

Kilroy Realty Corporation

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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.

Kilroy Realty, L.P.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Kilroy Realty Corporation Yes No Kilroy Realty, L. P. Yes No

The aggregate market value of the voting and non-voting shares of common stock held by non-affiliates of Kilroy Realty Corporation was approximately \$7,367,936,410 based on the quoted closing price on the New York Stock Exchange for such shares on June 30, 2017.

There is no public trading market for the common units of limited partnership interest of Kilroy Realty, L.P. As a result, the aggregate market value of the common units of limited partnership interest held by non-affiliates of Kilroy Realty, L.P. cannot be determined.

As of February 9, 2017, 98,721,228 shares of Kilroy Realty Corporation's common stock, par value \$.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Kilroy Realty Corporation's Proxy Statement with respect to its 2018 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2017 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” mean Kilroy Realty Corporation, a Maryland corporation, and its controlled and consolidated subsidiaries, and references to “Kilroy Realty, L.P.” or the “Operating Partnership” mean Kilroy Realty, L.P., a Delaware limited partnership, and its controlled and consolidated subsidiaries.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of December 31, 2017, the Company owned an approximate 97.9% common general partnership interest in the Operating Partnership. The remaining approximate 2.1% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership’s day-to-day management and control and can cause it to enter into certain major transactions including acquisitions, dispositions, and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership that are reflected in the disclosures in this Form 10-K. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. The Company is a REIT, the only material asset of which is the partnership interests it holds in the Operating Partnership. As a result, the Company generally does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing certain debt of the Operating Partnership. The Company itself is not directly obligated under any indebtedness, but generally guarantees all of the debt of the Operating Partnership. The Operating Partnership owns substantially all of the assets of the Company either directly or through its subsidiaries, conducts the operations of the Company’s business and is structured as a limited partnership with no publicly-traded equity. Except for net proceeds from equity issuances by the Company, which the Company generally contributes to the Operating Partnership in exchange for units of partnership interest, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s incurrence of indebtedness or through the issuance of units of partnership interest.

Noncontrolling interests, stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The common limited partnership interests in the Operating Partnership are accounted for as partners’ capital in the Operating Partnership’s financial statements and, to the extent not held by the Company, as noncontrolling interests in the Company’s financial statements. The Operating Partnership’s financial statements reflect the noncontrolling interest in Kilroy Realty Finance Partnership, L.P., a Delaware limited partnership (the “Finance Partnership”). This noncontrolling interest represents the Company’s 1% indirect general partnership interest in the Finance Partnership, which is directly held by Kilroy Realty Finance, Inc., a wholly owned subsidiary of the Company. The differences between stockholders’ equity, partners’ capital and noncontrolling interests result from the differences in the equity issued by the Company and the Operating Partnership, and in the Operating Partnership’s noncontrolling interest in the Finance Partnership.

We believe combining the annual reports on Form 10-K of the Company and the Operating Partnership into this single report results in the following benefits:

- Combined reports better reflect how management and the analyst community view the business as a single operating unit;
- Combined reports enhance investors’ understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- Combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- Combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Item 6. Selected Financial Data – Kilroy Realty Corporation;
- Item 6. Selected Financial Data – Kilroy Realty, L.P.;
- Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations:
 - —Liquidity and Capital Resources of the Company; and
 - —Liquidity and Capital Resources of the Operating Partnership;
- consolidated financial statements;
- the following notes to the consolidated financial statements:
 - Note 8, Secured and Unsecured Debt of the Company;
 - Note 9, Secured and Unsecured Debt of the Operating Partnership;
 - Note 11, Noncontrolling Interests on the Company’s Consolidated Financial Statements;
 - Note 12, Noncontrolling Interests on the Operating Partnership’s Consolidated Financial Statements;
 - Note 13, Stockholders’ Equity of the Company;
 - Note 14, Partners’ Capital of the Operating Partnership;
 - Note 20, Net Income Available to Common Stockholders Per Share of the Company;
 - Note 21, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;
 - Note 22, Supplemental Cash Flow Information of the Company;
 - Note 23, Supplemental Cash Flow Information of the Operating Partnership;
 - Note 25, Quarterly Financial Information of the Company (Unaudited); and
 - Note 26, Quarterly Financial Information of the Operating Partnership (Unaudited).

This report also includes separate sections under Item 9A. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of the Company and the Operating Partnership to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. §1350.

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PART I

This document contains certain 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, including, among other things, statements or information concerning our plans, objectives, capital resources, portfolio performance, results of operations, projected future occupancy and rental rates, lease expirations, debt maturities, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, projected construction commencement and completion dates, projected square footage of space that could be constructed on undeveloped land that we own, projected rentable square footage of or number of units in properties under construction or in the development pipeline, anticipated proceeds from capital recycling activity or other dispositions and anticipated dates of those activities or dispositions, projected increases in the value of properties, dispositions, future executive incentive compensation, pending, potential or proposed acquisitions, plans to grow our net operating income and funds from operations, our ability to re-lease properties at or above current market rates, anticipated market conditions, demographics and other forward-looking financial data, as well as the discussion in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations -Factors That May Influence Future Results of Operations.” 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. All forward-looking statements are based on information that was available and speak only as of the date on which they were made. We assume no obligation to update any forward-looking statement 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.

In addition, this report contains information and statistics regarding, among other things, the industry, markets, submarkets and sectors in which we operate, the percentage by which certain leases are above or below applicable market rents and the number of square feet of office and other space that could be developed from specific parcels of undeveloped land. We obtained this information and these statistics from various third-party sources and our own internal estimates. We believe that these sources and estimates are reliable but have not independently verified them and cannot guarantee their accuracy or completeness.

ITEM 1. BUSINESS

The Company

We are a self-administered REIT active in premier office and mixed-use submarkets along the West Coast. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in the coastal regions of Los Angeles, Orange County, San Diego County, the San Francisco Bay Area and Greater Seattle, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed. We own our interests in all of our real estate assets through the Operating Partnership and the Finance Partnership and generally conduct substantially all of our operations through the Operating Partnership. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”).

Our stabilized portfolio of operating properties was comprised of the following properties at December 31, 2017:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	Percentage Leased
Stabilized Office Properties	101	13,720,597	511	95.2%	96.9%
			Number of Buildings	Number of Units	2017 Average Occupancy
Stabilized Residential Property			1	200	70.2%

Our stabilized portfolio includes all of our properties with the exception of development and redevelopment properties currently under construction or committed for construction, “lease-up” properties, real estate assets held for sale and undeveloped land. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define “lease-up” properties as office and retail properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. There were no operating properties in “lease-up” or held for sale as of December 31, 2017.

During the first quarter of 2017, we added one development project to our stabilized office portfolio consisting of 365,359 rentable square feet in Hollywood, California. As of December 31, 2017, the following properties were excluded from our stabilized portfolio. We did not have any redevelopment properties at December 31, 2017.

	Number of Properties/Projects	Estimated Rentable Square Feet
Development projects under construction ⁽¹⁾⁽²⁾	4	1,800,000

(1) Estimated rentable square feet upon completion. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations —Completed, In-Process and Future Development Pipeline” for more information.

(2) Includes 86,000 square feet of Production, Distribution, and Repair (“PDR”) space. Development projects under construction also include 96,000 square feet of retail space and 237 residential units at One Paseo - Phase I in addition to the estimated rentable square feet noted above.

Our stabilized portfolio also excludes our near-term and future development pipeline, which as of December 31, 2017, was comprised of six potential development sites, representing approximately 48 gross acres of undeveloped land.

As of December 31, 2017, all of our properties and development projects were owned and all of our business was conducted in the state of California with the exception of twelve office properties and one development project under construction located in the state of Washington. As of December 31, 2017, we owned 100% of all our properties and developments, excluding four office properties located in San Francisco, California owned by three consolidated property partnerships. Two of the three property partnerships, 100 First Street Member, LLC (“100 First LLC”) and 303 Second Street Member, LLC (“303 Second LLC”), in which the Company owns an approximate 56% equity interest,

each owned one office property in San Francisco, California through subsidiary REITs (see Note 11 “Noncontrolling Interests on the Company’s Consolidated Financial Statements” and Note 12 “Noncontrolling Interests on the Operating Partnership’s Consolidated Financial Statements” to our consolidated financial statements included in this report for additional information). The remaining interests were owned by an unrelated third party. The third property partnership, in which the Company owns an approximate 93% common equity interest, Redwood City Partners, LLC (“Redwood LLC”), owned two office properties in Redwood City, California. The remaining interest was owned by an unrelated third party. All three property partnerships are consolidated entities.

We own our interests in all of our real estate assets through the Operating Partnership and the Finance Partnership and generally conduct substantially all of our operations through the Operating Partnership of which we owned a 97.9% common general partnership interest as of December 31, 2017. The remaining 2.1% common limited partnership interest in the Operating Partnership as of December 31, 2017 was owned by non-affiliated investors and certain of our executive officers and directors. Kilroy Realty Finance, Inc., a wholly owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% common general partnership interest. The Operating Partnership owns the remaining 99.0% common limited partnership interest. With the exception of the Operating Partnership and our consolidated property partnerships, all of our subsidiaries are wholly-owned.

Available Information; Website Disclosure; Corporate Governance Documents

Kilroy Realty Corporation was incorporated in the state of Maryland on September 13, 1996 and Kilroy Realty, L.P. was organized in the state of Delaware on October 2, 1996. Our principal executive offices are located at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064. Our telephone number at that location is (310) 481-8400. Our website is www.kilroyrealty.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this annual report on Form 10-K or any other report or document we file with or furnish to the SEC. All reports we will file with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials we file with the SEC at the SEC’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. All reports that we will file with the SEC will also be available free of charge on our website at www.kilroyrealty.com as soon as reasonably practicable after we file those materials with, or furnish them to, the SEC.

The following documents relating to corporate governance are also available free of charge on our website under “Investors —Overview —Corporate Governance” and available in print to any security holder upon request:

- Corporate Governance Guidelines;
- Code of Business Conduct and Ethics;
- Audit Committee Charter;
- Executive Compensation Committee Charter; and
- Nominating / Corporate Governance Committee Charter.

You may request copies of any of these documents by writing to:

Attention: Investor Relations
Kilroy Realty Corporation
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064

We intend to disclose on our website under “Investors —Overview —Corporate Governance” any amendment to, or waiver of, any provisions of our Code of Business Conduct and Ethics applicable to the directors and/or officers of the Company that would otherwise be required to be disclosed under the rules of the Securities and Exchange Commission or the New York Stock Exchange.

Business and Growth Strategies

Growth Strategies. We believe that a number of factors and strategies will enable us to continue to achieve our objectives of long-term sustainable growth in Net Operating Income (defined below) and FFO (defined below) as well as maximization of long-term stockholder value. These factors and strategies include:

- the quality, geographic location, physical characteristics and operating sustainability of our properties;
- our ability to efficiently manage our assets as a low cost provider of commercial real estate through our seasoned management team possessing core capabilities in all aspects of real estate ownership, including property management, leasing, marketing, financing, accounting, legal, and construction and development management;
- our access to development, redevelopment, acquisition and leasing opportunities as a result of our extensive experience and significant working relationships with major West Coast property owners, corporate tenants, municipalities and landowners given our over 70-year presence in the West Coast markets;
- our active development program and our near-term and future development pipeline of undeveloped land sites (see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations” for additional information pertaining to the Company’s in-process, near-term and future development pipeline);
- our capital recycling program (see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership” for additional information pertaining to the Company’s capital recycling program and related property and land dispositions);
- our ability to capitalize on inflection points in a real estate cycle to add quality assets to our portfolio at substantial discounts to long-term value, through either acquisition, development or redevelopment; and
- our strong financial position that has and will continue to allow us to pursue attractive acquisition and development and redevelopment opportunities.

“Net Operating Income” is defined as consolidated operating revenues (rental income, tenant reimbursements and other property income) less consolidated operating expenses (property expenses, real estate taxes, provision for bad debts and ground leases). “FFO” is Funds From Operations available to common stockholders and common unitholders calculated in accordance with the white paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). (See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Results of Operations” and “—Non-GAAP Supplemental Financial Measures: Funds From Operations” for a reconciliation of these measures to generally accepted accounting principles (“GAAP”) net income available to common stockholders.)

Operating Strategies. We focus on enhancing long-term growth in Net Operating Income and FFO from our properties by:

- maximizing cash flow from our properties through active leasing, early renewals and effective property management;
- structuring leases to maximize returns;
- managing portfolio credit risk through effective underwriting, including the use of credit enhancements and interests in collateral to mitigate portfolio credit risk;
- managing operating expenses through the efficient use of internal property management, leasing, marketing, financing, accounting, legal, and construction and development management functions;
- maintaining and developing long-term relationships with a diverse tenant base;

- continuing to effectively manage capital improvements to enhance our properties' competitive advantages in their respective markets and improve the efficiency of building systems;
- continuing to expand our management team with individuals who have extensive regional and product-type experience and are highly knowledgeable in their respective markets and product types; and
- attracting and retaining motivated employees by providing financial and other incentives to meet our operating and financial goals.

Development and Redevelopment Strategies. We and our predecessors have developed office properties primarily located in California since 1947. As of December 31, 2017, we had four projects totaling approximately 1.8 million square feet of office space, 237 residential units and 96,000 square feet of retail space under construction. As of December 31, 2017, our near-term and future development pipeline was comprised of six potential development sites, representing approximately 48 gross acres of undeveloped land on which we believe we have the potential to develop over 4.3 million square feet of office and retail space, depending upon economic conditions. Our strategy with respect to development is to:

- be the premier provider of modern and collaborative office and mixed-use projects on the West Coast with a focus on design and environment;
- maintain a disciplined approach by commencing development when appropriate based on market conditions, favoring pre-leasing, developing in stages or phasing, and cost control;
- reinvest capital from dispositions of selective assets into new state-of-the-market development and acquisition opportunities with higher cash flow and rates of return;
- execute on our development projects under construction and our near-term and future development pipeline, including expanding entitlements; and
- evaluate redevelopment opportunities in supply-constrained markets because such efforts generally achieve similar returns to new development with reduced entitlement risk and shorter construction periods.

We may engage in the additional development or redevelopment of office and mixed-use properties when market conditions support a favorable risk-adjusted return on such development or redevelopment. We expect that our significant working relationships with tenants, municipalities and landowners on the West Coast will give us further access to development and redevelopment opportunities. We cannot ensure that we will be able to successfully develop or redevelop any of our properties or that we will have access to additional development or redevelopment opportunities.

Acquisition Strategies. We believe we are well positioned to acquire opportunistic properties and development and redevelopment opportunities as the result of our extensive experience, strong financial position and ability to access capital. We continue to focus on growth opportunities in West Coast markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, life sciences, entertainment and professional services. Against the backdrop of market volatility, we expect to manage a strong balance sheet, execute on our development program and selectively evaluate opportunities that add immediate Net Operating Income to our portfolio or play a strategic role in our future growth and that:

- provide attractive yields and significant potential for growth in cash flow from property operations;
- present growth opportunities in our existing or other strategic markets; and
- demonstrate the potential for improved performance through intensive management, repositioning and leasing that should result in increased occupancy and rental revenues.

Financing Strategies. Our financing policies and objectives are determined by our board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt-to-total market capitalization. As of December 31, 2017, our total debt as a percentage of total market capitalization was 23.9%, which was calculated based on the quoted closing price per share of the Company's common stock of \$74.65 on December 31, 2017 (see "Item 7.

Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization” for additional information). Our financing strategies include:

- maintaining financial flexibility, including a low secured to unsecured debt ratio;
- maximizing our ability to access a variety of both public and private capital sources;
- maintaining a staggered debt maturity schedule in which the maturity dates of our debt are spread over several years to limit risk exposure at any particular point in the capital and credit market cycles;
- completing financing in advance of the need for capital;
- managing interest rate exposure by generally maintaining a greater amount of fixed-rate debt as compared to variable-rate debt; and
- maintaining our credit ratings.

We utilize multiple sources of capital, including borrowings under our unsecured line of credit, unsecured term loan, proceeds from the issuance of public or private debt or equity securities and other bank and/or institutional borrowings and our capital recycling program, including strategic venture sources. There can be no assurance that we will be able to obtain capital as needed on terms favorable to us or at all. (See the discussion under the caption “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations” and “Item 1A. Risk Factors.”)

Sustainability Strategies. We make excellence in sustainability a core competence by:

- managing our properties to offer the maximum degree of utility and operational efficiency to tenants. We offer tenant sustainability programs focused on helping our tenants reduce their energy and water consumption and increase their recycling diversion rates. Many of our assets are in zones that have been impacted by drought, and as such face the risk of increased water costs and fines for high consumption. We have mitigated these risks through comprehensive, proactive water reductions throughout our portfolio, including domestic fixture upgrades, cooling tower optimizations, a comprehensive leak detection program, and irrigation systems retrofits. We also incorporate green lease language into 100% of our new leases, including a cost recovery clause for resource-efficiency related capital in full-service gross leases, which align tenant and landlord interests on energy, water and waste efficiency. Green leases (also known as aligned leases, high performance leases or energy efficient leases) align the financial and energy incentives of building owners and tenants so they can work together to save money, conserve resources and ensure the efficient operation of buildings. We were honored in 2014 to be part of the inaugural class of Green Lease Leaders, the Institute for Market Transformation’s (“IMT’s”) program to encourage green leasing in real estate. In 2016, IMT honored us again with two Green Lease Leaders Team Transaction awards. Energy and water consumption data for the last three years audited by DNV GL Business Assurance USA, Inc. are as follows:

Energy consumption:

Year ⁽¹⁾	Energy Consumption Data Coverage as % of Floor Area ⁽²⁾	Total Energy Consumed by Portfolio Area with Data Coverage (MWh) ⁽³⁾	% of Energy Generated From Renewable Resources	Like-for-Like Change in Energy Consumption of Portfolio Area with Data Coverage ⁽⁴⁾	% of Eligible Portfolio that has Obtained an Energy Rating and is Certified to ENERGY STAR
2016	97%	281,675	3%	(2)%	68%
2015	92%	273,381	3%	(5)%	65%
2014	88%	267,391	5%	(2)%	56%

Water consumption:

Year ⁽¹⁾	Water Withdrawal Data Coverage as a % of Total Floor Area ⁽⁵⁾	Total Water Withdrawn by Portfolio Area (m ⁽³⁾), ⁽⁶⁾	Like-for-like Change in Water Withdrawn for Portfolio Area with Data Coverage ⁽⁴⁾
2016	94%	829,503	(2)%
2015	94%	832,737	(11)%
2014	92%	950,357	(2)%

- (1) Full 2017 calendar year energy and water data is not available until March 30, 2018. 2016 is the most recent year for which full energy and water data is available and verified by a third party.
- (2) Floor area is considered to have complete energy consumption data coverage when energy consumption data (i.e., energy types and amounts consumed) is obtained by the Company for all types of energy consumed in the relevant floor area during the fiscal year, regardless of when such data was obtained.
- (3) The scope of energy includes energy purchased from sources external to the Company and its tenants or produced by the Company or its tenants themselves (self-generated) and energy from all sources, including direct fuel usage, purchased electricity, and heating, cooling and steam energy.
- (4) Data reported in MWh on a like-for-like comparison excludes assets which have been acquired, disposed, under development or have been largely refurbished over the past twenty-four months.
- (5) Floor area is considered to have complete water withdrawal data coverage when water withdrawal data (i.e., amounts withdrawn) is obtained by the registrant in the relevant floor area during the fiscal year, regardless of when such data was obtained.
- (6) Water sources include surface water (including water from wetlands, rivers, lakes and oceans), groundwater, rainwater collected directly and stored by the registrant, wastewater obtained from other entities, municipal water supplies or supply from other water utilities.

- building our current development projects to Leadership in Energy and Environmental Design (“LEED”) specifications. All of our office development projects are now designed to achieve LEED certification, either LEED Platinum or Gold;
- actively pursuing LEED certification for approximately 1.8 million square feet of office and/or mixed use space under construction. In addition, an analysis of energy performance is included in our standard due diligence process for acquisitions, and reducing energy use year over year is a comprehensive goal of our operational strategy. This is accomplished through systematic energy auditing, mechanical, lighting and other building upgrades, optimizing operations and engaging tenants. During the past few years we have significantly enhanced the sustainability profile of our portfolio, ending 2017 with 58% of our properties LEED certified and 72% of our properties ENERGY STAR certified. During 2017, the Company was recognized for our sustainability efforts with multiple industry leadership awards, including NAREIT’s 2017 Office Leader in the Light Award for the fourth consecutive year, and the ENERGY STAR Partner of the Year Sustained Excellence Award. The Company was also recognized by GRESB as the North American office leader in sustainability for the fourth year in a row, and we became one of only three American real estate companies to be listed in the Dow Jones Sustainability World Index.

Significant Tenants

As of December 31, 2017, our 15 largest tenants in terms of annualized base rental revenues represented approximately 40.3% of our total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2017. Annualized base rental revenue 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 tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases and expense reimbursement revenue.

For further information on our 15 largest tenants and the composition of our tenant base, see “Item 2. Properties —Significant Tenants.”

Competition

We compete with several developers, owners, operators and acquirers of office, undeveloped land and other commercial real estate, including mixed-use and residential real estate, many of which own properties similar to ours

in the same submarkets in which our properties are located. For further discussion of the potential impact of competitive conditions on our business, see “Item 1A. Risk Factors.”

Segment and Geographic Financial Information

During 2017 and 2016, we had one reportable segment, our office properties segment. For information about our office property revenues and long-lived assets and other financial information, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Results of Operations.”

As of December 31, 2017, all of our properties and development projects were owned and all of our business was conducted in the state of California with the exception of twelve office properties and one development project under construction located in the state of Washington. As of December 31, 2017, all of our properties and development projects were 100% owned, excluding four office properties owned by three consolidated property partnerships, which have been consolidated for financial reporting purposes (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for further information).

Employees

As of December 31, 2017, we employed 251 people through the Operating Partnership, Kilroy Services, LLC, and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

Environmental Regulations and Potential Liabilities

Government Regulation Relating to the Environment. Many laws and governmental regulations relating to the environment are applicable to our properties, and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently and may adversely affect us.

Existing conditions at some of our properties. Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of our properties. We generally obtain these assessments prior to the acquisition of a property and may later update them as required for subsequent financing of the property, if a property is slated for disposition, or as requested by a tenant. Consultants are required to perform Phase I assessments to American Society for Testing and Materials standards then-existing for Phase I site assessments and typically include a historical review, a public records review, a visual inspection of the surveyed site, and the issuance of a written report. These assessments do not generally include any soil samplings or subsurface investigations; however, if a Phase I does recommend that soil samples be taken or other subsurface investigations take place, we generally perform such recommended actions. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials or a separate hazardous materials survey may have been conducted. For properties where asbestos-containing materials were identified or suspected, an operations and maintenance plan was generally prepared and implemented.

Historical operations at or near some of our properties, including the presence of underground or above ground storage tanks, the landfilling of hazardous substances and solid waste, and migration of contamination from other sites, may have caused soil or groundwater contamination. In some instances, the prior owners of the affected properties conducted remediation of known contamination in the soils on our properties, and we may be required to conduct further clean-up of the soil at these properties and residual contamination could pose environmental, health, and safety risks if not appropriately addressed. To protect the health and safety of site occupants and others, we may be required to implement and operate safeguards, including, for example, vapor intrusion mitigation systems and building protection systems to address methane. We may need to modify our methods of construction or face increased construction costs as a result of environmental conditions, and we may face obligations under agreements with governmental authorities with respect to the management of such environmental conditions. If releases from our sites migrate offsite, neighbors or others could make claims against us, such as for property damage, personal injury, or cost recovery.

As of December 31, 2017, we had accrued environmental remediation liabilities of approximately \$28.3 million recorded on our consolidated balance sheets in connection with certain of our in-process and future development projects. The accrued environmental remediation liabilities represent the costs we estimate we will incur when we

commence development at various development acquisition sites. These estimates, which we developed with the assistance of third party experts, consist primarily of the removal of contaminated soil and other related costs since we are required to dispose of any existing contaminated soil when we develop new office properties at these sites. It is possible that we could incur additional environmental remediation costs in connection with these future development projects. However, given we are in the pre-development phase on these future development projects, potential additional environmental costs cannot be reasonably estimated at this time and certain changes in estimates could occur as the site conditions, final project timing, design elements, actual soil conditions and other aspects of the projects, which may depend upon municipal and other approvals beyond the control of the Company, are determined. See Note 18 "Commitments and Contingencies" to our consolidated financial statements included in this report for additional information.

Other than the accrued environmental liabilities recorded in connection with certain of our development projects, we are not aware of any such condition, liability, or concern by any other means that would give rise to material environmental liabilities. However, our assessments may have failed to reveal all environmental conditions, liabilities, or compliance concerns; there may be material environmental conditions, liabilities, or compliance concerns that arose at a property after the review was completed; future laws, ordinances, or regulations may impose material additional environmental liability; and environmental conditions at our properties may be affected in the future by tenants, third parties, or the condition of land or operations near our properties, such as the presence of underground storage tanks or migrating plumes. We cannot be certain that costs of future environmental compliance will not have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to security holders.

Use of hazardous materials by some of our tenants. Some of our tenants handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants in their leases to comply with these environmental laws and regulations and to indemnify us for any related liabilities. As of December 31, 2017, other than routine cleaning materials, approximately 3-5% of our tenants handled hazardous substances and/or wastes on approximately 1-3% of the aggregate square footage of our properties as part of their routine operations. These tenants are primarily involved in the life sciences business. The hazardous substances and wastes are primarily comprised of diesel fuel for emergency generators and small quantities of lab and light manufacturing chemicals including, but not limited to, alcohol, ammonia, carbon dioxide, cryogenic gases, dichlorophenol, methane, naturalyte acid, nitrogen, nitrous oxide, and oxygen which are routinely used by life science companies. We are not aware of any material noncompliance, liability, or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties, and management does not believe that on-going activities by our tenants will have a material adverse effect on our operations.

Costs related to government regulation and private litigation over environmental matters. Under applicable environmental laws and regulations, we may be liable for the costs of removal, remediation, or disposal of certain hazardous or toxic substances present or released on our properties. These laws could impose liability without regard to whether we are responsible for, or even knew of, the presence or release of the hazardous materials. Government investigations and remediation actions may have substantial costs, and the presence or release of hazardous substances on a property could result in governmental clean-up actions, personal injury actions, or similar claims by private plaintiffs.

Potential environmental liabilities may exceed our environmental insurance coverage limits, transactional indemnities or holdbacks. We carry what we believe to be commercially reasonable environmental insurance. Our environmental insurance policies are subject to various terms, conditions and exclusions. Similarly, in connection with some transactions we obtain environmental indemnities and holdbacks that may not be honored by the indemnitors, may be less than the resulting liabilities or may otherwise fail to address the liabilities adequately. Therefore, we cannot provide any assurance that our insurance coverage or transactional indemnities will be sufficient or that our liability, if any, will not have a material adverse effect on our financial condition, results of operations, cash flows, quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to security holders.

Litigation

Lawsuits have been filed in San Francisco County Superior Court in connection with the settlement and differential settlement experienced at the Millennium Tower property located at 301 Mission Street in San Francisco, California, a building not owned by the Company but located in proximity to the Company's property located at 350 Mission Street. Among the claims asserted in the complex lawsuits are claims that acts by various entities, including entities affiliated with other neighboring properties, contributed to the settlement that Millennium Tower has experienced. In October 2017, two defendants named in the lawsuits asserted cross-claims for equitable indemnification against certain of the Company's entities in connection with the development and construction-related activities at our neighboring 350 Mission Street property. We dispute the allegations and intend to vigorously defend against these claims.

ITEM 1A. RISK FACTORS

The following section sets forth material factors that may adversely affect our business and operations. The following factors, as well as the factors discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations” and other information contained in this report, should be considered in evaluating us and our business.

Risks Related to our Business and Operations

Global market, economic and geopolitical conditions may adversely affect our business, results of operations, liquidity and financial condition and those of our tenants. Our business may be adversely affected by global market, economic and geopolitical conditions, including general global economic and political uncertainty and dislocations in the credit markets. If these conditions become more volatile or worsen, our and our tenant’s business, results of operations, liquidity and financial condition and those of our tenants may be adversely affected as a result of the following consequences, among others:

- the financial condition of our tenants, many of which are technology; life science and healthcare; finance, insurance and real estate; media and professional business and other service firms, may be adversely affected, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;
- significant job losses in the financial and professional services industries may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;
- our ability to obtain financing on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;
- reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and
- one or more lenders under the Operating Partnership’s unsecured revolving credit facility could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

All of our properties are located in California and greater Seattle, Washington and we may therefore be susceptible to adverse economic conditions and regulations, as well as natural disasters, in those areas. Because all of our properties are concentrated in California and greater Seattle, we may be exposed to greater economic risks than if we owned a more geographically dispersed portfolio. Further, within California, our properties are concentrated in Los Angeles, Orange County, San Diego County and the San Francisco Bay Area, exposing us to risks associated with those specific areas. We are susceptible to adverse developments in the economic and regulatory environments of California and greater Seattle (such as periods of economic slowdown or recession, business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors), as well as adverse weather conditions and natural disasters that occur in those areas (such as earthquakes, wind, landslides, droughts, fires and other events). In addition, California is also regarded as more litigious and more highly regulated and taxed than many other states, which may reduce demand for office space in California.

Any adverse developments in the economy or real estate market in California and the surrounding region, or in greater Seattle or any decrease in demand for office space resulting from the California or greater Seattle regulatory or business environment could impact our ability to generate revenues sufficient to meet our operating expenses or other obligations, which would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our performance and the market value of our securities are subject to risks associated with our investments in real estate assets and with trends in the real estate industry. Our economic performance and the value of our real estate assets and, consequently the market value of the Company's securities, are subject to the risk that our properties may not generate revenues sufficient to meet our operating expenses or other obligations. A deficiency of this nature would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Events and conditions applicable to owners and operators of real estate that are beyond our control and could impact our economic performance and the value of our real estate assets may include:

- local oversupply or reduction in demand for office, mixed-use or other commercial space, which may result in decreasing rental rates and greater concessions to tenants;
- inability to collect rent from tenants;
- vacancies or inability to rent space on favorable terms or at all;
- inability to finance property development and acquisitions on favorable terms or at all;
- increased operating costs, including insurance premiums, utilities and real estate taxes;
- costs of complying with changes in governmental regulations;
- the relative illiquidity of real estate investments;
- declines in real estate asset valuations, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing;
- changing submarket demographics;
- changes in space utilization by our tenants due to technology, economic conditions and business culture;
- the development of harmful mold or other airborne toxins or contaminants that could damage our properties or expose us to third-party liabilities; and
- property damage resulting from seismic activity or other natural disasters.

We depend upon significant tenants, and the loss of a significant tenant could adversely affect our financial condition, results of operations, ability to borrow funds and cash flows. As of December 31, 2017, our 15 largest tenants represented approximately 40.3% of total annualized base rental revenues. See further discussion on the composition of our tenants by industry and our largest tenants under "Item 2. Properties —Significant Tenants."

Our financial condition, results of operations, ability to borrow funds and cash flows would be adversely affected if any of our significant tenants fails to renew its lease(s), renew its lease(s) on terms less favorable to us, or becomes bankrupt or insolvent or otherwise unable to satisfy its lease obligations.

Downturn in tenants' businesses may reduce our revenues and cash flows. For the year ended December 31, 2017, we derived approximately 98.8% of our revenues from rental income and tenant reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments or result in defaults under our leases. In the event of default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under federal bankruptcy law, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might permit the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid and future rent could be subject to a statutory cap that might be substantially less

than the remaining rent actually owed under the lease. Therefore, our claim for unpaid rent would likely not be paid in full. Any losses resulting from the bankruptcy of any of our existing tenants could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

A large percentage of our tenants operate in a concentrated group of industries and downturns in these industries could adversely affect our financial condition, results of operations and cash flows. As of December 31, 2017, as a percentage of our annualized base rental revenue, 43% of our tenants operated in the technology industry, 14% in the life science and health care industries, 13% in the finance, insurance and real estate industries, 12% in the media industry, 8% in the professional, business and other services industries and 10% in other industries. As we continue our development and potential acquisition activities in markets populated by knowledge and creative based tenants in the technology and media industries, our tenant mix could become more concentrated, further exposing us to risks associated with those industries. For a further discussion of the composition of our tenants by industry, see “Item 2. Properties —Significant Tenants.” An economic downturn in any of these industries, or in any industry in which a significant number of our tenants currently or may in the future operate, could negatively impact the financial condition of such tenants and cause them to fail to make timely rental payments or default on lease obligations, fail to renew their leases or renew their leases on terms less favorable to us, become bankrupt or insolvent, or otherwise become unable to satisfy their obligations to us. As a result, a downturn in an industry in which a significant number of our tenants operate could adversely affect our financial conditions, result of operations and cash flows.

We may be unable to renew leases or re-lease available space. Most of our income is derived from the rent earned from our tenants. We had office space representing approximately 4.8% of the total square footage of our stabilized office properties that was not occupied as of December 31, 2017. In addition, leases representing approximately 9.0% and 11.9% of the leased rentable square footage of our properties are scheduled to expire in 2018 and 2019, respectively. Above market rental rates on some of our properties may force us to renew or re-lease expiring leases at rates below current lease rates. We cannot provide any assurance that leases will be renewed, available space will be re-leased or that our rental rates will be equal to or above the current rental rates. If the average rental rates for our properties decrease, existing tenants do not renew their leases, or available space is not re-leased, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected. For additional information on our scheduled lease expirations, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors Factors That May Influence Future Results of Operations.”

We are subject to governmental regulations that may affect the development, redevelopment and use of our properties. Our properties are subject to regulation under federal laws, such as the Americans with Disabilities Act of 1990 (the “ADA”), pursuant to which all public accommodations must meet federal requirements related to access and use by disabled persons, and state and local laws addressing earthquake, fire and life safety requirements. Although we believe that our properties substantially comply with requirements under applicable governmental regulations, none of our properties have been audited or investigated for compliance by any regulatory agency. If we were not in compliance with material provisions of the ADA or other regulations affecting our properties, we might be required to take remedial action, which could include making modifications or renovations to our properties. Federal, state, or local governments may also enact future laws and regulations that could require us to make significant modifications or renovations to our properties. If we were to incur substantial costs to comply with the ADA or any other regulations, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

Our properties are subject to land use rules and regulations that govern our development, redevelopment and use of our properties, such as Title 24 of the California Code of Regulations (“Title 24”), which prescribes building energy efficiency standards for residential and nonresidential buildings in the State of California. If we were not in compliance with material provisions of Title 24 or other regulations affecting our properties, we might be required to take remedial action, which could include making modifications or renovations to our properties. Changes in the existing land use rules and regulations and approval process that restrict or delay our ability to develop, redevelop or use our properties (such as potential restrictions on the use and/or density of new developments, water use and other uses and activities) or that prescribe additional standards could have an adverse effect on our financial position, results of operations, cash

flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We may not be able to meet our debt service obligations. As of December 31, 2017, we had approximately \$2.4 billion aggregate principal amount of indebtedness, of which \$3.6 million in principal payments will be paid during the year ended December 31, 2018. Our total debt at December 31, 2017 represented 23.9% of our total market capitalization (which we define as the aggregate of our long-term debt, and the market value of the Company's common stock and the Operating Partnership's common units of limited partnership interest, or common units). For the calculation of our market capitalization and additional information on debt maturities, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership —Liquidity Uses."

