 and 99.2, respectively, and are incorporated by reference herein.

Exhibits 99.1 and 99.2 are being furnished pursuant to Item 2.02 and shall not be deemed "filed" for any purpose, including for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section. The information in this Current Report on Form 8-K shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act regardless of any general incorporation language in such filing.

Item 7.01 Regulation FD Disclosure.

As discussed in Item 2.02 above, Kilroy Realty Corporation issued a press release announcing its earnings for the quarter ended June 30, 2018 and distributed certain supplemental information. On July 25, 2018, Kilroy Realty Corporation also posted the supplemental information on its website located at www.kilroyrealty.com.

The information being furnished pursuant to Item 7.01 shall not be deemed "filed" for any purpose, including for the purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section. The information in this Current Report on Form 8-K shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act regardless of any general incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of businesses acquired: None.

(b) Pro forma financial information: None.

(c) Shell company transactions: None.

(d) Exhibits:

The following exhibits are furnished with this Current Report on Form 8-K:

Exhibit No.	Description
99.1**	Supplemental Operating and Financial Data for the quarter ended June 30, 2018
99.2**	Press Release dated July 25, 2018 regarding second quarter 2018 earnings

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Kilroy Realty Corporation

Date: July 25, 2018

By: */s/ Heidi R. Roth*

Heidi R. Roth
Executive Vice President
and Chief Accounting Officer

(Back To Top)

Section 2: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1

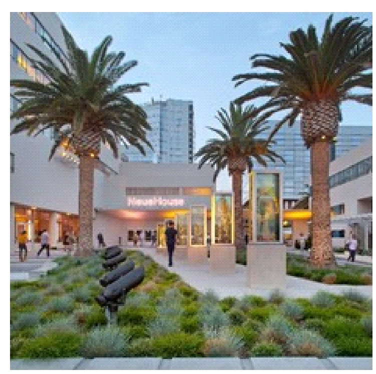
KILROY REALTY CORPORATION

Q2 2018 Supplemental Financial Report

One Paseo
(Del Mar, San Diego)

Kilroy Oyster Point
(South San Francisco)

2100 Kettner
(Little Italy, San Diego)



Columbia Square
(Hollywood, Los Angeles)

Kilroy Realty Corporation
Second Quarter 2018 Supplemental Financial Report

Table of Contents

This Supplemental Financial Report 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. These statements include, among other things, information concerning lease expirations, debt maturities, potential investments, development and redevelopment activity, projected construction costs, dispositions and other forward-looking financial data. In some instances, forward-looking statements can be identified by the use of forward-looking terminology such as "expect," "future," "will," "would," "pursue," or "project" and variations of such words and similar expressions that do not relate to historical matters. Forward-looking statements are based on Kilroy Realty Corporation's 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 Kilroy Realty Corporation's control. Accordingly, actual performance, results and events may vary materially from those indicated 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 implementations of, 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; and our ability to maintain our status as a REIT. 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 Kilroy Realty Corporation's business and financial performance, see the factors included under the caption "Risk Factors" in Kilroy Realty Corporation's annual report on Form 10-K for the year ended December 31, 2017, and its other filings with the Securities and Exchange Commission. All forward-looking statements are based on currently available information and speak only as of the date on which they are made. Kilroy Realty Corporation assumes no obligation to update any forward-looking statement made in this Supplemental Financial Report 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.

Kilroy Realty Corporation
Second Quarter 2018 Supplemental Financial Report

Company Background

Kilroy Realty Corporation (*NYSE: **KRC***), a publicly traded real estate investment trust and member of the S&P MidCap 400 Index, is one of the West Coast's premier landlords. The Company has over 70 years of experience developing, acquiring and managing office and mixed-use real estate assets. At June 30, 2018, the Company's stabilized portfolio totaled approximately 13.9 million square feet of office space that was 94.0% occupied, located in the coastal regions of Los Angeles, Orange County, San Diego, the San Francisco Bay Area and Greater Seattle and 200 residential units located in the Hollywood submarket of Los Angeles.

Board of Directors

John Kilroy	*Chairman*
Edward F. Brennan, PhD	*Lead Independent*
Jolie Hunt	
Scott S. Ingraham	
Gary R. Stevenson	
Peter B. Stoneberg	

Executive Management Team

John Kilroy	*President and CEO*
John T. Fucci	*Executive VP, Asset Management*
Jeffrey C. Hawken	*Executive VP and COO*
Tracy Murphy	*Executive VP, Life Science*
Robert Paratte	*Executive VP, Leasing and Business Development*
Tyler H. Rose	*Executive VP and CFO*
Steve Rosetta	*Executive VP and CIO*
Heidi R. Roth	*Executive VP and CAO*
Justin W. Smart	*Executive VP, Development and Construction Services*

Investor Relations

12200 W. Olympic Blvd., Suite 200
Los Angeles, CA 90064
(310) 481-8400
Web: www.kilroyrealty.com
E-mail: investorrelations@kilroyrealty.com

Equity Research Coverage

Bank of America Merrill Lynch		**Green Street Advisors**	
James Feldman	(646) 855-5808	Daniel Ismail	(949) 640-8780
BMO Capital Markets Corp.		**J.P. Morgan**	
John P. Kim	(212) 885-4115	Anthony Paolone	(212) 622-6682
BTIG		**KeyBanc Capital Markets**	
Thomas Catherwood	(212) 738-6140	Craig Mailman	(917) 368-2316
Citigroup Investment Research		**RBC Capital Markets**	
Michael Bilerman	(212) 816-1383	Mike Carroll	(440) 715-2649
D. A. Davidson		**Robert W. Baird & Co.**	
Barry Oxford	(212) 240-9871	David B. Rodgers	(216) 737-7341
Evercore ISI		**Stifel, Nicolaus & Company**	
Steve Sakwa	(212) 446-9462	John W. Guinee III	(443) 224-1307
Goldman Sachs & Co.		**Wells Fargo**	
Andrew Rosivach	(212) 902-2796	Blaine Heck	(443) 263-6529

Kilroy Realty Corporation is followed by the analysts listed above. Please note that any opinions, estimates or forecasts regarding Kilroy Realty Corporation's performance made by these analysts are theirs alone and do not represent opinions, forecasts or predictions of Kilroy Realty Corporation or its management. Kilroy Realty Corporation does not by its reference above or distribution imply its endorsement of or concurrence with such information, conclusions or recommendations.

Kilroy Realty Corporation
Second Quarter 2018 Supplemental Financial Report

Executive Summary

Quarterly Financial Highlights

- Net income available to common stockholders per share of $0.27
- FFO per share of $0.86, including a $0.05 per share charge for provision for bad debts, primarily related to a $0.07 per share charge for one tenant that the company is in ongoing discussions with, partially offset by a $0.02 per share reversal of provision due to the assignment of a lease to a credit tenant
- Revenues of $187.1 million
- Same Store GAAP NOI increased 1.7% compared to the prior year
- Same Store Cash NOI increased 5.1% compared to the prior year

Quarterly Operating Highlights

- Stabilized portfolio was 94.0% occupied and 96.8% leased at quarter-end
- 850,241 square feet of leases commenced in the stabilized portfolio
- 1,315,067 square feet of leases executed in the stabilized portfolio
  - GAAP rents increased approximately 30.2% from prior levels
  - Cash rents increased approximately 9.8% from prior levels
- Executed a 12-year lease with GM Cruise, LLC for 375,000 square feet at 301, 333 and 345 Brannan Street in San Francisco. 301 and 333 Brannan Street are included in our stabilized office portfolio and we expect to close on the acquisition of 345 Brannan Street later this year

Capital Markets Highlights

- In May, completed a private placement of $50.0 million of eight-year, 4.30% unsecured senior notes (“Series A Notes”) and $200.0 million of eight-year 4.35% unsecured senior notes (“Series B Notes”), both with delayed draw options. In July, drew the full amount of the Series A Notes. The Series B Notes are required to be drawn by October 22, 2018
- In May, issued all common stock remaining under the company’s 2014 $300.0 million at-the-market (“ATM”) offering program at a weighted average price of $73.01 per share before selling commissions, generating net proceeds of $98.7 million
- In June, established a new $500.0 million ATM offering program and issued common stock under the program at a weighted average price of $76.23 per share before selling commissions, generating net proceeds of $26.3 million
- As of the date of this report, $290.0 million was outstanding on our unsecured revolving credit facility

Strategic Highlights

- In June, completed the acquisition of Kilroy Oyster Point, an approximately 39-acre development site in South San Francisco, fully entitled for 2.5 million square feet of life science and office space, for a cash purchase price of approximately $308.2 million
- In June, transferred 100 Hooper, a $270.0 million, 400,000 square foot development project located in San Francisco’s SOMA district from under construction to the tenant improvement phase. The property’s 314,000 square feet of office space is fully leased to Adobe and the lease is expected to commence in the third quarter of 2018. The remaining 86,000 square feet of production, distribution and repair (“PDR”) space is 39% leased
- In June, transferred The Exchange on 16th, a $570.0 million, 750,000 square foot development project located in San Francisco’s Mission Bay from under construction to the tenant improvement phase. The office portion is fully leased to Dropbox, and the lease will commence in phases

____

Note: Definitions for commonly used terms in this Supplemental Financial Report are on pages 32-33 “Definitions Included in Supplemental.”

Financial Highlights

(unaudited, $ in thousands, except per share amounts)

	Three Months Ended				
	6/30/2018 [1]	3/31/2018	12/31/2017 [1]	9/30/2017 [1]	6/30/2017
INCOME ITEMS:					
Revenues	$ 187,072	$ 182,822	$ 177,561	$ 181,534	$ 180,598
Lease Termination Fees, net	1,093	60	198	760	367
Net Operating Income [2]	129,465	132,709	127,522	129,495	128,795
Capitalized Interest and Debt Costs	15,811	13,582	13,436	12,180	10,758
Net Income Available to Common Stockholders	27,549	36,246	28,529	66,558	29,833
EBITDA, as adjusted [2] [3]	108,473	117,184	112,565	116,956	115,530
Funds From Operations [3] [4] [5] [6]	88,629	96,285	86,539	89,547	88,767
Net Income Available to Common Stockholders per common share – diluted [5]	$ 0.27	$ 0.36	$ 0.28	$ 0.67	$ 0.30
Funds From Operations per common share – diluted [3] [5] [6]	$ 0.86	$ 0.94	$ 0.85	$ 0.88	$ 0.87
LIQUIDITY ITEMS:					
Funds Available for Distribution [4] [5] [7]	$ 51,953	$ 75,537	$ 51,177	$ 60,508	$ 63,654
Dividends per common share [5]	$ 0.455	$ 0.425	$ 0.425	$ 0.425	$ 0.425
RATIOS:					
Net Operating Income Margins	69.2%	72.6%	71.8%	71.3%	71.3%
Interest Coverage Ratio	3.9x	4.5x	4.2x	4.3x	4.2x
Fixed Charge Coverage Ratio	3.9x	4.5x	4.2x	4.2x	3.9x
FFO Payout Ratio [3] [6]	52.7%	44.5%	49.5%	47.7%	48.1%
FAD Payout Ratio [7]	89.9%	56.8%	83.6%	70.6%	67.1%
ASSETS:					
Real Estate Held for Investment before Depreciation	$ 8,138,413	$ 7,645,666	$ 7,417,777	$ 7,239,856	$ 7,276,227
Total Assets	7,384,784	6,965,932	6,802,838	6,838,299	6,995,367
CAPITALIZATION: [8]					
Total Debt	$ 2,807,627	$ 2,563,517	$ 2,364,395	$ 2,449,025	$ 2,579,552
Total Preferred Equity and Noncontrolling Interests in the Operating Partnership	—	—	—	—	100,000
Total Common Equity and Noncontrolling Interests in the Operating Partnership	7,762,978	7,160,602	7,517,070	7,144,676	7,547,195
Total Market Capitalization	10,570,605	9,724,119	9,881,465	9,593,701	10,226,747
Total Debt / Total Market Capitalization	26.6%	26.4%	23.9%	25.5%	25.2%

Note: Definitions for commonly used terms in this Supplemental Financial Report are on pages 32-33 "Definitions Included in Supplemental."

(1) Net Income Available to Common Stockholders includes $5.6 million of provision for bad debts for the three months ended June 30, 2018, $37.3 million of gains on sales of depreciable operating properties and a $0.4 million gain on sale of land for the three months ended September 30, 2017, and a $5.3 million loss on early extinguishment of debt for the three months ended December 31, 2017.

(2) Please refer to pages 34-35 for reconciliations of GAAP Net Income Available to Common Stockholders to Net Operating Income and EBITDA, as adjusted.

(3) EBITDA, as adjusted, and Funds From Operations include $5.6 million of provision for bad debts and a $0.4 million gain on sale of land for the three months ended June 30, 2018 and September 30, 2017, respectively. The Company's calculation of EBITDA, as adjusted, is the same as EBITDAre, as defined by NAREIT, as the Company does not have any unconsolidated joint ventures.