The instruments and agreements governing some of our outstanding indebtedness (including borrowings under the Operating Partnership's unsecured revolving credit facility, unsecured term loan facility and note purchase agreement) contain provisions that require us to repurchase for cash or repay that indebtedness under specified circumstances or upon the occurrence of specified events (including certain changes of control of the Company), and our future debt agreements and debt securities may contain similar provisions or may require that we offer to repurchase the applicable indebtedness for cash under specified circumstances or upon the occurrence of specified events. We may not have sufficient funds to pay our indebtedness when due (including upon any such required repurchase, repayment or offer to repurchase), and we may not be able to arrange for the financing necessary to make those payments on favorable terms or at all. In addition, our ability to make required payments on our indebtedness when due (including upon any such required repurchase, repayment or offer to repurchase) may be limited by the terms of other debt instruments or agreements. Our failure to pay amounts due in respect of any of our indebtedness when due may constitute an event of default under the instrument governing that indebtedness, which could permit the holders of that indebtedness to require the immediate repayment of that indebtedness in full and, in the case of secured indebtedness, could allow them to sell the collateral securing that indebtedness and use the proceeds to repay that indebtedness. Moreover, any acceleration of or default in respect of any of our indebtedness could, in turn, constitute an event of default under other debt instruments or agreements, thereby resulting in the acceleration and required repayment of that other indebtedness.

We cannot assure you that our business will generate sufficient cash flow from operations or that future sources of cash will be available to us in an amount sufficient to enable us to pay amounts due on our indebtedness or to fund our other liquidity needs, including cash distributions necessary to maintain the Company's REIT qualification. Additionally, if we incur additional indebtedness in connection with future acquisitions or for any other purpose, our debt service obligations could increase.

We may need to refinance all or a portion of our indebtedness on or before maturity. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things:

- our financial condition, results of operations and market conditions at the time; and
- restrictions in the agreements governing our indebtedness.

As a result, we may not be able to refinance our indebtedness on commercially reasonable terms or at all. If we do not generate sufficient cash flow from operations, and additional borrowings or refinancings or proceeds of asset sales or other sources of cash are not available to us, we may not have sufficient cash to enable us to meet all of our obligations. Accordingly, if we cannot service our indebtedness, we may have to take actions such as seeking additional equity financing, delaying capital expenditures, or entering into strategic acquisitions and alliances. Any of these events or circumstances could have a material adverse effect on our financial condition, results of operations, cash flows, the trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders. In addition, foreclosures could create taxable income without accompanying cash proceeds, which could require us to borrow or sell assets to raise the funds necessary to meet the REIT distribution requirements discussed below, even if such actions are not on favorable terms.

The covenants in the agreements governing the Operating Partnership's unsecured revolving credit facility, unsecured term loan facility and note purchase agreement may limit our ability to make distributions to the holders of our common stock. The Operating Partnership's \$750.0 million unsecured revolving credit facility, \$150.0 million unsecured term loan facility and note purchase agreement contain financial covenants that could limit the amount of distributions payable by us on our common stock and any preferred stock we may issue in the future. We rely on cash distributions we receive from the Operating Partnership to pay distributions on our common stock and any preferred stock we may issue in the future and to satisfy our other cash needs. The agreements governing the unsecured revolving credit facility, the unsecured term loan facility and the note purchase agreement provide that, if the Operating Partnership fails to pay any principal of, or interest on, any borrowings or other amounts payable under such agreement when due or during any other event of default under such unsecured revolving credit facility, unsecured term loan facility and the note purchase agreement, the Operating Partnership may make only those partnership distributions that result in distributions to us in an amount sufficient to permit us to make distributions to our stockholders that we reasonably believe are necessary to (a) maintain our qualification as a REIT for federal and state income tax purposes and (b) avoid the payment of federal or state income or excise tax. Any limitation on our ability to make distributions to our stockholders, whether as a result of these provisions in the unsecured revolving credit facility, the unsecured term loan facility, the note purchase agreement or otherwise, could have a material adverse effect on the market value of our common stock.

A downgrade in our credit ratings could materially adversely affect our business and financial condition. The credit ratings assigned to the Operating Partnership's debt securities and any preferred stock we may issue in the future could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, these credit ratings do not apply to our common stock and are not recommendations to buy, sell or hold our common stock or any other securities. If any of the credit rating agencies that have rated the Operating Partnership's debt securities or any preferred stock we may issue in the future downgrades or lowers its credit rating, or if any credit rating agency indicates that it has placed any such rating on a so-called "watch list" for a possible downgrading or lowering or otherwise indicates that its outlook for that rating is negative, it could have a material adverse effect on our costs and availability of capital, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows, the trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We face significant competition, which may decrease the occupancy and rental rates of our properties. We compete with several developers, owners and operators of office, undeveloped land and other commercial real estate, including mixed-use and residential real estate, many of which own properties similar to ours in the same submarkets in which our properties are located but which have lower occupancy rates than our properties. Therefore, our competitors have an incentive to decrease rental rates until their available space is leased. If our competitors offer space at rental rates below the rates currently charged by us for comparable space, we may be pressured to reduce our rental rates below those currently charged in order to retain tenants when our tenant leases expire. As a result, our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders may be adversely affected.

In order to maintain the quality of our properties and successfully compete against other properties, we must periodically spend money to maintain, repair and renovate our properties, which reduces our cash flows. If our properties are not as attractive to current and prospective tenants in terms of rent, services, condition or location as properties owned by our competitors, we could lose tenants or suffer lower rental rates. As a result, we may from time to time be required to make significant capital expenditures to maintain the competitiveness of our properties. There can be no assurances that any such expenditure would result in higher occupancy or higher rental rates, or deter existing tenants from relocating to properties owned by our competitors.

Potential casualty losses, such as earthquake losses, may adversely affect our financial condition, results of operations and cash flows. We carry comprehensive liability, fire, extended coverage, rental loss, and terrorism insurance covering all of our properties. Management believes the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage and industry practice. We do not carry insurance for generally uninsurable losses such as loss from riots or acts of God. In addition, all of our properties are located in earthquake-prone areas. We carry earthquake insurance on our properties in an amount and with deductibles that

management believes are commercially reasonable. However, the amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. We may also discontinue earthquake insurance on some or all of our properties in the future if the cost of premiums for earthquake insurance exceeds the value of the coverage discounted for the risk of loss. If we experience a loss that is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. Further, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if the properties were irreparable.

We may not be able to rebuild our existing properties to their existing specifications if we experience a substantial or comprehensive loss of such properties. In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications. Further, reconstruction or improvement of such property could potentially require significant upgrades to meet zoning and building code requirements or be subject to environmental and other legal restrictions.

Climate change may adversely affect our business. To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for our properties located in the areas affected by these conditions. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties in order to comply with such regulations.

We are subject to environmental and health and safety laws and regulations, and any costs to comply with, or liabilities arising under, such laws and regulations could be material. As an owner, operator, manager, acquirer and developer of real properties, we are subject to environmental and health and safety laws and regulations. Certain of these laws and regulations impose joint and several liability, without regard to fault, for investigation and clean-up costs on current and former owners and operators of real property and persons who have disposed of or released hazardous substances into the environment. At some of our properties, there are asbestos-containing materials, or tenants routinely handle hazardous substances as part of their operations. In addition, historical operations and conditions, including the presence of underground storage tanks, the landfilling of hazardous substances and solid waste, and migration of contamination from other sites, have caused soil or groundwater contamination at or near some of our properties. Although we believe that the prior owners of the affected properties or other persons may have conducted remediation of known contamination at many of these properties, not all such contamination has been remediated, further clean-up at these properties may be required, and residual contamination could pose environmental, health, and safety risks if not appropriately addressed. To protect the health and safety of site occupants and others, we may be required to implement and operate safeguards, including, for example, vapor intrusion mitigation systems and building protection systems to address methane. We may need to modify our methods of construction or face increased construction costs as a result of environmental conditions, and we may face obligations under agreements with governmental authorities with respect to the management of such environmental conditions. If releases from our sites migrate offsite, neighbors or others could make claims against us, such as for property damage, personal injury, or cost recovery. As of December 31, 2017, we had accrued environmental remediation liabilities of approximately \$28.3 million recorded on our consolidated balance sheets in connection with certain of our in-process and future development projects. The accrued environmental remediation liabilities represent the costs we estimate we will incur when we commence development at various development acquisition sites. These estimates, which we developed with the assistance of third party experts, consist primarily of the removal of contaminated soil and other related costs since we are required to dispose of any existing contaminated soil when we develop new office properties as these sites. It is possible that we could incur additional environmental remediation costs in connection with these future development projects. However, given we are in the pre-development phase on these future development projects, potential additional environmental costs cannot be reasonably estimated at this time and certain changes in estimates could occur as the site conditions, final project timing, design elements, actual soil conditions and other aspects of the projects, which may depend upon municipal and other approvals beyond the control of the Company, are determined. Unknown or unremediated contamination or compliance with existing or new environmental or health and safety laws and regulations could require us to incur costs or liabilities that could be material. See “Item 1. Business —Environmental Regulations and Potential Liabilities” and Note 18 “Commitments and Contingencies” to our consolidated financial statements included in this report.

We may be unable to complete acquisitions and successfully operate acquired properties. We continually evaluate the market of available properties and may continue to acquire office or mixed use properties and undeveloped land when strategic opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them is subject to various risks, including the following:

- we may potentially be unable to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded and private REITs, institutional investment funds and other real estate investors;
- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;
- even if we enter into agreements for the acquisition of a desired property, we may be unable to complete such acquisitions because they remain subject to customary conditions to closing, including the completion of due diligence investigations to management's satisfaction;
- we may be unable to finance acquisitions on favorable terms or at all;
- we may spend more than budgeted amounts in operating costs or to make necessary improvements or renovations to acquired properties;
- we may lease acquired properties at economic lease terms different than projected;
- we may acquire properties that are subject to liabilities for which we may have limited or no recourse; and
- we may be unable to complete an acquisition after making a nonrefundable deposit and incurring certain other acquisition-related costs.

If we cannot finance property acquisitions on favorable terms or operate acquired properties to meet financial expectations, our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

There are significant risks associated with property acquisition, development and redevelopment. We may be unable to successfully complete and operate acquired, developed and redeveloped properties, and it is possible that:

- we may be unable to lease acquired, developed or redeveloped properties on lease terms projected at the time of acquisition, development or redevelopment or within budgeted timeframes;
- the operating expenses at acquired, developed or redeveloped properties may be greater than projected at the time of acquisition, development or redevelopment, resulting in our investment being less profitable than we expected;
- we may not commence or complete development or redevelopment properties on schedule or within budgeted amounts or at all;
- we may not be able to develop or redevelop the estimated square footage and other features of our development and redevelopment properties;
- we may suspend development or redevelopment projects after construction has begun due to changes in economic conditions or other factors, and this may result in the write-off of costs, payment of additional costs or increases in overall costs when the development or redevelopment project is restarted;
- we may expend funds on and devote management's time to acquisition, development or redevelopment properties that we may not complete and as a result we may lose deposits or fail to recover expenses already incurred;

- we may encounter delays or refusals in obtaining all necessary zoning, land use, and other required entitlements, and building, occupancy, and other required governmental permits and authorizations;
- we may encounter delays, refusals, unforeseen cost increases and other impairments resulting from third-party litigation; and
- we may fail to obtain the financial results expected from properties we acquire, develop or redevelop.

If one or more of these events were to occur in connection with our acquired properties, undeveloped land, or development or redevelopment properties under construction, we could be required to recognize an impairment loss. These events could also have an adverse impact on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

While we historically have acquired, developed and redeveloped office properties in California markets, over the past few years we have acquired properties in greater Seattle, where we currently have twelve properties and one development project under construction, and may in the future acquire, develop or redevelop properties for other uses and expand our business to other geographic regions where we expect the development or acquisition of property to result in favorable risk-adjusted returns on our investment. Presently, we do not possess the same level of familiarity with other outside markets, which could adversely affect our ability to acquire, develop or redevelop properties or to achieve expected performance.

We face risks associated with the development of mixed-use commercial properties. We are currently developing, and in the future may develop, properties either alone or through joint ventures that are known as “mixed-use” developments. This means that in addition to the development of office space, the project may also include space for residential, retail or other commercial purposes. Generally, we have less experience developing and managing non-office real estate. As a result, if a development project includes non-office space, we may develop that space ourselves or seek to partner with a third-party developer with more experience. If we do not partner with such a developer, or if we choose to develop the space ourselves, we would be exposed to specific risks associated with the development and ownership of non-office real estate. In addition, if we elect to participate in the development through a joint venture, we may be exposed to the risks associated with the failure of the other party to complete the development as expected, which could require that we identify another joint venture partner and/or complete the project ourselves (including providing any necessary financing). In the case of residential properties, these risks include competition for prospective tenants from other operators whose properties may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the tenant seeks. With residential properties, we will also compete against apartments, condominiums and single-family homes that are for sale or rent. Because we have less experience with residential properties, we may retain third parties to manage these properties. If we decide to wholly own a non-office project and hire a third-party manager, we could be dependent on that party and its key personnel to provide services to us, and we may not find a suitable replacement if the management agreement is terminated, or if key personnel leave or otherwise become unavailable to us.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial condition, and disputes between us and our co-venturers and could expose us to potential liabilities and losses. In addition to the 100 First LLC and 303 Second LLC strategic ventures formed during 2016 and the Redwood City Partners, LLC venture formed during 2013, we may continue to co-invest in the future with third parties through partnerships, joint ventures or other entities, or through acquiring non-controlling interests in, or sharing responsibility for, managing the affairs of a property, partnership, joint venture or other entity, which may subject us to risks that may not be present with other methods of ownership, including the following:

- we would not be able to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity, which would allow for impasses on decisions that could restrict our ability to sell or transfer our interests in such entity or such entity’s ability to transfer or sell its assets;
- partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions, which could delay construction or development of a property or increase our financial commitment to the partnership or joint venture;

- partners or co-venturers may pursue economic or other business interests, policies or objectives that are competitive or inconsistent with ours;
- if we become a limited partner or non-managing member in any partnership or limited liability company, and such entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity;
- disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business; and
- we may, in certain circumstances, be liable for the actions of our third-party partners or co-venturers.

We own certain properties subject to ground leases and other restrictive agreements that limit our uses of the properties, restrict our ability to sell or otherwise transfer the properties and expose us to the loss of the properties if such agreements are breached by us, terminated or not renewed. As of December 31, 2017, we owned thirteen office buildings, located on various land parcels and in various regions, which we lease individually on a long-term basis. As of December 31, 2017, we had approximately 2.0 million aggregate rentable square feet, or 14.8% of our total stabilized portfolio, of rental space located on these leased parcels and we may in the future invest in additional properties that are subject to ground leases or other similar restrictive arrangements. Many of these ground leases and other restrictive agreements impose significant limitations on our uses of the subject property, restrict our ability to sell or otherwise transfer our interests in the property or restrict our leasing of the property. These restrictions may limit our ability to timely sell or exchange the properties, impair the properties' value or negatively impact our ability to find suitable tenants for the properties. In addition, if we default under the terms of any particular lease, we may lose the ownership rights to the property subject to the lease. Upon expiration of a lease, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase of rental expense could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Real estate assets are illiquid, and we may not be able to sell our properties when we desire. Our investments in our properties are relatively illiquid, limiting our ability to sell our properties quickly in response to changes in economic or other conditions. In addition, the Code generally imposes a 100% prohibited transaction tax on the Company on profits derived from sales of properties held primarily for sale to customers in the ordinary course of business, which effectively limits our ability to sell properties other than on a selected basis. These restrictions on our ability to sell our properties could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We may invest in securities related to real estate, which could adversely affect our ability to pay dividends and distributions to our security holders. We may purchase securities issued by entities that own real estate and may, in the future, also invest in mortgages. In general, investments in mortgages are subject to several risks, including:

- borrowers may fail to make debt service payments or pay the principal when due;
- the value of the mortgaged property may be less than the principal amount of the mortgage note securing the property; and
- interest rates payable on the mortgages may be lower than our cost for the funds used to acquire these mortgages.

Owning these securities may not entitle us to control the ownership, operation and management of the underlying real estate. In addition, we may have no control over the distributions with respect to these securities, which could adversely affect our ability to pay dividends and distributions to our security holders.

We face risks associated with short-term liquid investments. From time to time, we have significant cash balances that we invest in a variety of short-term investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. These investments may include (either directly or indirectly):

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;
- taxable municipal securities;
- obligations (including certificates of deposits) of banks and thrifts;
- commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;
- repurchase agreements collateralized by corporate and asset-backed obligations;
- both registered and unregistered money market funds; and
- other highly rated short-term securities.

Investments in these securities and funds are not insured against loss of principal. Under certain circumstances we may be required to redeem all or part of our investment, and our right to redeem some or all of our investment may be delayed or suspended. In addition, there is no guarantee that our investments in these securities or funds will be redeemable at par value. A decline in the value of our investment or a delay or suspension of our right to redeem may have a material adverse effect on our results of operations or financial condition.

Future terrorist activity or engagement in war by the United States may have an adverse effect on our financial condition and operating results. Terrorist attacks in the United States and other acts of terrorism or war, may result in declining economic activity, which could harm the demand for and the value of our properties. In addition, the public perception that certain locations are at greater risk for attack, such as major airports, ports and rail facilities, may decrease the demand for and the value of our properties near these sites. A decrease in demand could make it difficult for us to renew or re-lease our properties at these sites at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction, or loss, and the availability of insurance for these acts may be less, and cost more, which could adversely affect our financial condition. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

Terrorist acts and engagement in war by the United States also may adversely affect the markets in which our securities trade and may cause further erosion of business and consumer confidence and spending, and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for our office leased space, delay the time in which our new or renovated properties reach stabilized occupancy, increase our operating expenses, such as those attributable to increased physical security for our properties, and limit our access to capital or increase our cost of raising capital.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) will subject us to substantial additional federal regulation. There are significant corporate governance and executive compensation-related requirements that have been, and will in the future be, imposed on publicly-traded companies under the Dodd-Frank Act. Several of these provisions require the SEC to adopt additional rules and regulations in these areas. For example, the Dodd-Frank Act requires publicly-traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management’s time from other business activities. In addition, if stockholders do not vote to approve our executive compensation practices and/or our equity plan amendments, these actions may interfere with our ability to attract and retain key personnel who are essential to our future success. Provisions of the Dodd-Frank Act that directly affect other participants in the real estate and capital markets, such as banks, investment funds and interest rate hedge providers, could also have indirect, but material, impacts on our business that cannot now be predicted. In addition, in February 2017, the U.S. President ordered the Secretary of the U.S. Treasury to review certain existing rules and regulations, such as those promulgated under the Dodd-Frank Act; however, the implications of that review are not yet known and none of the rules and regulations promulgated under the Dodd-Frank Act have been modified or rescinded as of the

date of this report. Given the uncertainty associated with both the results of the existing Dodd-Frank Act requirements and the manner in which additional provisions of the Dodd-Frank Act will be implemented by various regulatory agencies and through regulations, the full extent of the impact of such requirements on our operations is unclear. Accordingly, the changes resulting from the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, or otherwise adversely affect our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our property taxes could increase due to reassessment or property tax rate changes. We are required to pay state and local taxes on our properties. In addition, the real property taxes on our properties may increase as our properties are reassessed by taxing authorities or as property tax rates change. For example, under a current California law commonly referred to as “Proposition 13,” property tax reassessment generally occurs as a result of a “change in ownership” of a property, as specifically defined for purposes of those rules. Because the property taxing authorities may not determine whether there has been a “change in ownership” or the actual reassessed value of a property for a period of time after a transaction has occurred, we may not know the impact of a potential reassessment for a considerable amount of time following a particular transaction or construction of a new property. Therefore, the amount of property taxes we are required to pay could increase substantially from the property taxes we currently pay or have paid in the past, including on a retroactive basis. In addition, from time to time voters and lawmakers have announced initiatives to repeal or amend Proposition 13 to eliminate its application to commercial property and/or introduce split tax roll legislation. Such initiatives, if successful, would increase the assessed value and/or tax rates applicable to commercial property in California, including our properties. An increase in the assessed value of our properties or our property tax rates could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Unfavorable resolution of litigation matters and disputes could have a material adverse effect on our financial condition. From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits allegedly arising out of our actions or the actions of our operators and tenants in which such operators and tenants have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses. An unfavorable resolution of any litigation could have an effect on our financial condition, results of operations, cash flow and the quoted trading price of our securities. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of our management. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, any litigation matters. In addition, litigation, government proceedings or environmental matters could lead to increased costs or interruption of our normal business operations.

Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting. The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, or otherwise adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems. We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems), and, in some cases, may

be critical to the operations of certain of our tenants. There can be no assurance that our efforts to maintain the security and integrity of these types of IT networks and related systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. A security breach or other significant disruption involving our IT networks and related systems could, among other things:

- result in unauthorized access to, destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, including personally identifiable and account information that could be used to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;
- result in unauthorized access to or changes to our financial accounting and reporting systems and related data;
- result in our inability to maintain building systems relied on by our tenants;
- require significant management attention and resources to remedy any damage that results;
- subject us to regulatory penalties or claims for breach of contract, damages, credits, penalties or terminations of leases or other agreements; or
- damage our reputation among our tenants and investors.

These events could have an adverse impact on our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

An increase in interest rates could increase our interest costs on variable rate debt and new debt and could adversely affect our ability to refinance existing debt, conduct development, redevelopment and acquisition activity and recycle capital. As of December 31, 2017, we had an unsecured revolving credit facility and an unsecured term loan facility bearing interest at variable rates on any amounts drawn and outstanding, and we may incur additional variable rate debt in the future. There were no amounts outstanding on both the unsecured revolving credit facility and unsecured term loan facility at December 31, 2017. If interest rates increase, so could our interest costs for any variable rate debt and for new debt. This increased cost could make the financing of any development, redevelopment and acquisition activity costlier. Rising interest rates could also limit our ability to refinance existing debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to recycle capital and our portfolio promptly in response to changes in economic or other conditions.

We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities, and we may in the future mitigate this risk through the use of derivative instruments, including interest rate swap agreements or other interest rate hedging agreements, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risks that counter parties may fail to honor their obligations, that we could incur significant costs associated with the settlement of these agreements, that the amount of income we earn from hedging transactions may be limited by federal tax provisions governing REITs, that these agreements may cause us to pay higher interest rates on our debt obligations than would otherwise be the case and that underlying transactions could fail to qualify as highly-effective cash flow hedges under the accounting guidance. As a result, failure to hedge effectively against interest rate risk, if we choose to engage in such activities, could adversely affect our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

The trading price of our common stock may fluctuate significantly. The trading price of our common stock may fluctuate significantly. Between January 1, 2017 and February 9, 2018, the closing sale price of Company's common stock on the New York Stock Exchange, or the NYSE, ranged from \$63.72 to \$77.91 per share. The trading price of our common stock may fluctuate in response to many factors, including:

- actual or anticipated variations in our operating results, funds from operations, cash flows, liquidity or distributions;

- our ability to successfully execute on our development program;
- our ability to successfully complete acquisitions and operate acquired properties;
- earthquakes;
- changes in our earnings estimates or those of analysts;
- publication of research reports about us, the real estate industry generally or the office and residential sectors in which we operate;
- the failure to maintain our current credit ratings or comply with our debt covenants;
- increases in market interest rates that lead purchasers of our common stock to demand a higher dividend yield;
- actual or anticipated changes in tax laws and regulations;
- changes in market valuations of similar companies;
- adverse market reaction to any debt or equity securities we may issue or additional debt we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- high levels of volatility in the credit markets;
- general market and economic conditions; and
- the realization of any of the other risk factors included in this report.

Many of the factors listed above are beyond our control. These factors may cause the trading price of our common stock to decline, regardless of our financial performance and condition and prospects. It is impossible to provide any assurance that the trading price of our common stock or the amount of dividends we pay on our common stock will not decline in the future, and it may be difficult for holders to resell shares of our common stock at prices they find attractive or at all.

Changes in accounting pronouncements could adversely affect our operating results, in addition to the reported financial performance of our tenants. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board (“FASB”) and the SEC, which establish and govern accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements, including the adoption of the lease accounting standard.

Proposed and/or future changes in accounting standards could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants’ reported financial condition or results of operations or could impact our tenants’ business decisions in leasing real estate.

We face risks associated with our tenants and contractual counterparties being designated “Prohibited Persons” by the Office of Foreign Assets Control. Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury (“OFAC”) maintains a list of persons designated as terrorists or who are otherwise blocked or banned (“Prohibited Persons”). OFAC regulations and other laws prohibit conducting

business or engaging in transactions with Prohibited Persons (the “OFAC Requirements”). Certain of our loan and other agreements require us to comply with OFAC Requirements. Our leases and other agreements, in general, require the other party to comply with OFAC Requirements. If a tenant or other party with whom we contract is placed on the OFAC list, we may be required by the OFAC Requirements to terminate the lease or other agreement. Any such termination could result in a loss of revenue or a damage claim by the other party that the termination was wrongful.

The actual density of our undeveloped land holdings and/or any particular land parcel may not be consistent with our potential density estimates. As of December 31, 2017, we estimate that our six near term and future potential development sites, representing approximately 48 gross acres of undeveloped land, provide more than 4.3 million square feet of potential density. We caution you not to place undue reliance on the potential density estimates for our undeveloped land holdings and/or any particular land parcel because they are based solely on our estimates, using data currently available to us, and our business plans as of December 31, 2017. The actual density of our undeveloped land holdings and/or any particular land parcel may differ substantially from our estimates based on numerous factors, including our inability to obtain necessary zoning, land use and other required entitlements, as well as building, occupancy and other required governmental permits and authorizations, and changes in the entitlement, permitting and authorization processes that restrict or delay our ability to develop, redevelop or use undeveloped land holdings at anticipated density levels. Moreover, we may strategically choose not to develop, redevelop or use our undeveloped land holdings to their maximum potential density or may be unable to do so as a result of factors beyond our control, including our ability to obtain capital on terms that are acceptable to us, or at all, to fund our development and redevelopment activities. We can provide no assurance that the actual density of our undeveloped land holdings and/or any particular land parcel will be consistent with our potential density estimates. For additional information on our development program, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations.”

Risks Related to Our Organizational Structure

Loss of our key personnel could harm our operations and financial performance and adversely affect the quoted trading price of our securities. The leadership and performance of our executive and senior officers play a key role in the success of the Company. They are integral to the Company’s success for many reasons, including that each has a strong national or regional reputation in our industry and investment community. In addition, they have significant relationships with investors, lenders, tenants and industry personnel, which benefit the Company.

Our growth depends on external sources of capital that are outside of our control and the inability to obtain capital on terms that are acceptable to us, or at all, could adversely affect our financial condition and results of operations. The Company is required under the Code to distribute at least 90% of its taxable income (subject to certain adjustments and excluding any net capital gain), and the Operating Partnership is required to make distributions to the Company to allow the Company to satisfy these REIT distribution requirements. Because of these distribution requirements, the Operating Partnership is required to make distributions to the Company, and we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, management relies on third-party sources of capital to fund our capital needs. We may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Access to third-party sources of capital depends, in part, on general market conditions and the availability of credit, the market’s perception of our growth potential, our current and expected future earnings, our cash flows and cash distributions and the quoted trading price of our securities. If we cannot obtain capital from third-party sources, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders may be adversely affected.

Our common limited partners have limited approval rights, which may prevent us from completing a change of control transaction that may be in the best interests of all our security holders. The Company may not withdraw as the Operating Partnership's general partner or transfer its general partnership interest in the Operating Partnership without the approval of the holders of at least 60% of the units representing common limited partnership interests, including the common units held by the Company in its capacity as the Operating Partnership's general partner. In addition, the Company may not engage in a merger, consolidation or other combination or the sale of substantially all of its assets or such similar transaction, without the approval of the holders of 60% of the common units, including the common units held by the Company in its capacity as the Operating Partnership's general partner. The right of our common limited partners to vote on these transactions could limit our ability to complete a change of control transaction that might otherwise be in the best interest of all our security holders.

In certain circumstances, our limited partners must approve our dissolution and the disposition of properties contributed by the limited partners. For as long as limited partners own at least 5% of all of the Operating Partnership's partnership interests, we must obtain the approval of limited partners holding a majority of the units representing common limited partnership interests before we may dissolve. As of December 31, 2017, limited partners owned approximately 2.1% of the Operating Partnership's partnership interests, of which 0.8% was owned by John Kilroy. In addition, we agreed to use commercially reasonable efforts to minimize the tax consequences to certain common limited partners resulting from the repayment, refinancing, replacement, or restructuring of debt, or any sale, exchange, or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of all our security holders.

The Chairman of our board of directors and our President and Chief Executive Officer has substantial influence over our affairs. John Kilroy is the Chairman of our board of directors and our President and Chief Executive Officer. John Kilroy beneficially owned, as of December 31, 2017, approximately 1.5% of the total outstanding shares of our common stock. The percentage of outstanding shares of common stock beneficially owned includes 205,322 shares of common stock, 489,763 restricted stock units ("RSUs") that were vested and held by John Kilroy at December 31, 2017, and assumes the exchange into shares of our common stock of the 783,192 common units of the Operating Partnership held by John Kilroy (which may be exchanged for an equal number of shares of our common stock).

Pursuant to the Company's charter, no stockholder may own, actually or constructively, more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock without obtaining a waiver from the board of directors. The board of directors has waived the ownership limits with respect to John Kilroy, members of his family and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our common stock, excluding Operating Partnership units that are exchangeable into shares of our common stock. Consequently, John Kilroy has substantial influence over the Company, and because the Company is the manager of the Operating Partnership, over the Operating Partnership, and could exercise his influence in a manner that is not in the best interest of our stockholders, noteholders or unitholders. Also, John Kilroy may, in the future, have a substantial influence over the outcome of any matters submitted to our stockholders or unitholders for approval.

There are restrictions on the ownership of the Company's capital stock that limit the opportunities for a change of control at a premium to existing security holders. Provisions of the Maryland General Corporation Law, the Company's charter and bylaws and the Operating Partnership's partnership agreement may delay, deter, or prevent a change of control of the Company, or the removal of existing management. Any of these actions might prevent our security holders from receiving a premium for their shares of common stock or common units over the then-prevailing market price of the shares of our common stock.

In order for the Company to qualify as a REIT under the Code, its stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of the Company's stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made). The Company's charter contains restrictions on the ownership and transfer of its capital stock that are intended to assist the Company in complying with these requirements and continuing to qualify as a REIT. No single stockholder may own, either actually or constructively, absent a waiver

from the board of directors, more than 7.0% (by value or by number of shares, whichever is more restrictive) of the Company's outstanding common stock.

The constructive ownership rules under the Code are complex and may cause stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than the applicable ownership limit of a particular class of the Company's capital stock could, nevertheless, cause that individual or entity, or another individual or entity, to constructively own stock in excess of, and thereby subject such stock to, the applicable ownership limit.

The board of directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize the Company's REIT status and if it believes that the waiver would be in our best interest. The board of directors has waived the ownership limits with respect to John Kilroy, members of his family and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our outstanding common stock, excluding common units that are exchangeable into shares of common stock.

If anyone acquires shares in excess of any ownership limits without a waiver, the transfer to the transferee will be void with respect to the excess shares, the excess shares will be automatically transferred to a trust for the benefit of a qualified charitable organization, and the purported transferee or owner will have no rights with respect to those excess shares.

The Company's charter contains provisions that may delay, deter or prevent a change of control transaction. The following provisions of the Company's charter may delay or prevent a change of control over us, even if a change of control might be beneficial to our security holders, deter tender offers that may be beneficial to our security holders, or limit security holders' opportunity to receive a potential premium for their shares and/or units if an investor attempted to gain shares beyond the Company's ownership limits or otherwise to effect a change of control:

- the Company's charter authorizes the board of directors to issue up to 30,000,000 shares of the Company's preferred stock, including convertible preferred stock, without stockholder approval. The board of directors may establish the preferences, rights and other terms, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control was in our security holders' interest; and
- the Company's charter states that any director, or the entire board of directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of the holders of at least two thirds of the votes of the Company's capital stock entitled to be cast in the election of directors.

The board of directors may change investment and financing policies without stockholder or unitholder approval. Our board of directors determines our major policies, including policies and guidelines relating to our acquisition, development and redevelopment activities, leverage, financing, growth, operations, indebtedness, capitalization and distributions to our security holders. Our board of directors may amend or revise these and other policies and guidelines from time to time without stockholder or unitholder approval. Accordingly, our stockholders and unitholders will have limited control over changes in our policies and those changes could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We are not limited in our ability to incur debt. Our financing policies and objectives are determined by the board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt to total market capitalization. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. As of December 31, 2017, we had approximately \$2.4 billion aggregate principal amount of indebtedness outstanding, which represented 23.9% of our total market capitalization. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization" for a calculation of our market capitalization. These ratios may be increased or decreased without the consent of our unitholders or stockholders. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow and our ability to pay dividends and distributions to our security holders. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

We may issue additional common units and shares of capital stock without unitholder or stockholder approval, as applicable, which may dilute unitholder or stockholder investment. The Company may issue shares of our common stock, preferred stock or other equity or debt securities without stockholder approval, including the issuance of shares to satisfy REIT dividend distribution requirements. Similarly, the Operating Partnership may offer its common or preferred units for contributions of cash or property without approval by our stockholders or the Operating Partnership's unitholders. Existing security holders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a unitholder's or stockholder's investment.

The market price of our common stock may be adversely affected by future offerings of debt and equity securities by us or the Operating Partnership. In the future, we may increase our capital resources by offering our debt securities and preferred stock, the Operating Partnership's debt securities and equity securities and our or the Operating Partnership's other borrowings. Upon our liquidation, dissolution or winding-up, holders of such debt securities, our preferred stock and Operating Partnership's equity securities, and lenders with respect to other borrowings by us and the Operating Partnership, will be entitled to receive distributions of our available assets prior to the holders of our common stock and it is possible that, after making distributions on these other securities and borrowings, no assets would be available for distribution to holders of our common stock. In addition, the Operating Partnership's debt and equity securities and borrowings are structurally senior to our common stock, our debt securities and borrowings are senior in right of payment to our common stock, and any preferred stock we may issue in the future may have a preference over our common stock, and all payments (including dividends, principal and interest) and liquidating distributions on such securities and borrowings could limit our ability to pay dividends or make other distributions to the holders of our common stock. Because any decision to issue securities and make borrowings in the future will depend on market conditions and other factors, some of which may be beyond our control, we cannot predict or estimate the amount, timing or nature of our or the Operating Partnership's future offerings or borrowings. Such future offerings or borrowings may reduce the market price of our common stock.

Sales of a substantial number of shares of the Company's securities, or the perception that this could occur, could result in decreasing the quoted trading price per share of the Company's common stock and of the Operating Partnership's publicly-traded notes. Management cannot predict whether future issuances of shares of the Company's common stock, or the availability of shares for resale in the open market will result in decreasing the market price per share of the Company's common stock. As of December 31, 2017, 98,620,333 shares of the Company's common stock were issued and outstanding.