(4) Please refer to page 8 for reconciliations of GAAP Net Income Available to Common Stockholders to Funds From Operations available to common stockholders and unitholders and Funds Available for Distribution to common stockholders and unitholders and page 9 for a reconciliation of GAAP Net Cash Provided by Operating Activities to Funds Available for Distribution to common stockholders and unitholders.

(5) Reported amounts are attributable to common stockholders, common unitholders and restricted stock unit holders.

(6) Funds From Operations for the three months ended December 31, 2017 includes a $5.3 million loss on early extinguishment of debt. Funds From Operations for the three months ended September 30, 2017 includes a $3.7 million or $0.04 per share non-cash charge related to the original issuance costs of Series H preferred stock that was redeemed on August 15, 2017.

(7) Funds Available for Distribution for the three months ended December 31, 2017 includes a $5.0 million cash loss on early extinguishment of debt.

(8) Please refer to page 26 for additional information regarding our capital structure.

Net Income Available to Common Stockholders / FFO Guidance and Outlook

(unaudited, $ and shares/units in thousands, except per share amounts)

The Company is providing an updated guidance range of NAREIT-defined FFO per diluted share for its fiscal year 2018 of $3.47 to $3.57 per share with a midpoint of $3.52 per share.

	Full Year 2018 Range at June 30, 2018	
	Low End	**High End**
Net income available to common stockholders per share - diluted	$ 1.30	$ 1.40
Weighted average common shares outstanding - diluted (1)	101,000	101,000
Net income available to common stockholders	$ 131,000	$ 141,000
Adjustments:		
Net income attributable to noncontrolling common units of the Operating Partnership	2,600	3,000
Net income attributable to noncontrolling interests in consolidated property partnerships	14,500	15,500
Depreciation and amortization of real estate assets	237,000	237,000
Gains on sales of depreciable real estate	—	—
Funds From Operations attributable to noncontrolling interests in consolidated property partnerships	(23,500)	(24,500)
Funds From Operations (2)	$ 361,600	$ 372,000
Weighted average common shares and units outstanding - diluted (3)	104,300	104,300
FFO per common share/unit - diluted (3)	$ 3.47	$ 3.57

Key 2018 assumptions include:

- Dispositions of $250.0 to $750.0 million
- Same store cash net operating income growth of 1 to 2% (2)
- Year-end occupancy of 94.0% to 95.0%
- Net operating income margin of approximately 70.0% to 70.5% (2)
- Remaining development spending of approximately $250.0 to $300.0 million

---

(1) Calculated based on estimated weighted average shares outstanding including participating share-based awards (i.e. nonvested stock and certain time based restricted stock units).

(2) See pages 29-31 for Management Statements on Funds From Operations, Same Store Cash Net Operating Income and Net Operating Income and page 33 for the definition of Net Operating Income Margin.

(3) Calculated based on estimated weighted average shares outstanding including participating share-based awards (i.e. nonvested stock and certain time based restricted stock units) and assuming the exchange of all estimated common limited partnership units outstanding. Reported amounts are attributable to common stockholders, common unitholders, and restricted stock unit holders.

The Company's guidance estimates for the full year 2018, and the reconciliation of net income available to common stockholders per share - diluted and FFO per share and unit - diluted included within this report, reflect management's views on current and future market conditions, including assumptions with respect to rental rates, occupancy levels, and the earnings impact of the events referenced in this report. Although these guidance estimates reflect the impact on the Company's operating results of an assumed range of future disposition activity, these guidance estimates do not include any estimates of possible future gains or losses from possible future dispositions because the magnitude of gains or losses on sales of depreciable operating properties, if any, will depend on the sales price and depreciated cost basis of the disposed assets at the time of disposition, information that is not known at the time the Company provides guidance, and the timing of any gain recognition will depend on the closing of the dispositions, information that is also not known at the time the Company provides guidance and may occur after the relevant guidance period. We caution you not to place undue reliance on our assumed range of future disposition activity because any potential future disposition transactions will ultimately depend on the market conditions and other factors, including but not limited to the Company's capital needs, the particular assets being sold and the Company's ability to defer some or all of the taxable gain on the sales. These guidance estimates also do not include the impact on operating results from potential future acquisitions, possible capital markets activity, possible future impairment charges or any events outside of the Company's control. There can be no assurance that the Company's actual results will not differ materially from these estimates.

Common Stock Data *(NYSE: KRC)*

	Three Months Ended				
	6/30/2018	3/31/2018	12/31/2017	9/30/2017	6/30/2017
High Price	$ 77.34	$ 74.27	$ 76.18	$ 75.69	$ 77.09
Low Price	$ 68.96	$ 63.72	$ 70.17	$ 67.47	$ 70.06
Closing Price	$ 75.64	$ 70.96	$ 74.65	$ 71.12	$ 75.15
Dividends per share – annualized [1]	$ 1.82	$ 1.70	$ 1.70	$ 1.70	$ 1.70
Closing common shares (in 000's) [2] [3]	100,560	98,840	98,620	98,382	98,351
Closing common partnership units (in 000's) [2]	2,071	2,071	2,077	2,077	2,077
	102,631	100,911	100,697	100,459	100,428

____

(1) In May 2018, the regular quarterly cash dividend was increased to an annualized rate of $1.82 per share, a 7.1% increase from the previous annualized dividend level of $1.70 per share.

(2) As of the end of the period.

(3) In the second quarter of 2018, the Company issued 1,719,195 common shares under its ATM offering programs at a weighted average price of $73.66 per share before selling commissions.

Consolidated Balance Sheets

(unaudited, $ in thousands)

	6/30/2018	3/31/2018	12/31/2017	9/30/2017	6/30/2017
ASSETS:					
Land and improvements	$ 1,127,100	$ 1,127,100	$ 1,076,172	$ 1,076,172	$ 1,108,971
Buildings and improvements	5,017,999	4,987,617	4,908,797	4,871,667	4,983,638
Undeveloped land and construction in progress	1,993,314	1,530,949	1,432,808	1,292,017	1,183,618
Total real estate assets held for investment	8,138,413	7,645,666	7,417,777	7,239,856	7,276,227
Accumulated depreciation and amortization	(1,361,811)	(1,312,612)	(1,264,162)	(1,216,358)	(1,234,079)
Total real estate assets held for investment, net	6,776,602	6,333,054	6,153,615	6,023,498	6,042,148
Cash and cash equivalents	50,817	53,069	57,649	64,954	387,616
Restricted cash	—	—	9,149	179,276	8,249
Marketable securities	22,519	21,572	20,674	18,851	16,010
Current receivables, net	15,144	17,602	16,926	18,626	13,703
Deferred rent receivables, net	256,558	251,744	246,391	238,959	233,427
Deferred leasing costs and acquisition-related intangible assets, net	186,649	181,567	183,728	185,420	195,320
Prepaid expenses and other assets, net	76,495	107,324	114,706	108,715	98,894
TOTAL ASSETS	$ 7,384,784	$ 6,965,932	$ 6,802,838	$ 6,838,299	$ 6,995,367
LIABILITIES AND EQUITY:					
Liabilities:					
Secured debt, net	$ 338,189	$ 339,501	$ 340,800	$ 465,828	$ 467,758
Unsecured debt, net	2,156,521	2,155,794	2,006,263	1,909,381	2,097,083
Unsecured line of credit	295,000	50,000	—	60,000	—
Accounts payable, accrued expenses and other liabilities	278,508	223,973	249,637	271,405	219,483
Accrued dividends and distributions	47,348	43,512	43,448	43,324	44,105
Deferred revenue and acquisition-related intangible liabilities, net	146,741	149,563	145,890	145,556	148,729
Rents received in advance and tenant security deposits	58,604	56,117	56,484	46,925	55,738
Total liabilities	3,320,911	3,018,460	2,842,522	2,942,419	3,032,896
Equity:					
Stockholders' Equity					
6.375% Series H Cumulative Redeemable Preferred stock	—	—	—	—	96,256
Common stock	1,006	988	986	984	984
Additional paid-in capital	3,951,289	3,816,385	3,822,492	3,797,546	3,792,028
Distributions in excess of earnings	(149,368)	(130,514)	(122,685)	(108,667)	(132,799)
Total stockholders' equity	3,802,927	3,686,859	3,700,793	3,689,863	3,756,469
Noncontrolling Interests					
Common units of the Operating Partnership	78,223	77,240	77,948	77,911	77,296
Noncontrolling interests in consolidated property partnerships	182,723	183,373	181,575	128,106	128,706
Total noncontrolling interests	260,946	260,613	259,523	206,017	206,002
Total equity	4,063,873	3,947,472	3,960,316	3,895,880	3,962,471
TOTAL LIABILITIES AND EQUITY	$ 7,384,784	$ 6,965,932	$ 6,802,838	$ 6,838,299	$ 6,995,367

Consolidated Statements of Operations

(unaudited, $ and shares in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	$ 164,515	$ 158,925	$ 327,386	$ 315,573
Tenant reimbursements	19,567	19,267	38,717	38,563
Other property income	2,990	2,406	3,791	5,770
Total revenues	187,072	180,598	369,894	359,906
EXPENSES				
Property expenses	32,567	33,304	64,238	64,545
Real estate taxes	17,813	16,543	34,959	34,507
Provision for bad debts	5,641	409	5,376	1,707
Ground leases	1,586	1,547	3,147	3,189
General and administrative expenses	21,763	14,303	37,322	29,236
Depreciation and amortization	64,006	62,251	126,721	123,170
Total expenses	143,376	128,357	271,763	256,354
OTHER (EXPENSES) INCOME				
Interest income and other net investment gain/loss	771	1,038	805	2,103
Interest expense	(12,712)	(17,973)	(26,210)	(35,325)
Total other (expenses) income	(11,941)	(16,935)	(25,405)	(33,222)
INCOME FROM OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE	31,755	35,306	72,726	70,330
Gains on sales of depreciable operating properties	—	—	—	2,257
NET INCOME	31,755	35,306	72,726	72,587
Net income attributable to noncontrolling common units of the Operating Partnership	(566)	(616)	(1,317)	(1,239)
Net income attributable to noncontrolling interests in consolidated property partnerships	(3,640)	(3,242)	(7,614)	(6,375)
Total income attributable to noncontrolling interests	(4,206)	(3,858)	(8,931)	(7,614)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	27,549	31,448	63,795	64,973
Preferred dividends	—	(1,615)	—	(4,966)
Original issuance costs of redeemed preferred stock	—	—	—	(3,845)
Total preferred dividends	—	(1,615)	—	(8,811)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 27,549	$ 29,833	$ 63,795	$ 56,162
Weighted average common shares outstanding – basic	99,692	98,275	99,221	97,834
Weighted average common shares outstanding – diluted	100,151	98,827	99,688	98,427
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS PER SHARE				
Net income available to common stockholders per share – basic	$ 0.27	$ 0.30	$ 0.63	$ 0.56
Net income available to common stockholders per share – diluted	$ 0.27	$ 0.30	$ 0.63	$ 0.56

Funds From Operations and Funds Available for Distribution

(unaudited, $ in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
FUNDS FROM OPERATIONS: [(1)]				
Net income available to common stockholders	$ 27,549	$ 29,833	$ 63,795	$ 56,162
Adjustments:				
Net income attributable to noncontrolling common units of the Operating Partnership	566	616	1,317	1,239
Net income attributable to noncontrolling interests in consolidated property partnerships	3,640	3,242	7,614	6,375
Depreciation and amortization of real estate assets	62,956	61,000	124,633	120,734
Gains on sales of depreciable real estate	—	—	—	(2,257)
Funds From Operations attributable to noncontrolling interests in consolidated property partnerships	(6,082)	(5,924)	(12,445)	(11,552)
Funds From Operations [(1)(2)]	$ 88,629	$ 88,767	$ 184,914	$ 170,701
Weighted average common shares/units outstanding – basic [(3)]	102,879	101,551	102,457	101,219
Weighted average common shares/units outstanding – diluted [(4)]	103,338	102,103	102,924	101,812
FFO per common share/unit – basic [(1)]	$ 0.86	$ 0.87	$ 1.80	$ 1.69
FFO per common share/unit – diluted [(1)]	$ 0.86	$ 0.87	$ 1.80	$ 1.68
FUNDS AVAILABLE FOR DISTRIBUTION: [(1)]				
Funds From Operations [(1)(2)]	$ 88,629	$ 88,767	$ 184,914	$ 170,701
Adjustments:				
Recurring tenant improvements, leasing commissions and capital expenditures	(34,854)	(17,967)	(48,848)	(35,856)
Amortization of deferred revenue related to tenant-funded tenant improvements [(2)(5)]	(4,588)	(4,548)	(8,869)	(8,243)
Net effect of straight-line rents	(4,814)	(7,568)	(10,167)	(14,451)
Amortization of net below market rents [(6)]	(2,938)	(1,191)	(5,481)	(3,603)
Amortization of deferred financing costs and net debt discount/premium	267	406	582	823
Non-cash amortization of share-based compensation awards	8,669	4,832	12,267	8,966
Original issuance costs of redeemed preferred stock	—	—	—	3,845
Other lease related adjustments, net [(7)]	(733)	(301)	554	(393)
Adjustments attributable to noncontrolling interests in consolidated property partnerships	2,315	1,224	2,538	2,011
Funds Available for Distribution [(1)]	$ 51,953	$ 63,654	$ 127,490	$ 123,800

____

(1) *See page 31 for Management Statements on Funds From Operations and Funds Available for Distribution. Reported per common share/unit amounts are attributable to common stockholders, common unitholders and restricted stock unit holders.*

(2) *FFO available to common stockholders and unitholders includes amortization of deferred revenue related to tenant-funded tenant improvements of $4.6 million and $4.5 million for the three months ended June 30, 2018 and 2017, respectively, and $8.9 million and $8.2 million for the six months ended June 30, 2018 and 2017, respectively. These amounts are adjusted out of FFO in our calculation of FAD.*

(3) *Calculated based on weighted average shares outstanding including participating share-based awards and assuming the exchange of all common limited partnership units outstanding.*

(4) *Calculated based on weighted average shares outstanding including participating and non-participating share-based awards (i.e. nonvested stock and time based restricted stock units), dilutive impact of stock options and contingently issuable shares and assuming the exchange of all common limited partnership units outstanding.*

(5) *Represents revenue recognized during the period as a result of the amortization of deferred revenue recorded for tenant-funded tenant improvements.*

(6) *Represents the non-cash adjustment related to the acquisition of buildings with above and/or below market rents.*

(7) *Includes other non-cash adjustments attributable to lease-related GAAP revenue recognition timing differences.*

Reconciliation of GAAP Net Cash Provided by Operating Activities to Funds Available for Distribution

(unaudited, $ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
GAAP Net Cash Provided by Operating Activities	$ 94,734	$ 82,041	$ 188,843	$ 178,416
Adjustments:				
Recurring tenant improvements, leasing commissions and capital expenditures	(34,854)	(17,967)	(48,848)	(35,856)
Preferred dividends	—	(1,615)	—	(4,966)
Depreciation of non-real estate furniture, fixtures and equipment	(1,050)	(1,251)	(2,088)	(2,436)
Provision for uncollectible tenant receivables	(5,248)	(50)	(4,977)	(620)
Net changes in operating assets and liabilities [1]	4,358	9,069	10,464	2,089
Noncontrolling interests in consolidated property partnerships' share of FFO and FAD	(3,767)	(4,700)	(9,907)	(9,541)
Cash adjustments related to investing and financing activities	(2,220)	(1,873)	(5,997)	(3,286)
Funds Available for Distribution[2]	**$ 51,953**	**$ 63,654**	**$ 127,490**	**$ 123,800**

____

(1) Primarily includes changes in the following assets and liabilities: marketable securities; current receivables; prepaid expenses and other assets; accounts payable, accrued expenses and other liabilities; and rents received in advance and tenant security deposits.

(2) Please refer to page 31 for a Management Statement on Funds Available for Distribution.

Same Store Analysis [1]

(unaudited, $ in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Total Same Store Portfolio						
Office Portfolio						
Number of properties	98	98		98	98	
Square Feet	13,370,620	13,370,620		13,370,620	13,370,620	
Percent of Stabilized Portfolio	96.3%	92.9%		96.3%	92.9%	
Average Occupancy	94.7%	94.9%		94.8%	95.0%	
Operating Revenues:						
Rental income	$ 156,507	$ 149,891	4.4%	$ 311,862	$ 297,796	4.7 %
Tenant reimbursements	19,160	18,717	2.4%	38,129	37,582	1.5 %
Other property income	2,987	1,414	111.2%	3,788	4,697	(19.4)%
Total operating revenues	178,654	170,022	5.1%	353,779	340,075	4.0 %
Operating Expenses:						
Property expenses	31,262	31,193	0.2%	61,612	60,855	1.2 %
Real estate taxes	16,523	15,246	8.4%	32,594	31,936	2.1 %
Provision for bad debts	5,641	451	1,150.8%	5,351	1,631	228.1 %
Ground leases	1,586	1,547	2.5%	3,147	3,189	(1.3)%
Total operating expenses	55,012	48,437	13.6%	102,704	97,611	5.2 %
GAAP Net Operating Income	$ 123,642	$ 121,585	1.7%	$ 251,075	$ 242,464	3.6 %

Same Store Analysis (Cash Basis) [2]

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Total operating revenues	$ 167,074	$ 159,897	4.5%	$ 332,895	$ 320,284	3.9 %
Total operating expenses	49,371	47,933	3.0%	97,352	95,887	1.5 %
Cash Net Operating Income	$ 117,703	$ 111,964	5.1%	$ 235,543	$ 224,397	5.0 %

____

(1) Same Store is defined as all properties owned and included in our stabilized portfolio as of January 1, 2017 and still owned and included in the stabilized portfolio as of June 30, 2018. Same Store includes 100% of consolidated property partnerships as well as the residential tower at Columbia Square.

(2) Please refer to page 34 for a reconciliation of GAAP Net Income Available to Common Stockholders to Same Store GAAP Net Operating Income and Same Store Cash Net Operating Income.

Kilroy Realty Corporation
Second Quarter 2018 Supplemental Financial Report

Stabilized Portfolio Occupancy Overview by Region

STABILIZED OFFICE PORTFOLIO	Buildings	Portfolio Breakdown YTD NOI %	Portfolio Breakdown SF %	Total SF	Occupied at 6/30/2018	Occupied at 3/31/2018	Leased at 6/30/2018
Greater Los Angeles							
101 Corridor	4	0.8%	2.2%	309,438	89.5%	91.2%	90.3%
El Segundo	5	5.1%	7.9%	1,093,050	99.3%	98.0%	99.3%
Hollywood	6	5.6%	5.8%	806,557	97.8%	93.7%	97.8%
Long Beach	7	3.2%	6.8%	949,910	90.8%	93.1%	94.3%
West Hollywood	4	1.8%	1.3%	178,699	91.3%	98.0%	91.3%
West Los Angeles	10	7.0%	6.1%	844,079	90.9%	89.8%	90.9%
Total Greater Los Angeles	**36**	**23.5%**	**30.1%**	**4,181,733**	**94.3%**	**93.9%**	**95.2%**
Total Orange County	**1**	**1.2%**	**2.0%**	**271,556**	**89.6%**	**89.6%**	**89.6%**
San Diego County							
Del Mar	14	9.2%	9.8%	1,351,044	99.6%	98.6%	100.0%
I-15 Corridor	5	3.4%	3.9%	541,991	96.3%	96.6%	97.6%
Point Loma	1	0.4%	0.8%	103,900	100.0%	100.0%	100.0%
University Towne Center	1	0.2%	0.3%	47,846	91.4%	91.4%	91.4%
Total San Diego County	**21**	**13.2%**	**14.8%**	**2,044,781**	**98.5%**	**98.0%**	**99.2%**
San Francisco Bay Area							
Menlo Park	7	3.0%	2.7%	378,358	95.7%	95.3%	98.0%
Mountain View	4	5.1%	3.9%	542,235	100.0%	100.0%	100.0%
Palo Alto	2	2.8%	1.2%	165,585	100.0%	100.0%	100.0%
Redwood City	2	4.1%	2.5%	347,269	99.1%	99.1%	100.0%
San Francisco	8	25.6%	20.2%	2,808,102	90.0%	92.6%	97.9%
South San Francisco	3	1.0%	1.0%	145,530	78.5%	78.5%	78.5%
Sunnyvale	8	7.0%	6.7%	930,221	100.0%	100.0%	100.0%
Total San Francisco Bay Area	**34**	**48.6%**	**38.2%**	**5,317,300**	**93.8%**	**95.1%**	**98.2%**
Greater Seattle							
Bellevue	2	5.5%	6.5%	905,225	84.7%	83.9%	94.9%
Kirkland	4	1.5%	2.0%	279,924	98.8%	100.0%	98.8%
Lake Union	6	6.5%	6.4%	880,990	93.5%	93.5%	94.4%
Total Greater Seattle	**12**	**13.5%**	**14.9%**	**2,066,139**	**90.4%**	**90.2%**	**95.2%**
TOTAL STABILIZED OFFICE PORTFOLIO	**104**	**100.0%**	**100.0%**	**13,881,509**	**94.0%**	**94.3%**	**96.8%**

RESIDENTIAL PROPERTY	Submarket	Buildings	Total No. of Units	Occupied at 6/30/2018	Occupied at 3/31/2018
Greater Los Angeles					
1550 N. El Centro Avenue	Hollywood	1	200	81.0%	84.5%

Average Office Occupancy	
Quarter-to-Date	**Year-to-Date**
94.6%	94.7%

Average Residential Occupancy	
Quarter-to-Date	**Year-to-Date**
83.6%	83.3%

Kilroy Realty Corporation
Second Quarter 2018 Supplemental Financial Report

Stabilized Office Portfolio Occupancy Overview by Region, continued

	Submarket	Square Feet	Occupied
Greater Los Angeles, California			
23925 Park Sorrento	101 Corridor	11,873	100.0%
23975 Park Sorrento	101 Corridor	104,797	88.8%
24025 Park Sorrento	101 Corridor	108,670	95.8%
2829 Townsgate Road	101 Corridor	84,098	80.5%
2240 E. Imperial Highway	El Segundo	122,870	100.0%
2250 E. Imperial Highway	El Segundo	298,728	100.0%
2260 E. Imperial Highway	El Segundo	298,728	100.0%
909 N. Sepulveda Boulevard	El Segundo	244,136	99.5%
999 N. Sepulveda Boulevard	El Segundo	128,588	95.0%
1500 N. El Centro Avenue	Hollywood	104,504	100.0%
1525 N. Gower Street	Hollywood	9,610	100.0%
1575 N. Gower Street	Hollywood	251,245	100.0%
6115 W. Sunset Boulevard	Hollywood	26,105	75.2%
6121 W. Sunset Boulevard	Hollywood	91,173	100.0%
6255 W. Sunset Boulevard	Hollywood	323,920	96.5%
3750 Kilroy Airport Way	Long Beach	10,457	100.0%
3760 Kilroy Airport Way	Long Beach	165,278	81.5%
3780 Kilroy Airport Way	Long Beach	219,745	81.9%
3800 Kilroy Airport Way	Long Beach	192,476	96.1%
3840 Kilroy Airport Way	Long Beach	136,026	100.0%
3880 Kilroy Airport Way	Long Beach	96,035	100.0%
3900 Kilroy Airport Way	Long Beach	129,893	92.9%
8560 W. Sunset Boulevard	West Hollywood	71,875	89.8%
8570 W. Sunset Boulevard	West Hollywood	43,603	97.0%
8580 W. Sunset Boulevard	West Hollywood	7,126	100.0%
8590 W. Sunset Boulevard	West Hollywood	56,095	87.6%
12100 W. Olympic Boulevard	West Los Angeles	152,048	100.0%
12200 W. Olympic Boulevard	West Los Angeles	150,832	91.9%
12233 W. Olympic Boulevard	West Los Angeles	151,029	98.9%
12312 W. Olympic Boulevard	West Los Angeles	76,644	100.0%
1633 26th Street	West Los Angeles	43,857	0.0%
2100/2110 Colorado Avenue	West Los Angeles	102,864	100.0%
3130 Wilshire Boulevard	West Los Angeles	90,002	90.4%
501 Santa Monica Boulevard	West Los Angeles	76,803	86.6%
Total Greater Los Angeles		**4,181,733**	**94.3%**

Stabilized Office Portfolio Occupancy Overview by Region, continued

	Submarket	Square Feet	Occupied
Orange County, California			
2211 Michelson Drive	Irvine	271,556	89.6%
Total Orange County		**271,556**	**89.6%**
San Diego, California			
12225 El Camino Real	Del Mar	58,401	100.0%
12235 El Camino Real	Del Mar	53,751	88.9%
12340 El Camino Real	Del Mar	88,377	100.0%
12390 El Camino Real	Del Mar	72,332	100.0%
12348 High Bluff Drive	Del Mar	38,806	100.0%
12780 El Camino Real	Del Mar	140,591	100.0%
12790 El Camino Real	Del Mar	78,836	100.0%
12770 El Camino Real	Del Mar	73,032	100.0%
12400 High Bluff Drive	Del Mar	209,220	100.0%
3579 Valley Centre Drive	Del Mar	52,418	100.0%
3611 Valley Centre Drive	Del Mar	129,656	100.0%
3661 Valley Centre Drive	Del Mar	128,364	100.0%
3721 Valley Centre Drive	Del Mar	115,193	100.0%
3811 Valley Centre Drive	Del Mar	112,067	100.0%
13280 Evening Creek Drive South	I-15 Corridor	41,196	100.0%
13290 Evening Creek Drive South	I-15 Corridor	61,180	100.0%
13480 Evening Creek Drive North	I-15 Corridor	149,817	100.0%
13500 Evening Creek Drive North	I-15 Corridor	148,669	95.2%
13520 Evening Creek Drive North	I-15 Corridor	141,129	90.8%
2305 Historic Decatur Road	Point Loma	103,900	100.0%
4690 Executive Drive	University Towne Center	47,846	91.4%
Total San Diego County		**2,044,781**	**98.5%**