As of December 31, 2017, the Company had reserved for future issuance the following shares of common stock: 2,077,193 shares issuable upon the exchange, at the Company's option, of the Operating Partnership's common units; approximately 1.9 million shares remained available for grant under our 2006 Incentive Award Plan (see Note 15 "Share-Based Compensation" to our consolidated financial statements included in this report); approximately 1.4 million shares issuable upon settlement of time-based RSUs; 0.7 million shares contingently issuable upon settlement of RSUs subject to the achievement of market and/or performance conditions; and 26,500 shares issuable upon exercise of outstanding options. The Company has a currently effective registration statement registering 9.2 million shares of our common stock for possible issuance under our 2006 Incentive Award Plan. The Company has a currently effective registration statement registering 1,649,760 shares of our common stock for possible issuance to and resale by certain holders of the Operating Partnership's common units. That registration statement also registers 94,441 shares of common stock held by John Kilroy for possible resale. Consequently, if and when the shares are issued, they may be freely traded in the public markets.

Risks Related to Taxes and the Company's Status as a REIT

Loss of the Company's REIT status would have significant adverse consequences to us and the value of the Company's common stock. The Company currently operates in a manner that is intended to allow it to qualify as a REIT for federal income tax purposes under the Code. If the Company were to lose its REIT status, the Company would face adverse tax consequences that would substantially reduce the funds available for distribution to its stockholders for each of the years involved because:

- the Company would not be allowed a deduction for dividends paid to its stockholders in computing the Company's taxable income and would be subject to federal income tax at regular corporate rates;
- the Company could be subject to increased state and local taxes; and
- unless entitled to relief under statutory provisions, the Company could not elect to be taxed as a REIT for four taxable years following the year during which the Company was disqualified.

In addition, if the Company failed to qualify as a REIT, it would not be required to make distributions to its stockholders. As a result of all these factors, the Company's failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the value and quoted trading price of the Company's common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code is greater in the case of a REIT that, like the Company, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect the Company's ability to continue to qualify as a REIT. For example, to qualify as a REIT, at least 95% of the Company's gross income in any year must be derived from qualifying sources. Also, the Company must make distributions to its stockholders aggregating annually at least 90% of the Company's net taxable income (subject to certain adjustments and excluding any net capital gains). In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect the Company's security holders or the Company's ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although management believes that we are organized and operate in a manner to permit the Company to continue to qualify as a REIT, we cannot provide assurances that the Company has qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the Internal Revenue Service ("IRS") regarding the Company's qualification as a REIT.

To maintain the Company's REIT status, we may be forced to borrow funds during unfavorable market conditions. To qualify as a REIT, the Company generally must distribute to its stockholders at least 90% of the Company's net taxable income each year (subject to certain adjustments and excluding any net capital gains), and the Company will be subject to regular corporate income taxes to the extent that it distributes less than 100% of its net capital gains or distributes at least 90%, but less than 100%, of its net taxable income each year. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions it pays in any calendar year are less than the sum of 85% of its ordinary income, 95% of its net capital gains, and 100% of its undistributed income from prior years. To maintain the Company's REIT status and avoid the payment of federal income and excise taxes, the Operating Partnership may need to borrow funds and distribute or loan the proceeds to the Company so it can meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from differences in timing between the actual receipt of income and inclusion of income for federal income tax purposes, or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments.

If a transaction intended to qualify as a Section 1031 Exchange is later determined to be taxable or if we are unable to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis. When possible, we dispose of properties in transactions that are intended to qualify as Section 1031 Exchanges. It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable or that we may be unable to identify

and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange. In such case, our taxable income and earnings and profits would increase. This could increase the dividend income to our stockholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes and the payment of such taxes could cause us to have less cash available to distribute to our stockholders. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our stockholders. Moreover, under the recently enacted Tax Cuts and Jobs Act (the “2017 Tax Legislation”), for exchanges completed after December 31, 2017, unless the property was disposed of or received in the exchange on or before such date, Section 1031 of the Code permits exchanges of real property only. It is possible that additional legislation could be enacted that could further modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

Dividends payable by REITs, including us, generally do not qualify for the reduced tax rates available for some dividends. “Qualified dividends” payable to U.S. stockholders that are individuals, trusts and estates generally are subject to tax at preferential rates. Subject to limited exceptions, dividends payable by REITs are not eligible for these reduced rates and are taxable at ordinary income tax rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the shares of our capital stock. However, non-corporate stockholders, including individuals, generally may deduct 20% of dividends from a REIT, other than capital gain dividends and dividends treated as qualified dividend income, for taxable years beginning after December 31, 2017 and before January 1, 2026.

The tax imposed on REITs engaging in “prohibited transactions” may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes. A REIT’s net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments. To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our capital stock. If we fail to comply with one or more of the asset tests at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. In order to meet these tests, we may be required to forego investments we might otherwise make or to liquidate otherwise attractive investments. Thus, compliance with the REIT requirements may hinder our performance and reduce amounts available for distribution to our stockholders.

Legislative or regulatory action could adversely affect our stockholders or us. In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and any such changes may adversely impact our ability to qualify as a REIT, our tax treatment as a REIT, our ability to comply with contractual obligations or the tax treatment of our stockholders and limited partners. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

The 2017 Tax Legislation has significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their stockholders. Changes made by the 2017 Tax Legislation that could affect us and our stockholders include:

- temporarily reducing individual U.S. federal income tax rates on ordinary income; the highest individual U.S. federal income tax rate has been reduced from 39.6% to 37% for taxable years beginning after December 31, 2017 and before January 1, 2026;
- permanently eliminating the progressive corporate tax rate structure, which previously imposed a maximum corporate tax rate of 35%, and replacing it with a flat corporate tax rate of 21%;
- permitting a deduction for certain pass-through business income, including dividends received by our stockholders from us that are not designated by us as capital gain dividends or qualified dividend income, which will allow individuals, trusts, and estates to deduct up to 20% of such amounts for taxable years beginning after December 31, 2017 and before January 1, 2026;
- reducing the highest rate of withholding with respect to our distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests from 35% to 21%;
- limiting our deduction for net operating losses arising in taxable years beginning after December 31, 2017 to 80% of REIT taxable income;
- generally limiting the deduction for net business interest expense in excess of 30% of a business' "adjusted taxable income," except for taxpayers (including most equity REITs) that engage in certain real estate businesses and elect out of this rule (provided that such electing taxpayers must use an alternative depreciation system with longer depreciation periods);
- eliminating the corporate alternative minimum tax, for taxable years after December 31, 2017;
- requiring us to take into account certain income no later than when we take it into account on applicable financial statements, even if financial statements take such income into account before it accrues under otherwise applicable Code rules; and
- repealing the performance-based compensation exception to the \$1 million deduction limit on executive compensation and expanding the scope of employees to whom the limit applies.

Many of these changes are effective immediately, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the U.S. Treasury Department and IRS, any of which could lessen or increase the impact of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. While some of the changes made by the tax legislation may adversely affect us in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis. We continue to work with our tax advisors and auditors to determine the full impact that the recent tax legislation as a whole will have on us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

Our stabilized portfolio of operating properties was comprised of the following properties at December 31, 2017:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	Percentage Leased
Stabilized Office Properties	101	13,720,597	511	95.2%	96.9%
			Number of Buildings	Number of Units	2017 Average Occupancy
Stabilized Residential Property			1	200	70.2%

Our stabilized portfolio includes all of our properties with the exception of development and redevelopment properties currently under construction or committed for construction, “lease-up” properties, real estate assets held for sale and undeveloped land. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define “lease-up” properties as office and retail properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities.

During the first quarter of 2017, we added one development project to our stabilized office portfolio consisting of 365,359 rentable square feet in Hollywood, California. As of December 31, 2017, the following properties were excluded from our stabilized portfolio. We did not have any redevelopment properties as of December 31, 2017. There were no operating properties in “lease-up” or held for sale as of December 31, 2017.

	Number of Properties/Projects	Estimated Rentable Square Feet
Development projects under construction ⁽¹⁾⁽²⁾	4	1,800,000

(1) Estimated rentable square feet upon completion. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations —Completed, In-Process and Future Development Pipeline” for more information.

(2) Includes 86,000 square feet of Production, Distribution, and Repair (“PDR”) space. Development projects under construction also include 96,000 square feet of retail space and 237 residential units at One Paseo - Phase I in addition to the estimated rentable square feet noted above.

Our stabilized portfolio also excludes our near-term and future development pipeline, which as of December 31, 2017, was comprised of six potential near term and future development sites, representing approximately 48 gross acres of undeveloped land on which we believe we have the potential to develop over 4.3 million square feet of office space, depending upon economic conditions.

As of December 31, 2017, all of our properties and development projects were owned and all of our business was conducted in the state of California with the exception of twelve office properties and one development project under construction located in the state of Washington. As of December 31, 2017, we owned 100% of all of our properties and developments, excluding four office properties located in San Francisco, California owned by three consolidated property partnerships (see “Item 1. Business” and Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report).

We own our interests in all of our real estate assets through the Operating Partnership and the Finance Partnership. All our properties are held in fee, except for the thirteen office buildings that are held subject to long-term ground leases for the land (see Note 18 “Commitments and Contingencies” to our consolidated financial statements included in this report for additional information regarding our ground lease obligations).

In general, the office properties are leased to tenants on a full service gross, modified gross or triple net basis. Under a full service gross lease, we are obligated to pay the tenant’s proportionate share of real estate taxes, insurance

and operating expenses up to the amount incurred during the tenant's first year of occupancy ("Base Year") or a negotiated amount approximating the tenant's pro-rata share of real estate taxes, insurance and operating expenses ("Expense Stop"). The tenant pays its pro-rata share of increases in expenses above the Base Year or Expense Stop. A modified gross lease is similar to a full service gross lease, except tenants are obligated to pay their proportionate share of certain operating expenses, usually electricity, directly to the service provider. In addition, some office properties, primarily in the greater Seattle region and certain properties in certain submarkets in San Francisco, are leased to tenants on a triple net basis, pursuant to which the tenants pay their proportionate share of real estate taxes, operating costs and utility costs.

We believe that all of our properties are well maintained and do not require significant capital improvements. As of December 31, 2017, we managed all of our office properties through internal property managers.

Office Properties

The following table sets forth certain information relating to each of the stabilized office properties owned as of December 31, 2017.

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2017 ⁽¹⁾	Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
<i>Los Angeles and Ventura Counties</i>						
23925 Park Sorrento, Calabasas, California	⁽³⁾ 1	2001	11,873	100.0%	\$ 467	\$ 39.30
23975 Park Sorrento, Calabasas, California	⁽³⁾ 1	2002	104,797	83.1%	3,150	37.32
24025 Park Sorrento, Calabasas, California	⁽⁷⁾ 1	2000	108,670	88.7%	3,538	36.73
2829 Townsgate Road, Thousand Oaks, California	⁽³⁾ 1	1990	84,098	96.2%	2,306	28.50
2240 E. Imperial Highway, El Segundo, California	⁽⁴⁾ 1	1983/ 2008	122,870	100.0%	3,950	32.15
2250 E. Imperial Highway, El Segundo, California	⁽⁸⁾ 1	1983	298,728	100.0%	9,810	32.98
2260 E. Imperial Highway, El Segundo, California	⁽⁴⁾ 1	1983/ 2012	298,728	100.0%	10,510	35.18
909 Sepulveda Blvd., El Segundo, California	⁽⁹⁾ 1	1972/ 2005	244,136	94.5%	6,808	29.86
999 Sepulveda Blvd., El Segundo, California	⁽¹⁰⁾ 1	1962/ 2003	128,588	89.2%	3,461	31.60
6115 W. Sunset Blvd., Los Angeles, California	⁽¹¹⁾ 1	1938/ 2015	26,105	75.2%	1,321	67.28
6121 W. Sunset Blvd., Los Angeles, California	⁽⁵⁾ 1	1938/ 2015	91,173	100.0%	4,293	47.09
1525 N. Gower St., Los Angeles, California	⁽⁴⁾ 1	2016	9,610	100.0%	652	67.88
1575 N. Gower St., Los Angeles, California	⁽¹²⁾ 1	2016	251,245	100.0%	16,169	64.36
1500 N. El Centro Ave., Los Angeles, California	⁽³⁾ 1	2016	104,504	83.6%	5,894	67.46
6255 Sunset Blvd, Los Angeles, California	⁽¹³⁾ 1	1971/ 1999	323,920	93.0%	11,594	39.90
3750 Kilroy Airport Way, Long Beach, California	⁽¹⁴⁾ 1	1989	10,457	100.0%	158	47.28
3760 Kilroy Airport Way, Long Beach, California	⁽³⁾ 1	1989	165,278	89.7%	4,638	31.28
3780 Kilroy Airport Way, Long Beach, California	⁽³⁾ 1	1989	219,745	78.2%	4,814	29.00
3800 Kilroy Airport Way, Long Beach, California	⁽³⁾ 1	2000	192,476	96.1%	5,908	31.95
3840 Kilroy Airport Way, Long Beach, California	⁽³⁾ 1	1999	136,026	100.0%	4,882	35.89

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2017 ⁽¹⁾	Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
3880 Kilroy Airport Way, Long Beach, California	⁽¹⁵⁾ 1	1987/ 2013	96,035	100.0%	2,839	29.56
3900 Kilroy Airport Way, Long Beach, California	⁽³⁾ 1	1987	129,893	100.0%	3,090	23.82
8560 West Sunset Blvd, West Hollywood, California	⁽³⁾ 1	1963/ 2007	71,875	94.1%	4,820	71.26
8570 West Sunset Blvd, West Hollywood, California	⁽¹⁶⁾ 1	2002/ 2007	43,603	92.3%	2,719	67.58
8580 West Sunset Blvd, West Hollywood, California	⁽⁵⁾ 1	2002/ 2007	7,126	100.0%	—	—
8590 West Sunset Blvd, West Hollywood, California	⁽⁵⁾ 1	2002/ 2007	56,095	96.1%	1,731	33.83
12100 W. Olympic Blvd., Los Angeles, California	⁽³⁾ 1	2003	152,048	100.0%	7,631	50.19
12200 W. Olympic Blvd., Los Angeles, California	⁽³⁾ 1	2000	150,832	91.0%	6,930	67.45
12233 W. Olympic Blvd., Los Angeles, California	⁽¹⁷⁾ 1	1980/ 2011	151,029	93.5%	3,125	35.53
12312 W. Olympic Blvd., Los Angeles, California	⁽⁶⁾ 1	1950/ 1997	76,644	100.0%	4,096	53.44
1633 26th Street, Santa Monica, California	⁽¹⁸⁾ 1	1972/ 1997	43,857	—%	—	—
2100/2110 Colorado Avenue, Santa Monica, California	⁽³⁾ 3	1992/ 2009	102,864	100.0%	4,357	42.36
3130 Wilshire Blvd., Santa Monica, California	⁽³⁾ 1	1969/ 1998	90,002	88.5%	2,999	37.66
501 Santa Monica Blvd., Santa Monica, California	⁽¹⁹⁾ 1	1974	76,803	84.5%	4,111	65.77
Subtotal/Weighted Average – Los Angeles and Ventura Counties	36		4,181,733	93.3%	\$ 152,771	\$ 40.47
Orange County						
2211 Michelson, Irvine, California	⁽²⁰⁾ 1	2007	271,556	86.6%	\$ 8,556	\$ 36.92
Subtotal/Weighted Average – Orange County	1		271,556	86.6%	\$ 8,556	\$ 36.92
San Diego County						
12225 El Camino Real, Del Mar, California	⁽⁴⁾ 1	1998	58,401	100.0%	\$ 2,041	\$ 34.95
12235 El Camino Real, Del Mar, California	⁽⁴⁾ 1	1998	53,751	88.9%	2,225	46.57
12340 El Camino Real, Del Mar, California	⁽²¹⁾ 1	2002	88,377	85.3%	3,363	44.59
12390 El Camino Real, Del Mar, California	⁽⁴⁾ 1	2000	72,332	100.0%	3,069	42.44
12770 El Camino Real, Del Mar, California	⁽³⁾ 1	2016	73,032	83.6%	3,236	52.99
12348 High Bluff Drive, Del Mar, California	⁽²²⁾ 1	1999	38,806	100.0%	1,314	33.86
12400 High Bluff Drive, Del Mar, California	⁽⁴⁾ 1	2004	209,220	100.0%	10,671	51.00
3579 Valley Centre Drive, Del Mar, California	⁽⁴⁾ 1	1999	52,418	100.0%	2,053	39.16
3611 Valley Centre Drive, Del Mar, California	⁽²³⁾ 1	2000	129,656	100.0%	5,518	42.56
3661 Valley Centre Drive, Del Mar, California	⁽²⁴⁾ 1	2001	128,364	95.8%	4,148	39.12
3721 Valley Centre Drive, Del Mar, California	⁽²⁵⁾ 1	2003	115,193	100.0%	5,310	46.09
3811 Valley Centre Drive, Del Mar, California	⁽⁶⁾ 1	2000	112,067	100.0%	5,199	46.39
12780 El Camino Real, Del Mar, California	⁽⁶⁾ 1	2013	140,591	100.0%	6,883	48.96

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2017 ⁽¹⁾	Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
12790 El Camino Real, Del Mar, California	⁽²⁶⁾ 1	2013	78,836	100.0%	3,275	41.55
13280 Evening Creek Drive South, I-15 Corridor, California	⁽³⁾ 1	2008	41,196	100.0%	1,065	25.85
13290 Evening Creek Drive South, I-15 Corridor, California	⁽⁴⁾ 1	2008	61,180	100.0%	1,453	23.75
13480 Evening Creek Drive North, I-15 Corridor, California	⁽⁴⁾ 1	2008	149,817	100.0%	7,779	51.92
13500 Evening Creek Drive North, I-15 Corridor, California	⁽⁴⁾ 1	2004	147,533	100.0%	6,286	42.61
13520 Evening Creek Drive North, I-15 Corridor, California	⁽²⁷⁾ 1	2004	141,129	90.4%	4,509	36.16
2305 Historic Decatur Road, Point Loma, California	⁽²⁸⁾ 1	2009	103,900	100.0%	3,694	35.55
4690 Executive Drive, UTC, California	⁽³⁾ 1	1999	47,846	91.4%	1,424	32.58
Subtotal/Weighted Average – San Diego County	21		2,043,645	97.4%	\$ 84,515	\$ 42.90
San Francisco						
4100 Bohannon Drive, Menlo Park, California	⁽⁵⁾ 1	1985	47,379	100.0%	\$ 1,719	\$ 36.27
4200 Bohannon Drive, Menlo Park, California	⁽⁵⁾ 1	1987	45,451	71.5%	1,332	40.97
4300 Bohannon Drive, Menlo Park, California	⁽⁵⁾ 1	1988	63,079	100.0%	3,203	50.78
4400 Bohannon Drive, Menlo Park, California	⁽⁵⁾ 1	1988	48,146	96.9%	1,624	37.18
4500 Bohannon Drive, Menlo Park, California	⁽⁵⁾ 1	1990	63,078	100.0%	2,041	32.35
4600 Bohannon Drive, Menlo Park, California	⁽²⁹⁾ 1	1990	48,147	93.0%	2,603	58.16
4700 Bohannon Drive, Menlo Park, California	⁽⁵⁾ 1	1989	63,078	100.0%	2,275	36.07
1290-1300 Terra Bella Avenue, Mountain View, California	⁽⁵⁾ 1	1961	114,175	100.0%	3,841	33.64
331 Fairchild Drive, Mountain View, California	⁽⁶⁾ 1	2013	87,147	100.0%	4,185	48.03
680 E. Middlefield Road, Mountain View, California	⁽⁶⁾ 1	2014	170,090	100.0%	7,729	45.44
690 E. Middlefield Road, Mountain View, California	⁽⁶⁾ 1	2014	170,823	100.0%	7,763	45.44
1701 Page Mill Road, Palo Alto, California	⁽⁵⁾ 1	2015	128,688	100.0%	8,461	65.75
3150 Porter Drive, Palo Alto, California	⁽⁶⁾ 1	1998	36,897	100.0%	2,051	55.59
900 Jefferson Avenue, Redwood City, California	⁽⁵⁾ 1	2015	228,505	100.0%	13,670	59.82
900 Middlefield Road, Redwood City, California	⁽⁵⁾ 1	2015	118,764	97.3%	6,835	59.38
303 Second Street, San Francisco, California	⁽³⁰⁾ 1	1988	740,047	88.2%	35,287	54.11
100 First Street, San Francisco, California	⁽³¹⁾ 1	1988	467,095	95.4%	23,560	55.28
250 Brannan Street, San Francisco, California	⁽⁴⁾ 1	1907/ 2001	95,008	100.0%	5,413	56.98
201 Third Street, San Francisco, California	⁽³²⁾ 1	1983	346,538	82.2%	18,797	67.09
301 Brannan Street, San Francisco, California	⁽⁴⁾ 1	1909/ 1989	74,430	100.0%	5,675	76.24
360 Third Street, San Francisco, California	⁽³³⁾ 1	2013	429,796	100.0%	22,635	52.78
333 Brannan Street, San Francisco, California	⁽³⁴⁾ 1	2016	185,602	100.0%	15,023	80.94

Property Location		No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2017 ⁽¹⁾	Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
350 Mission Street, San Francisco, California	⁽⁵⁾	1	2016	455,340	98.1%	23,449	52.78
1310 Chesapeake Terrace, Sunnyvale, California	⁽⁵⁾	1	1989	76,244	100.0%	2,369	31.08
1315 Chesapeake Terrace, Sunnyvale, California	⁽⁵⁾	1	1989	55,635	100.0%	1,424	25.60
1320-1324 Chesapeake Terrace, Sunnyvale, California	⁽⁵⁾	1	1989	79,720	100.0%	2,421	30.36
1325-1327 Chesapeake Terrace, Sunnyvale, California	⁽⁵⁾	1	1989	55,383	100.0%	1,234	22.29
505 N. Mathilda Avenue, Sunnyvale, California	⁽⁵⁾	1	2014	212,322	100.0%	9,449	44.50
555 N. Mathilda Avenue, Sunnyvale, California	⁽⁵⁾	1	2014	212,322	100.0%	9,449	44.50
605 N. Mathilda Avenue, Sunnyvale, California	⁽⁵⁾	1	2014	162,785	100.0%	7,244	44.50
599 N. Mathilda Avenue, Sunnyvale, California	⁽⁵⁾	1	2000	75,810	100.0%	2,205	29.04
Subtotal/Weighted Average – San Francisco		31		5,157,524	96.1%	\$ 254,966	\$ 51.76
Greater Seattle							
601 108th Avenue NE, Bellevue, Washington	⁽³⁵⁾	1	2000	488,470	98.1%	\$ 17,219	\$ 36.31
10900 NE 4th Street, Bellevue, Washington	⁽³⁶⁾	1	1983	416,755	95.6%	14,112	35.57
10210 NE Points Drive, Kirkland, Washington	⁽⁵⁾	1	1988	84,641	100.0%	2,146	25.36
10220 NE Points Drive, Kirkland, Washington	⁽⁵⁾	1	1987	49,851	93.3%	1,264	27.46
10230 NE Points Drive, Kirkland, Washington	⁽⁵⁾	1	1990	98,982	93.6%	2,548	28.98
3933 Lake Washington Blvd NE, Kirkland, Washington	⁽⁵⁾	1	1993	46,450	100.0%	1,302	28.03
837 N. 34th Street, Lake Union, Washington	⁽⁵⁾	1	2008	111,580	76.2%	2,748	32.34
701 N. 34th Street, Lake Union, Washington	⁽⁵⁾	1	1998	138,994	77.9%	4,098	37.84
801 N. 34th Street, Lake Union, Washington	⁽⁶⁾	1	1998	169,412	100.0%	4,423	26.11
320 Westlake Avenue North, Lake Union, Washington	⁽⁵⁾	1	2007	184,644	100.0%	6,821	36.94
321 Terry Avenue North, Lake Union, Washington	⁽⁵⁾	1	2013	135,755	100.0%	5,648	41.61
401 Terry Avenue North, Lake Union, Washington	⁽⁶⁾	1	2003	140,605	100.0%	6,207	44.15
Subtotal/Weighted Average – Greater Seattle		12		2,066,139	95.4%	\$ 68,536	\$ 34.97
TOTAL/WEIGHTED AVERAGE		101		13,720,597	95.2%	\$ 569,344	\$ 44.27

(1) Based on all leases at the respective properties in effect as of December 31, 2017. Includes month-to-month leases as of December 31, 2017.

(2) Annualized base rental revenue 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 tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of December 31, 2017. Includes 100% of annualized base rent of consolidated property partnerships.

(3) For these properties, the leases are written on a full service gross basis.

(4) For these properties, the leases are written on a modified gross basis.

(5) For these properties, the leases are written on a triple net basis.

(6) For these properties, the leases are written on a modified net basis.

(7) For this property, leases of approximately 92,000 rentable square feet are written on a full service gross basis and approximately 4,000 rentable square feet are written on a modified gross basis.

(8) For this property, leases of approximately 264,000 rentable square feet are written on a modified gross basis and approximately 35,000 rentable square feet are written on a full service gross basis.

Completed Development Projects

During the year ended December 31, 2017, we added the following office development project to our stabilized portfolio of operating properties:

Stabilized Office Projects	Construction Period		Stabilization Date	Rentable Square Feet	Office % Leased ⁽¹⁾
	Start Date	Completion Date			
Columbia Square Phase 2 - Office Hollywood, California	3Q 2013	1Q 2016	1Q 2017	365,359	100.0%

(1) This project was 95.3% occupied at December 31, 2017.

In-Process, Near-Term and Future Development Pipeline

The following table sets forth certain information relating to our in-process development pipeline as of December 31, 2017.

In-Process Development Projects	Location	Estimated Construction Period		Estimated Stabilization Date ⁽¹⁾	Estimated Rentable Square Feet	Office % Leased
		Start Date	Completion Date			

UNDER CONSTRUCTION:

Office

333 Dexter	South Lake Union	2Q 2017	3Q 2019	3Q 2020	650,000	—%
The Exchange on 16th ⁽²⁾	San Francisco	2Q 2015	2Q 2018	2Q 2019	750,000	100%
100 Hooper ⁽³⁾	San Francisco	4Q 2016	1Q 2018	1Q 2019	400,000	100%
SUBTOTAL:					1,800,000	62%

Mixed-Use

One Paseo - Phase I (Retail and Residential) ⁽⁴⁾	Del Mar	4Q 2016	3Q 2018 - 1Q 2019	1Q 2019 - 3Q 2019	96,000 Retail 237 Resi Units	N/A
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(1) Represents the earlier of the anticipated stabilization date or one year from building shell substantial completion.

(2) During the year ended December 31, 2017, 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. Estimated stabilization date represents one year from building shell completion.

(3) This project is comprised of approximately 314,000 square feet of office and 86,000 square feet of Production, Distribution, and Repair (“PDR”) space. During the year ended December 31, 2017, the Company entered into a long term lease with Adobe for the entire 314,000 square feet of office space. The Company is developing an adjacent 59,000 square foot building located at 150 Hooper with a total estimated investment of approximately \$22.0 million.

(4) Development for this project will occur in phases. Phase I includes the project’s overall infrastructure and site work, 237 residential units and approximately 96,000 square feet of retail space.

The following table sets forth certain information relating to our near-term and future development pipeline as of December 31, 2017.

	Location	Approx. Developable Square Feet
NEAR-TERM DEVELOPMENT PIPELINE: ⁽¹⁾		
Academy & Vine	Hollywood	545,000
2136-2174 Kettner Blvd. ⁽²⁾	Little Italy	175,000
One Paseo - Phases II and III (Office) ⁽³⁾	Del Mar	640,000
TOTAL:		1,360,000

FUTURE DEVELOPMENT PIPELINE:

Flower Mart	San Francisco	TBD
9455 Towne Centre Drive	San Diego	150,000
Santa Fe Summit – Phases II and III	56 Corridor	600,000

- (1) Project timing, costs, developable square feet and scope 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 office supply, regulatory and entitlement processes or project design.
- (2) The Company acquired this development site located in the Little Italy submarket of San Diego during the fourth quarter of 2017.
- (3) Development for this project will occur in phases. Phases II and III, comprised of residential and office will commence subject to market conditions and economic factors.

Significant Tenants

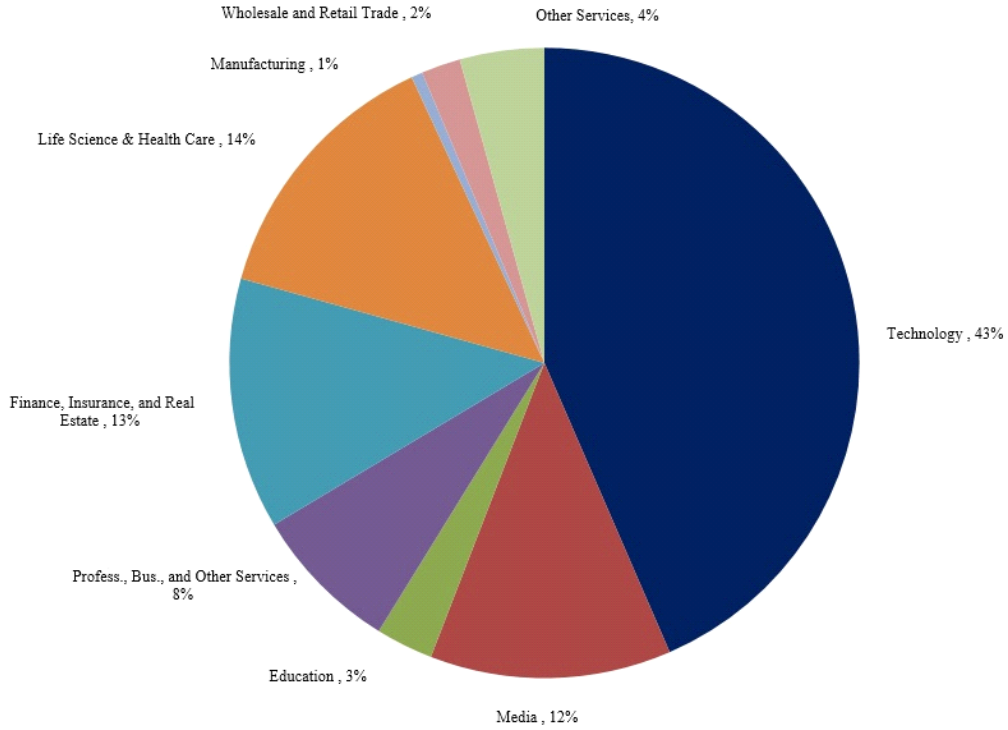
The following table sets forth information about our 15 largest tenants based upon annualized base rental revenues, as defined below, as of December 31, 2017.

Tenant Name	Annualized Base Rental Revenue ⁽¹⁾⁽²⁾	Percentage of Total Annualized Base Rental Revenue ⁽¹⁾	Lease Expiration Date
	(in thousands)		
LinkedIn Corporation	\$ 28,344	5.0%	Various ⁽³⁾
salesforce.com, inc.	23,836	4.2%	Various ⁽⁴⁾
DIRECTV, LLC	23,152	4.1%	September 2027
Box, Inc.	22,441	3.9%	Various ⁽⁵⁾
Dropbox, Inc.	20,502	3.6%	Various ⁽⁶⁾
Synopsys, Inc.	15,492	2.7%	August 2030
Bridgepoint Education, Inc.	14,064	2.5%	Various ⁽⁷⁾
Viacom International, Inc.	13,718	2.4%	December 2028
Riot Games, Inc.	12,828	2.3%	Various ⁽⁸⁾
Concur Technologies	10,643	1.9%	Various ⁽⁹⁾
Delta Dental of California	10,313	1.8%	May 2018
Capital One, N.A.	9,170	1.6%	September 2024
AMN Healthcare, Inc.	9,001	1.6%	July 2027
Biotech/Healthcare Industry Tenant	8,461	1.5%	September 2029
Neurocrine Biosciences, Inc.	6,883	1.2%	December 2029
Total	\$ 228,848	40.3%	

- (1) Annualized base rental revenue 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 tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of December 31, 2017.
- (2) Includes 100% of the annualized base rental revenues of consolidated property partnerships.
- (3) The LinkedIn Corporation leases, which contribute \$2.2 million and \$26.1 million, expire in July 2019 and September 2026, respectively.
- (4) The salesforce.com, inc. leases, which contribute \$0.4 million, \$12.9 million, \$5.7 million and \$4.9 million, will expire in August 2018, March 2029, December 2030 and September 2032, respectively.
- (5) The Box, Inc. leases, which contribute \$2.0 million and \$20.4 million, expire in August 2021 and June 2028, respectively.
- (6) The Dropbox, Inc. leases, which contribute \$5.7 million and \$14.8 million, expire in September 2019 and August 2027, respectively.
- (7) The Bridgepoint Education Inc. leases, which contribute \$6.3 million and \$7.8 million, expire in July 2018 and September 2018, respectively.

- (8) The Riot Games, Inc. leases, which contribute \$5.6 million, \$2.1 million, and \$5.1 million, expire in September 2020, November 2020, and November 2024, respectively.
- (9) The Concur Technologies leases, which contribute \$1.8 million and \$8.9 million, expire in April 2025 and December 2025, respectively.

The following pie chart sets forth the composition of our tenant base by industry and as a percentage of our annualized base rental revenue based on the North American Industry Classification System as of December 31, 2017.



Lease Expirations

The following table sets forth a summary of our office lease expirations for each of the next ten years beginning with 2018, assuming that none of the tenants exercise renewal options or termination rights. See further discussion of our lease expirations under “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors that May Influence Future Results of Operations”.

Lease Expirations

Year of Lease Expiration	# of Expiring Leases	Total Square Feet	% of Total Leased Square Feet	Annualized Base Rent (000's) ⁽¹⁾⁽²⁾	% of Total Annualized Base Rent ⁽¹⁾	Annualized Rent per Square Foot ⁽¹⁾
2018	71	1,156,410	9.0%	\$ 48,736	8.6%	\$ 42.14
2019	101	1,527,185	11.9%	59,046	10.4%	38.66
2020	108	1,865,026	14.5%	72,896	12.8%	39.09
2021	88	1,031,097	8.0%	45,156	7.9%	43.79
2022	57	576,364	4.5%	23,636	4.1%	41.01
2023	57	1,074,566	8.4%	53,820	9.5%	50.09
2024	31	844,477	6.6%	37,200	6.5%	44.05
2025	19	297,164	2.3%	13,013	2.3%	43.79
2026	19	1,239,822	9.7%	48,977	8.6%	39.50
2027	16	1,198,566	9.3%	56,932	10.0%	47.50
2028 and beyond	24	2,010,725	15.8%	109,932	19.3%	54.67
Total ⁽³⁾	591	12,821,402	100.0%	\$ 569,344	100.0%	\$ 44.41

(1) 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 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.

(2) Includes 100% of annualized based rent of consolidated property partnerships.

(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 December 31, 2017, space leased under month-to-month leases, storage leases, vacant space and future lease renewal options not executed as of December 31, 2017.