Stabilized Office Portfolio Occupancy Overview by Region, continued

	Submarket	Square Feet	Occupied
San Francisco Bay Area, California			
4100 Bohannon Drive	Menlo Park	47,379	100.0%
4200 Bohannon Drive	Menlo Park	45,451	71.5%
4300 Bohannon Drive	Menlo Park	63,079	100.0%
4400 Bohannon Drive	Menlo Park	48,146	100.0%
4500 Bohannon Drive	Menlo Park	63,078	100.0%
4600 Bohannon Drive	Menlo Park	48,147	93.0%
4700 Bohannon Drive	Menlo Park	63,078	100.0%
1290-1300 Terra Bella Avenue	Mountain View	114,175	100.0%
331 Fairchild Drive	Mountain View	87,147	100.0%
680 E. Middlefield Road	Mountain View	170,090	100.0%
690 E. Middlefield Road	Mountain View	170,823	100.0%
1701 Page Mill Road	Palo Alto	128,688	100.0%
3150 Porter Drive	Palo Alto	36,897	100.0%
900 Jefferson Avenue	Redwood City	228,505	100.0%
900 Middlefield Road	Redwood City	118,764	97.3%
100 First Street	San Francisco	467,095	58.9%
303 Second Street	San Francisco	740,047	89.8%
201 Third Street	San Francisco	346,538	98.8%
360 Third Street	San Francisco	429,796	99.6%
250 Brannan Street	San Francisco	100,850	100.0%
301 Brannan Street	San Francisco	82,834	100.0%
333 Brannan Street	San Francisco	185,602	100.0%
350 Mission Street	San Francisco	455,340	98.1%
345 Oyster Point Boulevard	South San Francisco	40,410	100.0%
347 Oyster Point Boulevard	South San Francisco	39,780	100.0%
349 Oyster Point Boulevard	South San Francisco	65,340	52.2%
1310 Chesapeake Terrace	Sunnyvale	76,244	100.0%
1315 Chesapeake Terrace	Sunnyvale	55,635	100.0%
1320-1324 Chesapeake Terrace	Sunnyvale	79,720	100.0%
1325-1327 Chesapeake Terrace	Sunnyvale	55,383	100.0%
505 Mathilda Avenue	Sunnyvale	212,322	100.0%
555 Mathilda Avenue	Sunnyvale	212,322	100.0%
605 Mathilda Avenue	Sunnyvale	162,785	100.0%
599 Mathilda Avenue	Sunnyvale	75,810	100.0%
Total San Francisco Bay Area		**5,317,300**	**93.8%**

Stabilized Office Portfolio Occupancy Overview by Region, continued

	Submarket	Square Feet	Occupied
Greater Seattle, Washington			
601 108th Avenue NE	Bellevue	488,470	99.6%
10900 NE 4th Street	Bellevue	416,755	67.2%
10210 NE Points Drive	Kirkland	84,641	100.0%
10220 NE Points Drive	Kirkland	49,851	100.0%
10230 NE Points Drive	Kirkland	98,982	96.7%
3933 Lake Washington Blvd NE	Kirkland	46,450	100.0%
837 N. 34th Street	Lake Union	111,580	76.2%
701 N. 34th Street	Lake Union	138,994	77.9%
801 N. 34th Street	Lake Union	169,412	100.0%
320 Westlake Avenue North	Lake Union	184,644	100.0%
321 Terry Avenue North	Lake Union	135,755	100.0%
401 Terry Avenue North	Lake Union	140,605	100.0%
Total Greater Seattle		**2,066,139**	**90.4%**
TOTAL		**13,881,509**	**94.0%**

Information on Leases Commenced [1]

	1st & 2nd Generation					2nd Generation				
	# of Leases [2]		Square Feet [2]		Retention Rates	TI/LC Per Sq.Ft.	TI/LC Per Sq.Ft. /Year	Changes in GAAP Rents	Changes in Cash Rents	Weighted Average Lease Term (Mo.)
	New	Renewal	New	Renewal						
Quarter to Date	26	16	279,976	570,265	62.9%	$ 52.29	$ 6.97	30.7%	16.9%	90
Year to Date	43	31	399,369	691,941	54.8%	50.52	7.22	30.4%	16.0%	84

Information on Leases Executed [1]

	1st & 2nd Generation				2nd Generation				
	# of Leases [3]		Square Feet [3]		TI/LC Per Sq.Ft.	TI/LC Per Sq.Ft. /Year	Changes in GAAP Rents	Changes in Cash Rents	Weighted Average Lease Term (Mo.)
	New	Renewal	New	Renewal					
Quarter to Date [4] [5]	25	16	744,802	570,265	$ 52.82	$ 6.15	30.2%	9.8%	103
Year to Date [5] [6]	45	31	924,498	691,941	52.06	6.37	29.9%	10.2%	98

____

(1) Includes 100% of consolidated property partnerships.

(2) Represents leasing activity for leases that commenced at properties in the stabilized portfolio during the three and six months ended June 30, 2018, including first and second generation space, net of month-to-month leases.

(3) Represents leasing activity for leases signed at properties in the stabilized portfolio during the three and six months ended June 30, 2018, including first and second generation space, net of month-to-month leases. Excludes leasing on new construction.

(4) During the three months ended June 30, 2018, 22 new leases totaling 711,948 square feet were signed but not commenced as of June 30, 2018.

(5) Excludes a 110,000 square foot lease executed at 345 Brannan Street in San Francisco, which the Company is committed to acquire by the end of 2018.

(6) During the six months ended June 30, 2018, 29 new leases totaling 834,787 square feet were signed but not commenced as of June 30, 2018.

Stabilized Portfolio Capital Expenditures

($ in thousands)

	Total 2018	Q2 2018	Q1 2018
1st Generation (Nonrecurring) Capital Expenditures: [1]			
Capital Improvements	$ 2,256	$ 1,235	$ 1,021
Tenant Improvements & Leasing Commissions [2]	5,984	4,866	1,118
Total	$ 8,240	$ 6,101	$ 2,139

	Total 2018	Q2 2018	Q1 2018
2nd Generation (Recurring) Capital Expenditures: [1]			
Capital Improvements	$ 8,346	$ 5,671	$ 2,675
Tenant Improvements & Leasing Commissions [2]	40,502	29,183	11,319
Total	$ 48,848	$ 34,854	$ 13,994

____

(1) Includes 100% of capital expenditures of consolidated property partnerships.

(2) Represents costs incurred for leasing activity during the period shown. Amounts exclude tenant-funded tenant improvements.

Stabilized Portfolio Lease Expiration Summary Schedule

($ in thousands, except for annualized rent per sq. ft.)

Year of Expiration	# of Expiring Leases	Total Square Feet	% of Total Leased Sq. Ft.	Annualized Base Rent (1)	% of Total Annualized Base Rent	Annualized Rent per Sq. Ft.
Remaining 2018 (2)	39	571,075	4.5%	$ 25,544	4.4%	$ 44.73
2019 (2)	102	1,482,803	11.6%	61,047	10.6%	41.17
2020	107	1,699,452	13.3%	68,889	12.0%	40.54
2021	91	932,442	7.3%	40,075	7.0%	42.98
2022	60	613,078	4.8%	25,890	4.5%	42.23
2023	75	1,287,910	10.1%	67,068	11.6%	52.08
2024	37	997,776	7.8%	42,308	7.3%	42.40
2025	22	393,112	3.1%	18,521	3.2%	47.11
2026	21	1,258,346	9.9%	49,676	8.6%	39.48
2027	18	1,054,531	8.3%	43,591	7.6%	41.34
2028 and beyond	32	2,473,858	19.3%	133,427	23.2%	53.93
Total (3)	604	12,764,383	100.0%	$ 576,036	100.0%	$ 45.13

____

(1) Includes 100% of annualized base rent of consolidated property partnerships.

(2) Adjusting for leasing transactions executed as of June 30, 2018 but not yet commenced, the remaining 2018 and 2019 expirations would be reduced by 191,833 square feet and 590,820 square feet, respectively.

(3) For leases that have been renewed early with existing tenants, the expiration date and annualized base rent information presented takes into consideration the renewed lease terms. Excludes leases not commenced as of June 30, 2018, space leased under month-to-month leases, storage leases, vacant space and future lease renewal options not executed as of June 30, 2018.

Stabilized Portfolio Lease Expiration Schedule by Region

($ in thousands, except for annualized rent per sq. ft.)

Year	Region	# of Expiring Leases	Total Square Feet	% of Total Leased Sq. Ft.	Annualized Base Rent (1)	% of Total Annualized Base Rent	Annualized Rent per Sq. Ft.
2018	Greater Los Angeles	24	86,092	0.7%	$ 3,734	0.6%	$ 43.37
	Orange County	1	1,090	—%	31	—%	28.44
	San Diego	7	382,240	3.0%	17,024	3.0%	44.54
	San Francisco Bay Area	4	72,041	0.6%	3,940	0.7%	54.69
	Greater Seattle	3	29,612	0.2%	815	0.1%	27.52
	Total	39	571,075	4.5%	$ 25,544	4.4%	$ 44.73
2019	Greater Los Angeles	45	324,890	2.6%	$ 10,745	1.8%	$ 33.07
	Orange County	6	77,875	0.6%	3,234	0.6%	41.53
	San Diego	15	195,661	1.5%	7,209	1.3%	36.84
	San Francisco Bay Area	20	689,340	5.4%	33,367	5.8%	48.40
	Greater Seattle	16	195,037	1.5%	6,492	1.1%	33.29
	Total	102	1,482,803	11.6%	$ 61,047	10.6%	$ 41.17
2020	Greater Los Angeles	58	578,275	4.5%	$ 22,066	3.8%	$ 38.16
	Orange County	5	38,526	0.3%	1,238	0.2%	32.13
	San Diego	16	340,826	2.7%	13,188	2.3%	38.69
	San Francisco Bay Area	23	623,471	4.9%	28,521	5.0%	45.75
	Greater Seattle	5	118,354	0.9%	3,876	0.7%	32.75
	Total	107	1,699,452	13.3%	$ 68,889	12.0%	$ 40.54
2021	Greater Los Angeles	53	360,162	2.8%	$ 14,003	2.4%	$ 38.88
	Orange County	6	75,296	0.6%	2,652	0.5%	35.22
	San Diego	10	175,264	1.4%	7,394	1.3%	42.19
	San Francisco Bay Area	12	266,788	2.1%	14,336	2.5%	53.74
	Greater Seattle	10	54,932	0.4%	1,690	0.3%	30.77
	Total	91	932,442	7.3%	$ 40,075	7.0%	$ 42.98
2022	Greater Los Angeles	37	324,456	2.5%	$ 14,131	2.5%	$ 43.55
	Orange County	2	6,898	0.1%	269	—%	39.00
	San Diego	4	40,566	0.3%	1,300	0.2%	32.05
	San Francisco Bay Area	7	122,134	1.0%	6,290	1.1%	51.50
	Greater Seattle	10	119,024	0.9%	3,900	0.7%	32.77
	Total	60	613,078	4.8%	$ 25,890	4.5%	$ 42.23
2023 and Beyond	Greater Los Angeles	77	2,108,169	16.5%	$ 93,751	16.3%	$ 44.47
	Orange County	3	40,154	0.3%	1,538	0.3%	38.30
	San Diego	27	847,316	6.6%	38,243	6.6%	45.13
	San Francisco Bay Area	59	3,160,067	24.8%	171,107	29.6%	54.15
	Greater Seattle	39	1,309,827	10.3%	49,952	8.7%	38.14
	Total	205	7,465,533	58.5%	$ 354,591	61.5%	$ 47.50

____

(1) Includes 100% of annualized base rent of consolidated property partnerships.

Stabilized Portfolio Quarterly Lease Expirations for 2018 and 2019

($ in thousands, except for annualized rent per sq. ft.)

	# of Expiring Leases	Total Square Feet	% of Total Leased Sq. Ft.	Annualized Base Rent [1]	% of Total Annualized Base Rent	Annualized Rent per Sq. Ft.
2018:						
Q3 2018	20	324,900	2.5%	$ 15,680	2.7%	$ 48.26
Q4 2018	19	246,175	2.0%	9,864	1.7%	40.07
Total 2018 [2]	39	571,075	4.5%	$ 25,544	4.4%	$ 44.73
2019:						
Q1 2019	26	578,935	4.5%	$ 23,716	4.1%	$ 40.96
Q2 2019	22	216,703	1.7%	8,238	1.4%	38.02
Q3 2019	27	439,462	3.4%	18,367	3.2%	41.79
Q4 2019	27	247,703	2.0%	10,726	1.9%	43.30
Total 2019 [2]	102	1,482,803	11.6%	$ 61,047	10.6%	$ 41.17

____

(1) Includes 100% of annualized base rent of consolidated property partnerships.

(2) Adjusting for leasing transactions executed as of June 30, 2018 but not yet commenced, the remaining 2018 and 2019 expirations would be reduced by 191,833 square feet and 590,820 square feet, respectively.

Top Fifteen Tenants [1]

($ in thousands)

Tenant Name	Region	Annualized Base Rental Revenue [2]	Rentable Square Feet	Percentage of Total Annualized Base Rental Revenue	Percentage of Total Rentable Square Feet
LinkedIn Corporation	San Francisco Bay Area	$ 28,344	663,239	4.9%	4.8%
salesforce.com, inc.	San Francisco Bay Area / Greater Seattle	23,836	456,867	4.1%	3.3%
DIRECTV, LLC	Greater Los Angeles	23,152	684,411	4.0%	4.9%
Box, Inc.	San Francisco Bay Area	22,441	371,792	3.9%	2.7%
Riot Games, Inc.	Greater Los Angeles	15,511	251,509	2.7%	1.8%
Synopsys, Inc.	San Francisco Bay Area	15,492	340,913	2.7%	2.5%
Dropbox, Inc.	San Francisco Bay Area	13,960	264,888	2.4%	1.9%
Viacom International, Inc.	Greater Los Angeles	13,718	211,343	2.4%	1.5%
Bridgepoint Education, Inc.	San Diego County	13,129	273,292	2.3%	2.0%
AppDynamics, Inc.	San Francisco Bay Area	10,792	147,288	1.9%	1.1%
Concur Technologies	Greater Seattle	10,643	288,322	1.9%	2.1%
Capital One, N.A.	San Francisco Bay Area	9,170	117,993	1.6%	0.9%
AMN Healthcare, Inc.	San Diego County	9,001	176,075	1.6%	1.3%
Stanford University School of Medicine	San Francisco Bay Area	8,461	128,688	1.5%	0.9%
Adobe Systems, Inc.	San Francisco Bay Area / Greater Seattle	7,586	204,757	1.3%	1.5%
Total Top Fifteen Tenants		**$ 225,236**	**4,581,377**	**39.2%**	**33.2%**

____

(1) The information presented is as of June 30, 2018.

(2) Includes 100% of annualized base rental revenues of consolidated property partnerships.

2018 Operating Property Acquisitions

($ in millions)

COMPLETED OPERATING PROPERTY ACQUISITIONS	Submarket	Month of Acquisition	Number of Buildings	Rentable Square Feet	Purchase Price [1]
1st Quarter					
345, 347 & 349 Oyster Point Boulevard, South San Francisco, CA	South San Francisco	January	3	145,530	$ 111.0
2nd Quarter					
None					
TOTAL			3	145,530	$ 111.0

____

(1) Excludes acquisition-related costs.

Consolidated Ventures (Noncontrolling Property Partnerships)

Property [(1)]	Venture Partner	Submarket	Rentable Square Feet	KRC Ownership %
100 First Street, San Francisco, CA	Norges Bank Real Estate Management	San Francisco	467,095	56%
303 Second Street, San Francisco, CA	Norges Bank Real Estate Management	San Francisco	740,047	56%
900 Jefferson Avenue and 900 Middlefield Road, Redwood City, CA [(2)]	Local developer	Redwood City	347,269	93%

____

(1) For breakout of Net Operating Income by partnership, refer to page 34, Reconciliation of Net Income Available to Common Stockholders to Same Store Net Operating Income.

(2) Reflects the KRC ownership percentage at time of agreement. Actual percentage may vary depending on cash flows or promote structure.

In-Process Development

($ in millions)

TENANT IMPROVEMENT [1]	**Location**	**Construction Start Date**	**Estimated Stabilization Date** [2]	**Estimated Rentable Square Feet**	**Total Estimated Investment**	**Total Cash Costs Incurred as of 6/30/2018** [3]	**Office % Leased**	**Total Project % Leased**
Office								
San Francisco Bay Area								
100 Hooper [4]	SOMA	4Q 2016	2Q 2019	400,000	$ 270.0	$ 214.7	100%	87%
The Exchange on 16th [5]	Mission Bay	2Q 2015	2Q 2019 - 3Q 2020	750,000	570.0	409.1	100%	99%
TOTAL:				1,150,000	$ 840.0	$ 623.8	100%	95%

UNDER CONSTRUCTION	**Location**	**Construction Start Date**	**Estimated Stabilization Date** [2]	**Estimated Rentable Square Feet**	**Total Estimated Investment**	**Total Cash Costs Incurred as of 6/30/2018** [3]	**Office % Leased**	**Retail % Leased**
Office								
Greater Seattle								
333 Dexter	South Lake Union	2Q 2017	3Q 2020	650,000	$ 380.0	$ 137.1	—%	—%
Mixed-Use								
Greater Los Angeles								
Academy on Vine - Phase I (Office and Retail) [6]	Hollywood	1Q 2018	1Q 2021	306,000 Office 24,000 Retail	260.0	73.0	—%	—%
San Diego County								
One Paseo - Phases I and II (Retail and Residential) [7]	Del Mar	4Q 2016	1Q 2019 - 3Q 2020	96,000 Retail 608 Resi Units	465.0	267.9	N/A	70%
TOTAL:					$ 1,105.0	$ 478.0	—%	50%

____

(1) Represents projects that have reached cold shell condition and are ready for tenant improvements, which may require additional major base building construction before being placed in service.

(2) For office and retail, represents the earlier of anticipated 95% occupancy date or one year from substantial completion of base building components. For residential, represents when construction is complete and the project is available for occupancy. For multi-phase projects, interest and carry cost capitalization may cease and recommence driven by various factors, including tenant improvement construction and other tenant related timing or project scope.

(3) Represents costs incurred as of June 30, 2018, excluding accrued liabilities recorded in accordance with GAAP.

(4) The office component of this project, which consists of approximately 314,000 rentable square feet, is 100% leased to Adobe, Inc. and the lease is expected to commence in the third quarter of 2018. The remaining space will be completed in phases through the stabilization date.

(5) The Company signed a 15-year lease for 100% of the office space with Dropbox, Inc. The lease with Dropbox, Inc. will commence in phases beginning in the fourth quarter of 2018 through the fourth quarter of 2019. The estimated stabilization dates for Phase I, Phase II, and Phase III are the second quarter of 2019, the fourth quarter of 2019, and the third quarter of 2020, respectively.

(6) Development for this project will occur in phases. Phase I includes the project's overall infrastructure and site work, 306,000 square feet of office space and 24,000 square feet of retail space.

(7) Development for this project will occur in phases. Phases I & II includes the project's overall infrastructure and site work, 608 residential units and approximately 96,000 square feet of retail space.

Future Development Pipeline
($ in millions)

FUTURE DEVELOPMENT PIPELINE:	**Location**	**Approx. Developable Square Feet / Resi Units (1)**	**Total Cash Costs Incurred as of 6/30/2018 (2)**
Greater Los Angeles			
Academy on Vine - Phase II (Residential)	Hollywood	200 Resi Units	$ 32.2
San Diego County			
One Paseo - Phase III (Office)	Del Mar	270,000	66.5
2100 Kettner	Little Italy	175,000	22.3
9455 Towne Centre Drive	University Towne Center	150,000	15.2
Santa Fe Summit – Phases II and III	56 Corridor	600,000	79.0
San Francisco Bay Area			
Kilroy Oyster Point (3)	South San Francisco	2,500,000	319.4
Flower Mart	SOMA	TBD	213.6
TOTAL:			$ 748.2

____

(1) *The developable square feet and scope of projects could change materially from estimated data provided due to one or more of the following: any significant changes in the economy, market conditions, our markets, tenant requirements and demands, construction costs, new supply, regulatory and entitlement processes or project design.*

(2) *Represents costs incurred as of June 30, 2018, excluding accrued liabilities recorded in accordance with GAAP.*

(3) *The Company acquired a 39-acre site located in South San Francisco that is fully entitled for approximately 2.5 million square feet of life science and office space in the second quarter of 2018 for a cash purchase price of $308.2 million. In addition to the purchase price, total costs as of June 30, 2018 include transaction costs and development spending.*

Capital Structure
As of June 30, 2018
($ in thousands)

	Shares/Units June 30, 2018	Aggregate Principal Amount or $ Value Equivalent	% of Total Market Capitalization
DEBT: [1] [2]			
Unsecured Line of Credit		$ 295,000	2.8%
Unsecured Term Loan Facility		150,000	1.4%
Unsecured Senior Notes due 2020		250,000	2.4%
Unsecured Senior Notes due 2023		300,000	2.8%
Unsecured Senior Notes due 2024		425,000	4.0%
Unsecured Senior Notes due 2025		400,000	3.8%
Unsecured Senior Notes due 2029		400,000	3.8%
Unsecured Senior Notes Series A & B due 2027 & 2029		250,000	2.4%
Secured Debt		337,627	3.2%
Total Debt		$ 2,807,627	26.6%
EQUITY AND NONCONTROLLING INTEREST IN THE OPERATING PARTNERSHIP: [3]			
Common limited partnership units outstanding [4]	2,070,690	$ 156,627	1.5%
Shares of common stock outstanding [3]	100,559,903	7,606,351	71.9%
Total Equity and Noncontrolling Interests in the Operating Partnership		$ 7,762,978	73.4%
TOTAL MARKET CAPITALIZATION		$ 10,570,605	100.0%

____

(1) In May, the Company completed a private placement of $50.0 million of eight-year, 4.30% unsecured senior notes ("Series A Notes due 2026") and $200.0 million of eight-year, 4.35% unsecured senior notes ("Series B Notes due 2026") with delayed draw options. The table above does not reflect any amounts pertaining to these notes since there were no amounts drawn or outstanding as of June 30, 2018. In July, the Company drew the full amount of the Series A Notes due 2026. The Series B Notes due 2026 are required to be drawn by October 22, 2018.

(2) Represents the gross aggregate principal amount due at maturity before the effect of unamortized deferred financing costs and premiums and discounts.

(3) Value based on closing share price of $75.64 as of June 30, 2018.

(4) Includes common units of the Operating Partnership not owned by the Company; does not include noncontrolling interests in consolidated property partnerships.

Debt Analysis

As of June 30, 2018

TOTAL DEBT COMPOSITION [(1)]

	Percent of Total Debt	Weighted Average Interest Rate	Weighted Average Years to Maturity
Secured vs. Unsecured Debt			
Unsecured Debt	88.0%	4.0%	6.5
Secured Debt	12.0%	4.4%	6.9
Floating vs. Fixed-Rate Debt			
Floating-Rate Debt	15.8%	3.1%	4.1
Fixed-Rate Debt	84.2%	4.2%	7.0
Stated Interest Rate		4.1%	6.6
GAAP Effective Rate		4.0%	
GAAP Effective Rate Including Debt Issuance Costs		4.2%	

KEY DEBT COVENANTS [(1)]

	Covenant	Actual Performance as of June 30, 2018
Unsecured Credit and Term Loan Facility and Private Placement Notes (as defined in the Credit Agreements):		
Total debt to total asset value	less than 60%	28%
Fixed charge coverage ratio	greater than 1.5x	3.7x
Unsecured debt ratio	greater than 1.67x	3.24x
Unencumbered asset pool debt service coverage	greater than 1.75x	5.14x
Unsecured Senior Notes due 2020, 2023, 2024, 2025 and 2029 (as defined in the Indentures):		
Total debt to total asset value	less than 60%	34%
Interest coverage	greater than 1.5x	8.4x
Secured debt to total asset value	less than 40%	4%
Unencumbered asset pool value to unsecured debt	greater than 150%	303%

____

(1) In May, the Company completed a private placement of $50.0 million of eight-year, 4.30% unsecured senior notes ("Series A Notes due 2026") and $200.0 million of eight-year, 4.35% unsecured senior notes ("Series B Notes due 2026") with delayed draw options. The tables above do not reflect any amounts pertaining to these notes since there were no amounts drawn or outstanding as of June 30, 2018. In July, the Company drew the full amount of the Series A Notes due 2026. The Series B Notes due 2026 are required to be drawn by October 22, 2018

Debt Analysis
($ in thousands)

DEBT MATURITY SCHEDULE

Floating/ Fixed Rate	Stated Rate	GAAP Effective Rate [1]	Maturity Date	2018	2019	2020	2021	2022	After 2022	Total [2]
Unsecured Debt: [3]										
Floating	3.10%	3.10%	7/31/2022					$ 295,000		$ 295,000
Floating	3.17%	3.17%	7/31/2022					150,000		150,000
Fixed	6.63%	6.74%	6/1/2020			250,000				250,000
Fixed	3.80%	3.80%	1/15/2023						300,000	300,000
Fixed	3.45%	3.47%	12/15/2024						425,000	425,000
Fixed	4.38%	4.44%	10/1/2025						400,000	400,000
Fixed	3.35%	3.35%	2/17/2027						175,000	175,000
Fixed	3.45%	3.45%	2/17/2029						75,000	75,000
Fixed	4.25%	4.35%	8/15/2029						400,000	400,000
Total unsecured debt	4.03%	4.07%		—	—	250,000	—	445,000	1,775,000	2,470,000
Secured Debt:										
Fixed [4]	6.05%	3.50%	6/1/2019	932	74,479					75,411
Fixed	3.57%	3.57%	12/1/2026			3,224	3,341	3,462	159,973	170,000
Fixed	4.48%	4.48%	7/1/2027	884	1,830	1,913	2,001	2,092	83,496	92,216
Total secured debt	4.37%	3.80%		1,816	76,309	5,137	5,342	5,554	243,469	337,627
Total	**4.07%**	**4.04%**		**$ 1,816**	**$ 76,309**	**$ 255,137**	**$ 5,342**	**$ 450,554**	**$2,018,469**	**$2,807,627**

____

(1) Represents the rate at which interest expense is recorded for financial reporting purposes, which reflects the amortization of discounts/premiums, excluding deferred financing costs.