Secured Debt

As of December 31, 2017, the Operating Partnership had three outstanding mortgage notes payable which were secured by certain of our properties. Our secured debt represents an aggregate indebtedness of approximately \$339.4 million. See additional information regarding our secured debt in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity Sources,” Notes 8 and 9 to our consolidated financial statements and Schedule III—Real Estate and Accumulated Depreciation included with this report. Management believes that, as of December 31, 2017, the value of the properties securing the applicable secured obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

We and our properties are subject to routine litigation incidental to our business. These matters are generally covered by insurance. As of December 31, 2017, we are not a defendant in, and our properties are not subject to, any legal proceedings that we believe, if determined adversely to us, would have a material adverse effect upon our financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR KILROY REALTY CORPORATION'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KRC." As of the date this report was filed, there were approximately 85 registered holders of the Company's common stock. The following table illustrates high, low, and closing prices by quarter, as well as dividends declared, during 2017 and 2016 as reported on the NYSE.

	High	Low	Close	Per Share Common Stock Dividends Declared
2017				
First quarter	\$ 77.91	\$ 70.84	\$ 72.08	\$ 0.3750
Second quarter	77.09	70.06	75.15	0.4250
Third quarter	75.69	67.47	71.12	0.4250
Fourth quarter	76.18	70.17	74.65	0.4250
2016				
First quarter	\$ 62.94	\$ 47.38	\$ 61.87	\$ 0.3500
Second quarter	66.29	59.89	66.29	0.3750
Third quarter	73.73	66.06	69.35	0.3750
Fourth quarter ⁽¹⁾	76.88	66.73	73.22	2.2750

(1) Includes a special cash dividend of \$1.90 per share of common stock that was paid on January 13, 2017.

The Company pays distributions to common stockholders quarterly each January, April, July and October, at the discretion of the board of directors. Distribution amounts depend on our FFO, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the board of directors deems relevant.

The Company did not make any purchases of equity securities during the three month period leading up to December 31, 2017.

MARKET FOR KILROY REALTY, L.P.'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no established public trading market for the Operating Partnership's common units. As of the date this report was filed, there were 22 holders of record of common units (including through the Company's general partnership interest).

The following table reports the distributions per common unit declared during the years ended December 31, 2017 and 2016.

	Per Unit Common Unit Distribution Declared
2017	
First quarter	\$ 0.3750
Second quarter	0.4250
Third quarter	0.4250
Fourth quarter	0.4250
2016	
First quarter	\$ 0.3500
Second quarter	0.3750
Third quarter	0.3750
Fourth quarter ⁽¹⁾	2.2750

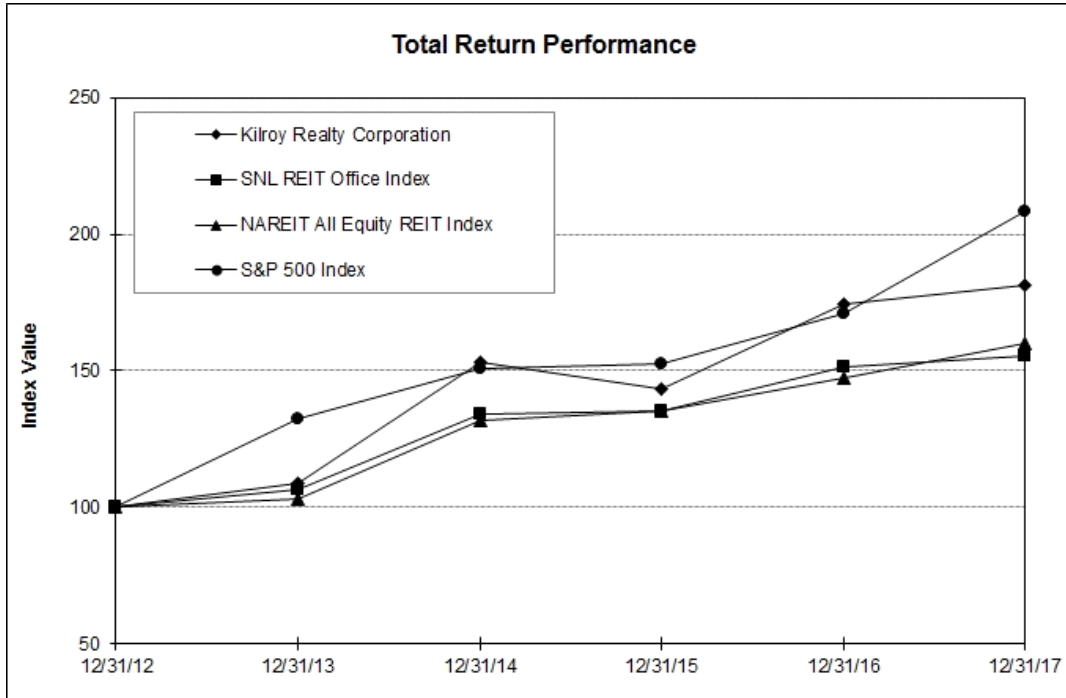
(1) Includes a special cash distribution of \$1.90 per common unit that was paid on January 13, 2017.

During 2017 and 2016, the Operating Partnership redeemed 304,350 and 250,933 common units, respectively, for the same number of shares of the Company's common stock.

On March 11, 2016, the Operating Partnership issued 867,701 common units to an unrelated third party in connection with the Operating Partnership's acquisition of the 610-620 Brannan St. project, a development opportunity in the SOMA submarket of San Francisco, California. Each common unit was valued at \$55.36, which was based on a trailing ten-day average of the closing quoted price per share of the Company's common stock, par value \$.01 per share, as reported on the New York Stock Exchange, as calculated in accordance with the Partnership Agreement. Subject to certain limitations, the common units are redeemable for cash or, at the Company's option, exchangeable for shares of the Company's common stock beginning 12 months after the initial issuance of the common units. This issuance of the common units described above was exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on Section 4(a)(2) of the Securities Act, as transactions by an issuer not involving a public offering.

PERFORMANCE GRAPH

The following line graph compares the change in cumulative stockholder return on shares of the Company's common stock to the cumulative total return of the NAREIT All Equity REIT Index, the Standard & Poor's 500 Stock Index, and the SNL REIT Office Index for the five-year period ended December 31, 2017. We include an additional index, the SNL REIT Office Index, to the performance graph since management believes it provides additional information to investors about our performance relative to a more specific peer group. The SNL REIT Office Index is a published and widely recognized index that comprises 26 office equity REITs, including us. The graph assumes the investment of \$100 in us and each of the indices on December 31, 2012 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.



ITEM 6. SELECTED FINANCIAL DATA – KILROY REALTY CORPORATION

The following tables set forth selected consolidated financial and operating data on an historical basis for the Company. The following data should be read in conjunction with our financial statements and notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this report.

The consolidated balance sheet data as of December 31, 2017, 2016 and 2015, the consolidated statement of operations data for all periods presented, and the consolidated statement of cash flows data for the years ended December 31, 2017, 2016 and 2015 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation audited by an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2014 and 2013 and the consolidated statement of cash flows data for the years ended December 31, 2014 and 2013 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation and adjusted for the impact of subsequent accounting changes requiring retrospective application, if any.

Kilroy Realty Corporation Consolidated
(in thousands, except share, per share, square footage and occupancy data)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Statements of Operations Data:					
Total revenues from continuing operations	\$ 719,001	\$ 642,572	\$ 581,275	\$ 521,725	\$ 457,111
Income from continuing operations	180,615	303,798	238,604	59,313	14,935
Income from discontinued operations ⁽¹⁾	—	—	—	124,495	29,630
Net income available to common stockholders	151,249	280,538	220,831	166,969	30,630
Per Share Data:					
Weighted average shares of common stock outstanding – basic	98,113,561	92,342,483	89,854,096	83,090,235	77,343,853
Weighted average shares of common stock outstanding – diluted	98,727,331	93,023,034	90,395,775	84,967,720	77,343,853
Income from continuing operations available to common stockholders per share of common stock – basic	\$ 1.52	\$ 3.00	\$ 2.44	\$ 0.52	\$ 0.00
Income from continuing operations available to common stockholders per share of common stock – diluted	\$ 1.51	\$ 2.97	\$ 2.42	\$ 0.51	\$ 0.00
Net income available to common stockholders per share – basic	\$ 1.52	\$ 3.00	\$ 2.44	\$ 1.99	\$ 0.37
Net income available to common stockholders per share – diluted	\$ 1.51	\$ 2.97	\$ 2.42	\$ 1.95	\$ 0.37
Dividends declared per share ⁽²⁾	\$ 1.650	\$ 3.375	\$ 1.400	\$ 1.400	\$ 1.400

(1) The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-08 effective January 1, 2015 (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information). As a result, results of operations for properties classified as held for sale and/or disposed of subsequent to January 1, 2015 are presented in continuing operations. Prior to January 1, 2015, properties classified as held for sale and/or disposed of are presented in discontinued operations.

(2) Dividends declared for the year ended December 31, 2016 includes a special dividend of \$1.90 per share of common stock that was paid on January 13, 2017.

	December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	\$ 7,417,777	\$ 7,060,754	\$ 6,328,146	\$ 6,057,932	\$ 5,264,947
Total assets ⁽¹⁾	6,802,838	6,706,633	5,926,430	5,621,262	5,099,417
Total debt ⁽¹⁾	2,347,063	2,320,123	2,225,469	2,456,939	2,193,327
Total preferred stock	—	192,411	192,411	192,411	192,411
Total noncontrolling interests ⁽²⁾	259,523	216,322	63,620	57,726	54,848
Total equity ⁽²⁾	3,960,316	3,759,317	3,234,586	2,723,936	2,516,160
Other Data:					
Funds From Operations ⁽³⁾⁽⁴⁾	\$ 346,787	\$ 333,742	\$ 316,612	\$ 250,744	\$ 218,621
Cash flows provided by (used in):					
Operating activities	\$ 347,012	\$ 345,054	\$ 272,008	\$ 245,253	\$ 240,576
Investing activities ⁽⁵⁾	(359,102)	(579,420)	(337,241)	(476,031)	(704,284)
Financing activities	(171,241)	427,291	23,471	244,587	284,621
Office Property Data:					
Rentable square footage	13,720,597	14,025,856	13,032,406	14,096,617	12,736,099
Occupancy	95.2%	96.0%	94.8%	94.4%	93.4%
Residential Property Data:					
Number of units	200	200	N/A	N/A	N/A
Average occupancy ⁽⁶⁾	70.2%	46.0%	N/A	N/A	N/A

(1) On January 1, 2016, the Company adopted FASB ASU No. 2015-03 and 2015-15 which require deferred financing costs, except costs paid for the unsecured line of credit, to be reclassified as a reduction to the debt liability balance instead of being reported as an asset as historically presented. As a result, total assets and total debt have been adjusted from prior amounts reported to reflect this change for all periods presented.

(2) Includes the noncontrolling interests of the common units of the Operating Partnership and consolidated property partnerships (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information).

(3) We calculate 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.

Adjustments to arrive at FFO were as follows: net income attributable to noncontrolling common units of the Operating Partnership, net income attributable to noncontrolling interests in consolidated property partnerships, depreciation and amortization of real estate assets, gains on sales of depreciable real estate and FFO attributable to noncontrolling interests in consolidated property partnerships. For additional information, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Non-GAAP Supplemental Financial Measure: Funds From Operations” including a reconciliation of the Company’s GAAP net income available for common stockholders to FFO for the periods presented.

(4) FFO includes amortization of deferred revenue related to tenant-funded tenant improvements of \$16.8 million, \$13.2 million, \$13.3 million, \$11.0 million and \$10.7 million for the years ended December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

(5) On January 1, 2017, the Company adopted FASB ASU No. 2016-18 which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, cash flows provided by (used in) investing activities have been adjusted from prior amounts reported to reflect this change for all periods presented.

(6) For the year ended December 31, 2016, represents occupancy at December 31, 2016.

SELECTED FINANCIAL DATA – KILROY REALTY, L.P.

The following tables set forth selected consolidated financial and operating data on an historical basis for the Operating Partnership. The following data should be read in conjunction with our financial statements and notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this report.

The consolidated balance sheet data as of December 31, 2017, 2016 and 2015 and the consolidated statement of operations data for all periods presented have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. audited by an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2014 and 2013 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. and adjusted for the impact of subsequent accounting changes requiring retrospective application, if any.

Kilroy Realty, L.P. Consolidated (in thousands, except unit, per unit, square footage and occupancy data)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Statements of Operations Data:					
Total revenues from continuing operations	\$ 719,001	\$ 642,572	\$ 581,275	\$ 521,725	\$ 457,111
Income from continuing operations	180,615	303,798	238,604	59,313	14,935
Income from discontinued operations ⁽¹⁾	—	—	—	124,495	29,630
Net income available to common unitholders	154,077	286,813	224,887	170,298	31,091
Per Unit Data:					
Weighted average common units outstanding – basic	100,246,567	94,771,688	91,645,578	84,894,498	79,166,260
Weighted average common units outstanding – diluted	100,860,337	95,452,239	92,187,257	86,771,983	79,166,260
Income from continuing operations available to common unitholders per common unit – basic	\$ 1.52	\$ 2.99	\$ 2.44	\$ 0.52	\$ 0.00
Income from continuing operations available to common unitholders per common unit – diluted	\$ 1.51	\$ 2.96	\$ 2.42	\$ 0.51	\$ 0.00
Net income available to common unitholders per unit – basic	\$ 1.52	\$ 2.99	\$ 2.44	\$ 1.99	\$ 0.37
Net income available to common unitholders per unit – diluted	\$ 1.51	\$ 2.96	\$ 2.42	\$ 1.94	\$ 0.37
Distributions declared per common unit ⁽²⁾	\$ 1.650	\$ 3.375	\$ 1.400	\$ 1.400	\$ 1.400

(1) The Company adopted FASB ASU No. 2014-08 effective January 1, 2015 (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information). As a result, results of operations for properties classified as held for sale and/or disposed of subsequent to January 1, 2015 are presented in continuing operations. Prior to January 1, 2015, properties classified as held for sale and/or disposed of are presented in discontinued operations.

(2) The year ended December 31, 2016 includes a special distribution of \$1.90 per common unit that was paid on January 13, 2017.

	December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	\$ 7,417,777	\$ 7,060,754	\$ 6,328,146	\$ 6,057,932	\$ 5,264,947
Total assets ⁽¹⁾	6,802,838	6,706,633	5,926,430	5,621,262	5,099,417
Total debt ⁽¹⁾	2,347,063	2,320,123	2,225,469	2,456,939	2,193,327
Total preferred capital	—	192,411	192,411	192,411	192,411
Total noncontrolling interests ⁽²⁾	186,375	135,138	10,566	9,625	8,388
Total capital ⁽²⁾	3,960,316	3,759,317	3,234,586	2,723,936	2,516,160
Other Data:					
Cash flows provided by (used in):					
Operating activities	347,012	345,054	272,008	245,253	240,576
Investing activities ⁽³⁾	(359,102)	(579,420)	(337,241)	(476,031)	(704,284)
Financing activities	(171,241)	427,291	23,471	244,587	284,621
Office Property Data:					
Rentable square footage	13,720,597	14,025,856	13,032,406	14,096,617	12,736,099
Occupancy	95.2%	96.0%	94.8%	94.4%	93.4%
Residential Property Data:					
Number of units	200	200	N/A	N/A	N/A
Average occupancy ⁽⁴⁾	70.2%	46.0%	N/A	N/A	N/A

(1) On January 1, 2016, the Company adopted FASB ASU No. 2015-03 and 2015-15 which require deferred financing costs, except costs paid for the unsecured line of credit, to be reclassified as a reduction to the debt liability balance instead of being reported as an asset as historically presented. As a result, total assets and total debt have been adjusted from prior amounts reported to reflect this change for all periods presented.

(2) Includes the noncontrolling interests in consolidated property partnerships and subsidiaries (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information).

(3) On January 1, 2017, the Company adopted FASB ASU No. 2016-18 which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, cash flows provided by (used in) investing activities have been adjusted from prior amounts reported to reflect this change for all periods presented.

(4) For the year ended December 31, 2016, represents occupancy at December 31, 2016.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to our consolidated financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. The results of operations discussion are combined for the Company and the Operating Partnership because there are no material differences in the results of operations between the two reporting entities.

Forward-Looking Statements

Statements contained in this "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements. Forward-looking statements include, among other things, statements or information concerning our plans, objectives, capital resources, portfolio performance, results of operations, projected future occupancy and rental rates, lease expirations, debt maturities, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, projected construction commencement and completion dates, projected square footage of space that could be constructed on undeveloped land that we own, projected rentable square footage of or number of units in properties under construction or in the development pipeline, anticipated proceeds from capital recycling activity or other dispositions and anticipated dates of those activities or dispositions, projected increases in the value of properties, dispositions, future executive incentive compensation, pending, potential or proposed acquisitions, plans to grow our Net Operating Income and FFO, our ability to re-lease properties at or above current market rates, anticipated market conditions and demographics and other forward-looking financial data, as well as the discussion in "—Factors That May Influence Future Results of Operations", "—Liquidity and Capital Resource of the Company", and "—Liquidity and Capital Resources of the Operating Partnership." Forward-looking statements can be identified by the use of words such as "believes," "expects," "projects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates" or "anticipates" and the negative of these words and phrases and similar expressions that do not relate to historical matters. 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 remediations;
- 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.

The factors included in this report 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 the Company's and the Operating Partnership's business and financial performance, see the discussion below as well as "Item 1A. Risk Factors," and in our other filings with the SEC. All forward-looking statements are based on information that was available and speak only as of the date on which they were made. We assume no obligation to update any forward-looking statement 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.

Company Overview

We are a self-administered REIT active in premier office and mixed-use submarkets along the West Coast. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in the coastal regions of Los Angeles, Orange County, San Diego County, the San Francisco Bay Area and Greater Seattle, which we believe have strategic advantages and strong barriers to entry. We own our interests in all of our real properties through the Operating Partnership and the Finance Partnership and generally conduct substantially all of our operations through the Operating Partnership. We owned an approximate 97.9% and 97.5% general partnership interest in the Operating Partnership as of December 31, 2017 and 2016, respectively. All of our properties are held in fee except for the thirteen office buildings that are held subject to long-term ground leases for the land (see Note 18 "Commitments and

Contingencies” to our consolidated financial statements included in this report for additional information regarding our ground lease obligations).

2017 Operating and Development Highlights

2017 was another strong year of performance for the Company. We delivered strong results across all areas of our business and continued to create value in our operating and development platforms that we believe will drive future earnings and dividend growth.

Leasing. During 2017, we executed new and renewal leases totaling 2.0 million square feet within our stabilized portfolio with an increase in GAAP rents of 25.0% and an increase in cash rents of 11.2%. The occupancy of our stabilized office portfolio was 95.2% as of December 31, 2017. We also signed approximately 0.9 million square feet of leases in our development portfolio, securing long-term, high quality tenants for 62% of our three currently under construction office projects.

Development. We continued to execute on our development program during 2017, delivering one project, commencing construction on a new development project and acquiring a new future development site. In January 2017, we stabilized our Columbia Square Phase 2 - Office development project in Hollywood, California, with a total estimated investment of \$230.0 million totaling 365,359 square feet of office space that is 100% leased.

Also during 2017, we commenced construction on 333 Dexter located in the South Lake Union district of Seattle, Washington, one of the strongest performing markets in the country. This project encompasses approximately 650,000 gross rentable square feet of office space at a total estimated investment of \$380.0 million. Including 333 Dexter, as of December 31, 2017, the Company had four development projects under construction comprised of approximately 1.8 million square feet of office space, 237 residential units, and 96,000 square feet of retail space, representing a total estimated investment of approximately \$1.5 billion. The total estimated investment of the four projects includes lease commissions and excludes tenant improvement overages. Scheduled completion dates range through 2019. See “—Factors that May Influence Future Operations—Completed, In-Process and Future Development Pipeline” for additional information.

During the year ended December 31, 2017, the Company completed the acquisition of a 1.2 acre development site located in the Little Italy neighborhood of downtown San Diego, California for \$19.4 million in cash (see Note 3 “Acquisitions” to our consolidated financial statements included in this report for more information).

Subsequent to December 31, 2017, in January 2018, we commenced construction on the first phase of the mixed-use Academy & Vine project in the Hollywood submarket of Los Angeles, including 306,000 square feet of office space and 24,000 square feet of retail space.

Capital Recycling Program. We have continued to utilize our capital recycling program to provide additional capital to finance development expenditures, fund potential acquisitions, repay long-term debt and for other general corporate purposes. Our general strategy is to target the disposition of mature properties or those that have limited upside for us and redeploy the capital into acquisitions and/or development projects where we can create additional value to generate higher returns (see “—Factors that May Influence Future Operations” for additional information).

In connection with this strategy, during 2017, we generated gross sales proceeds totaling approximately \$186.6 million through the sale of eleven office buildings and one undeveloped land parcel.

2017 Financing Highlights

In addition to obtaining funding from our capital recycling program during 2017, we successfully completed the following financing and capital raising activities to fund our continued growth. We continued to strengthen our balance sheet and lower our overall cost of capital. See “—Liquidity and Capital Resources of the Operating Partnership” for additional information.

- Issued 4,427,500 shares of common stock for aggregate net proceeds of \$308.8 million in an underwritten public offering;
- Issued 235,077 shares of common stock for aggregate net proceeds of \$17.5 million under the Company’s at-the-market (“ATM”) offering program;
- Increased the size of the unsecured revolving credit facility from \$600.0 million to \$750.0 million and reduced the borrowing costs;
- Repaid a \$39.0 million unsecured term loan;
- Redeemed 8,000,000 shares of 6.875% Series G and 6.375% Series H preferred stock at the contractual redemption price of \$25.00 per share for a total cost of \$200.0 million in cash;
- Completed the early redemption of all \$325.0 million of the company’s 4.800% unsecured senior notes due July 2018 for a cash price of approximately \$330.0 million, resulting in a loss on early extinguishment of debt;
- Repaid a total of \$124.5 million of secured debt at par, of which \$123.5 million was a mortgage note that was held by 303 Second LLC, a property partnership in which we have a 56% equity interest. NBREM contributed \$54.4 million to fund their proportionate share of the repayment of this mortgage debt;
- Issued \$175.0 million of 10-year 3.350% unsecured senior notes (the “Series A Notes”) and \$75.0 million of 12-year 3.450% unsecured senior notes (the “Series B Notes”) and, together with the Series A Notes, the “Series A and B Notes”) maturing in February 2027 and February 2029, respectively, pursuant to a delayed draw option in connection with a private note placement in September 2016; and
- Issued \$425.0 million aggregate principal amount of 7-year, 3.450% senior unsecured notes maturing in December 2024 in an underwritten public offering.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires us to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting periods.

Certain accounting policies are considered to be critical accounting policies. Critical accounting policies are those policies that require our management team to make significant estimates and/or assumptions about matters that are uncertain at the time the estimates and/or assumptions are made or where we are required to make significant judgments and assumptions with respect to the practical application of accounting principles in our business operations. Critical accounting policies are by definition those policies that are material to our financial statements and for which the impact of changes in estimates, assumptions, and judgments could have a material impact to our financial statements.

The following critical accounting policies discussion reflects what we believe are the most significant estimates, assumptions, and judgments used in the preparation of our consolidated financial statements. This discussion of our critical accounting policies is intended to supplement the description of our accounting policies in the footnotes to our consolidated financial statements and to provide additional insight into the information used by management when evaluating significant estimates, assumptions, and judgments. For further discussion of our significant accounting policies, see Note 2 “Basis of Presentation & Significant Accounting Policies” to our consolidated financial statements included in this report.

Rental Revenue Recognition

Rental revenue for office operating properties is our principal source of revenue. The timing of when we commence rental revenue recognition for office properties depends largely on our conclusion as to whether we are or the tenant is the owner for accounting purposes of tenant improvements at the leased property. When we conclude that we are the owner of tenant improvements for accounting purposes, we record the cost to construct the tenant improvements as an asset, and we commence rental revenue recognition when the tenant takes possession of or controls the finished space, which is typically when the improvements being recorded as our asset are substantially complete.

The determination of whether we are or the tenant is the owner of tenant improvements for accounting purposes is subject to significant judgment. In making that determination, we consider numerous factors and perform a detailed evaluation of each individual lease. No one factor is determinative in reaching a conclusion. The factors we evaluate include but are not limited to the following:

- whether the lease agreement requires landlord approval of how the tenant improvement allowance is spent prior to installation of the tenant improvements;
- whether the lease agreement requires the tenant to provide evidence to the landlord supporting the cost and what the tenant improvement allowance was spent on prior to payment by the landlord for such tenant improvements;
- whether the tenant improvements are unique to the tenant or reusable by other tenants;
- whether the tenant is permitted to alter or remove the tenant improvements without the consent of the landlord or without compensating the landlord for any lost utility or diminution in fair value; and
- whether the ownership of the tenant improvements remains with the landlord or remains with the tenant at the end of the lease term.

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises. During the years ended December 31, 2017, 2016, and 2015, we capitalized \$22.0 million, \$22.3 million and \$22.8 million, respectively, of tenant-funded tenant improvements. The amount of tenant-funded tenant improvements recorded in any given year varies based upon the mix of specific leases executed and/or commenced during the reporting period. For the years ended December 31, 2017, 2016, and 2015, we recognized \$16.8 million, \$13.2 million and \$13.3 million, respectively, of non-cash rental revenue related to the amortization of deferred revenue recorded in connection with tenant-funded tenant improvements.

When we conclude that we are not the owner and the tenant is the owner of certain tenant improvements for accounting purposes, we record our contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease, and rental revenue recognition begins when the tenant takes possession of or controls the space.

Our determination as to whether we are or the tenant is the owner of tenant improvements for accounting purposes is made on a lease-by-lease basis and has a significant impact on the amount of non-cash rental revenue that we record related to the amortization of deferred revenue for tenant-funded tenant improvements, and also has a significant effect on the timing of commencement of revenue recognition.

For residential properties, we commence revenue recognition upon occupancy of the premises by the tenant. Residential rental revenue is recognized on a straight-line basis over the term of the related lease, net of any concessions.

Tenant Reimbursement Revenue

Reimbursements from tenants consist of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs, including capital expenditures. Calculating tenant reimbursement revenue requires an in-depth analysis of the complex terms of each underlying lease. Examples of judgments and estimates used when determining the amounts recoverable include:

- estimating the final expenses, net of accruals, that are recoverable;
- estimating the fixed and variable components of operating expenses for each building;
- conforming recoverable expense pools to those used in establishing the base year or base allowance for the applicable underlying lease; and
- concluding whether an expense or capital expenditure is recoverable pursuant to the terms of the underlying lease.

During the year, we accrue estimated tenant reimbursement revenue in the period in which the tenant reimbursable costs are incurred based on our best estimate of the amounts to be recovered. Throughout the year, we perform analyses to properly match tenant reimbursement revenue with reimbursable costs incurred to date. Additionally, during the fourth quarter of each year, we perform preliminary reconciliations and accrue additional tenant reimbursement revenue or refunds. Subsequent to year end, we perform final detailed reconciliations and analyses on a lease-by-lease basis and bill or refund each tenant for any cumulative annual adjustments in the first and second quarters of each year for the previous year's activity. Our historical experience for the years ended December 31, 2016 and 2015 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized.

Allowances for Uncollectible Current Tenant Receivables and Deferred Rent Receivables

Tenant receivables and deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and deferred rent receivables. Current tenant receivables consist primarily of amounts due for contractual lease payments and reimbursements of common area maintenance expenses, property taxes, and other costs recoverable from tenants. Deferred rent receivables represent the amount by which the cumulative straight-line rental revenue recorded to date exceeds cash rents billed to date under the lease agreement. As of December 31, 2017 and 2016, current receivables were carried net of an allowance for uncollectible tenant receivables of \$2.3 million and \$1.7 million, respectively, for each period and deferred rent receivables were carried net of an allowance for deferred rent of \$3.2 million and \$1.5 million, respectively.

Management's determination of the adequacy of the allowance for uncollectible tenant receivables and the allowance for deferred rent receivables is performed using a methodology that incorporates a specific identification analysis and an aging analysis and considers the current economic and business environment. This determination requires significant judgment and estimates about matters that are uncertain at the time the estimates are made, including the creditworthiness of specific tenants, specific industry trends and conditions, and general economic trends and conditions. Since these factors are beyond our control, actual results can differ from our estimates, and such differences could be material.

With respect to the allowance for uncollectible tenant receivables, the specific identification methodology analysis relies on factors such as the age and nature of the receivables, the payment history and financial condition of the tenant, our assessment of the tenant's ability to meet its lease obligations, and the status of negotiations of any disputes with the tenant. With respect to the allowance for deferred rent receivables, given the longer-term nature of these receivables, the specific identification methodology analysis evaluates each of our significant tenants and any tenants on our internal watchlist and relies on factors such as each tenant's financial condition and its ability to meet its lease obligations. We evaluate our reserve levels quarterly based on changes in the financial condition of tenants and our assessment of the tenant's ability to meet its lease obligations, overall economic conditions, and the current business environment.

For the years ended December 31, 2017, 2016 and 2015, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 0.5%, 0.0% and 0.1%, respectively, of rental revenue. Our historical experience has been that actual write-offs of current tenant receivables and deferred rent receivables has approximated the provision for bad debts recorded for the years ended December 31, 2017, 2016 and 2015. In the event our estimates were not accurate and we had to change our allowances by 1% of revenue from continuing operations, the potential impact to our net income available to common stockholders would be approximately \$7.2 million, \$6.4 million and \$5.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Acquisitions

Subsequent to our adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2017-01 (“ASU 2017-01”) on January 1, 2017, which was adopted on a prospective basis, acquisitions of operating properties and development and redevelopment opportunities generally no longer meet the definition of a business and are accounted for as asset acquisitions. For these asset acquisitions, we record the acquired tangible and intangible assets and assumed liabilities based on each asset’s and liability’s relative fair value at the acquisition date of the total purchase price plus any capitalized acquisition costs. We record the acquired tangible and intangible assets and assumed liabilities of acquisitions of operating properties and development and redevelopment opportunities that meet the accounting criteria to be accounted for as business combinations at fair value at the acquisition date.

We assess and consider fair value based on estimated cash flow projections that utilize available market information and discount and/or capitalization rates that we deem appropriate. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The acquired assets and assumed liabilities for an operating property acquisition generally include but are not limited to: land and improvements, buildings and improvements, construction in progress and identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market operating leases and ground leases, acquired in-place lease values and tenant relationships, if any.

The fair value of land and improvements is derived from comparable sales of land and improvements within the same submarket and/or region. The fair value of buildings and improvements, tenant improvements and leasing costs considers the value of the property as if it was vacant as well as current replacement costs and other relevant market rate information.

The fair value of the above-market or below-market component of an acquired in-place operating lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining non-cancellable lease term and (ii) management’s estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition measured over the remaining non-cancellable term of the lease for above-market operating leases and the initial non-cancellable term plus the term of any below-market fixed rate renewal options, if applicable, for below-market operating leases. The amounts recorded for above-market operating leases are included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases. The amounts recorded for below-market operating leases are included in deferred revenue and acquisition-related liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases plus the term of any below-market fixed rate renewal options, if applicable. Our below-market operating leases generally do not include fixed rate or below-market renewal options. If a lease were to be terminated or if termination were determined to be likely prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related above-market or below-market lease intangible would be accelerated.

The fair value of acquired in-place leases is derived based on management’s assessment of lost revenue and costs incurred for the period required to lease the “assumed vacant” property to the occupancy level when purchased. This fair value is based on a variety of considerations including, but not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases; (2) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period; and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Factors we consider in performing

these analyses include an estimate of the carrying costs during the expected lease-up periods, current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand at market rates. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases. If a lease were to be terminated or if termination were determined to be likely prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related unamortized in-place lease intangible would be accelerated.

The determination of the fair value of any debt assumed in connection with a property acquisition is estimated by discounting the future cash flows using interest rates available for the issuance of debt with similar terms and remaining maturities.

The determination of the fair value of the acquired tangible and intangible assets and assumed liabilities of acquisitions requires us to make significant judgments and assumptions about the numerous inputs discussed above. The use of different assumptions in these fair value calculations could significantly affect the reported amounts of the allocation of our acquisition related assets and liabilities and the related depreciation and amortization expense recorded for such assets and liabilities. In addition, because the value of above and below market leases are amortized as either a reduction or increase to rental income, respectively, our judgments for these intangibles could have a significant impact on our reported rental revenues and results of operations.

Subsequent to our adoption of “ASU 2017-01” on January 1, 2017, transaction costs associated with our acquisitions are capitalized as part of the purchase price of the acquisition. Prior to our adoption of “ASU 2017-01”, acquisition costs associated with all operating property acquisitions and those development and redevelopment acquisitions that met the criteria to be accounted for as business combinations were expensed as incurred and costs associated with development acquisitions accounted for as asset acquisitions were capitalized as part of the cost of the asset. During the years ended December 31, 2017, 2016, and 2015, we capitalized \$4.6 million, \$0.5 million, and \$1.1 million, respectively, of acquisition costs. During the years ended December 31, 2016 and 2015, we expensed \$1.9 million and \$0.5 million of acquisition costs respectively

Evaluation of Asset Impairment

We evaluate our real estate assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a given asset may not be recoverable. We evaluate our real estate assets for impairment on a property-by-property basis. Indicators we use to determine whether an impairment evaluation is necessary include:

- low occupancy levels, forecasted low occupancy levels or near term lease expirations at a specific property;
- current period operating or cash flow losses combined with a historical pattern or future projection of potential continued operating or cash flow losses at a specific property;
- deterioration in rental rates for a specific property as evidenced by sudden significant rental rate decreases or continuous rental rate decreases over numerous quarters, which could signal a continued decrease in future cash flow for that property;
- deterioration of a given rental submarket as evidenced by significant increases in market vacancy and/or negative absorption rates or continuous increases in market vacancy and/or negative absorption rates over numerous quarters, which could signal a decrease in future cash flow for properties within that submarket;
- significant increases in property sales yields, continuous increases in property sales yields over several quarters, or recent property sales at a loss within a given submarket, each of which could signal a decrease in the market value of properties;

- significant change in strategy or use of a specific property or any other event that could result in a decreased holding period, including classifying a property as held for sale, or significant development delay;
- evidence of material physical damage to the property; and
- default by a significant tenant when any of the other indicators above are present.