(2) Represents the gross aggregate principal amount due at maturity before the effect of unamortized deferred financing costs and premiums and discounts.

(3) In May, the Company completed a private placement of $50.0 million of eight-year, 4.30% unsecured senior notes (“Series A Notes due 2026”) and $200.0 million of eight-year, 4.35% unsecured senior notes (“Series B Notes due 2026”) with delayed draw options. The table above does not reflect any amounts pertaining to these notes since there were no amounts drawn or outstanding as of June 30, 2018. In July, the Company drew the full amount of the Series A Notes due 2026. The Series B Notes due 2026 are required to be drawn by October 22, 2018.

(4) Represents secured debt assumed in connection with an operating property acquisition.

Management Statements on Non-GAAP Supplemental Measures

Included in this section are management's statements regarding certain non-GAAP financial measures provided in this supplemental financial report and, with respect to Funds From Operations available to common stockholders and common unitholders ("FFO"), in the Company's earnings release on July 25, 2018 and the reasons why management believes that these measures provide useful information to investors about the Company's financial condition and results of operations.

Net Operating Income:

Management believes that Net Operating Income ("NOI") is a useful supplemental measure of the Company's operating performance. The Company defines NOI as consolidated operating revenues (rental income, tenant reimbursements and other property income) less consolidated property and related expenses (property expenses, real estate taxes, provision for bad debts and ground leases). Other real estate investment trusts ("REITs") may use different methodologies for calculating NOI, and accordingly, the Company's NOI may not be comparable to other REITs.

Because NOI excludes general and administrative expenses, interest expense, depreciation and amortization, other nonproperty income and losses, and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, reflects the consolidated revenues and expenses directly associated with owning and operating commercial real estate and the impact to operations from trends in occupancy rates, rental rates, and operating costs, providing a perspective on operations not immediately apparent from net income. The Company uses NOI to evaluate its operating performance on a portfolio basis since NOI allows the Company to evaluate the impact that factors such as occupancy levels, lease structure, rental rates, and tenant base have on the Company's results, margins and returns. In addition, management believes that NOI provides useful information to the investment community about the Company's financial and operating performance when compared to other REITs since NOI is generally recognized as a standard measure of performance in the real estate industry.

However, NOI should not be viewed as an alternative measure of the Company's financial performance since it does not reflect general and administrative expenses, acquisition-related expenses, interest expense, depreciation and amortization costs, other nonproperty income and losses, the level of capital expenditures and leasing costs necessary to maintain the operating performance of the Company's properties, or trends in development and construction activities which are significant economic costs and activities that could materially impact the Company's results from operations.

Same Store Net Operating Income:

Management believes that Same Store NOI is a useful supplemental measure of the Company's operating performance. Same Store NOI represents the consolidated NOI for all of the properties that were owned and included in the Company's stabilized portfolio for two comparable reporting periods. Because Same Store NOI excludes the change in NOI from developed, redeveloped, acquired and disposed of and held for sale properties, it highlights operating trends such as occupancy levels, rental rates and operating costs on properties. Other REITs may use different methodologies for calculating Same Store NOI, and accordingly, the Company's Same Store NOI may not be comparable to other REITs.

However, Same Store NOI should not be viewed as an alternative measure of the Company's financial performance since it does not reflect the operations of the Company's entire portfolio, nor does it reflect the impact of general and administrative expenses, interest expense, depreciation and amortization costs, other nonproperty income and losses, the level of capital expenditures and leasing costs necessary to maintain the operating performance of the Company's properties, or trends in development and construction activities which are significant economic costs and activities that could materially impact the Company's results from operations.

Management Statements on Non-GAAP Supplemental Measures, continued

Same Store Cash Net Operating Income:

Management believes that Same Store Cash NOI is a useful supplemental measure of the Company's operating performance. Same Store Cash NOI represents the consolidated NOI for all of the properties that were owned and included in the Company's stabilized portfolio for two comparable reporting periods, adjusted for the net effect of straight-line rents, amortization of deferred revenue related to tenant-funded tenant improvements, amortization of above and below market lease intangibles, and bad debt expense. Because Same Store Cash NOI excludes the change in NOI from developed, redeveloped, acquired and disposed of and held for sale properties, it highlights operating trends on a cash basis such as occupancy levels, rental rates and operating costs on properties. Other REITs may use different methodologies for calculating Same Store Cash NOI, and accordingly, our Same Store Cash NOI may not be comparable to other REITs.

However, Same Store Cash NOI should not be viewed as an alternative measure of the Company's financial performance since it does not reflect the operations of the Company's entire portfolio, nor does it reflect the impact of general and administrative expenses, acquisition-related expenses, interest expense, depreciation and amortization costs, other nonproperty income and losses, the level of capital expenditures and leasing costs necessary to maintain the operating performance of the Company's properties, or trends in development and construction activities which are significant economic costs and activities that could materially impact the Company's results from operations.

EBITDA, as adjusted:

Management believes that consolidated earnings before interest expense, depreciation and amortization, gain/loss on early extinguishment of debt, gains and losses on depreciable real estate, net income attributable to noncontrolling interests, preferred dividends and distributions, original issuance costs of redeemed preferred stock and preferred units, and impairment losses ("EBITDA, as adjusted") is a useful supplemental measure of the Company's operating performance. When considered with other GAAP measures and FFO, management believes EBITDA, as adjusted, gives the investment community a more complete understanding of the Company's consolidated operating results, including the impact of general and administrative expenses and acquisition-related expenses, before the impact of investing and financing transactions and facilitates comparisons with competitors. Management also believes it is appropriate to present EBITDA, as adjusted, as it is used in several of the Company's financial covenants for both its secured and unsecured debt. However, EBITDA, as adjusted, should not be viewed as an alternative measure of the Company's operating performance since it excludes financing costs as well as depreciation and amortization costs which are significant economic costs that could materially impact the Company's results of operations and liquidity. Other REITs may use different methodologies for calculating EBITDA, as adjusted, and, accordingly, the Company's EBITDA, as adjusted, may not be comparable to other REITs. The Company's calculation of EBITDA, as adjusted, is the same as EBITDAre, as defined by NAREIT, as the Company does not have any unconsolidated joint ventures.

Management Statements on Non-GAAP Supplemental Measures, continued

Funds From Operations:

The Company calculates Funds From Operations available to common stockholders and common unitholders (“FFO”) in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, gains and losses from sales of depreciable real estate and impairment write-downs associated with depreciable real estate, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustment for unconsolidated partnerships and joint ventures. Our calculation of FFO includes the amortization of deferred revenue related to tenant-funded tenant improvements and excludes the depreciation of the related tenant improvement assets. We also add back net income attributable to noncontrolling common units of the Operating Partnership because we report FFO attributable to common stockholders and common unitholders.

Management believes that FFO is a useful supplemental measure of the Company’s operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of the Company’s activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, the Company’s FFO may not be comparable to all other REITs.

Implicit in historical cost accounting for real estate assets in accordance with GAAP is the assumption that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies using historical cost accounting alone to be insufficient. Because FFO excludes depreciation and amortization of real estate assets, management believes that FFO along with the required GAAP presentations provides a more complete measurement of the Company’s performance relative to its competitors and a more appropriate basis on which to make decisions involving operating, financing and investing activities than the required GAAP presentations alone would provide.

However, FFO should not be viewed as an alternative measure of the Company’s operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of the Company’s properties, which are significant economic costs and could materially impact the Company’s results from operations.

Funds Available for Distribution:

Management believes that Funds Available for Distribution available to common stockholders and common unitholders (“FAD”) is a useful supplemental measure of the Company’s liquidity. The Company computes FAD by adding to FFO the non-cash amortization of deferred financing costs, debt discounts and premiums and share-based compensation awards and amortization of above (below) market rents for acquisition properties, then subtracting recurring tenant improvements, leasing commissions and capital expenditures and eliminating the net effect of straight-line rents, amortization of deferred revenue related to tenant improvements, adjusting for other lease related items and after adjustment for amounts attributable to noncontrolling interests in consolidated property partnerships. FAD provides an additional perspective on the Company’s ability to fund cash needs and make distributions to stockholders by adjusting FFO for the impact of certain cash and non-cash items, as well as adjusting FFO for recurring capital expenditures and leasing costs. Management also believes that FAD provides useful information to the investment community about the Company’s financial position as compared to other REITs since FAD is a liquidity measure used by other REITs. However, other REITs may use different methodologies for calculating FAD and, accordingly, the Company’s FAD may not be comparable to other REITs.

Definitions Included in Supplemental

Annualized Base Rent:

Includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related to tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Additionally, the underlying leases contain various expense structures including full service gross, modified gross and triple net. Amounts represent percentage of total portfolio annualized contractual base rental revenue.

Change in GAAP/Cash Rents (Leases Commenced):

Calculated as the change between GAAP/cash rents for new/renewed leases and the expiring GAAP/cash rents for the same space. Excludes leases for which the space was vacant longer than one year, or vacant when the property was acquired by the Company.

Change in GAAP/Cash Rents (Leases Executed):

Calculated as the change between GAAP/cash rents for signed leases and the expiring GAAP/cash rents for the same space. Excludes leases for which the space was vacant longer than one year, or vacant when the property was acquired by the Company.

Estimated Stabilization Date (Development):

Management's estimation of the earlier of stabilized occupancy (95%) or one year from the date of the cessation of major base building construction activities for office and retail properties and upon substantial completion for residential properties.

FAD Payout Ratio:

Calculated as current-quarter dividends accrued to common stockholders and common unitholders (excluding dividend equivalents accrued to restricted stock unitholders) divided by FAD.

First Generation Capital Expenditures:

Capital expenditures for newly acquired space, newly developed, redeveloped, or repositioned space. These costs are not subtracted in our calculation of FAD.

Fixed Charge Coverage Ratio:

Calculated as EBITDA, as adjusted, divided by gross interest expense (excluding amortization of deferred debt costs and debt discounts/premiums) and current year accrued preferred dividends.

FFO Payout Ratio:

Calculated as current-quarter dividends accrued to common stockholders and common unitholders (excluding dividend equivalents accrued to restricted stock unitholders) divided by FFO attributable to common stockholders and unitholders.

Definitions Included in Supplemental, continued

GAAP Effective Rate:

The rate at which interest expense is recorded for financial reporting purposes, which reflects the amortization of any discounts/premiums, excluding debt issuance costs.

Interest Coverage Ratio:

Calculated as EBITDA, as adjusted, divided by gross interest expense (excluding amortization of deferred debt costs and debt discounts/premiums).

Net Effect of Straight-Line Rents:

Represents the straight-line rent income recognized during the period offset by cash received during the period that was applied to deferred rents receivable balances for terminated leases and the provision for bad debts recorded for deferred rent receivable balances.

Net Operating Income Margins:

Calculated as Net Operating Income divided by total revenues.

Retention Rates (Leases Commenced):

Calculated as the percentage of space either renewed or expanded into by existing tenants or subtenants at lease expiration.

Same Store Portfolio:

Our Same Store portfolio includes all of our properties owned and included in our stabilized portfolio for two comparable reporting periods, i.e., owned and included in our stabilized portfolio as of January 1, 2017 and still owned and included in the stabilized portfolio as of June 30, 2018. It does not include undeveloped land, development and redevelopment properties currently committed for construction, under construction, or in the tenant improvement phase and properties held-for-sale. We define redevelopment properties as those projects for which we expect to spend significant development and construction costs on existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property.

Stated Interest Rate:

The rate at which interest expense is recorded per the respective loan documents, excluding the impact of the amortization of any debt discounts/premiums.

Tenant Improvement Phase:

Represents projects that have reached cold shell condition and are ready for tenant improvements, which may require additional major base building construction before being placed in service.

Reconciliation of Net Income Available to Common Stockholders to Same Store Net Operating Income

(unaudited, $ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income Available to Common Stockholders	**$ 27,549**	**$ 29,833**	**$ 63,795**	**$ 56,162**
Net income attributable to noncontrolling common units of the Operating Partnership	566	616	1,317	1,239
Net income attributable to noncontrolling interests in consolidated property partnerships	3,640	3,242	7,614	6,375
Total preferred dividends	—	1,615	—	8,811
Net Income	**31,755**	**35,306**	**72,726**	**72,587**
Adjustments:				
General and administrative expenses	21,763	14,303	37,322	29,236
Depreciation and amortization	64,006	62,251	126,721	123,170
Interest income and other net investment gain/loss	(771)	(1,038)	(805)	(2,103)
Interest expense	12,712	17,973	26,210	35,325
Gains on sales of depreciable operating properties	—	—	—	(2,257)
Net Operating Income, as defined [(1)]	**129,465**	**128,795**	**262,174**	**255,958**
Wholly-Owned Properties	*111,671*	*110,437*	*226,081*	*219,395*
Consolidated property partnerships: [(2)]				
100 First Street [(3)]	*4,507*	*4,371*	*9,255*	*8,598*
303 Second Street [(3)]	*7,551*	*8,327*	*15,328*	*16,530*
Crossing/900 [(4)]	*5,736*	*5,660*	*11,510*	*11,435*
Net Operating Income, as defined [(1)]	*129,465*	*128,795*	*262,174*	*255,958*
Non-Same Store GAAP Net Operating Income [(5)]	(5,823)	(7,210)	(11,099)	(13,494)
Same Store GAAP Net Operating Income	**123,642**	**121,585**	**251,075**	**242,464**
GAAP to Cash Adjustments:				
GAAP Operating Revenues Adjustments, net [(6)]	(11,580)	(10,125)	(20,884)	(19,791)
GAAP Operating Expenses Adjustments, net [(7)]	5,641	504	5,352	1,724
Same Store Cash Net Operating Income	**$ 117,703**	**$ 111,964**	**$ 235,543**	**$ 224,397**

____

(1) Please refer to pages 29-30 for Management Statements on Net Operating Income, Same Store Net Operating Income and Same Store Cash Net Operating Income.

(2) Reflects GAAP Net Operating Income for all periods presented.

(3) For all periods presented, an unrelated third party entity owned approximately 44% common equity interests in two properties located at 100 First Street and 303 Second Street in San Francisco, CA.

(4) For all periods presented, an unrelated third party entity owned an approximate 7% common equity interest in two properties located at 900 Jefferson Avenue and 900 Middlefield Road in Redwood City, CA.

(5) Includes the results of one development project added to the stabilized portfolio in the first quarter of 2017, three office properties we acquired in the first quarter of 2018, ten office properties disposed of during the third quarter of 2017, one office property disposed of during the first quarter of 2017 and expenses for certain of our in-process, near-term and future development projects.

(6) Includes the net effect of straight-line rents, amortization of deferred revenue related to tenant-funded tenant improvements and amortization of above and below market lease intangibles.

(7) Includes the amortization of above and below market lease intangibles for ground leases and the provision for bad debts.

Reconciliation of Net Income Available to Common Stockholders to EBITDA, as Adjusted

(unaudited, $ in thousands)

	Three Months Ended June 30,	
	2018	2017
Net Income Available to Common Stockholders	$ 27,549	$ 29,833
Interest expense	12,712	17,973
Depreciation and amortization	64,006	62,251
Net income attributable to noncontrolling common units of the Operating Partnership	566	616
Net income attributable to noncontrolling interests in consolidated property partnerships	3,640	3,242
Preferred dividends	—	1,615
EBITDA, as adjusted [1]	**$ 108,473**	**$ 115,530**

____

(1) *Please refer to page 30 for a Management Statement on EBITDA, as adjusted. The Company's calculation of EBITDA, as adjusted, is the same as EBITDAre, as defined by NAREIT, as the Company does not have any unconsolidated joint ventures.*

(Back To Top)

Section 3: EX-99.2 (EXHIBIT 99.2)

Exhibit 99.2

KILROY REALTY CORPORATION

Contact:
Tyler H. Rose
Executive Vice President
and Chief Financial Officer
(310) 481-8484
or
Michelle Ngo
Senior Vice President
and Treasurer
(310) 481-8581

FOR RELEASE:
July 25, 2018

KILROY REALTY CORPORATION REPORTS SECOND QUARTER FINANCIAL RESULTS

LOS ANGELES, July 25, 2018 - Kilroy Realty Corporation ***(NYSE: KRC)*** today reported financial results for its second quarter ended June 30, 2018.

Second Quarter Highlights

Financial Results

- Net income available to common stockholders per share of $0.27
- Funds from operations available to common stockholders and unitholders ("FFO") per share of $0.86, including a $0.05 per share charge for provision for bad debts
- Revenues of $187.1 million
- Increased the regular quarterly cash dividend to common stockholders by 7.1% to $0.455 per share; an annualized rate of $1.82 per share

Stabilized Portfolio

- Stabilized portfolio was 94.0% occupied and 96.8% leased at June 30, 2018
- Signed approximately 1.3 million square feet of new or renewing leases in the stabilized portfolio during the second quarter, increasing the year-to-date total to just over 1.6 million square feet

Acquisitions

- Committed to acquire the 110,000 square foot office property located at 345 Brannan Street in San Francisco's SOMA district for a cash purchase price of approximately $146.0 million that is expected to close by the end of 2018. The office space is currently 100% occupied by Dropbox
    - In May, signed termination agreements with Dropbox in conjunction with a new lease with GM Cruise, LLC for approximately 375,000 square feet at two existing KRC properties, 301 and 333 Brannan Street, and all of 345 Brannan Street

Development

- In June, completed the acquisition of Kilroy Oyster Point, an approximately 39-acre development site in South San Francisco, fully entitled for 2.5 million square feet of life science and office space, for a cash purchase price of approximately $308.2 million
- In June, transferred 100 Hooper, a $270.0 million, 400,000 square foot development project located in San Francisco's SOMA district from under construction to the tenant improvement phase. The property's 314,000 square feet of office space is fully leased to Adobe and the lease is expected to commence in the third quarter of 2018. The remaining 86,000 square feet of production, distribution and repair ("PDR") space is currently 39% leased
- In June, transferred The Exchange on 16th, a $570.0 million, 750,000 square foot development project located in San Francisco's Mission Bay from under construction to the tenant improvement phase. The office portion is fully leased to Dropbox, and the lease will commence in phases

Finance

- In May, completed a private placement of $50.0 million of eight-year, 4.30% unsecured senior notes and $200.0 million of eight-year 4.35% unsecured senior notes, both with delayed draw options
  - In July, drew the entire $50.0 million of 4.30% notes
  - Expect to draw down the entire $200.0 million of 4.35% notes by October 22, 2018
- In May, issued all common stock remaining under the company's 2014 $300.0 million at-the-market ("ATM") offering program at a weighted average price of $73.01 per share before selling commissions, generating net proceeds of $98.7 million
- In June, established a new $500.0 million ATM offering program and issued common stock under the program at a weighted average price of $76.23 per share before selling commissions, generating net proceeds of $26.3 million

Results for the Quarter Ended June 30, 2018

For the second quarter ended June 30, 2018, KRC reported net income available to common stockholders of $27.5 million, or $0.27 per share, compared to $29.8 million, or $0.30 per share, in the second quarter of 2017. FFO in the second quarter of 2018 was $88.6 million, or $0.86 per share, compared to $88.8 million, or $0.87 per share, in the year-earlier quarter. Current period net income available to common stockholders and FFO per share included a $0.05 per share charge for provision for bad debts, primarily related to a $0.07 per share charge for one tenant that the company is in ongoing discussions with, partially offset by a $0.02 per share reversal of provision due to the assignment of a lease to a credit tenant. Revenues in the period totaled $187.1 million, up from $180.6 million in the prior year's second quarter.

All per share amounts in this report are presented on a diluted basis.

Operating and Leasing Activity

At June 30, 2018, KRC's stabilized office portfolio totaled approximately 13.9 million square feet of space located in Los Angeles, Orange County, San Diego, the San Francisco Bay Area and Greater Seattle. During the second quarter, the company signed new or renewing leases in the stabilized office portfolio totaling 1.3 million square feet of space. At quarter-end, the stabilized office portfolio was 94.0% occupied and 96.8% leased, compared to occupancy of 94.3% at March 31, 2018 and 93.9% at June 30, 2017.

Real Estate Development Activity

At June 30, 2018, KRC had three projects under construction, including 333 Dexter in the South Lake Union submarket of Seattle, Phase I of Academy on Vine, a mixed-use project in the Hollywood submarket of Los Angeles, and Phases I and II of One Paseo, a mixed-use project in the Del Mar submarket of San Diego. These three projects encompass approximately 1.0 million square feet of office space, 608 residential units and 120,000 square feet of retail space and represent a total estimated investment of approximately $1.1 billion.

Net Income Available to Common Stockholders / FFO Guidance and Outlook

The company has updated its guidance range of NAREIT-defined FFO per diluted share for the full year 2018 to $3.47 to $3.57 per share, with a midpoint of $3.52 per share, reflecting management's views on current and future market conditions, including assumptions with respect to rental rates, occupancy levels, and the earnings impact of events referenced in this press release.

	Full Year 2018 Range at June 30, 2018	
	Low End	**High End**
Net income available to common stockholders per share - diluted	$ 1.30	$ 1.40
Weighted average common shares outstanding - diluted (1)	101,000	101,000
Net income available to common stockholders	$ 131,000	$ 141,000
Adjustments:		
Net income attributable to noncontrolling common units of the Operating Partnership	2,600	3,000
Net income attributable to noncontrolling interests in consolidated property partnerships	14,500	15,500
Depreciation and amortization of real estate assets	237,000	237,000
Gains on sales of depreciable real estate	—	—
Funds From Operations attributable to noncontrolling interests in consolidated property partnerships	(23,500)	(24,500)
Funds From Operations (2)	$ 361,600	$ 372,000
Weighted average common shares/units outstanding – diluted (3)	104,300	104,300
Funds From Operations per common share/unit – diluted (2)(3)	$ 3.47	$ 3.57

Key 2018 assumptions include:

- Dispositions of $250.0 to $750.0 million
- Same store cash net operating income growth of 1 to 2%
- Year-end occupancy of 94.0% to 95.0%
- Net operating income margin of approximately 70.0% to 70.5%
- Remaining development spending of approximately $250.0 to $300.0 million

____

(1) Calculated based on estimated weighted average shares outstanding including participating share-based awards (i.e. nonvested stock and certain time based restricted stock units).

(2) See management statement for FFO on page 9.

(3) Calculated based on estimated weighted average shares outstanding including participating share-based awards (i.e. nonvested stock and certain time based restricted stock units) and assuming the exchange of all estimated common limited partnership units outstanding. Reported amounts are attributable to common stockholders, common unitholders and restricted stock unitholders.

The company's guidance estimates for the full year 2018, and the reconciliation of net income available to common stockholders per share - diluted and FFO per share and unit - diluted included within this press release, reflect management's views on current and future market conditions, including assumptions with respect to rental rates, occupancy levels, and the earnings impact of the events referenced in this press release. Although these guidance estimates reflect the impact on the company's operating results of an assumed range of future disposition activity, these guidance estimates do not include any estimates of possible future gains or losses from possible future dispositions because the magnitude of gains or losses on sales of depreciable operating properties, if any, will depend on the sales price and depreciated cost basis of the disposed assets at the time of disposition, information that is not known at the time the company provides guidance, and the timing of any gain recognition will depend on the closing of the dispositions, information that is also not known at the time the company provides guidance and may occur after the relevant guidance period. We caution you not to place undue reliance on our assumed range of future disposition activity because any potential future disposition transactions will ultimately depend on the market conditions and other factors, including but not limited to the company's capital needs, the particular assets being sold and the company's ability to defer some or all of the taxable gain on the sales. These guidance estimates also do not include the impact on operating results from potential future acquisitions, possible capital markets activity, possible future impairment charges or any events outside of the company's control. There can be no assurance that the company's actual results will not differ materially from these estimates.