When we evaluate for potential impairment our real estate assets to be held and used, we first evaluate whether there are any indicators of impairment. If any impairment indicators are present for a specific real estate asset, we then perform an undiscounted cash flow analysis and compare the net carrying amount of the real estate asset to the real estate asset's estimated undiscounted future cash flow over the anticipated holding period. If the estimated undiscounted future cash flow is less than the net carrying amount of the real estate asset, we perform an impairment loss calculation to determine if the fair value of the real estate asset, less estimated costs to sell, is less than the net carrying value of the real estate asset. We also perform an impairment loss calculation for real estate assets held for sale to determine if the fair value of the real estate asset, less estimated costs to sell, is less than the net carrying value of the real estate asset. Our impairment loss calculation compares the net carrying amount of the real estate asset to the real estate asset's estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. We recognize an impairment loss if the amount of the asset's net carrying amount exceeds the asset's estimated fair value less costs to sell. If we recognize an impairment loss, the estimated fair value of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

Our undiscounted cash flow and fair value calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flow and property fair values, including selecting the discount or capitalization rate that reflects the risk inherent in future cash flow. Estimating projected cash flow is highly subjective as it requires assumptions related to future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, and occupancy levels. We are also required to make a number of assumptions relating to future economic and market events and prospective operating trends. Determining the appropriate capitalization rate also requires significant judgment and is typically based on many factors including the prevailing rate for the market or submarket, as well as the quality and location of the properties. Further, capitalization rates can fluctuate resulting from a variety of factors in the overall economy or within regional markets. If the actual net cash flow or actual market capitalization rates significantly differ from our estimates, the impairment evaluation for an individual asset could be materially affected.

For each property where such an indicator occurred and/or for properties within a given submarket where such an indicator occurred, we completed an impairment evaluation. After completing this process, we determined that for each of the operating properties evaluated, undiscounted cash flows over the holding period were in excess of carrying value and, therefore, we did not record any impairment losses for these properties.

Cost Capitalization and Depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements, and leasing activities, including internal compensation costs. In addition, for development and redevelopment projects, we also capitalize the following costs during periods in which activities necessary to prepare the project for its intended use are in progress: interest costs based on the weighted average interest rate of our outstanding indebtedness for the period, real estate taxes and insurance. For the years ended December 31, 2017, 2016 and 2015, we capitalized \$23.2 million, \$19.0 million and \$15.2 million, respectively, of internal costs to our qualifying development projects.

Amounts capitalized are depreciated or amortized over estimated useful lives determined by management. We depreciate buildings and improvements based on the estimated useful life of the asset, and we amortize tenant improvements and leasing costs over the shorter of the estimated useful life or estimated remaining life of the related lease. All capitalized costs are depreciated or amortized using the straight-line method.

Determining whether expenditures meet the criteria for capitalization and the assignment of depreciable lives requires management to exercise significant judgment. Expenditures that meet one or more of the following criteria generally qualify for capitalization:

- provide benefit in future periods;
- extend the useful life of the asset beyond our original estimates; and
- increase the quality of the asset beyond our original estimates.

Our historical experience has demonstrated that we have not had material write-offs of assets and that our depreciation and amortization estimates have been reasonable and appropriate.

Share-Based Incentive Compensation Accounting

At December 31, 2017, the Company had one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan, which is described more fully in Note 15 “Share-Based Compensation” to our consolidated financial statements included in this report. The Executive Compensation Committee determines compensation for Executive Officers. Compensation cost for all share-based awards, including options, requires an estimate of fair value on the grant date and compensation cost is recognized on a straight-line basis over the service vesting period, which represents the requisite service period. The grant date fair value for compensation programs that contain market conditions, like modifiers based on total stockholder return (a “market condition”), are performed using complex pricing valuation models that require the input of assumptions, including judgments to estimate expected stock price volatility, expected life, and forfeiture rate. Specifically, the grant date fair value of share-based compensation programs that include market conditions are calculated using a Monte Carlo simulation pricing model and the grant date fair value of stock option grants are calculated using the Black-Scholes valuation model. Additionally, certain of our market condition share-based compensation programs also contain pre-defined financial performance conditions, including FFO per share, FAD per share growth, and debt to EBITDA ratio goals which can impact the number of restricted stock units ultimately earned. This variability relating to the level of the performance condition achieved requires management’s judgment and estimates, which impacts compensation cost recognized for these awards during the performance period. As of December 31, 2017, the performance condition for certain of our outstanding market condition share-based compensation programs has been met and compensation cost for these awards is no longer variable. For these awards, although the number of restricted stock units ultimately earned remains variable subject to the ultimate achievement level of the market condition, compensation cost is no longer variable for these awards as the market condition was already taken into consideration as part of the grant date fair value calculation. As of December 31, 2017, there are certain outstanding share-based compensation awards where the performance conditions have not all yet been met. For these awards, compensation cost and the number of restricted stock units ultimately earned remains variable.

For the years ended December 31, 2017, 2016, and 2015 we recorded approximately \$14.5 million, \$16.6 million, and \$11.5 million, respectively, of compensation cost related to programs that were subject to such valuation models. If the valuation of the grant date fair value for such programs changed by 10%, the potential impact to our net income available to common stockholders would be approximately \$1.1 million, \$1.4 million, and \$1.0 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Factors That May Influence Future Results of Operations

Development Program

We believe that a portion of our long-term future growth will continue to come from the completion of our in-process development projects and, subject to market conditions, executing on our near-term and future development pipeline, including expanding entitlements. Over the past several years, we increased our focus on development opportunities and expanded our near-term and future development pipeline through targeted acquisitions of development opportunities on the West Coast.

We have a proactive planning process by which we continually evaluate the size, timing, costs and scope of our development program and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our submarkets. We expect to execute on our development program with prudence and will be pursuing opportunities with attractive economic returns in strategic locations with proximity to public transportation or transportation access and retail amenities and in markets with strong fundamentals and visible demand. We plan to develop in phases as appropriate and we generally favor starting projects that are pre-leased.

Stabilized Development Projects

In 2017, we added the following project to our stabilized portfolio since the project had reached one year from building shell substantial completion:

- Columbia Square Phase 2 - Office, located in the heart of Hollywood, California, two blocks from the corner of Sunset Boulevard and Vine Street. This project is comprised of three buildings totaling approximately 365,359 rentable square feet with a total estimated investment of approximately \$230.0 million. The project was added to the stabilized portfolio during the first quarter of 2017 and was 95.3% occupied and 100% leased as of December 31, 2017.

Projects Under Construction

As of December 31, 2017, we had four projects in our in-process development pipeline that were under construction.

- The Exchange on 16th, Mission Bay, San Francisco, California, which we acquired in May 2014 and commenced construction on in June 2015. This project is currently anticipated to encompass approximately 750,000 gross rentable square feet consisting of 736,000 square feet of office space and 14,000 square feet of retail space at a total estimated investment of \$570.0 million. Construction is currently in progress and the building and core shell are currently estimated to be completed in the first half of 2018. The office space in the project is 100% leased to Dropbox, Inc. The lease with Dropbox, Inc. will commence in phases beginning in the fourth quarter of 2018 through the fourth quarter of 2019.
- 333 Dexter, South Lake Union, Washington, which we acquired in February 2015 and commenced construction on in June 2017. This project encompasses approximately 650,000 gross rentable square feet of office space at a total estimated investment of \$380.0 million. Construction is currently in progress and the building core and shell are currently estimated to be completed in the second half of 2019.
- 100 Hooper, San Francisco, California, which we acquired in July 2015 and commenced construction on in November 2016. This project will encompass approximately 314,000 square feet of office and approximately 86,000 square feet of production, distribution and repair (“PDR”) space configured in two, four-story buildings. The total estimated cost for this project is approximately \$270.0 million. Construction is currently in process and the core and shell of the project are currently expected to be completed in the first half of 2018. The office portion of the project is 100% pre-leased to Adobe Systems Inc. In connection with 100 Hooper, the Company is also developing an adjacent 59,000 square foot PDR building located at 150 Hooper with a total estimated investment of approximately \$22.0 million.
- One Paseo - Phase I (Retail and Residential), San Diego, California, which we acquired in November 2007 and commenced construction on in December 2016. Phase I of this mixed-use project includes site work and related infrastructure for the entire project, as well as 237 residential units and approximately 96,000 square feet of retail space. The total estimated investment for this phase of the project is approximately \$235.0 million. Construction is currently in process and is currently expected to be completed in phases beginning in the third quarter of 2018.

Near-Term and Future Development Pipeline

As of December 31, 2017, our near-term development pipeline included three future projects located in San Diego County and Los Angeles with an aggregate cost basis of approximately \$284.2 million, at which we believe we could

develop approximately 1.4 million rentable square feet at a total estimated investment of approximately \$990.0 million, depending on market conditions.

The following table sets forth information about our near-term development pipeline.

Near-Term Development Pipeline ⁽¹⁾	Location	Potential Start Date ⁽²⁾	Approx. Developable Square Feet	Total Estimated Investment	Total Costs as of 12/31/2017 ⁽³⁾ (in millions)
Academy & Vine ⁽⁴⁾	Hollywood	2018	545,000	\$ 450	\$ 87.7
2136-2174 Kettner Blvd. ⁽⁵⁾	Little Italy	2018	175,000	110	21.9
One Paseo - Phases II and III ⁽⁶⁾	Del Mar	TBD	640,000	430	174.6
Total Near-Term Development Pipeline			1,360,000	\$ 990	\$ 284.2

(1) Project timing, costs, developable square feet and scope 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 office supply, regulatory and entitlement processes, and project design.

(2) Actual commencement is subject to extensive evaluation and consideration of market conditions and economic factors.

(3) Represents cash paid and costs incurred as of December 31, 2017.

(4) In January 2018, we commenced construction on Phase I of this project.

(5) The Company acquired this development site located in the Little Italy submarket of San Diego during the fourth quarter.

(6) Development for this project will occur in phases. Phases II and III, comprised of residential and office, will commence subject to market conditions and economic factors.

As of December 31, 2017, our longer term future development pipeline included additional undeveloped land holdings located in the San Francisco Bay Area and two submarkets in San Diego county with an aggregate cost basis of approximately \$317.4 million, at which we believe we could develop more than 2.5 million rentable square feet, depending on successfully obtaining entitlements and market conditions.

Fluctuations in our development activities could cause fluctuations in the average development asset balances qualifying for interest and other carrying cost and internal cost capitalization in future periods. During the years ended December 31, 2017 and 2016, we capitalized interest on in-process development projects and development pipeline projects with an average aggregate cost basis of approximately \$1.0 billion and \$1.1 billion, respectively, as it was determined these projects qualified for interest and other carrying cost capitalization under GAAP. For the years ended December 31, 2017 and 2016, we capitalized \$46.5 million and \$49.5 million, respectively, of interest to our qualifying development projects. For the years ended December 31, 2017 and 2016, we capitalized \$23.2 million and \$19.0 million respectively, of internal costs to our qualifying redevelopment and development projects.

Capital Recycling Program. We continuously evaluate opportunities for the potential disposition of properties and undeveloped land in our portfolio or the formation of strategic ventures with the intent of recycling the proceeds generated into capital used to fund new operating and development acquisitions, to finance development and redevelopment expenditures, to repay long-term debt and for other general corporate purposes. As part of this strategy, we attempt to enter into Section 1031 Exchanges and other tax deferred transaction structures, when possible, to defer some or all of the taxable gains on the sales, if any, for federal and state income tax purposes. See the “Liquidity and Capital Resources of the Operating Partnership – Liquidity Sources” section for further information regarding our capital recycling strategy.

In connection with our capital recycling strategy, during 2017, we completed the sale of eleven office properties and one undeveloped land parcel to unaffiliated third parties for total gross sales proceeds of \$186.6 million. During 2016, we completed the sale of six office properties and five undeveloped land parcels to unaffiliated third parties for total gross sales proceeds of \$330.7 million. During 2016, we also entered into agreements with Norges Bank Real Estate Management (“NBREM”) whereby NBREM invested, through REIT subsidiaries, in two existing wholly-owned companies that each owned an office property located in San Francisco, California. Based on a gross valuation of the two properties of approximately \$1.2 billion, NBREM contributed a total of \$452.9 million for a 44% common equity interest in the two companies, which was net of approximately \$55.3 million of its proportionate share of the existing mortgage debt, as well as a working capital contribution of \$5.0 million. (See Note 11 “Noncontrolling Interests on the Company’s Consolidated Financial Statements” to our consolidated financial statements included in this report for additional information.)

The timing of any potential future disposition or strategic venture transactions will depend on market conditions and other factors, including but not limited to our capital needs and our ability to defer some or all of the taxable gains on the sales. We cannot assure that we will dispose of any additional properties, enter into any additional strategic ventures, or that we will be able to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange or be able to use other tax deferred structures in connection with our strategy. See the “Liquidity and Capital Resources of the Operating Partnership – Liquidity Sources” section for further information.

Acquisitions. As part of our growth strategy, which is highly dependent on market conditions and business cycles, among other factors, we continue to evaluate strategic opportunities and remain a disciplined buyer of development and redevelopment opportunities as well as value-add operating properties. We continue to focus on growth opportunities in West Coast markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, life sciences, entertainment and professional services. Against the backdrop of market volatility, we expect to manage a strong balance sheet, execute on our development program and selectively evaluate opportunities that either add immediate Net Operating Income to our portfolio or play a strategic role in our future growth.

During the year ended December 31, 2017, we acquired a 1.2 acre development site in the Little Italy neighborhood of downtown San Diego, CA for \$19.4 million in cash. During 2016, we acquired seven buildings in three transactions for an aggregate purchase price of approximately \$394.6 million, and one land parcel for \$31.0 million in cash and the issuance of 867,701 common units in the Operating Partnership valued at approximately \$48.0 million. We generally finance our acquisitions through proceeds from the issuance of debt and equity securities, borrowings under our unsecured revolving credit facility, proceeds from our capital recycling program, the assumption of existing debt and cash flows from operations.

We cannot provide assurance that we will enter into any agreements to acquire properties, or undeveloped land, or that the potential acquisitions contemplated by any agreements we may enter into in the future will be completed. In addition, acquisitions are subject to various risks and uncertainties and we may be unable to complete an acquisition after making a nonrefundable deposit or incurring acquisition-related costs. As of December 31, 2017, we had \$36.0 million of refundable acquisition deposits, subject to closing conditions required to be met by the sellers, for potential future acquisitions.

Incentive Compensation. Our Executive Compensation Committee determines compensation, including cash bonuses and equity incentives, for our executive officers. For 2017, the annual cash bonus program was structured to allow the Executive Compensation Committee to evaluate a variety of key quantitative and qualitative metrics at the end of the year and make a determination based on the Company’s and management’s overall performance. Our Executive Compensation Committee also grants equity incentive awards from time to time that include performance-based and/or market-measure based vesting requirements and/or time-based vesting requirements. As a result, accrued incentive compensation and compensation expense for future awards may be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions, liquidity measures, and other factors. Consequently, we cannot predict the amounts that will be recorded in future periods related to such incentive compensation.

As of December 31, 2017, there was approximately \$27.2 million of total unrecognized compensation cost related to outstanding nonvested shares of restricted common stock and RSUs issued under share-based compensation arrangements. Those costs are expected to be recognized over a weighted-average period of 1.9 years. The \$27.2 million of unrecognized compensation cost does not reflect the future compensation cost for any potential share-based awards that may be issued subsequent to December 31, 2017. Share-based compensation expense for potential future awards could be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions and other factors.

Information on Leases Commenced and Executed

Leasing Activity and Changes in Rental Rates. The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly developed or redeveloped properties, newly acquired properties with vacant space, and space

available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Negative trends in one or more of these factors could adversely affect our rental income in future periods. The following tables set forth certain information regarding leasing activity for our stabilized portfolio during the year ended December 31, 2017.

For Leases Commenced

	1st & 2nd Generation ⁽¹⁾⁽²⁾				2nd Generation ⁽¹⁾⁽²⁾				Weighted Average Lease Term (in months)
	Number of Leases ⁽³⁾		Rentable Square Feet ⁽³⁾		TI/LC per Sq. Ft. ⁽⁴⁾	Changes in Rents ⁽⁵⁾⁽⁶⁾	Changes in Cash Rents ⁽⁷⁾	Retention Rates ⁽⁸⁾	
	New	Renewal	New	Renewal					
Year Ended December 31, 2017	88	68	980,907	944,865	\$ 48.51	29.8%	15.1%	48.0%	72

For Leases Executed ⁽⁹⁾

	1st & 2nd Generation ⁽¹⁾⁽²⁾				2nd Generation ⁽¹⁾⁽²⁾			
	Number of Leases ⁽³⁾		Rentable Square Feet ⁽³⁾		TI/LC per Sq. Ft. ⁽⁴⁾	Changes in Rents ⁽⁵⁾⁽⁶⁾	Changes in Cash Rents ⁽⁷⁾	Weighted Average Lease Term (in months)
	New	Renewal	New	Renewal				
Year Ended December 31, 2017	96	68	1,075,182	944,865	\$ 46.90	25.0%	11.2%	6

(1) Includes 100% of consolidated property partnerships.

(2) First generation leasing includes space where we have made capital expenditures that result in additional revenue generated when the space is re-leased. Second generation leasing includes space where we have made capital expenditures to maintain the current market revenue stream.

(3) Represents leasing activity for leases that commenced or were signed during the period, including first and second generation space, net of month-to-month leases. Excludes leasing on new construction.

(4) Tenant improvements and leasing commissions per square foot exclude tenant-funded tenant improvements.

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

(6) Excludes commenced and executed leases of approximately 260,775 and 497,423 rentable square feet, respectively, for the year ended December 31, 2017, for which the space was vacant longer than one year or being leased for the first time. Space vacant for more than one year is excluded from our change in rents calculations to provide a more meaningful market comparison.

(7) Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same space. Excludes leases for which the space was vacant longer than one year or vacant when the property was acquired.

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

(9) For the year ended December 31, 2017, 31 new leases totaling 587,450 rentable square feet were signed but not commenced as of December 31, 2017.

As of December 31, 2017, we believe that the weighted average cash rental rates for our total stabilized portfolio, are approximately 15% below the current average market rental rates, which includes a projection that the weighted average cash rental rates for our San Diego stabilized portfolio are approximately 7% above current market rental rates. Individual properties within any particular submarket presently may be leased either above, below, or at the current market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate of our portfolio.

Our rental rates and occupancy are impacted by general economic conditions, including the pace of regional economic growth and access to capital. Therefore, we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current market rates. Additionally, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have further negative effects on our future financial condition, results of operations, and cash flows.

Scheduled Lease Expirations. The following tables set forth certain information regarding our lease expirations for our stabilized portfolio for the next five years and by region for the next two years.

Lease Expirations ⁽¹⁾

Year of Lease Expiration	Number of Expiring Leases	Total Square Feet	% of Total Leased Sq. Ft.	Annualized Base Rent ⁽²⁾ ₍₃₎	% of Total Annualized Base Rent ⁽²⁾	Annualized Base Rent per Sq. Ft. ₍₂₎
2018	71	1,156,410	9.0%	\$ 48,736	8.6%	\$ 42.14
2019	101	1,527,185	11.9%	59,046	10.4%	38.66
2020	108	1,865,026	14.5%	72,896	12.8%	39.09
2021	88	1,031,097	8.0%	45,156	7.9%	43.79
2022	57	576,364	4.5%	23,636	4.1%	41.01
Total	425	6,156,082	47.9%	\$ 249,470	43.8%	\$ 40.52

Year	Region	# of Expiring Leases	Total Square Feet	% of Total Leased Sq. Ft.	Annualized Base Rent ⁽²⁾⁽³⁾	% of Total Annualized Base Rent ⁽²⁾	Annualized Rent per Sq. Ft. ⁽²⁾
2018	Los Angeles	44	227,054	1.8%	\$ 7,983	1.4%	\$ 35.16
	Orange County	2	9,879	0.1%	251	—%	25.41
	San Diego	9	444,949	3.4%	20,356	3.6%	45.75
	San Francisco Bay Area	7	260,676	2.0%	13,403	2.4%	51.42
	Greater Seattle	9	213,852	1.7%	6,743	1.2%	31.53
	Total	71	1,156,410	9.0%	\$ 48,736	8.6%	\$ 42.14
2019	Los Angeles	40	297,337	2.3%	\$ 9,299	1.6%	\$ 31.27
	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	23	737,243	5.8%	32,251	5.7%	43.75
	Greater Seattle	17	219,069	1.7%	7,053	1.2%	32.20
	Total	101	1,527,185	11.9%	\$ 59,046	10.4%	\$ 38.66

(1) 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 December 31, 2017, space leased under month-to-month leases, storage leases, vacant space and future lease renewal options not executed as of December 31, 2017.

(2) 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 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. Percentages represent percentage of total portfolio annualized contractual base rental revenue. For additional information on tenant improvement and leasing commission costs incurred by the Company for the current reporting period, please see further discussion under the caption “Information on Leases Commenced and Executed.”

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

In addition to the 0.7 million rentable square feet, or 4.8%, of currently available space in our stabilized portfolio, leases representing approximately 9.0% and 11.9% of the occupied square footage of our stabilized portfolio are scheduled to expire during 2018 and 2019, respectively. The leases scheduled to expire in 2018 and 2019 represent approximately 2.7 million rentable square feet, or 19%, of our total annualized base rental revenue. Individual properties within any particular submarket presently may be leased either above, below, or at the current quoted market rates within that submarket. Our ability to re-lease available space depends upon both general market conditions and the market conditions in the specific regions in which individual properties are located.

For the approximately 1.2 million rentable square feet, or 8.6%, of our total annualized base rental revenue scheduled to expire in 2018, we believe that the weighted average cash rental rates for our overall portfolio are approximately at current average market rental rates, except in our San Francisco and San Diego submarkets where we currently believe these expiring leases are approximately 25% below market and 30% above market, respectively.

For the approximately 1.5 million rentable square feet, or 10.4%, of our total annualized base rental revenue scheduled to expire in 2019, we believe that the weighted average cash rental rates for our overall portfolio are

approximately 20% below current average market rental rates, primarily due our Los Angeles and San Francisco submarkets where we currently believe these expiring leases are approximately 25% below market and 30% below market, respectively.

Stabilized Portfolio Information

As of December 31, 2017, our stabilized portfolio was comprised of 101 office properties encompassing an aggregate of approximately 13.7 million rentable square feet and 200 residential units. Our stabilized portfolio includes all of our properties with the exception of development and redevelopment properties currently under construction or committed for construction, “lease-up” properties, real estate assets held for sale and undeveloped land. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define “lease-up” properties as office and retail properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. We did not have any “lease-up,” redevelopment or held for sale properties at December 31, 2017. Our stabilized portfolio also excludes our near-term and future development pipeline, which as of December 31, 2017 was comprised of six potential development sites, representing approximately 48 gross acres of undeveloped land on which we believe we have the potential to develop over 4.3 million square feet of office space, depending upon economic conditions.

As of December 31, 2017, the following properties were excluded from our stabilized portfolio:

	Number of Properties/Projects	Estimated Office Rentable Square Feet
Development projects under construction ⁽¹⁾⁽²⁾	4	1,800,000

(1) Estimated rentable square feet upon completion.

(2) Development projects under construction also include 96,000 square feet of retail space and 237 residential units in addition to the estimated office rentable square feet noted above.

The following table reconciles the changes in the rentable square feet in our stabilized office portfolio of operating properties from December 31, 2016 to December 31, 2017:

	Number of Buildings	Rentable Square Feet
Total as of December 31, 2016	108	14,025,856
Completed development properties placed in-service	3	365,359
Dispositions ⁽¹⁾	(10)	(675,143)
Remeasurement	—	4,525
Total as of December 31, 2017 ⁽²⁾	101	13,720,597

(1) Excludes the disposition of a property reported as held for sale as of December 31, 2016.

(2) Includes four properties owned by consolidated property partnerships (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information).

Occupancy Information

The following table sets forth certain information regarding our stabilized portfolio:

Stabilized Portfolio Occupancy

Region	Number of Buildings	Rentable Square Feet	Occupancy at ⁽¹⁾		
			12/31/2017	12/31/2016	12/31/2015
Los Angeles and Ventura Counties	36	4,181,733	93.3%	95.0%	95.1%
Orange County	1	271,556	86.6%	97.8%	94.0%
San Diego County	21	2,043,645	97.4%	93.2%	89.6%
San Francisco Bay Area	31	5,157,524	96.1%	97.6%	98.1%
Greater Seattle	12	2,066,139	95.4%	97.2%	95.1%
Total Stabilized Portfolio	101	13,720,597	95.2%	96.0%	94.8%

	Average Occupancy	
	Year Ended December 31,	
	2017	2016
Stabilized Portfolio ⁽¹⁾	94.1%	95.5%
Same Store Portfolio ⁽²⁾	94.7%	96.5%
Residential Portfolio ⁽³⁾	70.2%	46.0%

- (1) Occupancy percentages reported are based on our stabilized office portfolio as of the end of the period presented and exclude occupancy percentages of properties held for sale.
- (2) Occupancy percentages reported are based on office properties owned and stabilized as of January 1, 2016 and still owned and stabilized as of December 31, 2017. See discussion under "Results of Operations" for additional information.
- (3) Our residential portfolio consists of our 200-unit residential tower located in Hollywood, California. For the year ended December 31, 2016, represents occupancy at December 31, 2016.

Results of Operations

Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016

Net Operating Income

Management internally evaluates the operating performance and financial results of our stabilized portfolio based on Net Operating Income. We define “Net Operating Income” as consolidated operating revenues (rental income, tenant reimbursements and other property income) less consolidated operating expenses (property expenses, real estate taxes, provision for bad debts and ground leases).

Net Operating Income is considered by management to be an important and appropriate supplemental performance measure to net income because we believe it helps both investors and management to understand the core operations of our properties excluding corporate and financing-related costs and non-cash depreciation and amortization. Net Operating Income is an unlevered operating performance metric of our properties and allows for a useful comparison of the operating performance of individual assets or groups of assets. This measure thereby provides an operating perspective not immediately apparent from GAAP income from operations or net income. In addition, Net Operating Income is considered by many in the real estate industry to be a useful starting point for determining the value of a real estate asset or group of assets. Other real estate companies may use different methodologies for calculating Net Operating Income, and accordingly, our presentation of Net Operating Income may not be comparable to other real estate companies. Because of the exclusion of the items shown in the reconciliation below, Net Operating Income should only be used as a supplemental measure of our financial performance and not as an alternative to GAAP income from operations or net income.

Management further evaluates Net Operating Income by evaluating the performance from the following property groups:

- Same Store Properties – includes the consolidated results of all of the office properties that were 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, 2016 and still owned and included in the stabilized portfolio as of December 31, 2017;
- Stabilized Development Properties – includes the results generated by the following:
 - One office development project that was added to the stabilized portfolio in the first quarter of 2017;
 - Two office development projects that were completed and stabilized in March 2016;
 - Our residential project that was completed in June 2016; and
 - One office development project that was added to the stabilized portfolio in the fourth quarter of 2016;
- Acquisition Properties – includes the results, from the dates of acquisition through the periods presented, for the four office and three retail buildings we acquired in during 2016; and
- Dispositions and Other Properties – includes the results of the ten properties disposed of in the third quarter of 2017, the one property disposed of during the first quarter of 2017, the six properties disposed of in 2016 and expenses for certain of our in-process, near-term and future development projects.

The following table sets forth certain information regarding the property groups within our stabilized office portfolio as of December 31, 2017.

Group	# of Buildings	Rentable Square Feet
Same Store Properties	88	12,182,805
Stabilized Development Properties	6	1,079,333
Acquisition Properties	7	458,459
Total Stabilized Portfolio	101	13,720,597

The following table summarizes our Net Operating Income, as defined, for our total portfolio for the years ended December 31, 2017 and 2016.

	<u>Year Ended December 31,</u>		<u>Dollar Change</u>	<u>Percentage Change</u>
	<u>2017</u>	<u>2016</u>		
(\$ in thousands)				
Reconciliation of Net Income Available to Common Stockholders to Net Operating Income, as defined:				
Net Income Available to Common Stockholders	\$ 151,249	\$ 280,538	\$ (129,289)	(46.1)%
Preferred dividends	5,774	13,250	(7,476)	(56.4)
Original issuance costs of redeemed preferred stock	7,589	—	7,589	100.0
Net income attributable to Kilroy Realty Corporation	164,612	293,788	(129,176)	(44.0)
Net income attributable to noncontrolling common units of the Operating Partnership	3,223	6,635	(3,412)	(51.4)
Net income attributable to noncontrolling interests in consolidated property partnerships	12,780	3,375	9,405	278.7
Net income	\$ 180,615	\$ 303,798	\$ (123,183)	(40.5)%
Unallocated expense (income):				
General and administrative expenses	60,581	57,029	3,552	6.2
Acquisition-related expenses	—	1,902	(1,902)	(100.0)
Depreciation and amortization	245,886	217,234	28,652	13.2
Interest income and other net investment gains	(5,503)	(1,764)	(3,739)	212.0
Interest expense	66,040	55,803	10,237	18.3
Loss on early extinguishment of debt	5,312	—	5,312	100.0
Net (gain) loss on sales of land	(449)	295	(744)	(252.2)
Gains on sales of depreciable operating properties	(39,507)	(164,302)	124,795	(76.0)
Net Operating Income, as defined	<u>\$ 512,975</u>	<u>\$ 469,995</u>	<u>\$ 42,980</u>	<u>9.1 %</u>

The following tables summarize our Net Operating Income, as defined, for our total portfolio for the years ended December 31, 2017 and 2016.

	Year Ended December 31,									
	2017					2016				
	Same Store	Stabilized Development	Acquisitions	Disposi-tions & Other	Total	Same Store	Stabilized Development	Acquisitions	Disposi-tions & Other	Total
	(in thousands)					(in thousands)				
Operating revenues:										
Rental income	\$ 520,312	\$ 72,411	\$ 29,358	\$ 11,815	\$ 633,896	\$ 515,813	\$ 36,737	\$ 4,250	\$ 17,613	\$ 574,413
Tenant reimbursements	57,411	10,027	7,687	1,434	76,559	50,472	7,363	922	2,322	61,079
Other property income	6,093	345	821	1,287	8,546	1,499	93	53	5,435	7,080
Total	583,816	82,783	37,866	14,536	719,001	567,784	44,193	5,225	25,370	642,572
Property and related expenses:										
Property expenses	104,428	17,900	4,992	2,651	129,971	97,672	10,913	477	4,870	113,932
Real estate taxes	47,543	10,553	6,321	2,032	66,449	45,468	6,408	446	2,884	55,206
Provision for bad debts	1,755	(101)	1,471	144	3,269	(124)	116	50	(42)	—
Ground leases	3,927	—	2,410	—	6,337	3,356	—	83	—	3,439
Total	157,653	28,352	15,194	4,827	206,026	146,372	17,437	1,056	7,712	172,577
Net Operating Income, as defined	\$ 426,163	\$ 54,431	\$ 22,672	\$ 9,709	\$ 512,975	\$ 421,412	\$ 26,756	\$ 4,169	\$ 17,658	\$ 469,995

Year Ended December 31, 2017 as compared to the Year Ended December 31, 2016

	Same Store		Stabilized Development		Acquisitions		Dispositions & Other		Total	
	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change
	(\$ in thousands)									
Operating revenues:										
Rental income	\$ 4,499	0.9%	\$ 35,674	97.1 %	\$ 25,108	590.8%	\$ (5,798)	(32.9)%	\$ 59,483	10.4%
Tenant reimbursements	6,939	13.7	2,664	36.2	6,765	733.7	(888)	(38.2)	15,480	25.3
Other property income	4,594	306.5	252	271.0	768	NM*	(4,148)	(76.3)	1,466	20.7
Total	16,032	2.8	38,590	87.3	32,641	624.7	(10,834)	(42.7)	76,429	11.9
Property and related expenses:										
Property expenses	6,756	6.9	6,987	64.0	4,515	946.5	(2,219)	(45.6)	16,039	14.1
Real estate taxes	2,075	4.6	4,145	64.7	5,875	NM*	(852)	(29.5)	11,243	20.4
Provision for bad debts	1,879	NM*	(217)	(187.1)	1,421	NM*	186	442.9	3,269	100.0
Ground leases	571	17.0	—	—	2,327	NM*	—	—	2,898	84.3
Total	11,281	7.7	10,915	62.6	14,138	NM*	(2,885)	(37.4)	33,449	19.4
Net Operating Income, as defined	\$ 4,751	1.1%	\$ 27,675	103.4 %	\$ 18,503	443.8%	\$ (7,949)	(45.0)%	\$ 42,980	9.1%

* Percentage not meaningful

Net Operating Income increased \$43.0 million, or 9.1%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily resulting from:

- An increase of \$4.8 million attributable to the Same Store Properties primarily resulting from:
 - An increase in rental income of \$4.5 million primarily due to the following:
 - \$14.3 million increase due primarily to new leases and renewals at higher overall average rental rates in the San Francisco Bay Area, Los Angeles and Greater Seattle regions; partially offset by
 - \$9.8 million decrease due to lease expirations and early terminations primarily in the San Francisco Bay Area;
 - An increase in tenant reimbursements of \$6.9 million primarily due to:
 - \$3.8 million increase due to higher recurring expenses related to utilities, security, parking, contract services, repairs and maintenance and property taxes at certain properties;
 - \$0.9 million increase due to higher reimbursable supplemental in 2017 at two properties related to supplemental property tax adjustments and \$1.6 million increase due to lower reimbursable supplemental taxes in 2016 as a result of a change in estimate at one property;
 - \$1.1 million increase due to lower abated tenant reimbursements as compared to the prior year in addition to increased tenant reimbursements from tenants with 2016 base years; partially offset by
 - \$0.5 million decrease due to lower occupancy primarily for two properties in the Greater Seattle region that are 100% and 83% leased as of the date of this filing;
- An increase in other property income of \$4.6 million primarily due to early lease termination fees in the San Francisco Bay Area and San Diego regions, of which \$2.3 million was attributed to one lease; partially offset by
- An increase in property and related expenses of \$11.3 million primarily resulting from:
 - An increase of \$6.8 million in property expenses primarily resulting from:
 - \$5.1 million increase in certain recurring operating costs due to increased demand and higher rates related to utilities, security, parking and contract services, as well as higher repairs and maintenance and various other reimbursable expenses;
 - \$1.2 million increase in non-reimbursable expenses primarily due to \$0.5 million of non-recurring legal expenses and a \$0.4 million increase due to non-recurring parking facility costs;
 - \$0.5 million increase in property management personnel costs;
 - An increase of \$2.1 million in real estate taxes primarily due to:
 - \$1.8 million from regular annual property tax increases in 2017;
 - \$2.9 million of lower supplemental taxes at three properties in the San Francisco Bay Area region in 2016; partially offset by
 - \$2.6 million reduction in 2017 supplemental taxes at one property that was redeveloped in 2013;

- An increase of \$1.9 million in provision for bad debts primarily related to one tenant; and
- An increase of \$0.6 million in ground rent primarily due to higher percentage ground rent for one of our ground leases in the Greater Seattle Area due to higher operating revenues at the related property;
- An increase of \$27.7 million attributable to the Stabilized Development Properties;
- An increase of \$18.5 million attributable to the Acquisition Properties; and
- A decrease of \$7.9 million attributable to the Dispositions & Other Properties primarily due to the following:
 - \$5.0 million of other property income received in 2016 relating to a property damage settlement; and
 - \$2.9 million of lower Net Operating Income primarily due dispositions that occurred in the third quarter of 2017.

Other Expenses and Income

General and Administrative Expenses

General and administrative expenses increased by approximately \$3.6 million, or 6.2%, for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily due to the following:

- An increase of approximately \$2.3 million related to higher payroll costs and office expenses related to the growth of the company; and
- An increase of \$1.3 million attributable to compensation expense related to the mark-to-market adjustment for the Company's deferred compensation plan. The compensation expense was offset by gains on the underlying marketable securities included in interest income and other net investment gains in the consolidated statements of operations.

Depreciation and Amortization

Depreciation and amortization increased by approximately \$28.7 million, or 13.2%, for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to the following:

- An increase of \$3.9 million attributable to the Same Store Properties;
- An increase of \$9.7 million attributable to the Stabilized Development Properties;
- An increase of \$18.0 million attributable to the Acquisition Properties; partially offset by
- A decrease of \$2.9 million attributable to the Dispositions & Other Properties.

Interest Expense

The following table sets forth our gross interest expense, including debt discounts/premiums and deferred financing cost amortization and capitalized interest, including capitalized debt discounts/premiums and loan cost amortization for the years ended December 31, 2017 and 2016.

	Year Ended December 31,		Dollar Change	Percentage Change
	2017	2016		
	(\$ in thousands)			
Gross interest expense	\$ 112,577	\$ 105,263	\$ 7,314	6.9%
Capitalized interest and deferred financing costs	(46,537)	(49,460)	2,923	5.9
Interest expense	\$ 66,040	\$ 55,803	\$ 10,237	18.3%

Gross interest expense, before the effect of capitalized interest and deferred financing costs, increased \$7.3 million, or 6.9%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily due to an increase in the average outstanding debt balance for the year ended December 31, 2017. Our weighted average interest rate, including loan fee amortization, was 4.5% and 4.6% for the years ended December 31, 2017 and 2016, respectively.

Capitalized interest decreased \$2.9 million, or 5.9%, for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily attributable to a decrease in the average development asset balances qualifying for interest capitalization during 2017 as compared to 2016.

Loss on Early Extinguishment of Debt

In December 2017, we early redeemed the \$325.0 million aggregate principal amount of our outstanding 4.800% unsecured senior notes that were scheduled to mature on July 15, 2018. In connection with our early redemption, we incurred a loss on early extinguishment of debt of \$5.3 million which was comprised of \$5.0 million representing the premium paid to the note holders at the redemption date \$0.3 million for the write-off of unamortized discount and deferred financing costs.

Net income attributable to noncontrolling interests in consolidated property partnerships

Net income attributable to noncontrolling interests in consolidated property partnerships increased \$9.4 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The amount reported for the years ended December 31, 2017 and 2016 are comprised of the noncontrolling interest's share of net income for 100 First Member, LLC ("100 First LLC") and 303 Second Street Member, LLC ("303 Second LLC") for the period subsequent to the transaction closing dates on August 30, 2016 and November 30, 2016, respectively (see Note 11 "Noncontrolling Interests on the Company's Consolidated Financial Statements" to our consolidated financial statements included in this report for additional information), in addition to the noncontrolling interest's share of net income for Redwood LLC.

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Management evaluated Net Operating Income for the year ended December 31, 2016 compared to the year ended December 31, 2015 by evaluating the performance from the following property groups:

- Same Store Properties – includes the results of all of the office properties that were 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, 2015 and still owned and included in the stabilized portfolio as of December 31, 2016;
- Stabilized Development Properties – includes the results generated by the following:

- One office development project that was added to the stabilized portfolio in the fourth quarter of 2016;
 - Two office development projects that were completed and stabilized in March 2016; and
 - Two office development projects comprising four office buildings that were completed and stabilized in the fourth quarter of 2015;
- Acquisition Properties – includes the results, from the dates of acquisition through the periods presented, for the four office and three retail buildings we acquired in three transactions during 2016; and
 - 2016 Held for Sale, Dispositions, and Other Properties – includes the results of the six properties disposed of in 2016, the ten properties disposed of in 2015, one property held for sale at December 31, 2016, one office project in “lease-up” at December 31, 2016, the residential property completed in June 2016, and expenses for certain of our in-process, near-term and future development projects.

The following table sets forth certain information regarding the property groups within our stabilized portfolio as of December 31, 2016:

Group	# of Buildings	Rentable Square Feet
Same Store Properties	94	12,388,876
Stabilized Development and Redevelopment Properties	7	1,178,521
Acquisition Properties	7	458,459
Total Stabilized Portfolio	<u>108</u>	<u>14,025,856</u>

The following tables summarize our Net Operating Income, as defined, for our total portfolio for the year ended December 31, 2016 and 2015.

	Year Ended December 31,		Dollar Change	Percentage Change
	2016	2015		
(\$ in thousands)				
Reconciliation of Net Income Available to Common Stockholders to Net Operating Income, as defined:				
Net Income Available to Common Stockholders	\$ 280,538	\$ 220,831	\$ 59,707	27.0 %
Preferred dividends	13,250	13,250	—	—
Net income attributable to Kilroy Realty Corporation	293,788	234,081	59,707	25.5
Net income attributable to noncontrolling common units of the Operating Partnership	6,635	4,339	2,296	52.9
Net income attributable to noncontrolling interests in consolidated property partnerships	3,375	184	3,191	1,734.2
Net income	<u>\$ 303,798</u>	<u>\$ 238,604</u>	<u>\$ 65,194</u>	<u>27.3 %</u>
Unallocated expense (income):				
General and administrative expenses	57,029	48,265	8,764	18.2
Acquisition-related expenses	1,902	497	1,405	282.7
Depreciation and amortization	217,234	204,294	12,940	6.3
Interest income and other net investment (gains) losses	(1,764)	(243)	(1,521)	625.9
Interest expense	55,803	57,682	(1,879)	(3.3)
Net loss (gain) on sales of land	295	(17,116)	17,411	(101.7)
Gains on sales of depreciable operating properties	(164,302)	(109,950)	(54,352)	49.4
Net Operating Income, as defined	<u>\$ 469,995</u>	<u>\$ 422,033</u>	<u>\$ 47,962</u>	<u>11.4 %</u>

The following tables summarize our Net Operating Income, as defined, for our total portfolio for the year ended December 31, 2016 and 2015.

	Year Ended December 31,									
	2016					2015				
	Same Store	Stabilized Development	Acquisitions	2016 Held for Sale Dispositions & Other	Total	Same Store	Stabilized Development	Acquisitions	2016 Held for Sale Dispositions & Other	Total
	(in thousands)					(in thousands)				
Operating revenues:										
Rental income	\$ 502,606	\$ 59,779	\$ 4,250	\$ 7,778	\$ 574,413	\$ 486,905	\$ 7,173	\$ —	\$ 31,277	\$ 525,355
Tenant reimbursements	47,641	12,099	922	417	61,079	48,305	324	—	5,145	53,774
Other property income	1,915	22	53	5,090	7,080	1,958	3	—	185	2,146
Total	552,162	71,900	5,225	13,285	642,572	537,168	7,500	—	36,607	581,275
Property and related expenses:										
Property expenses	98,649	7,413	477	7,393	113,932	100,045	617	—	4,716	105,378
Real estate taxes	44,591	7,534	446	2,635	55,206	45,500	642	—	4,081	50,223
Provision for bad debts	(179)	116	51	12	—	598	—	—	(53)	545
Ground leases	3,356	—	83	—	3,439	3,096	—	—	—	3,096
Total	146,417	15,063	1,057	10,040	172,577	149,239	1,259	—	8,744	159,242
Net Operating Income, as defined	\$ 405,745	\$ 56,837	\$ 4,168	\$ 3,245	\$ 469,995	\$ 387,929	\$ 6,241	\$ —	\$ 27,863	\$ 422,033

	Year Ended December 31, 2016 as compared to the Year Ended December 31, 2015									
	Same Store		Stabilized Development		Acquisitions		2016 Held for Sale, Dispositions & Other		Total	
	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change
	(\$ in thousands)									
Operating revenues:										
Rental income	\$ 15,701	3.2 %	\$ 52,606	733.4%	\$ 4,250	100.0%	\$ (23,499)	(75.1)%	\$ 49,058	9.3 %
Tenant reimbursements	(664)	(1.4)	11,775	NM*	922	100.0	(4,728)	(91.9)	7,305	13.6
Other property income	(43)	(2.2)	19	633.3	53	100.0	4,905	NM*	4,934	229.9
Total	14,994	2.8	64,400	858.7	5,225	100.0	(23,322)	(63.7)	61,297	10.5
Property and related expenses:										
Property expenses	(1,396)	(1.4)	6,796	NM*	477	100.0	2,677	56.8	8,554	8.1
Real estate taxes	(909)	(2.0)	6,892	NM*	446	100.0	(1,446)	(35.4)	4,983	9.9
Provision for bad debts	(777)	(129.9)	116	100.0	51	100.0	65	(122.6)	(545)	(100.0)
Ground leases	260	8.4	—	—	83	100.0	—	—	343	11.1
Total	(2,822)	(1.9)	13,804	NM*	1,057	100.0	1,296	14.8	13,335	8.4
Net Operating Income, as defined	\$ 17,816	4.6 %	\$ 50,596	810.7%	\$ 4,168	100.0%	\$ (24,618)	(88.4)%	\$ 47,962	11.4 %

* Percentage not meaningful

Net Operating Income increased \$48.0 million, or 11.4%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015 primarily resulting from:

- An increase of \$17.8 million attributable to the Same Store Properties primarily resulting from:
 - An increase in rental income of \$15.7 million primarily due to the following:
 - \$14.0 million increase due to new leases at higher rates and increased occupancy;
 - \$0.9 million increase due to amortization of tenant-funded tenant improvements revenue; and

- \$0.8 million increase in parking income resulting from increased occupancy and rates at certain of our buildings;
- A partially offsetting decrease in tenant reimbursements of \$0.7 million primarily due to:
 - \$2.1 million decrease due to reduced supplemental property taxes at three development properties;
 - \$0.5 million decrease due to base year resets and adjustments for a number of tenants across the portfolio;
 - \$1.4 million increase due to higher expenses at certain properties; and
 - \$0.5 million increase due to lower abatements;
- A decrease in property and related expenses of \$2.8 million primarily resulting from:
 - A decrease of \$1.4 million in property expenses primarily resulting from:
 - A \$1.0 million decrease in certain recurring operating costs related to electricity, insurance, repairs and maintenance, and various other reimbursable expenses; and
 - A decrease of \$0.4 million due to a \$1.0 million decrease in non-recurring expenses as compared to the prior year, offset by the impact of \$0.6 million of property damage insurance proceeds received in 2015;
 - A decrease of \$0.9 million in real estate taxes primarily due to:
 - A \$3.1 million decrease in supplemental taxes primarily at three properties that we developed and stabilized in 2014 resulting from lower assessed values than previously estimated and successful appeals; partially offset by
 - \$2.2 million due to higher refunds received in 2015 as a result of successful property tax appeals;
 - A decrease of \$0.8 million in provision for bad debts due to the evaluation of reserves at the end of each period; and
 - An increase of \$0.3 million in ground rent primarily due to higher percentage rent as a result of one property that became fully leased in 2016;
- An increase of \$50.6 million attributable to the Stabilized Development Properties;
- An increase of \$4.2 million attributable to the Acquisition Properties; and
- A decrease of \$24.6 million attributable to the 2016 Held for Sale, Dispositions & Other Properties primarily due to the following:
 - A net decrease of \$28.4 million due to the sale of six buildings during the year ended December 31, 2016, the sale of ten buildings during the year ended December 31, 2015 and the one property held for sale as of December 31, 2016, partially offset by \$5.0 million due to a property damage settlement received in 2017 for a property that was disposed of in 2016;
 - A net decrease of \$4.0 million attributable to the residential property that was completed in June 2016, consisting of \$2.1 million in rental income offset by \$6.1 million in property expenses given that the residential property is still in the early stages of operations; offset by

- An increase of \$2.8 million attributable to our one property in “lease-up” at December 31, 2016.

Other Expenses and Income

General and Administrative Expenses

General and administrative expenses increased by approximately \$8.8 million, or 18.2%, for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to the following:

- An increase of \$5.4 million attributable to share-based compensation expense related to the 2016 restricted stock unit grants;
- An increase of approximately \$1.7 million related to higher payroll costs and office expenses related to the growth of the company; and
- An increase of \$0.8 million attributable to compensation expense related to the mark-to-market adjustment for the Company’s deferred compensation plan. The compensation expense was offset by gains on the underlying marketable securities included in interest income and other net investment gains (losses) in the consolidated statements of operations.

Depreciation and Amortization

Depreciation and amortization increased by approximately \$12.9 million, or 6.3%, for the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to the following:

- An increase of \$13.7 million attributable to the Stabilized Development Properties;
- An increase of \$2.8 million attributable to the Same Store Properties;
- An increase of \$2.2 million attributable to the Acquisition Properties; partially offset by
- A decrease of \$5.8 million attributable to the 2016 Held for Sale, Dispositions & Other Properties.

Interest Expense

The following table sets forth our gross interest expense, including debt discounts/premiums and deferred financing cost amortization and, net of capitalized interest, including capitalized debt discounts/premiums and deferred financing cost amortization for the year ended December 31, 2016 and 2015.

	<u>Year Ended December 31,</u>		<u>Dollar Change</u>	<u>Percentage Change</u>
	<u>2016</u>	<u>2015</u>		
	(\$ in thousands)			
Gross interest expense	\$ 105,263	\$ 109,647	\$ (4,384)	(4.0)%
Capitalized interest and deferred financing costs	(49,460)	(51,965)	2,505	(4.8)
Interest expense	<u>\$ 55,803</u>	<u>\$ 57,682</u>	<u>\$ (1,879)</u>	<u>(3.3)%</u>

Gross interest expense, before the effect of capitalized interest and deferred financing costs, decreased \$4.4 million, or 4.0%, for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to a decrease in the average outstanding debt balance for the year ended December 31, 2016. Our weighted average interest rate, including loan fee amortization, was 4.6% for both years ended December 31, 2016 and 2015.

Capitalized interest decreased \$2.5 million, or 4.8%, for the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily attributable to the addition of three development projects to our stabilized

portfolio during 2016, resulting in lower average asset balances qualifying for interest capitalization during 2016 as compared to 2015.

Net income attributable to noncontrolling interests in consolidated property partnerships

Net income attributable to noncontrolling interests in consolidated property partnerships increased \$3.2 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The amount reported for the year ended December 31, 2016 is comprised of the noncontrolling interest's share of net income for 100 First LLC and 303 Second LLC for the period subsequent to the transaction closing dates on August 30, 2016 and November 30, 2016, respectively (see Note 11 "Noncontrolling Interests on the Company's Consolidated Financial Statements" to our consolidated financial statements included in this report for additional information), in addition to the noncontrolling interest's share of net income for Redwood LLC, which was added to the stabilized portfolio in the fourth quarter of 2015.

Liquidity and Capital Resources of the Company

In this “Liquidity and Capital Resources of the Company” section, the term the “Company” refers only to Kilroy Realty Corporation on an unconsolidated basis and excludes the Operating Partnership and all other subsidiaries.

The Company’s business is operated primarily through the Operating Partnership. Distributions from the Operating Partnership are the Company’s primary source of capital. The Company believes the Operating Partnership’s sources of working capital, specifically its cash flow from operations and borrowings available under its unsecured revolving credit facility and funds from its capital recycling program, including strategic ventures, are adequate for it to make its distribution payments to the Company and, in turn, for the Company to make its dividend payments to its common stockholders for the next twelve months. Cash flows from operating activities generated by the Operating Partnership for the year ended December 31, 2017 were sufficient to cover the Company’s payment of cash dividends to its stockholders. However, there can be no assurance that the Operating Partnership’s sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distributions to the Company. The unavailability of capital could adversely affect the Operating Partnership’s ability to make distributions to the Company, which would in turn, adversely affect the Company’s ability to pay cash dividends to its stockholders.

The Company is a well-known seasoned issuer and the Company and the Operating Partnership have an effective shelf registration statement that provides for the public offering and sale from time to time by the Company of its preferred stock, common stock, depository shares, warrants and guarantees of debt securities and by the Operating Partnership of its debt securities, in each case in unlimited amounts. The Company evaluates the capital markets on an ongoing basis for opportunities to raise capital, and, as circumstances warrant, the Company and the Operating Partnership may issue securities of all of these types in one or more offerings at any time and from time to time on an opportunistic basis, depending upon, among other things, market conditions, available pricing and capital needs. When the Company receives proceeds from the sales of its preferred or common stock, it generally contributes the net proceeds from those sales to the Operating Partnership in exchange for corresponding preferred or common partnership units of the Operating Partnership. The Operating Partnership may use these proceeds and proceeds from the sale of its debt securities to repay debt, including borrowings under its unsecured revolving credit facility, to develop new or existing properties, to make acquisitions of properties or portfolios of properties, or for general corporate purposes.

As the sole general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes, and the Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities and the revenues and expenses of the Company and the Operating Partnership are substantially the same on their respective financial statements. The section entitled “Liquidity and Capital Resources of the Operating Partnership” should be read in conjunction with this section to understand the liquidity and capital resources of the Company on a consolidated basis and how the Company is operated as a whole.

Distribution Requirements

The Company is required to distribute 90% of its taxable income (subject to certain adjustments and excluding net capital gains) on an annual basis to maintain qualification as a REIT for federal income tax purposes and is required to pay income tax at regular corporate rates to the extent it distributes less than 100% of its taxable income (including capital gains). As a result of these distribution requirements, the Operating Partnership cannot rely on retained earnings to fund its ongoing operations to the same extent as other companies whose parent companies are not REITs. In addition, the Company may be required to use borrowings under the Operating Partnership’s revolving credit facility, if necessary, to meet REIT distribution requirements and maintain its REIT status. The Company may also need to continue to raise capital in the equity markets to fund the Operating Partnership’s working capital needs, as well as potential developments of new or existing properties or acquisitions.

The Company intends to continue to make, but has not committed to make, regular quarterly cash distributions to common stockholders, and through the Operating Partnership, common unitholders from the Operating Partnership’s cash flow from operating activities. All such distributions are at the discretion of the Board of Directors. In 2017, the Company’s distributions exceeded 100% of its taxable income, resulting in a return of capital to its stockholders. As the Company intends to maintain distributions at a level sufficient to meet the REIT distribution requirements and

minimize its obligation to pay income and excise taxes, it will continue to evaluate whether the current levels of distribution are sufficient to do so for 2018. In addition, in the event the Company is unable to identify and complete the acquisition of suitable replacement properties to effect Section 1031 Exchanges or is unable to successfully complete Section 1031 Exchanges to defer some or all of the taxable gains related to property dispositions, the Company may elect to distribute a special dividend to its common stockholders and common unitholders in order to minimize income taxes on such gains. The Company considers market factors and its performance in addition to REIT requirements in determining its distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which is consistent with the Company's intention to maintain its qualification as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other governmental agency securities, certificates of deposit, and interest-bearing bank deposits.

On December 12, 2017, the Board of Directors declared a regular quarterly cash dividend of \$0.425 per share of common stock payable stockholders of record on December 29, 2017 and caused a \$0.425 per Operating Partnership unit cash distribution to be paid in respect of the Operating Partnership's common limited partnership interests, including those owned by the Company. The total cash quarterly dividends and distributions paid on January 12, 2018 were \$42.8 million.

On January 13, 2017, the Company and the Operating Partnership paid a special cash dividend and distribution, as applicable, of \$1.90 per share of common stock and common unit, as applicable, to stockholders and unitholders, as applicable, of record on December 30, 2016. This special cash dividend was in addition to the regular quarterly cash dividend of \$0.375 per share of common stock. The total amount of the regular quarterly cash dividend and the special cash dividend was approximately \$35.9 million and \$181.6 million, respectively.

Debt Covenants

The covenants contained within the unsecured revolving credit facility, unsecured term loan facility and Series A and B Notes generally prohibit the Company from paying dividends during an event of default in excess of an amount which results in distributions to us in an amount sufficient to permit us to pay dividends to our stockholders that we reasonably believe are necessary to (a) maintain our qualification as a REIT for federal and state income tax purposes and (b) avoid the payment of federal or state income or excise tax.

Capitalization

As of December 31, 2017, our total debt as a percentage of total market capitalization was 23.9%, which was calculated based on the closing price per share of the Company's common stock of \$74.65 on December 31, 2017 as shown in the following table:

	Shares/Units at December 31, 2017	Aggregate Principal Amount or \$ Value Equivalent	% of Total Market Capitalization
(\$ in thousands)			
Debt: ^{(1) (2)}			
Unsecured Senior Notes due 2020		\$ 250,000	2.5%
Unsecured Senior Notes due 2023		300,000	3.0
Unsecured Senior Notes due 2024		425,000	4.3
Unsecured Senior Notes due 2025		400,000	4.1
Unsecured Senior Notes due 2029		400,000	4.1
Unsecured Senior Notes Series A & B due 2027 & 2029		250,000	2.5
Secured debt		339,395	3.4
Total debt		2,364,395	23.9
Equity and Noncontrolling Interests in the Operating Partnership: ⁽³⁾			
Common limited partnership units outstanding ⁽³⁾	2,077,193	155,062	1.6
Shares of common stock outstanding ⁽⁴⁾	98,620,333	7,362,008	74.5
Total Equity and Noncontrolling Interests in the Operating Partnership		7,517,070	76.1
Total Market Capitalization		\$ 9,881,465	100.0%

(1) Represents gross aggregate principal amount due at maturity before the effect of the following at December 31, 2017: \$13.6 million of unamortized deferred financing costs, \$6.3 million of unamortized discounts for the unsecured senior notes and \$2.6 million of unamortized premiums for the secured debt.

(2) As of December 31, 2017, there were no outstanding balances on the unsecured revolving credit facility and the unsecured term loan facility. In January 2018, the Company borrowed \$75.0 million under the unsecured term loan facility. The Company intends to borrow the remaining \$75.0 million by July 2018.

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

(4) Value based on closing price per share of our common stock of \$74.65 as of December 31, 2017.

Liquidity and Capital Resources of the Operating Partnership

In this "Liquidity and Capital Resources of the Operating Partnership" section, the terms "we," "our," and "us" refer to the Operating Partnership or the Operating Partnership and the Company together, as the context requires.

General

Our primary liquidity sources and uses are as follows:

Liquidity Sources

- Net cash flow from operations;
- Borrowings under the Operating Partnership's unsecured revolving credit facility and term loan facility;
- Proceeds from our capital recycling program, including the disposition of nonstrategic assets and the formation of strategic ventures;
- Proceeds from additional secured or unsecured debt financings; and

- Proceeds from public or private issuance of debt or equity securities.

Liquidity Uses

- Development and redevelopment costs;
- Operating property or undeveloped land acquisitions;
- Property operating and corporate expenses;
- Capital expenditures, tenant improvement and leasing costs;
- Debt service and principal payments, including debt maturities;
- Distributions to common and preferred security holders;
- Repurchases and redemptions of outstanding common or preferred stock of the Company; and
- Outstanding debt repurchases, redemptions and repayments.

General Strategy

Our general strategy is to maintain a conservative balance sheet with a strong credit profile and to maintain a capital structure that allows for financial flexibility and diversification of capital resources. We manage our capital structure to reflect a long-term investment approach and utilize multiple sources of capital to meet our long-term capital requirements. We believe that our current projected liquidity requirements for the next twelve-month period, as set forth above under the caption “—Liquidity Uses,” will be satisfied using a combination of the liquidity sources listed above, although there can be no assurance in this regard. We believe our conservative leverage and staggered debt maturities provide us with financial flexibility and enhance our ability to obtain additional sources of liquidity if necessary, and, therefore, we are well-positioned to refinance or repay maturing debt and to pursue our strategy of seeking attractive acquisition opportunities, which we may finance, as necessary, with future public and private issuances of debt and equity securities.

2017 Capital and Financing Transactions

We continue to be active in the capital markets and our capital recycling program to finance our acquisition and development activity and our continued desire to extend our debt maturities. This was primarily a result of the following activity:

Capital Recycling Program

- During the year ended December 31, 2017, we completed the sale of eleven office buildings and one undeveloped land parcel to unaffiliated third parties for gross sales proceeds totaling approximately \$186.6 million.

Capital Markets / Debt Transactions

- In 2017, we raised approximately \$764.8 million in new equity and debt, redeemed approximately \$689.0 million in more expensive debt and preferred stock, and expanded our unsecured credit facility and unsecured term loan facility to \$900.0 million. Refer to our 2017 Financing Highlights in “—Overview and Background” for a list of financing transactions completed in 2017 and Notes 9 and 13, “Secured and Unsecured Debt of the Operating Partnership” and “Stockholders’ Equity of the Company,” respectively, to our consolidated financial statements included in this report for additional information regarding our debt and capital market activity.

Liquidity Sources

Unsecured Revolving Credit Facility and Term Loan Facility

The following table summarizes the balance and terms of our unsecured revolving credit facility as of December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	(in thousands)			
Outstanding borrowings	\$	—	\$	—
Remaining borrowing capacity		750,000		600,000
Total borrowing capacity ⁽¹⁾	\$	750,000	\$	600,000
Interest rate ⁽²⁾		2.56%		1.82%
Facility fee-annual rate ⁽³⁾		0.200%		
Maturity date		July 2022		July 2019

(1) As of December 31, 2017, we may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$600.0 million under an accordion feature under the terms of the unsecured revolving credit facility and unsecured term loan facility. As of December 31, 2016, we had the option to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$311.0 million under an accordion feature under the terms of the unsecured revolving credit facility and unsecured term loan facility.

(2) Our unsecured revolving credit facility interest rate was calculated based on an annual rate of LIBOR plus 1.000% and LIBOR plus 1.050% as of December 31, 2017 and December 31, 2016, respectively.

(3) Our facility fee is paid on a quarterly basis and is calculated based on the total borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of December 31, 2017 and 2016, \$6.0 million and \$3.3 million of unamortized deferred financing costs, respectively, which are included in prepaid expenses and other assets, net on our consolidated balance sheets, remained to be amortized through the respective maturity dates of our unsecured revolving credit facility.

We intend to borrow under the unsecured revolving credit facility as necessary for general corporate purposes, to finance development and redevelopment expenditures, to fund potential acquisitions and to potentially repay long-term debt.

The following table summarizes the balance and terms of our unsecured term loan facility as of December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	(in thousands)			
Outstanding borrowings ⁽¹⁾	\$	—	\$	150,000
Remaining borrowing capacity		150,000		—
Total borrowing capacity ⁽²⁾	\$	150,000	\$	150,000
Interest rate ⁽³⁾		2.66%		1.85%
Undrawn facility fee-annual rate ⁽⁴⁾		0.200%		—%
Maturity date		July 2022		July 2019

(1) In July 2017, the unsecured term loan facility was paid down and the Facility was amended to include a 12-month delayed draw option (subject to a specified reduction in commitments unless 50% drawn within six months) on the unsecured term loan facility. The Company may draw on the unsecured term loan facility through July 2018, at which time the outstanding balance will become the balance of the unsecured term loan facility and no additional draws may be made. In January 2018, the Company borrowed \$75.0 million under the unsecured term loan facility.

(2) As of December 31, 2017 and December 31, 2016, \$1.2 million and \$0.7 million of unamortized deferred financing costs, respectively, remained to be amortized through the maturity date of our unsecured term loan facility.

(3) Our unsecured term loan facility interest rate was calculated based on an annual rate of LIBOR plus 1.100% and LIBOR plus 1.150% as of December 31, 2017 and December 31, 2016, respectively.

(4) In July 2017, the Facility was amended to include a facility fee on the remaining borrowing capacity of the unsecured term loan facility.

Additionally, as of December 31, 2016 the Operating Partnership had a \$39.0 million unsecured term loan outstanding with an annual interest rate of LIBOR plus 1.150% that was to mature in July 2019. Concurrently with the amendment of the Facility, the Operating Partnership repaid its \$39.0 million unsecured term loan. As of December 31, 2016, \$0.2 million of unamortized deferred financing costs remained to be amortized through the maturity date of our unsecured term loan.

Capital Recycling Program

In connection with our capital recycling strategy, through December 31, 2017, we completed the sale of eleven properties and one undeveloped land parcel located in San Diego, California to unaffiliated third parties for gross sales proceeds totaling approximately \$186.6 million. During 2016, we completed the sale of six office properties and five undeveloped land parcels to unaffiliated third parties for total gross sales proceeds of \$330.7 million. See “—Factors that May Influence Future Operations” and Note 4 “Dispositions and Real Estate Held for Sale” to our consolidated financial statements included in this report for additional information.

In addition, in the second half of 2016, the Company entered into agreements with NBREM whereby NBREM invested in two existing previously wholly-owned companies that owned two office properties located in San Francisco, California. Based on a gross valuation of the two properties of approximately \$1.2 billion, NBREM contributed a total of \$452.9 million for a 44% common equity interest in the two companies, which was net of its proportionate share of the existing mortgage debt secured by the property.

We currently anticipate that in 2018 we could raise additional capital through our dispositions program ranging from approximately \$250 million to \$750 million, with a midpoint of \$500 million. However, any potential future disposition transactions will depend on market conditions and other factors including but not limited to our capital needs and our ability to defer some or all of the taxable gains on the sales. In addition, we cannot assure you that we will dispose of any additional properties or that we will be able to identify and complete the acquisition of suitable replacement properties to effect Section 1031 Exchanges to defer some or all of the taxable capital gains related to our capital recycling program.

At-The-Market Stock Offering Program

Since commencement of our at-the-market stock offering program in December 2014, through December 31, 2017, we have sold 2,694,242 shares of common stock having an aggregate gross sales price of \$200.1 million and approximately \$99.9 million remained available to be sold under this program. The following table sets forth information regarding sales of our common stock under our at-the-market offering program for the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	2016
	(in millions, except share and per share data)	
Shares of common stock sold during the year	235,077	451,398
Weighted average price per share of common stock	\$ 75.40	\$ 71.50
Aggregate gross proceeds	\$ 17.7	\$ 32.3
Aggregate net proceeds after selling commissions	\$ 17.5	\$ 31.9

The proceeds from sales were used to fund development expenditures, acquisitions, and general corporate purposes, including repayment of borrowings under the unsecured revolving credit facility. Actual future sales will depend upon a variety of factors, including, but not limited to market conditions, the trading price of the Company’s common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under this program.

January 2017 Common Stock Offering

In January 2017, the Company completed an underwritten public offering of 4,427,500 shares of its common stock. The net offering proceeds, after deducting underwriting discounts and offering expenses, were approximately \$308.8

million. We used the proceeds to partially fund our 2016 special dividend, for general corporate uses, to fund development expenditures and to repay outstanding indebtedness.

Shelf Registration Statement

As discussed above under “—Liquidity and Capital Resources of the Company,” the Company is a well-known seasoned issuer and the Company and the Operating Partnership have an effective shelf registration statement that provides for the public offering and sale from time to time by the Company of its preferred stock, common stock, depository shares and guarantees of debt securities and by the Operating Partnership of its debt securities, in each case in unlimited amounts. The Company evaluates the capital markets on an ongoing basis for opportunities to raise capital, and, as circumstances warrant, the Company and the Operating Partnership may issue securities of all of these types in one or more offerings at any time and from time to time on an opportunistic basis, depending upon, among other things, market conditions, available pricing and capital needs. When the Company receives proceeds from the sales of its preferred or common stock, it generally contributes the net proceeds from those sales to the Operating Partnership in exchange for corresponding preferred or common partnership units of the Operating Partnership. The Operating Partnership may use these proceeds and proceeds from the sale of its debt securities to repay debt, including borrowings under its unsecured revolving credit facility, to develop new or existing properties, to make acquisitions of properties or portfolios of properties, or for general corporate purposes.

Unsecured Senior Notes - Private Placement

On February 17, 2017, the Operating Partnership issued the Series A and B Notes in a private placement pursuant to a delayed draw option under a Note Purchase Agreement entered into by the Operating Partnership on September 14, 2016. As of December 31, 2017, there was \$175.0 million and \$75.0 million issued and outstanding aggregate principal amount of Series A and B Notes, respectively. The Series A Notes mature on February 17, 2027, and the Series B Notes mature on February 17, 2029, in each case unless earlier redeemed or prepaid pursuant to the terms of the Note Purchase Agreement. Interest on the Series A and B Notes is payable semi-annually in arrears on February 17 and August 17 of each year.

Unsecured and Secured Debt

The aggregate principal amount of the unsecured and secured debt of the Operating Partnership outstanding as of December 31, 2017 was as follows:

	Aggregate Principal Amount Outstanding ⁽¹⁾	
	(in thousands)	
Unsecured Senior Notes due 2020	\$	250,000
Unsecured Senior Notes due 2023		300,000
Unsecured Senior Notes due 2024		425,000
Unsecured Senior Notes due 2025		400,000
Unsecured Senior Notes due 2029		400,000
Unsecured Senior Notes Series A & B due 2027 & 2029		250,000
Secured Debt		339,395
Total Unsecured and Secured Debt		2,364,395
Less: Unamortized Net Discounts and Deferred Financing Costs		(17,332)
Total Debt, Net	\$	2,347,063

(1) As of December 31, 2017, there were no outstanding balances on both the unsecured revolving credit facility and the unsecured term loan facility. In January 2018, the Company borrowed \$75.0 million under the unsecured term loan facility. The Company currently intends to borrow the remaining \$75.0 million by July 2018.

Debt Composition

The composition of the Operating Partnership's aggregate debt balances between secured and unsecured and fixed-rate and variable-rate debt as of December 31, 2017 and 2016 was as follows:

	Percentage of Total Debt ⁽¹⁾		Weighted Average Interest Rate ⁽¹⁾	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Secured vs. unsecured:				
Unsecured ⁽²⁾	85.6%	79.9%	4.2%	4.4%
Secured	14.4%	20.1	4.4%	4.4%
Variable-rate vs. fixed-rate:				
Variable-rate ⁽³⁾	—%	8.1	—%	1.8%
Fixed-rate ⁽²⁾	100.0%	91.9	4.2%	4.6%
Stated rate ⁽²⁾			4.2%	4.4%
GAAP effective rate ⁽⁴⁾			4.2%	4.3%
GAAP effective rate including debt issuance costs			4.4%	4.5%

(1) As of the end of the period presented.

(2) Excludes the impact of the amortization of any debt discounts/premiums and deferred financing costs

(3) As of December 31, 2017, there were no outstanding balances on both the unsecured revolving credit facility and the unsecured term loan facility.

(4) Includes the impact of the amortization of any debt discounts/premiums, excluding deferred financing costs.

Liquidity Uses

Contractual Obligations

The following table provides information with respect to our contractual obligations as of December 31, 2017. The table: (i) indicates the maturities and scheduled principal repayments of our secured and unsecured debt outstanding as of December 31, 2017; (ii) indicates the scheduled interest payments of our fixed-rate debt as of December 31, 2017; (iii) provides information about the minimum commitments due in connection with our ground lease obligations and other lease and contractual commitments; and (iv) provides estimated development commitments as of December 31, 2017. Note that the table does not reflect our available debt maturity extension options and reflects gross aggregate principal amounts before the effect of unamortized discounts/premiums. We did not have any variable-rate debt outstanding as of December 31, 2017.