Conference Call and Audio Webcast

KRC management will discuss earnings guidance for fiscal year 2018 during the company's July 26, 2018 earnings conference call. The call will begin at 10:00 a.m. Pacific Time and last approximately one hour. Those interested in listening via the Internet can access the conference call at https://services.choruscall.com/links/krc180426.html. It may be necessary to download audio software to hear the conference call. Those interested in listening via telephone can access the conference call at (866) 312-7299. International callers should dial (412) 317-1070. In order to bypass speaking to the operator on the day of the call, please pre-register anytime at http://dpregister.com/10115553. A replay of the conference call will be available via telephone on July 26, 2018 through August 9, 2018 by dialing (877) 344-7529 and entering passcode 10115553. International callers should dial (412) 317-0088 and enter the same passcode. The replay will also be available on our website at http://investors.kilroyrealty.com/CustomPage/Index?KeyGenPage=1073743647.

About Kilroy Realty Corporation

Kilroy Realty Corporation (KRC), a publicly traded real estate investment trust and member of the S&P MidCap 400 Index, is one of the West Coast's premier landlords. The company has over 70 years of experience developing, acquiring and managing office and mixed-use real estate assets. The company provides physical work environments that foster creativity and productivity and serves a broad roster of dynamic, innovation-driven tenants, including technology, entertainment, digital media and health care companies.

At June 30, 2018, the company's stabilized portfolio totaled approximately 13.9 million square feet of office space located in the coastal regions of Los Angeles, Orange County, San Diego, the San Francisco Bay Area and Greater Seattle and 200 residential units located in the Hollywood submarket of Los Angeles. In addition, KRC had three projects under construction totaling approximately 1.0 million square feet of office space, 608 residential units and 120,000 square feet of retail space as well as two projects in the tenant improvement phase totaling approximately 1.2 million square feet of office and PDR space. The office components of the two projects are fully leased to Adobe and Dropbox.

The company has been recognized by GRESB as the North American leader in office sustainability for the last four years and is listed in the Dow Jones Sustainability World Index. At the end of the second quarter, the company's stabilized portfolio was 59% LEED certified and 76% of eligible properties were ENERGY STAR certified. More information is available at http://www.kilroyrealty.com.

Forward-Looking Statements

This press release 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 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 implementations of, 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; and our ability to maintain our status as a REIT. 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 annual report on Form 10-K for the year ended December 31, 2017 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 date 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.

KILROY REALTY CORPORATION

SUMMARY OF QUARTERLY RESULTS

(unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$ 187,072	$ 180,598	$ 369,894	$ 359,906
Net income available to common stockholders [1]	$ 27,549	$ 29,833	$ 63,795	$ 56,162
Weighted average common shares outstanding – basic	99,692	98,275	99,221	97,834
Weighted average common shares outstanding – diluted	100,151	98,827	99,688	98,427
Net income available to common stockholders per share – basic [1]	$ 0.27	$ 0.30	$ 0.63	$ 0.56
Net income available to common stockholders per share – diluted [1]	$ 0.27	$ 0.30	$ 0.63	$ 0.56
Funds From Operations [1][2][3]	$ 88,629	$ 88,767	$ 184,914	$ 170,701
Weighted average common shares/units outstanding – basic [4]	102,879	101,551	102,457	101,219
Weighted average common shares/units outstanding – diluted [5]	103,338	102,103	102,924	101,812
Funds From Operations per common share/unit – basic [3]	$ 0.86	$ 0.87	$ 1.80	$ 1.69
Funds From Operations per common share/unit – diluted [3]	$ 0.86	$ 0.87	$ 1.80	$ 1.68
Common shares outstanding at end of period			100,560	98,351
Common partnership units outstanding at end of period			2,071	2,077
Total common shares and units outstanding at end of period			102,631	100,428

	June 30, 2018	June 30, 2017
Stabilized office portfolio occupancy rates: [6]		
Greater Los Angeles	94.3%	91.2%
Orange County	89.6%	94.7%
San Diego County	98.5%	93.5%
San Francisco Bay Area	93.8%	95.1%
Greater Seattle	90.4%	97.0%
Weighted average total	94.0%	93.9%
Total square feet of stabilized office properties owned at end of period: [6]		
Greater Los Angeles	4,182	4,181
Orange County	272	272
San Diego County	2,045	2,718
San Francisco Bay Area	5,317	5,158
Greater Seattle	2,066	2,066
Total	13,882	14,395

____

(1) Net income available to common stockholders and funds from operations includes a provision for bad debts of $5.6 million and $5.4 million for the three and six months ended June 30, 2018, respectively, and a non-cash charge for the original issuance costs of redeemed preferred stock of $3.8 million for the six months ended June 30, 2017. Net income available to common stockholders includes gains on sales of depreciable operating properties of $2.3 million for the six months ended June 30, 2017.

(2) Reconciliation of Net income available to common stockholders to Funds From Operations available to common stockholders and unitholders and management statement on Funds From Operations are included after the Consolidated Statements of Operations.

(3) Reported amounts are attributable to common stockholders, common unitholders, and restricted stock unitholders.

(4) Calculated based on weighted average shares outstanding including participating share-based awards (i.e. nonvested stock and certain time based restricted stock units) and assuming the exchange of all common limited partnership units outstanding.

(5) Calculated based on weighted average shares outstanding including participating and non-participating share-based awards (i.e. nonvested stock and time based restricted stock units), dilutive impact of stock options and contingently issuable shares and assuming the exchange of all common limited partnership units outstanding.

(6) Occupancy percentages and total square feet reported are based on the company's stabilized office portfolio for the periods presented. Occupancy percentages and total square feet shown for June 30, 2017 include the office properties that were sold subsequent to June 30, 2017.

KILROY REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements	$ 1,127,100	$ 1,076,172
Buildings and improvements	5,017,999	4,908,797
Undeveloped land and construction in progress	1,993,314	1,432,808
Total real estate assets held for investment	8,138,413	7,417,777
Accumulated depreciation and amortization	(1,361,811)	(1,264,162)
Total real estate assets held for investment, net	6,776,602	6,153,615
Cash and cash equivalents	50,817	57,649
Restricted cash	—	9,149
Marketable securities	22,519	20,674
Current receivables, net	15,144	16,926
Deferred rent receivables, net	256,558	246,391
Deferred leasing costs and acquisition-related intangible assets, net	186,649	183,728
Prepaid expenses and other assets, net	76,495	114,706
TOTAL ASSETS	$ 7,384,784	$ 6,802,838
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured debt, net	$ 338,189	$ 340,800
Unsecured debt, net	2,156,521	2,006,263
Unsecured line of credit	295,000	—
Accounts payable, accrued expenses and other liabilities	278,508	249,637
Accrued dividends and distributions	47,348	43,448
Deferred revenue and acquisition-related intangible liabilities, net	146,741	145,890
Rents received in advance and tenant security deposits	58,604	56,484
Total liabilities	3,320,911	2,842,522
EQUITY:		
Stockholders’ Equity		
Common stock	1,006	986
Additional paid-in capital	3,951,289	3,822,492
Distributions in excess of earnings	(149,368)	(122,685)
Total stockholders’ equity	3,802,927	3,700,793
Noncontrolling Interests		
Common units of the Operating Partnership	78,223	77,948
Noncontrolling interests in consolidated property partnerships	182,723	181,575
Total noncontrolling interests	260,946	259,523
Total equity	4,063,873	3,960,316
TOTAL LIABILITIES AND EQUITY	$ 7,384,784	$ 6,802,838

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	$ 164,515	$ 158,925	$ 327,386	$ 315,573
Tenant reimbursements	19,567	19,267	38,717	38,563
Other property income	2,990	2,406	3,791	5,770
Total revenues	187,072	180,598	369,894	359,906
EXPENSES				
Property expenses	32,567	33,304	64,238	64,545
Real estate taxes	17,813	16,543	34,959	34,507
Provision for bad debts	5,641	409	5,376	1,707
Ground leases	1,586	1,547	3,147	3,189
General and administrative expenses	21,763	14,303	37,322	29,236
Depreciation and amortization	64,006	62,251	126,721	123,170
Total expenses	143,376	128,357	271,763	256,354
OTHER (EXPENSES) INCOME				
Interest income and other net investment gain/loss	771	1,038	805	2,103
Interest expense	(12,712)	(17,973)	(26,210)	(35,325)
Total other (expenses) income	(11,941)	(16,935)	(25,405)	(33,222)
INCOME FROM OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE	31,755	35,306	72,726	70,330
Gains on sale of depreciable operating properties	—	—	—	2,257
NET INCOME	31,755	35,306	72,726	72,587
Net income attributable to noncontrolling common units of the Operating Partnership	(566)	(616)	(1,317)	(1,239)
Net income attributable to noncontrolling interests in consolidated property partnerships	(3,640)	(3,242)	(7,614)	(6,375)
Total income attributable to noncontrolling interests	(4,206)	(3,858)	(8,931)	(7,614)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	27,549	31,448	63,795	64,973
Preferred dividends	—	(1,615)	—	(4,966)
Original issuance costs of redeemed preferred stock	—	—	—	(3,845)
Total preferred dividends	—	(1,615)	—	(8,811)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 27,549	$ 29,833	$ 63,795	$ 56,162
Weighted average common shares outstanding – basic	99,692	98,275	99,221	97,834
Weighted average common shares outstanding – diluted	100,151	98,827	99,688	98,427
Net income available to common stockholders per share – basic	$ 0.27	$ 0.30	$ 0.63	$ 0.56
Net income available to common stockholders per share – diluted	$ 0.27	$ 0.30	$ 0.63	$ 0.56

KILROY REALTY CORPORATION
FUNDS FROM OPERATIONS
(unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income available to common stockholders	$ 27,549	$ 29,833	$ 63,795	$ 56,162
Adjustments:				
Net income attributable to noncontrolling common units of the Operating Partnership	566	616	1,317	1,239
Net income attributable to noncontrolling interests in consolidated property partnerships	3,640	3,242	7,614	6,375
Depreciation and amortization of real estate assets	62,956	61,000	124,633	120,734
Gains on sales of depreciable real estate	—	—	—	(2,257)
Funds From Operations attributable to noncontrolling interests in consolidated property partnerships	(6,082)	(5,924)	(12,445)	(11,552)
Funds From Operations(1)(2)(3)	$ 88,629	$ 88,767	$ 184,914	$ 170,701
Weighted average common shares/units outstanding – basic (4)	102,879	101,551	102,457	101,219
Weighted average common shares/units outstanding – diluted (5)	103,338	102,103	102,924	101,812
Funds From Operations per common share/unit – basic (2)	$ 0.86	$ 0.87	$ 1.80	$ 1.69
Funds From Operations per common share/unit – diluted (2)	$ 0.86	$ 0.87	$ 1.80	$ 1.68

____

(1) We calculate Funds From Operations available to common stockholders and common unitholders ("FFO") in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, gains and losses from sales of depreciable real estate and impairment write-downs associated with depreciable real estate, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustment for unconsolidated partnerships and joint ventures. Our calculation of FFO includes the amortization of deferred revenue related to tenant-funded tenant improvements and excludes the depreciation of the related tenant improvement assets. We also add back net income attributable to noncontrolling common units of the Operating Partnership because we report FFO attributable to common stockholders and common unitholders.

We believe that FFO is a useful supplemental measure of our operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of our activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to all other REITs.

Implicit in historical cost accounting for real estate assets in accordance with GAAP is the assumption that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies using historical cost accounting alone to be insufficient. Because FFO excludes depreciation and amortization of real estate assets, we believe that FFO along with the required GAAP presentations provides a more complete measurement of our performance relative to our competitors and a more appropriate basis on which to make decisions involving operating, financing and investing activities than the required GAAP presentations alone would provide.

However, FFO should not be viewed as an alternative measure of our operating performance because it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs and could materially impact our results from operations.

(2) Reported amounts are attributable to common stockholders, common unitholders, and restricted stock unitholders.

(3) FFO available to common stockholders and unitholders includes amortization of deferred revenue related to tenant-funded tenant improvements of $4.6 million and $4.5 million for the three months ended June 30, 2018 and 2017, respectively, and $8.9 million and $8.2 million for the six months ended June 30, 2018 and 2017, respectively.

(4) Calculated based on weighted average shares outstanding including participating share-based awards (i.e. nonvested stock and certain time based restricted stock units) and assuming the exchange of all common limited partnership units outstanding.

(5) Calculated based on weighted average shares outstanding including participating and non-participating share-based awards (i.e. nonvested stock and time based restricted stock units), dilutive impact of stock options and contingently issuable shares and assuming the exchange of all common limited partnership units outstanding.