	Payment Due by Period				Total
	Less than 1 Year (2018)	2-3 Years (2019-2020)	4-5 Years (2021-2022)	More than 5 Years (After 2022)	
	(in thousands)				
Principal payments: secured debt ⁽¹⁾	\$ 3,584	\$ 81,446	\$ 10,896	\$ 243,469	\$ 339,395
Principal payments: unsecured debt ⁽²⁾	—	250,000	—	1,775,000	2,025,000
Interest payments: fixed-rate debt ⁽³⁾	100,333	183,443	157,342	267,102	708,220
Ground lease obligations ⁽⁴⁾	4,957	9,914	9,914	226,633	251,418
Lease and other contractual commitments ⁽⁵⁾	110,314	10,673	148	—	121,135
Development commitments ⁽⁶⁾	312,000	263,000	—	—	575,000
Total	\$ 531,188	\$ 798,476	\$ 178,300	\$ 2,512,204	\$ 4,020,168

(1) Represents gross aggregate principal amount before the effect of the unamortized premium and deferred financing costs of approximately \$2.6 million and \$1.2 million as of December 31, 2017.

(2) Represents gross aggregate principal amount before the effect of the unamortized discount and deferred financing costs of approximately \$6.3 million and \$12.5 million as of December 31, 2017.

(3) As of December 31, 2017, 100.0% of our debt was contractually fixed. The information in the table above reflects our projected interest rate obligations for these fixed-rate payments based on the contractual interest rates on an accrual basis and scheduled maturity dates.

(4) Reflects minimum lease payments through the contractual lease expiration date before the impact of extension options. See Note 18 “Commitment and Contingencies” to our consolidated financial statements included in this report for further information.

(5) Amounts represent cash commitments under signed leases and contracts for operating properties, excluding tenant-funded tenant improvements, and for other contractual commitments. The timing of these expenditures may fluctuate.

(6) Amounts represent commitments under signed leases for pre-leased development projects and contractual commitments for projects under construction, as of December 31, 2017, and also includes \$15.0 million for three recently completed office projects. The timing of these expenditures may fluctuate based on the ultimate progress of construction. We may start additional construction in 2018 (see “—Development” for additional information).

Other Liquidity Uses

Development

As of December 31, 2017, we had four development projects under construction. These projects have a total estimated investment of approximately \$1.5 billion, of which we have incurred approximately \$801.3 million and committed an additional \$560.0 million. We expect we will incur additional tenant improvement costs based on leasing activity. Additionally, as of December 31, 2017, we have approximately \$15.0 million in remaining trailing development and leasing costs for recently completed development projects. Furthermore, we currently believe we may spend up to an additional \$100 - \$300 million on potential near-term and future development pipeline projects that we expect we may commence construction on throughout 2018. Ultimate timing of these expenditures may fluctuate given construction progress and leasing status of the projects. We expect that any material additional development activities will be funded with borrowings under the unsecured revolving credit facility, the public or private issuance of debt or equity securities or the disposition of assets under our capital recycling program.

6.875% Series G and 6.375% Series H Cumulative Redeemable Preferred Stock

On March 30, 2017, the Company redeemed all 4,000,000 shares of its Series G Preferred Stock. The shares of Series G Preferred Stock were redeemed at a redemption price of \$25.00 per share plus accumulated and unpaid dividends for a total cash outflow totaling approximately \$100.8 million. We have no further distribution requirements with respect to the Series G Preferred Stock. In connection with the redemption of the Series G Preferred Stock, we incurred an associated non-cash charge of \$3.8 million as a reduction to net income available to common stockholders for the related original issuance costs. On August 15, 2017, the Company redeemed all 4,000,000 shares of its Series H Preferred Stock. The shares of Series H Preferred Stock were redeemed at a redemption price of \$25.00 per share for a total cash outflow of \$100.0 million. We have no further distribution requirements with respect to the Series H Preferred Stock. In connection with the redemption of the Series H Preferred Stock, we incurred an associated non-cash charge of \$3.7 million as a reduction to net income available to common stockholders for the related original issuance costs.

Debt Maturities

We believe our conservative leverage and staggered debt maturities provide us with financial flexibility and enhance our ability to obtain additional sources of liquidity if necessary, and, therefore, we believe we are well-positioned to refinance or repay maturing debt and to pursue our strategy of seeking attractive acquisition opportunities, which we may finance, as necessary, with future public and private issuances of debt and equity securities. However, we can provide no assurance that we will have access to the public or private debt or equity markets in the future on favorable terms or at all. Our next debt maturity with a balance of \$76.3 million at December 31, 2017 occurs in June 2019.

Potential Future Acquisitions

During the year ended December 31, 2017, we acquired a 1.2 acre development site in the Little Italy neighborhood of San Diego, California for \$19.4 million in cash. During 2016, we acquired seven office & retail buildings and a 1.75 acre development site for a total purchase price of approximately \$476.0 million. These transactions were funded through various capital raising activities and, in selected instances, the assumption of existing indebtedness and issuance of common stock.

As discussed in the section “—Factors That May Influence Future Results of Operations - Acquisitions,” we continue to evaluate strategic opportunities and remain a disciplined buyer of development and redevelopment opportunities as well as value-add operating properties, dependent on market conditions and business cycles, among other factors. We continue to focus on growth opportunities in West Coast markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, life sciences, entertainment and professional services. Any material acquisitions will be funded with borrowings under the unsecured revolving credit facility, the public or private issuance of debt or equity securities, the disposition of assets under our capital recycling program, the formation of strategic ventures or through the assumption of existing debt. As of December 31, 2017, we had \$36.0 million of refundable acquisition deposits, subject to closing conditions required to be met by the sellers, for potential future acquisitions. We cannot provide assurance that we will enter into any agreements to acquire properties, or undeveloped land, or that the potential acquisitions contemplated by any agreements we may enter into in the future will be completed.

Share Repurchases

On February 23, 2016, the Company’s Board of Directors approved a 4,000,000 share increase to the Company’s existing share repurchase program bringing the total current repurchase authorization to 4,988,025 shares. As of December 31, 2017, 4,935,826 shares remain eligible for repurchase under the Company’s share repurchase program. Under this program, repurchases may be made in open market transactions at prevailing prices or through privately negotiated transactions. We may elect to repurchase shares of our common stock under this program in the future depending upon various factors, including market conditions, the trading price of our common stock and our other uses of capital. This program does not have a termination date, and repurchases may be discontinued at any time. We intend to fund repurchases, if any, primarily with the proceeds from property dispositions.

Potential Future Leasing Costs and Capital Improvements

The amounts we incur for tenant improvements and leasing costs depend on leasing activity in each period. Tenant improvements and leasing costs generally fluctuate in any given period depending on factors such as the type and condition of the property, the term of the lease, the type of the lease, the involvement of external leasing agents and overall market conditions. Capital expenditures may fluctuate in any given period subject to the nature, extent and timing of improvements required to maintain our properties.

For properties within our stabilized portfolio, excluding our development properties, we believe we could spend approximately \$60.0 million to \$80.0 million in capital improvements, tenant improvements and leasing costs in 2018, in addition to the lease and contractual commitments included in our contractual obligations table above. The amount we ultimately spend will depend on leasing activity during 2018.

The following table sets forth our historical actual capital expenditures, and tenant improvements and leasing costs for deals commenced, excluding tenant-funded tenant improvements, for renewed and re-tenanted space within our stabilized portfolio for each of the years ended December 31, 2017, 2016 and 2015 on a per square foot basis.

	Year Ended December 31,		
	2017	2016	2015
Office Properties:⁽¹⁾			
Capital Expenditures:			
Capital expenditures per square foot	\$ 1.18	\$ 1.58	\$ 1.23
Tenant Improvement and Leasing Costs ⁽²⁾			
Replacement tenant square feet ⁽³⁾	825,653	583,461	797,560
Tenant improvements per square foot commenced	\$ 55.10	\$ 40.98	\$ 42.25
Leasing commissions per square foot commenced	\$ 16.36	\$ 14.30	\$ 14.53
Total per square foot	\$ 71.46	\$ 55.28	\$ 56.78
Renewal tenant square feet	944,865	476,011	627,783
Tenant improvements per square foot commenced	\$ 21.66	\$ 10.66	\$ 18.44
Leasing commissions per square foot commenced	\$ 6.80	\$ 7.90	\$ 9.36
Total per square foot	\$ 28.46	\$ 18.56	\$ 27.80
Total per square foot per year	\$ 8.09	\$ 7.05	\$ 7.34
Average remaining lease term (in years)	6.0	5.5	6.0

(1) Excludes development properties and includes 100% of consolidated property partnerships.

(2) Includes tenants with lease terms of 12 months or longer. Excludes leases for month-to-month and first generation tenants.

(3) Excludes leases for which the space was vacant for longer than one year, or vacant when the property was acquired by the Company.

Capital expenditures per square foot decreased in 2017 as compared to 2016 due to a decrease in general building improvements during 2017. We currently anticipate capital expenditures for 2018 to be more consistent with 2016 levels. Replacement tenant improvements and leasing commissions increased in 2017 as compared to 2016 and 2015 primarily due to the number of large leases commenced and related higher replacement costs in 2017. Renewal tenant improvements per square foot increased in 2017 as compared to 2016 primarily due to one lease for 140,591 rentable square feet in the San Diego submarket during 2017. Excluding this specific lease, renewal tenant improvements per square foot were \$10.43 for the year ended December 31, 2017. We currently anticipate tenant improvement and leasing commissions for 2018 to be generally consistent with 2017 levels, however ultimate costs incurred will depend upon market conditions in each of our submarkets and actual leasing activity.

Distribution Requirements

For a discussion of our dividend and distribution requirements, see “Liquidity and Capital Resources of the Company —Distribution Requirements.”

Factors That May Influence Future Sources of Capital and Liquidity of the Company and the Operating Partnership

We continue to evaluate sources of financing for our business activities, including borrowings under the unsecured revolving credit facility, issuance of public and private equity securities, unsecured debt and fixed-rate secured mortgage financing, proceeds from the disposition of selective assets through our capital recycling program, and the formation of strategic ventures. However, our ability to obtain new financing or refinance existing borrowings on favorable terms could be impacted by various factors, including the state of the macro economy, the state of the credit and equity markets, significant tenant defaults, a decline in the demand for office properties, a decrease in market rental rates or market values of real estate assets in our submarkets, and the amount of our future borrowings. These events could result in the following:

- Decreases in our cash flows from operations, which could create further dependence on the unsecured revolving credit facility;
- An increase in the proportion of variable-rate debt, which could increase our sensitivity to interest rate fluctuations in the future; and
- A decrease in the value of our properties, which could have an adverse effect on the Operating Partnership's ability to incur additional debt, refinance existing debt at competitive rates, or comply with its existing debt obligations.

In addition to the factors noted above, the Operating Partnership's credit ratings are subject to ongoing evaluation by credit rating agencies and may be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. In the event that the Operating Partnership's credit ratings are downgraded, we may incur higher borrowing costs and may experience difficulty in obtaining additional financing or refinancing existing indebtedness.

Debt Covenants

The unsecured revolving credit facility, unsecured term loan facility, unsecured term loan, unsecured senior notes and certain other secured debt arrangements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Key existing financial covenants and their covenant levels include:

Unsecured Credit Facility and Unsecured Term Loan Facility (as defined in the applicable Credit Agreements) ⁽¹⁾ :	Covenant	Actual Performance as of December 31, 2017
Total debt to total asset value	less than 60%	25%
Fixed charge coverage ratio	greater than 1.5x	3.4x
Unsecured debt ratio	greater than 1.67x	3.90x
Unencumbered asset pool debt service coverage	greater than 1.75x	4.54x
Unsecured Senior Notes due 2020, 2023, 2024, 2025 and 2029 (as defined in the applicable Indentures):		
Total debt to total asset value	less than 60%	31%
Interest coverage	greater than 1.5x	7.2x
Secured debt to total asset value	less than 40%	4%
Unencumbered asset pool value to unsecured debt	greater than 150%	336%

(1) As of December 31, 2017, the covenant performance under the Unsecured Senior Notes Series A and B due 2027 and 2029 ("private placement notes"), was substantially similar to the Facility; however, the unsecured debt ratio under the private placement notes was 3.44x reflecting definitional differences on unencumbered value. The Operating Partnership was in compliance under the credit agreement of the private placement notes as of December 31, 2017.

The Operating Partnership was in compliance with all of its debt covenants as of December 31, 2017. Our current expectation is that the Operating Partnership will continue to meet the requirements of its debt covenants in both the short and long term. However, in the event of an economic slowdown or continued volatility in the credit markets, there is no certainty that the Operating Partnership will be able to continue to satisfy all the covenant requirements.

Consolidated Historical Cash Flow Summary

The following summary discussion of our consolidated historical cash flow is based on the consolidated statements of cash flows in Item 15. “Exhibits and Financial Statement Schedules” and is not meant to be an all-inclusive discussion of the changes in our cash flow for the periods presented below. Changes in our cash flow include changes in cash and cash equivalents and restricted cash. Our historical cash flow activity for the year ended December 31, 2017 as compared to the year ended December 31, 2016 is as follows:

	Year Ended December 31,		Dollar Change	Percentage Change
	2017	2016		
	(\$ in thousands)			
Net cash provided by operating activities	\$ 347,012	\$ 345,054	\$ 1,958	0.6 %
Net cash used in investing activities	(359,102)	(579,420)	220,318	(38.0)%
Net cash (used in) provided by financing activities	(171,241)	427,291	(598,532)	(140.1)%
Net (decrease) increase in cash and cash equivalents	\$ (183,331)	\$ 192,925	\$ (376,256)	(195.0)%

Operating Activities

Our cash flows from operating activities depends on numerous factors including the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants, the level of operating expenses, the impact of property acquisitions, completed development projects and related financing activities, and other general and administrative costs. Our net cash provided by operating activities increased by \$2.0 million, or 0.6%, for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily as a result of an increase in cash Net Operating Income generated from our Stabilized Development, Acquisition and Same Store Portfolios (see additional information under the caption “–Results of Operations”) offset by net changes in other assets and liabilities related to the timing of expenditures.

Investing Activities

Our cash flows from investing activities is generally used to fund development and operating property acquisitions, expenditures for development projects, and recurring and nonrecurring capital expenditures for our operating properties, net of proceeds received from dispositions of real estate assets. Our net cash used in investing activities decreased by \$220.3 million, or 38.0%, for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to significantly lower acquisition activity during the year ended December 31, 2017 as well as lower net proceeds received from dispositions during the year ended December 31, 2017 as compared to the year ended December 31, 2016.

Financing Activities

Our cash flows from financing activities is principally impacted by our capital raising activities, net of dividends and distributions paid to common and preferred security holders. During the year ended December 31, 2017 we had net cash used in financing activities of \$171.2 million compared to net cash provided by financing activities during the year ended December 31, 2016 of \$427.3 million primarily due to the redemption of the Company’s Series G Preferred Stock and Series H Preferred Stock and the January 2017 payment of the special dividend declared in December 2016, partially offset by proceeds from the January 2017 common stock offering.

Off-Balance Sheet Arrangements

As of December 31, 2017 and as of the date this report was filed, we did not have any off-balance sheet transactions, arrangements, or obligations, including contingent obligations.

Non-GAAP Supplemental Financial Measure: Funds From Operations

We calculate 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.

The following table presents our FFO for the years ended December 31, 2017, 2016, 2015, 2014 and 2013:

	Year ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Net income available to common stockholders	\$ 151,249	\$ 280,538	\$ 220,831	\$ 166,969	\$ 30,630
Adjustments:					
Net income attributable to noncontrolling common units of the Operating Partnership	3,223	6,635	4,339	3,589	685
Net income attributable to noncontrolling interests in consolidated property partnerships	12,780	3,375	184	—	—
Depreciation and amortization of real estate assets	241,862	213,156	201,480	202,108	199,558
Gains on sales of depreciable real estate	(39,507)	(164,302)	(109,950)	(121,922)	(12,252)
Funds From Operations attributable to noncontrolling interests in consolidated property partnerships	(22,820)	(5,660)	(272)	—	—
Funds From Operations ^{(1) (2)}	<u>\$ 346,787</u>	<u>\$ 333,742</u>	<u>\$ 316,612</u>	<u>\$ 250,744</u>	<u>\$ 218,621</u>

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

(2) FFO available to common stockholders and unitholders includes amortization of deferred revenue related to tenant-funded tenant improvements of \$16.8 million, \$13.2 million, \$13.3 million, \$11.0 million and \$10.7 million for the years ended December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

The following table presents our weighted average shares of common stock and common units outstanding for the years ended December 31, 2017, 2016, 2015, 2014 and 2013:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Weighted average shares of common stock outstanding	98,113,561	92,342,483	89,854,096	83,090,235	77,343,853
Weighted average common units outstanding	2,133,006	2,429,205	1,791,482	1,804,263	1,822,407
Effect of participating securities – nonvested shares and restricted stock units	1,196,044	1,139,669	1,170,571	1,228,807	1,224,208
Total basic weighted average shares / units outstanding	101,442,611	95,911,357	92,816,149	86,123,305	80,390,468
Effect of dilutive securities – Exchangeable Notes, stock options and contingently issuable shares	613,770	680,551	541,679	1,877,485	1,765,025
Total diluted weighted average shares / units outstanding	102,056,381	96,591,908	93,357,828	88,000,790	82,155,493

Inflation

The majority of the Company's leases require tenants to pay for recoveries and escalation charges based upon the tenant's proportionate share of, and/or increases in, real estate taxes and certain operating costs, which reduce the Company's exposure to increases in operating costs resulting from inflation.

New Accounting Pronouncements

For a discussion of new accounting pronouncements see Note 2 "Basis of Presentation and Significant Accounting Policies" to our consolidated financial statements included in this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk we face is interest rate risk. We seek to mitigate this risk by following established risk management policies and procedures. These policies include maintaining prudent amounts of debt, including a greater amount of fixed-rate debt as compared to variable-rate debt in our portfolio, and may include the periodic use of derivative instruments. As of December 31, 2017 and 2016, we did not have any interest-rate sensitive derivative assets or liabilities. Information about our changes in interest rate risk exposures from December 31, 2016 to December 31, 2017 is incorporated herein by reference from “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership.”

Market Risk

As of December 31, 2017, 100.0% of our total outstanding debt of \$2.4 billion (before the effects of debt discounts, premiums and deferred financing costs) bore interest at fixed rates since our only variable-rate debt instruments are our unsecured revolving credit facility and unsecured term loan facility, and both had no outstanding borrowings at December 31, 2017. All of our interest rate sensitive financial instruments are held for purposes other than trading purposes. In general, interest rate fluctuations applied to our variable-rate debt will impact our future earnings and cash flows. Conversely, interest rate fluctuations applied to our fixed-rate debt will generally not impact our future earnings and cash flows, unless such instruments mature or are otherwise terminated and need to be refinanced. However, interest rate fluctuations will impact the fair value of the fixed-rate debt instruments.

We generally determine the fair value of our secured debt, unsecured debt, and unsecured line of credit by performing discounted cash flow analyses using an appropriate market discount rate. We calculate the market rate by obtaining period-end treasury rates for maturities that correspond to the maturities of our fixed-rate debt and then adding an appropriate credit spread based on information obtained from third-party financial institutions. These credit spreads take into account factors, including but not limited to, our credit profile, the tenure of the debt, amortization period, whether the debt is secured or unsecured, and the loan-to-value ratio of the debt to the collateral. These calculations are significantly affected by the assumptions used, including the discount rate, credit spreads and estimates of future cash flow. We calculate the market rate of our unsecured line of credit and unsecured term loan facility by obtaining the period-end London Interbank Offered Rate (“LIBOR”) and then adding an appropriate credit spread based on our credit ratings, and the amended terms of our unsecured line of credit and unsecured term loan facility agreement. We determine the fair value of each of our publicly traded unsecured senior notes based on their quoted trading price at the end of the reporting period, if such prices are available. See Note 19 “Fair Value Measurements and Disclosures” and Note 2 “Basis of Presentation and Significant Accounting Policies” in the consolidated financial statements included in this report for additional information on the fair value of our financial assets and liabilities as of December 31, 2017 and December 31, 2016.

At December 31, 2017, there were no outstanding balances on both our \$750.0 million unsecured revolving credit facility and our \$150.0 million unsecured term loan facility, but both were available for borrowing at the following variable rates: LIBOR plus a spread of 1.00% (weighted average interest rate of 2.56%) and LIBOR plus a spread of 1.10% (weighted average interest rate of 2.66%), respectively. As of December 31, 2016, the total outstanding balance of our variable-rate debt was comprised of borrowings on our unsecured term loan facility and unsecured term loan, together which totaled \$189.0 million and were indexed to LIBOR plus a spread of 1.15% (weighted average interest rate of 1.85%). There were no borrowings on our unsecured line of credit facility as of December 31, 2016, which would have been indexed to LIBOR plus a spread of 1.05% (weighted average interest rate of 1.82%). Assuming no changes in the outstanding balance of our existing variable-rate debt as of December 31, 2016, a 100 basis point increase in the LIBOR rate would have increased our projected annual interest expense, before the effect of capitalization, by approximately \$1.9 million.

The total carrying value of our fixed-rate debt was approximately \$2.3 billion and \$2.1 billion as of December 31, 2017 and 2016, respectively. The total estimated fair value of our fixed-rate debt was approximately \$2.4 billion and \$2.2 billion as of December 31, 2017 and 2016, respectively. For sensitivity purposes, a 100 basis point increase in the discount rate equates to a decrease in the total fair value of our fixed-rate debt of approximately \$145.0 million, or 6.0%, as of December 31, 2017. Comparatively, a 100 basis point increase in the discount rate equates to a decrease in the total fair value of our fixed-rate debt of approximately \$114.7 million, or 5.3%, as of December 31, 2016.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index included at Item 15. "Exhibits and Financial Statement Schedules."

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Kilroy Realty Corporation

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is processed, recorded, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures as of December 31, 2017, the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes that occurred during the fourth quarter of the most recent year covered by this report in the Company's internal control over financial reporting identified in connection with the evaluation referenced above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. The Company has used the criteria set forth in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that internal control over financial reporting operated effectively as of December 31, 2017.

Deloitte & Touche LLP, the Company's independent registered public accounting firm, has audited the Company's financial statements and has issued a report on the effectiveness of the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Kilroy Realty Corporation
Los Angeles, California

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Kilroy Realty Corporation (the “Company”) as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2017, of the Company and our report dated February 12, 2018, expressed an unqualified opinion on those financial statements and financial statement schedules.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 12, 2018

Kilroy Realty, L.P.

The Operating Partnership maintains disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer of its general partner, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Operating Partnership carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of its general partner, of the effectiveness of the design and operation of the disclosure controls and procedures as of December 31, 2017, the end of the period covered by this report. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of its general partner concluded, as of that time, that the Operating Partnership's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes that occurred during the fourth quarter of the most recent year covered by this report in the Operating Partnership's internal control over financial reporting identified in connection with the evaluation referenced above that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer of the Operating Partnership's general partner and effected by the board of directors, management, and other personnel of its general partner to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. The Operating Partnership has used the criteria set forth in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that internal control over financial reporting operated effectively as of December 31, 2017.

Deloitte & Touche LLP, the Operating Partnership's independent registered public accounting firm, has audited the Operating Partnership's financial statements and has issued a report on the effectiveness of the Operating Partnership's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of
Kilroy Realty, L.P.
Los Angeles, California

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Kilroy Realty, L.P. (the “Operating Partnership”) as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Operating Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2017, of the Operating Partnership and our report dated February 12, 2018, expressed an unqualified opinion on those financial statements and financial statement schedules.

Basis for Opinion

The Operating Partnership’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Operating Partnership’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Operating Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 12, 2018

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2018.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2018.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2018.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) *Financial Statements and Schedules*

The following consolidated financial information is included as a separate section of this annual report on Form 10-K:

Report of Independent Registered Public Accounting Firm – Kilroy Realty Corporation	F - 2
Consolidated Balance Sheets as of December 31, 2017 and 2016 – Kilroy Realty Corporation	F - 3
Consolidated Statements of Operations for the Years ended December 31, 2017, 2016 and 2015 – Kilroy Realty Corporation	F - 4
Consolidated Statements of Equity for the Years ended December 31, 2017, 2016 and 2015 – Kilroy Realty Corporation	F - 5
Consolidated Statements of Cash Flows for the Years ended December 31, 2017, 2016 and 2015 – Kilroy Realty Corporation	F - 6
Report of Independent Registered Public Accounting Firm – Kilroy Realty, L.P.	F - 7
Consolidated Balance Sheets as of December 31, 2017 and 2016 – Kilroy Realty, L.P.	F - 8
Consolidated Statements of Operations for the Years ended December 31, 2017, 2016 and 2015 – Kilroy Realty, L.P.	F - 9
Consolidated Statements of Capital for the Years ended December 31, 2017, 2016 and 2015 – Kilroy Realty, L.P.	F - 10
Consolidated Statements of Cash Flows for the Years ended December 31, 2017, 2016 and 2015 – Kilroy Realty, L.P.	F - 11
Notes to Consolidated Financial Statements	F - 12
Schedule II – Valuation and Qualifying Accounts	F - 63
Schedule III – Real Estate and Accumulated Depreciation	F - 64

All other schedules are omitted because the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements and notes thereto.

(3) *Exhibits*

Exhibit Number	Description
3.(i)1	Kilroy Realty Corporation Articles of Restatement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2012)
3.(i)2	Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
3.(i)3	Amendment to the Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
3.(i)4	Articles Supplementary reclassifying shares of the Series G Preferred Stock of the Company (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 23, 2017)
3.(i)5	Articles Supplementary reclassifying shares of the Series H Preferred Stock of the Company (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 23, 2017)
3.(ii)1	Fifth Amended and Restated Bylaws of Kilroy Realty Corporation (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 1, 2017)

Exhibit Number	Description
3.(ii)2	Seventh Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated August 15, 2012, as amended (previously filed by Kilroy Realty Corporation on Form 10-Q for the quarter ended June 30, 2014)
4.1	Kilroy Realty Corporation Form of Certificate for Common Stock (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
4.2	Registration Rights Agreement, dated January 31, 1997 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
4.3	Form of Certificate for Partnership Units of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
4.4	Indenture, dated May 24, 2010, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 6.625% Senior Notes due 2020 and the form of the related guarantee (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 25, 2010)
4.5	Registration Rights Agreement, dated July 31, 2012 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2012)
4.6	Officers' Certificate pursuant to Sections 101, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "3.800% Notes due 2023," including the form of 3.800% Notes due 2023 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 14, 2013)
4.7	Indenture, dated March 1, 2011, by and among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit to the Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on October 2, 2013)
4.8	Supplemental Indenture, dated July 5, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit to the Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on October 2, 2013)
4.9	Officers' Certificate pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "4.25% Senior Notes due 2029," including the form of 4.25% Senior Notes due 2029 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 6, 2014)
4.10	Officers' Certificate, dated September 16, 2015, pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "4.375% Senior Notes due 2025," including the form of 4.375% Senior Notes due 2025 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on September 16, 2015)
4.11	Officers' Certificate, dated December 11, 2017, pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "3.450% Senior Notes due 2024," including the form of 3.450% Senior Notes due 2024 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 11, 2017)
4.12	The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request

Exhibit Number	Description
10.1	Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
10.2†	1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
10.3	License Agreement by and among the Registrant and the other persons named therein (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 4 to Form S-11 (No. 333-15553))
10.4†	Form of Restricted Stock Award Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 8, 2007)
10.5†	Kilroy Realty Corporation Stock Award Deferral Program (previously filed by Kilroy Realty Corporation as an exhibit to Form 8-K as filed with the Securities and Exchange Commission on January 2, 2008)
10.6†	Form of Indemnification Agreement of Kilroy Realty Corporation with certain officers and directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2009)
10.7†	Kilroy Realty Corporation Form of Stock Option Grant Notice and Stock Option Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 24, 2012)
10.8†	Amended and Restated Employment Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2012)
10.9†	Noncompetition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2012)
10.10†	Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and Jeffrey C. Hawken, dated April 4, 2013 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)
10.11†	Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and John Kilroy, Jr., dated March 30, 2012 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)
10.12†	Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)
10.13†	Form of Stock Award Deferral Program Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)
10.14†	Form of Performance-Vest Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)
10.15†	Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)
10.16†	Form of Restricted Stock Unit Agreement for Non-Employee Members of the Board of Directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)
10.17	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and RBC Capital Markets, LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.18	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jefferies LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.19	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and KeyBanc Capital Markets Inc. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)

Exhibit Number	Description
10.20	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and BNP Paribas Securities Corp. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.21	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and J.P. Morgan Securities LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.22	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Barclays Capital Inc. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.23†	Form of Performance-Vest Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)
10.24†	Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)
10.25†	Form of Restricted Stock Unit Agreement for Non-Employee Members of the Board of Directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)
10.26†	Amended and Restated Employment Agreement and Non-Competition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of December 31, 2015 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2015)
10.27†	Kilroy Realty Corporation Director Compensation Policy effective as of January 1, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2015)
10.28†	Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and Jeffrey C. Hawken, dated January 9, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2016)
10.29†	Amended and Restated Employment Agreement and Non-Competition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 28, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2016)
10.30†	Amended and Restated Employment Agreement and Non-Competition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Justin W. Smart effective as of January 28, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2016)
10.31	Note Purchase Agreement dated September 14, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on September 14, 2016)
10.32	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and RBC Capital Markets, LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.33	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jefferies LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.34	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and KeyBanc Capital Markets Inc. (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.35	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and BNP Paribas Securities Corp. (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)

Exhibit Number	Description
10.36	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and J.P. Morgan Securities LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.37	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Barclays Capital Inc. (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.38	Form of Time Sharing Agreement of Kilroy Realty, L.P. (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended September 30, 2016)
10.39*	Promissory Note, dated November 29, 2016
10.40*	Loan Agreement, dated November 29, 2016, by and between KR WMC, LLC and Massachusetts Mutual Life Insurance Company
10.41*	Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated November 29, 2016
10.42*	Assignment of Leases and Rents, dated November 29, 2016
10.43*	Recourse Guaranty Agreement, dated November 29, 2016
10.44*	Environmental Indemnification Agreement, dated November 29, 2016
10.45†	Kilroy Realty Corporation 2007 Deferred Compensation Plan, as amended and restated effective January 1, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.46	General Partner Guaranty Agreement, dated February 17, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-Q for the quarter ended March 31, 2017)
10.47†	Kilroy Realty 2006 Incentive Award Plan (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 23, 2017)
10.48	Second Amended and Restated Credit Agreement dated as of July 24, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-Q for the quarter ended June 30, 2017)
10.49	Second Amended and Restated Guaranty dated as of July 24, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-Q for the quarter ended on June 30, 2017)
12.1*	Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges and Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends of Kilroy Realty Corporation
12.2*	Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges of Kilroy Realty, L.P.
21.1*	List of Subsidiaries of Kilroy Realty Corporation
21.2*	List of Subsidiaries of Kilroy Realty, L.P.
23.1*	Consent of Deloitte & Touche LLP for Kilroy Realty Corporation
23.2*	Consent of Deloitte & Touche LLP for Kilroy Realty, L.P.
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty Corporation
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty Corporation
31.3*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty, L.P.
31.4*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty, L.P.
32.1*	Section 1350 Certification of Chief Executive Officer of Kilroy Realty Corporation
32.2*	Section 1350 Certification of Chief Financial Officer of Kilroy Realty Corporation
32.3*	Section 1350 Certification of Chief Executive Officer of Kilroy Realty, L.P.
32.4*	Section 1350 Certification of Chief Financial Officer of Kilroy Realty, L.P.

Exhibit Number	Description
101.1	The following Kilroy Realty Corporation and Kilroy Realty, L.P. financial information for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Capital, (v) Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements. ⁽¹⁾

* Filed herewith

† Management contract or compensatory plan or arrangement.

(1) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Kilroy Realty Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 12, 2018.

KILROY REALTY CORPORATION

By /s/ Heidi R. Roth
Heidi R. Roth
Executive Vice President and Chief Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that we, the undersigned directors and officers of Kilroy Realty Corporation, do hereby severally constitute and appoint John Kilroy, Jeffrey C. Hawken, Tyler H. Rose and Heidi R. Roth, and each of them, as our true and lawful attorneys-in-fact and agents, each with full powers of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable Kilroy Realty Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically, but without limitation, the power and authority to sign for us or any of us, in our names in the capacities indicated below, any and all amendments hereto; and we do each hereby ratify and confirm all that said attorneys-in-fact and agents or their substitutes, or any one of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John Kilroy</u> John Kilroy	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 12, 2018
<u>/s/ Tyler H. Rose</u> Tyler H. Rose	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 12, 2018
<u>/s/ Heidi R. Roth</u> Heidi R. Roth	Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 12, 2018
<u>/s/ Edward F. Brennan, PhD</u> Edward F. Brennan, PhD	Director	February 12, 2018
<u>/s/ Jolie Hunt</u> Jolie Hunt	Director	February 12, 2018
<u>/s/ Scott S. Ingraham</u> Scott S. Ingraham	Director	February 12, 2018
<u>/s/ Gary R. Stevenson</u> Gary R. Stevenson	Director	February 12, 2018
<u>/s/ Peter B. Stoneberg</u> Peter B. Stoneberg	Director	February 12, 2018

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Kilroy Realty, L.P. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 12, 2018.

KILROY REALTY, L.P.

By /s/ Heidi R. Roth
Heidi R. Roth
Executive Vice President and Chief Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that we, the undersigned directors and officers of Kilroy Realty Corporation, as sole general partner and on behalf of Kilroy Realty, L.P., do hereby severally constitute and appoint John Kilroy, Jeffrey C. Hawken, Tyler H. Rose and Heidi R. Roth, and each of them, as our true and lawful attorneys-in-fact and agents, each with full powers of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable Kilroy Realty Corporation, as sole general partner and on behalf of Kilroy Realty, L.P., to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically, but without limitation, the power and authority to sign for us or any of us, in our names in the capacities indicated below, any and all amendments hereto; and we do each hereby ratify and confirm all that said attorneys-in-fact and agents or their substitutes, or any one of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John Kilroy</u> John Kilroy	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 12, 2018
<u>/s/ Tyler H. Rose</u> Tyler H. Rose	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 12, 2018
<u>/s/ Heidi R. Roth</u> Heidi R. Roth	Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 12, 2018
<u>/s/ Edward F. Brennan, PhD</u> Edward F. Brennan, PhD	Director	February 12, 2018
<u>/s/ Jolie Hunt</u> Jolie Hunt	Director	February 12, 2018
<u>/s/ Scott S. Ingraham</u> Scott S. Ingraham	Director	February 12, 2018
<u>/s/ Gary R. Stevenson</u> Gary R. Stevenson	Director	February 12, 2018
<u>/s/ Peter B. Stoneberg</u> Peter B. Stoneberg	Director	February 12, 2018

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017 AND 2016
AND FOR THE THREE YEARS ENDED DECEMBER 31, 2017**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Kilroy Realty Corporation
Los Angeles, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kilroy Realty Corporation (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2018, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 12, 2018

We have served as the Company’s auditor since 1995.

KILROY REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2017	December 31, 2016
<u>ASSETS</u>		
REAL ESTATE ASSETS (Notes 2, 3 and 4):		
Land and improvements	\$ 1,076,172	\$ 1,108,971
Buildings and improvements	4,908,797	4,938,250
Undeveloped land and construction in progress	1,432,808	1,013,533
Total real estate assets held for investment	7,417,777	7,060,754
Accumulated depreciation and amortization	(1,264,162)	(1,139,853)
Total real estate assets held for investment, net	6,153,615	5,920,901
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 4)	—	9,417
CASH AND CASH EQUIVALENTS (Notes 4 and 22)	57,649	193,418
RESTRICTED CASH (Notes 4 and 22)	9,149	56,711
MARKETABLE SECURITIES (Notes 16 and 19)	20,674	14,773
CURRENT RECEIVABLES, NET (Note 6)	16,926	13,460
DEFERRED RENT RECEIVABLES, NET (Note 6)	246,391	218,977
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 3 and 5)	183,728	208,368
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 7)	114,706	70,608
TOTAL ASSETS	\$ 6,802,838	\$ 6,706,633
<u>LIABILITIES AND EQUITY</u>		
LIABILITIES:		
Secured debt, net (Notes 8, 9 and 19)	\$ 340,800	\$ 472,772
Unsecured debt, net (Notes 8, 9 and 19)	2,006,263	1,847,351
Accounts payable, accrued expenses and other liabilities (Note 18)	249,637	202,391
Accrued dividends and distributions (Notes 13 and 27)	43,448	222,306
Deferred revenue and acquisition-related intangible liabilities, net (Notes 3, 5 and 10)	145,890	150,360
Rents received in advance and tenant security deposits	56,484	52,080
Liabilities and deferred revenue of real estate assets held for sale (Note 4)	—	56
Total liabilities	2,842,522	2,947,316
COMMITMENTS AND CONTINGENCIES (Note 18)		
EQUITY (Notes 11 and 13):		
Stockholders' Equity:		
Preferred Stock, \$.01 par value, 30,000,000 shares authorized,		
6.875% Series G Cumulative Redeemable Preferred stock, \$.01 par value, no shares issued and outstanding at 12/31/2017, and 4,000,000 shares authorized, issued and outstanding (\$100,000 liquidation preference) at 12/31/2016	—	96,155
6.375% Series H Cumulative Redeemable Preferred stock, \$.01 par value, no shares issued and outstanding at 12/31/2017, and 4,000,000 shares authorized, issued and outstanding (\$100,000 liquidation preference) at 12/31/2016	—	96,256
Common stock, \$.01 par value, 150,000,000 shares authorized, 98,620,333 and 93,219,439 shares issued and outstanding, respectively	986	932
Additional paid-in capital	3,822,492	3,457,649
Distributions in excess of earnings	(122,685)	(107,997)
Total stockholders' equity	3,700,793	3,542,995
Noncontrolling Interests (Note 11):		
Common units of the Operating Partnership	77,948	85,590
Noncontrolling interests in consolidated property partnerships (Note 2)	181,575	130,732
Total noncontrolling interests	259,523	216,322
Total equity	3,960,316	3,759,317
TOTAL LIABILITIES AND EQUITY	\$ 6,802,838	\$ 6,706,633

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016	2015
REVENUES:			
Rental income	\$ 633,896	\$ 574,413	\$ 525,355
Tenant reimbursements	76,559	61,079	53,774
Other property income (Note 18)	8,546	7,080	2,146
Total revenues	<u>719,001</u>	<u>642,572</u>	<u>581,275</u>
EXPENSES:			
Property expenses	129,971	113,932	105,378
Real estate taxes	66,449	55,206	50,223
Provision for bad debts	3,269	—	545
Ground leases (Notes 5 and 18)	6,337	3,439	3,096
General and administrative expenses	60,581	57,029	48,265
Acquisition-related expenses (Note 2)	—	1,902	497
Depreciation and amortization (Notes 2 and 5)	245,886	217,234	204,294
Total expenses	<u>512,493</u>	<u>448,742</u>	<u>412,298</u>
OTHER (EXPENSES) INCOME:			
Interest income and other net investment gains (Note 19)	5,503	1,764	243
Interest expense (Note 9)	(66,040)	(55,803)	(57,682)
Loss on early extinguishment of debt (Note 9)	(5,312)	—	—
Total other (expenses) income	<u>(65,849)</u>	<u>(54,039)</u>	<u>(57,439)</u>
INCOME FROM OPERATIONS BEFORE GAINS (LOSSES) ON SALES OF REAL ESTATE	140,659	139,791	111,538
Net gain (loss) on sales of land (Note 4)	449	(295)	17,116
Gains on sales of depreciable operating properties (Note 4)	39,507	164,302	109,950
NET INCOME	180,615	303,798	238,604
Net income attributable to noncontrolling common units of the Operating Partnership (Notes 2 and 11)	(3,223)	(6,635)	(4,339)
Net income attributable to noncontrolling interests in consolidated property partnerships (Notes 2 and 11)	(12,780)	(3,375)	(184)
Total income attributable to noncontrolling interests	<u>(16,003)</u>	<u>(10,010)</u>	<u>(4,523)</u>
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	164,612	293,788	234,081
Preferred dividends (Note 13)	(5,774)	(13,250)	(13,250)
Original issuance costs of redeemed preferred stock and preferred units (Note 13)	(7,589)	—	—
Total preferred dividends	<u>(13,363)</u>	<u>(13,250)</u>	<u>(13,250)</u>
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 151,249	\$ 280,538	\$ 220,831
Net income available to common stockholders per share – basic (Note 20)	<u>\$ 1.52</u>	<u>\$ 3.00</u>	<u>\$ 2.44</u>
Net income available to common stockholders per share – diluted (Note 20)	<u>\$ 1.51</u>	<u>\$ 2.97</u>	<u>\$ 2.42</u>
Weighted average shares of common stock outstanding – basic (Note 20)	<u>98,113,561</u>	<u>92,342,483</u>	<u>89,854,096</u>
Weighted average shares of common stock outstanding – diluted (Note 20)	<u>98,727,331</u>	<u>93,023,034</u>	<u>90,395,775</u>

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands, except share and per share/unit data)

	Common Stock					Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings			
BALANCE AS OF DECEMBER 31, 2014	\$ 192,411	86,259,684	\$ 863	\$ 2,635,900	\$ (162,964)	\$ 2,666,210	\$ 57,726	\$ 2,723,936
Net income					234,081	234,081	4,523	238,604
Issuance of common stock		5,640,033	56	387,342		387,398		387,398
Issuance of share-based compensation awards				1,692		1,692		1,692
Non-cash amortization of share-based compensation				18,869		18,869		18,869
Exercise of stock options		342,000	4	14,569		14,573		14,573
Repurchase of common stock, stock options and restricted stock units		(101,389)		(7,081)		(7,081)		(7,081)
Settlement of restricted stock units for shares of common stock		78,937		(1)		(1)		(1)
Exchange of common units of the Operating Partnership		39,425		1,223		1,223	(1,223)	—
Adjustment for noncontrolling interest in the Operating Partnership				(4,619)		(4,619)	4,619	—
Contribution by noncontrolling interest in consolidated property partnership						—	474	474
Preferred dividends and distributions					(13,250)	(13,250)		(13,250)
Dividends declared per share of common stock and common unit (\$1.40 per share/unit)					(128,129)	(128,129)	(2,499)	(130,628)
BALANCE AS OF DECEMBER 31, 2015	192,411	92,258,690	923	3,047,894	(70,262)	3,170,966	63,620	3,234,586
Net income					293,788	293,788	10,010	303,798
Issuance of common stock		451,398	4	31,113		31,117		31,117
Issuance of share-based compensation awards				1,827		1,827		1,827
Non-cash amortization of share-based compensation				26,624		26,624		26,624
Exercise of stock options		286,500	3	12,205		12,208		12,208
Repurchase of common stock, stock options and restricted stock units		(137,126)	(1)	(8,874)		(8,875)		(8,875)
Settlement of restricted stock units for shares of common stock		109,044	1	(1)		—		—
Issuance of common units in connection with acquisition						—	48,033	48,033
Exchange of common units of the Operating Partnership		250,933	2	8,891		8,893	(8,893)	—
Initial contributions by noncontrolling interest in consolidated property partnership, net of transaction costs				328,997		328,997	124,452	453,449
Distributions to noncontrolling interests in consolidated property partnerships						—	(3,615)	(3,615)
Adjustment for noncontrolling interest in the Operating Partnership				8,973		8,973	(8,973)	—
Preferred dividends and distributions					(13,250)	(13,250)		(13,250)
Dividends declared per share of common stock and common unit (\$3.375 per share/unit)					(318,273)	(318,273)	(8,312)	(326,585)
BALANCE AS OF DECEMBER 31, 2016	192,411	93,219,439	932	3,457,649	(107,997)	3,542,995	216,322	3,759,317
Net income					164,612	164,612	16,003	180,615
Redemption of Series G & H Preferred stock (Note 13)	(192,411)				(7,589)	(200,000)		(200,000)
Issuance of common stock (Note 13)		4,662,577	46	326,012		326,058		326,058
Issuance of share-based compensation awards (Note 15)				5,890		5,890		5,890
Non-cash amortization of share-based compensation (Note 15)				26,319		26,319		26,319
Exercise of stock options (Note 15)		285,000	4	12,175		12,179		12,179
Settlement of restricted stock units for shares of common stock (Note 15)		317,848	3	(3)		—		—
Repurchase of common stock, stock options and restricted stock units (Note 15)		(168,881)	(2)	(12,984)		(12,986)		(12,986)
Exchange of common units of the Operating Partnership		304,350	3	10,936		10,939	(10,939)	—
Contributions from noncontrolling interests in consolidated property partnerships (Note 11)						—	54,604	54,604
Distributions to noncontrolling interests in consolidated property partnerships						—	(16,542)	(16,542)
Adjustment for noncontrolling interest in the Operating Partnership (Note 2)				(3,502)		(3,502)	3,502	—
Preferred dividends and distributions					(5,774)	(5,774)		(5,774)
Dividends declared per share of common stock and common unit (\$1.65 per share/unit) (Notes 13 and 27)					(165,937)	(165,937)	(3,427)	(169,364)
BALANCE AS OF DECEMBER 31, 2017	\$ —	98,620,333	\$ 986	\$ 3,822,492	\$ (122,685)	\$ 3,700,793	\$ 259,523	\$ 3,960,316

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 180,615	\$ 303,798	\$ 238,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of real estate assets and leasing costs	241,862	213,156	201,482
Depreciation of non-real estate furniture, fixtures and equipment	4,024	4,078	2,812
Increase in provision for bad debts	3,269	—	545
Non-cash amortization of share-based compensation awards (Note 15)	19,046	21,064	15,537
Non-cash amortization of deferred financing costs and debt discounts and premiums	3,247	2,720	1,853
Non-cash amortization of net below market rents (Note 5)	(8,528)	(7,166)	(8,449)
Gains on sales of depreciable operating properties (Note 4)	(39,507)	(164,302)	(109,950)
(Gain) loss on sales of land	(449)	295	(17,116)
Loss on early extinguishment of debt (Note 9)	5,312	—	—
Non-cash amortization of deferred revenue related to tenant-funded tenant improvements (Note 10)	(16,767)	(13,244)	(13,338)
Straight-line rents	(33,275)	(29,629)	(44,383)
Net change in other operating assets	(17,732)	(5,214)	(8,085)
Net change in other operating liabilities	5,895	19,498	12,496
Net cash provided by operating activities	<u>347,012</u>	<u>345,054</u>	<u>272,008</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for development properties and undeveloped land	(397,440)	(351,012)	(407,969)
Expenditures for acquisitions of development properties and undeveloped land (Note 3)	(19,829)	(33,513)	(148,352)
Expenditures for operating properties and other capital assets	(88,425)	(111,961)	(99,557)
Expenditures for acquisitions of operating properties (Note 3)	—	(393,767)	—
Net proceeds received from dispositions (Note 4)	182,492	325,031	319,639
(Increase) decrease in acquisition-related deposits	(35,900)	1,902	1,998
Issuance of notes receivable	—	(16,100)	(3,000)
Net cash used in investing activities	<u>(359,102)</u>	<u>(579,420)</u>	<u>(337,241)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Series G and H Preferred stock (Note 13)	(200,000)	—	—
Net proceeds from issuance of common stock (Note 13)	326,058	31,117	387,398
Net proceeds from the issuance of unsecured debt (Note 9)	674,447	—	397,776
Repayments of unsecured debt (Note 9)	(519,024)	—	(325,000)
Borrowings on unsecured revolving credit facility	270,000	305,000	250,000
Repayments on unsecured revolving credit facility	(270,000)	(305,000)	(390,000)
Principal payments and repayments of secured debt (Note 9)	(130,371)	(74,140)	(159,766)
Proceeds from the issuance of secured debt (Note 9)	—	170,000	—
Financing costs	(11,500)	(2,159)	(4,814)
Repurchase of common stock and restricted stock units (Note 13)	(12,986)	(8,875)	(7,081)
Proceeds from exercise of stock options (Note 15)	12,179	12,208	14,573
Contributions from noncontrolling interests in consolidated property partnerships (Note 11)	54,604	453,449	474
Distributions to noncontrolling interests in consolidated property partnerships	(16,542)	(3,615)	—
Dividends and distributions paid to common stockholders and common unitholders	(340,697)	(137,444)	(126,839)
Dividends and distributions paid to preferred stockholders and preferred unitholders	(7,409)	(13,250)	(13,250)
Net cash (used in) provided by financing activities	<u>(171,241)</u>	<u>427,291</u>	<u>23,471</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	(183,331)	192,925	(41,762)
Cash and cash equivalents and restricted cash, beginning of year	250,129	57,204	98,966
Cash and cash equivalents and restricted cash, end of year	<u>\$ 66,798</u>	<u>\$ 250,129</u>	<u>\$ 57,204</u>

See accompanying notes to consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of
Kilroy Realty, L.P.
Los Angeles, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kilroy Realty, L.P. (the “Operating Partnership”) as of December 31, 2017 and 2016, the related consolidated statements of operations, capital, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Operating Partnership as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Operating Partnership’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2018, expressed an unqualified opinion on the Operating Partnership’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Operating Partnership’s management. Our responsibility is to express an opinion on the Operating Partnership’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Operating Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 12, 2018

We have served as the Operating Partnership’s auditor since 2010.

KILROY REALTY, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<u>ASSETS</u>		
REAL ESTATE ASSETS (Notes 2, 3 and 4):		
Land and improvements	\$ 1,076,172	\$ 1,108,971
Buildings and improvements	4,908,797	4,938,250
Undeveloped land and construction in progress	1,432,808	1,013,533
Total real estate assets held for investment	7,417,777	7,060,754
Accumulated depreciation and amortization	(1,264,162)	(1,139,853)
Total real estate assets held for investment, net	6,153,615	5,920,901
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 4)	—	9,417
CASH AND CASH EQUIVALENTS (Notes 4 and 23)	57,649	193,418
RESTRICTED CASH (Notes 4 and 23)	9,149	56,711
MARKETABLE SECURITIES (Notes 16 and 19)	20,674	14,773
CURRENT RECEIVABLES, NET (Note 6)	16,926	13,460
DEFERRED RENT RECEIVABLES, NET (Note 6)	246,391	218,977
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 3 and 5)	183,728	208,368
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 7)	114,706	70,608
TOTAL ASSETS	<u>\$ 6,802,838</u>	<u>\$ 6,706,633</u>
<u>LIABILITIES AND CAPITAL</u>		
LIABILITIES:		
Secured debt, net (Notes 9 and 19)	\$ 340,800	\$ 472,772
Unsecured debt, net (Notes 9 and 19)	2,006,263	1,847,351
Accounts payable, accrued expenses and other liabilities (Note 18)	249,637	202,391
Accrued distributions (Notes 14 and 27)	43,448	222,306
Deferred revenue and acquisition-related intangible liabilities, net (Notes 3, 5 and 10)	145,890	150,360
Rents received in advance and tenant security deposits	56,484	52,080
Liabilities and deferred revenue of real estate assets held for sale (Note 4)	—	56
Total liabilities	2,842,522	2,947,316
COMMITMENTS AND CONTINGENCIES (Note 18)		
CAPITAL (Notes 12 and 14):		
Partners' Capital:		
6.875% Series G Cumulative Redeemable Preferred units, no units issued and outstanding at 12/31/2017, 4,000,000 units issued and outstanding (\$100,000 liquidation preference) at 12/31/2016	—	96,155
6.375% Series H Cumulative Redeemable Preferred units, no units issued and outstanding at 12/31/2017, 4,000,000 units issued and outstanding (\$100,000 liquidation preference) at 12/31/2016	—	96,256
Common units, 98,620,333 and 93,219,439 held by the general partner and 2,077,193 and 2,381,543 held by common limited partners issued and outstanding, respectively	3,773,941	3,431,768
Total Partners' Capital	3,773,941	3,624,179
Noncontrolling interests in consolidated property partnerships and subsidiaries (Notes 2 and 12)	186,375	135,138
Total capital	3,960,316	3,759,317
TOTAL LIABILITIES AND CAPITAL	<u>\$ 6,802,838</u>	<u>\$ 6,706,633</u>

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except unit and per unit data)

	Year Ended December 31,		
	2017	2016	2015
REVENUES:			
Rental income	\$ 633,896	\$ 574,413	\$ 525,355
Tenant reimbursements	76,559	61,079	53,774
Other property income (Note 18)	8,546	7,080	2,146
Total revenues	<u>719,001</u>	<u>642,572</u>	<u>581,275</u>
EXPENSES:			
Property expenses	129,971	113,932	105,378
Real estate taxes	66,449	55,206	50,223
Provision for bad debts	3,269	—	545
Ground leases (Notes 5 and 18)	6,337	3,439	3,096
General and administrative expenses	60,581	57,029	48,265
Acquisition-related expenses (Note 2)	—	1,902	497
Depreciation and amortization (Notes 2 and 5)	245,886	217,234	204,294
Total expenses	<u>512,493</u>	<u>448,742</u>	<u>412,298</u>
OTHER (EXPENSES) INCOME:			
Interest income and other net investment gains (Note 19)	5,503	1,764	243
Interest expense (Note 9)	(66,040)	(55,803)	(57,682)
Loss on early extinguishment of debt (Note 9)	(5,312)	—	—
Total other (expenses) income	<u>(65,849)</u>	<u>(54,039)</u>	<u>(57,439)</u>
INCOME FROM OPERATIONS BEFORE GAINS (LOSSES) ON SALES OF REAL ESTATE	140,659	139,791	111,538
Net gain (loss) on sales of land (Note 4)	449	(295)	17,116
Gains on sales of depreciable operating properties (Note 4)	39,507	164,302	109,950
NET INCOME	180,615	303,798	238,604
Net income attributable to noncontrolling interests in consolidated property partnerships and subsidiaries (Notes 2 and 12)	(13,175)	(3,735)	(467)
NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.	167,440	300,063	238,137
Preferred distributions (Note 14)	(5,774)	(13,250)	(13,250)
Original issuance costs of redeemed preferred units (Note 14)	(7,589)	—	—
Total preferred distributions	<u>(13,363)</u>	<u>(13,250)</u>	<u>(13,250)</u>
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$ 154,077	\$ 286,813	\$ 224,887
Net income available to common unitholders per unit – basic (Note 21)	\$ 1.52	\$ 2.99	\$ 2.44
Net income available to common unitholders per unit – diluted (Note 21)	\$ 1.51	\$ 2.96	\$ 2.42
Weighted average common units outstanding – basic (Note 21)	<u>100,246,567</u>	<u>94,771,688</u>	<u>91,645,578</u>
Weighted average common units outstanding – diluted (Note 21)	<u>100,860,337</u>	<u>95,452,239</u>	<u>92,187,257</u>

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CAPITAL
(in thousands, except unit and per unit data)

	Partners' Capital			Total Partners' Capital	Noncontrolling Interests in Consolidated Property Partnerships and Subsidiaries	Total Capital
	Preferred Units	Number of Common Units	Common Units			
BALANCE AS OF DECEMBER 31, 2014	\$ 192,411	88,063,884	\$ 2,521,900	\$ 2,714,311	\$ 9,625	\$ 2,723,936
Net income			238,137	238,137	467	238,604
Issuance of common units		5,640,033	387,398	387,398		387,398
Issuance of share-based compensation awards			1,692	1,692		1,692
Non-cash amortization of share-based compensation			18,869	18,869		18,869
Exercise of stock options		342,000	14,573	14,573		14,573
Repurchase of common units and restricted stock units		(101,389)	(7,081)	(7,081)		(7,081)
Settlement of restricted stock units		78,937	(1)	(1)		(1)
Contribution by noncontrolling interest in consolidated subsidiary					474	474
Preferred distributions			(13,250)	(13,250)		(13,250)
Distributions declared per common unit (\$1.40 per unit)			(130,628)	(130,628)		(130,628)
BALANCE AS OF DECEMBER 31, 2015	192,411	94,023,465	3,031,609	3,224,020	10,566	3,234,586
Net income			300,063	300,063	3,735	303,798
Issuance of common units		451,398	31,117	31,117		31,117
Issuance of common units in connection with acquisition		867,701	48,033	48,033		48,033
Issuance of share-based compensation awards			1,827	1,827		1,827
Non-cash amortization of share-based compensation			26,624	26,624		26,624
Exercise of stock options		286,500	12,208	12,208		12,208
Repurchase of common units and restricted stock units		(137,126)	(8,875)	(8,875)		(8,875)
Settlement of restricted stock units		109,044	—	—		—
Initial contributions from noncontrolling interest in consolidated property partnership, net of transaction costs			328,997	328,997	124,452	453,449
Distributions to noncontrolling interests in consolidated property partnerships					(3,615)	(3,615)
Preferred distributions			(13,250)	(13,250)		(13,250)
Distributions declared per common unit (\$3.375 per unit)			(326,585)	(326,585)		(326,585)
BALANCE AS OF DECEMBER 31, 2016	192,411	95,600,982	3,431,768	3,624,179	135,138	3,759,317
Net income			167,440	167,440	13,175	180,615
Redemption of Series G & H Preferred stock (Note 14)	(192,411)		(7,589)	(200,000)		(200,000)
Issuance of common units (Note 14)		4,662,577	326,058	326,058		326,058
Issuance of share-based compensation awards (Note 15)			5,890	5,890		5,890
Non-cash amortization of share-based compensation (Note 15)			26,319	26,319		26,319
Exercise of stock options (Note 15)		285,000	12,179	12,179		12,179
Settlement of restricted stock units (Note 15)		317,848	—	—		—
Repurchase of common units and restricted stock units (Note 15)		(168,881)	(12,986)	(12,986)		(12,986)
Contributions from noncontrolling interest in consolidated property partnership (Note 12)					54,604	54,604
Distributions to noncontrolling interests in consolidated property partnerships					(16,542)	(16,542)
Preferred distributions			(5,774)	(5,774)		(5,774)
Distributions declared per common unit (\$1.65 per unit) (Notes 14 and 27)			(169,364)	(169,364)		(169,364)
BALANCE AS OF DECEMBER 31, 2017	\$ —	100,697,526	\$ 3,773,941	\$ 3,773,941	\$ 186,375	\$ 3,960,316

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 180,615	\$ 303,798	\$ 238,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of real estate assets and leasing costs	241,862	213,156	201,482
Depreciation of non-real estate furniture, fixtures and equipment	4,024	4,078	2,812
Increase in provision for bad debts	3,269	—	545
Non-cash amortization of share-based compensation awards (Note 15)	19,046	21,064	15,537
Non-cash amortization of deferred financing costs and debt discounts and premiums	3,247	2,720	1,853
Non-cash amortization of net below market rents (Note 5)	(8,528)	(7,166)	(8,449)
Gains on sales of depreciable operating properties (Note 4)	(39,507)	(164,302)	(109,950)
(Gain) loss on sales of land	(449)	295	(17,116)
Loss on early extinguishment of debt (Note 9)	5,312	—	—
Non-cash amortization of deferred revenue related to tenant-funded tenant improvements (Note 10)	(16,767)	(13,244)	(13,338)
Straight-line rents	(33,275)	(29,629)	(44,383)
Net change in other operating assets	(17,732)	(5,214)	(8,085)
Net change in other operating liabilities	5,895	19,498	12,496
Net cash provided by operating activities	<u>347,012</u>	<u>345,054</u>	<u>272,008</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for development properties and undeveloped land	(397,440)	(351,012)	(407,969)
Expenditures for acquisitions of development properties and undeveloped land (Note 3)	(19,829)	(33,513)	(148,352)
Expenditures for operating properties and other capital assets	(88,425)	(111,961)	(99,557)
Expenditures for acquisitions of operating properties (Note 3)	—	(393,767)	—
Net proceeds received from dispositions (Note 4)	182,492	325,031	319,639
(Increase) decrease in acquisition-related deposits	(35,900)	1,902	1,998
Issuance of notes receivable	—	(16,100)	(3,000)
Net cash used in investing activities	<u>(359,102)</u>	<u>(579,420)</u>	<u>(337,241)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Series G and H Preferred units (Note 14)	(200,000)	—	—
Net proceeds from issuance of common units (Note 14)	326,058	31,117	387,398
Net proceeds from the issuance of unsecured debt (Note 9)	674,447	—	397,776
Repayments of unsecured debt (Note 9)	(519,024)	—	(325,000)
Borrowings on unsecured revolving credit facility	270,000	305,000	250,000
Repayments on unsecured revolving credit facility	(270,000)	(305,000)	(390,000)
Principal payments and repayments of secured debt (Note 9)	(130,371)	(74,140)	(159,766)
Proceeds from the issuance of secured debt (Note 9)	—	170,000	—
Financing costs	(11,500)	(2,159)	(4,814)
Repurchase of common units and restricted stock units (Note 14)	(12,986)	(8,875)	(7,081)
Proceeds from exercise of stock options (Note 15)	12,179	12,208	14,573
Contributions from noncontrolling interests in consolidated property partnerships (Note 12)	54,604	453,449	474
Distributions to noncontrolling interests in consolidated property partnerships	(16,542)	(3,615)	—
Distributions paid to common unitholders	(340,697)	(137,444)	(126,839)
Distributions paid to preferred unitholders	(7,409)	(13,250)	(13,250)
Net cash (used in) provided by financing activities	<u>(171,241)</u>	<u>427,291</u>	<u>23,471</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	(183,331)	192,925	(41,762)
Cash and cash equivalents and restricted cash, beginning of year	250,129	57,204	98,966
Cash and cash equivalents and restricted cash, end of year	<u>\$ 66,798</u>	<u>\$ 250,129</u>	<u>\$ 57,204</u>

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Ownership

Kilroy Realty Corporation (the “Company”) is a self-administered real estate investment trust (“REIT”) active in premier office and mixed-use submarkets along the West Coast. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in the coastal regions of Los Angeles, Orange County, San Diego County, the San Francisco Bay Area and Greater Seattle, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). The Company’s common stock is publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “KRC.”

We own our interests in all of our real estate assets through Kilroy Realty, L.P. (the “Operating Partnership”) and Kilroy Realty Finance Partnership, L.P. (the “Finance Partnership”). We generally conduct substantially all of our operations through the Operating Partnership. Unless stated otherwise or the context indicates otherwise, the terms “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” refer to Kilroy Realty Corporation and its consolidated subsidiaries and the term “Operating Partnership” refers to Kilroy Realty, L.P. and its consolidated subsidiaries. The descriptions of our business, employees, and properties apply to both the Company and the Operating Partnership.

Our stabilized portfolio of operating properties was comprised of the following properties at December 31, 2017:

	Number of Buildings	Rentable Square Feet (unaudited)	Number of Tenants	Percentage Occupied (unaudited)	Percentage Leased (unaudited)
Stabilized Office Properties	101	13,720,597	511	95.2%	96.9%
			Number of Buildings	Number of Units	2017 Average Occupancy (unaudited)
Stabilized Residential Property			1	200	70.2%

Our stabilized portfolio includes all of our properties with the exception of development and redevelopment properties currently under construction or committed for construction, “lease-up” properties, real estate assets held for sale and undeveloped land. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define “lease-up” properties as office and retail properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. There were no operating properties in “lease-up” or held for sale as of December 31, 2017.

During the first quarter of 2017, we added one development project to our stabilized office portfolio consisting of 365,359 rentable square feet in Hollywood, California. As of December 31, 2017, the following properties were excluded from our stabilized portfolio. We did not have any redevelopment properties at December 31, 2017.

	Number of Properties/Projects	Estimated Rentable Square Feet (unaudited)
Development projects under construction ⁽¹⁾⁽²⁾	4	1,800,000

(1) Estimated rentable square feet upon completion.

(2) Includes 86,000 square feet of Production, Distribution, and Repair (“PDR”) space. Development projects under construction also include 96,000 square feet of retail space and 237 residential units at One Paseo - Phase I in addition to the estimated office rentable square feet noted above.

Our stabilized portfolio also excludes our near-term and future development pipeline, which as of December 31, 2017 was comprised of six potential development sites, representing approximately 48 gross acres of undeveloped land.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of December 31, 2017, all of our properties and development projects were owned and all of our business was conducted in the state of California with the exception of twelve office properties and one development project under construction located in the state of Washington. All of our properties and development projects are 100% owned, excluding four office properties owned by three consolidated property partnerships. Two of the three property partnerships, 100 First Street Member, LLC (“100 First LLC”) and 303 Second Street Member, LLC (“303 Second LLC”), each owned one office property in San Francisco, California through subsidiary REITs. As of December 31, 2017, the Company owned a 56% common equity interest in both 100 First LLC and 303 Second LLC. The third property partnership, Redwood City Partners, LLC (“Redwood LLC”) owned two office properties in Redwood City, California. As of December 31, 2017, the Company owned an approximate 93% common equity interest in Redwood LLC. The remaining interests in all three property partnerships were owned by unrelated third parties.

As of December 31, 2017, the Company owned an approximate 97.9% common general partnership interest in the Operating Partnership. The remaining approximate 2.1% common limited partnership interest in the Operating Partnership as of December 31, 2017 was owned by non-affiliated investors and certain of our executive officers and directors. Both the general and limited common partnership interests in the Operating Partnership are denominated in common units. Generally, the number of common units held by the Company is equivalent to the number of outstanding shares of the Company’s common stock, and the rights of all the common units to quarterly distributions and payments in liquidation mirror those of the Company’s common stockholders. The common limited partners have certain redemption rights as provided in the Operating Partnership’s Seventh Amended and Restated Agreement of Limited Partnership, as amended, the “Partnership Agreement”.

Kilroy Realty Finance, Inc., which is a wholly-owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% common general partnership interest in the Finance Partnership. The Operating Partnership owns the remaining 99.0% common limited partnership interest. With the exception of the Operating Partnership and our consolidated property partnerships, all of our subsidiaries are wholly-owned.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Company include the consolidated financial position and results of operations of the Company, the Operating Partnership, the Finance Partnership, Kilroy Services, LLC (“KSLLC”), 303 Second LLC, 100 First LLC, Redwood LLC and all of our wholly-owned and controlled subsidiaries. The consolidated financial statements of the Operating Partnership include the consolidated financial position and results of operations of the Operating Partnership, the Finance Partnership, KSLLC, 303 Second LLC, 100 First LLC, Redwood LLC and all of our wholly-owned and controlled subsidiaries. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

Effective January 1, 2017, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-18 (“ASU 2016-18”) which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted ASU 2016-18 on a retrospective basis. Therefore, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Company’s consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015. As a result of the adoption of ASU 2016-18, the change in restricted cash is no longer presented as a separate line item within cash flows from investing activities on the Company’s consolidated statements of cash flows since such balances are now included in total cash at both the beginning and end of the reporting period. As a result, for the year ended December 31, 2016, the Company had net cash used in investing activities of \$579.4 million instead of net cash used in investing activities of \$635.4 million as previously reported since the Company had an increase in restricted cash of \$56.0 million during the year ended December 31, 2016 primarily due to \$48.4 million of restricted cash that was held at qualified intermediaries to facilitate potential future Section 1031 Exchanges. For the year ended December 31, 2015, the Company had net cash used in investing activities of \$337.2 million instead of net cash used in investing activities of \$262.8 million as previously reported since the Company had a decrease in restricted cash of \$65.2 million during the year ended December 31, 2015 primarily due

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

to the release of \$59.2 million of cash proceeds related to the completion of Section 1031 Exchanges in January 2015. In addition, expenditures for acquisitions of development properties and undeveloped land during the year ended December 31, 2015 increased by \$9.2 million as a result of our adoption of ASU 2016-18 due to holdback funds released from escrow relating to previous year acquisitions.

Also effective January 1, 2017, the Company adopted FASB ASU No. 2017-01 (“ASU 2017-01”) which clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework provides a screen for determining whether an integrated set of assets is a business combination or an asset acquisition and clarifies that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar assets, the set of assets and activities is deemed not to meet the definition of a business. As a result of our adoption of the guidance, which we adopted on a prospective basis, the Company expects that most of our future acquisitions of operating properties and development properties that were previously accounted for as business combinations will instead be accounted for as asset acquisitions under the new guidance. In addition, we expect that most of the transaction costs associated with these future acquisitions will be capitalized as part of the purchase price of the acquisition instead of being expensed as incurred to acquisition-related expenses. The Company did not have any acquisitions of operating properties during the year ended December 31, 2017.

In addition, effective January 1, 2017, the Company adopted FASB ASU No. 2016-09 (“ASU 2016-09”) which simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The adoption of this guidance did not have an impact on our consolidated financial statements or notes to our consolidated financial statements.

Partially Owned Entities and Variable Interest Entities

Effective January 1, 2016, the Company adopted FASB ASU No. 2015-02 (“ASU 2015-02”), which amended certain guidance with respect to the evaluation of Variable Interest Entities (“VIEs”) and when a reporting entity is required to consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities.

Under this guidance, effective January 1, 2016, the Operating Partnership was determined to be a VIE of the Company as the Operating Partnership is a limited partnership in which the common limited partners do not have substantive kick-out rights or participating rights. However, given that the Company was deemed to be the primary beneficiary of the Operating Partnership because the Company has the ability to control the activities that most significantly impact the Operating Partnership’s economic performance, the adoption of this new guidance and the conclusion that the Operating Partnership was a VIE did not have any impact on our consolidated financial statements since the conclusion to consolidate the Operating Partnership still applied. The Operating Partnership was the only new VIE identified as part of the adoption of the guidance as of January 1, 2016.

At December 31, 2017 the consolidated financial statements of the Company included two VIEs in addition to the Operating Partnership: 100 First LLC and 303 Second LLC. At December 31, 2017, the Company and the Operating Partnership were determined to be the primary beneficiaries of these two VIEs since we had the ability to control the activities that most significantly impact each of the VIEs’ economic performance. As of December 31, 2017, the two VIEs’ total assets, liabilities and noncontrolling interests included on our consolidated balance sheet were approximately \$426.5 million (of which \$382.1 million related to real estate held for investment), approximately \$27.3 million and approximately \$175.4 million, respectively. Revenues, income and net assets generated by 100 First LLC and 303 Second LLC may only be used to settle their contractual obligations, which primarily consist of operating expenses, capital expenditures and required distributions.

At December 31, 2016, the consolidated financial statements of the Company included three VIEs in addition to the Operating Partnership: 100 First LLC, 303 Second LLC and entity established during the fourth quarter of 2016 to facilitate a transaction intended to qualify as a like-kind exchange pursuant to Section 1031 of the Code (“Section 1031 Exchange”). In January 2017, the Section 1031 Exchange was successfully completed and the entity established for the 1031 Exchange was no longer a VIE. At December 31, 2016, the impact of consolidating the VIEs increased the

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Company's total assets, liabilities and noncontrolling interests on our consolidated balance sheet by approximately \$654.3 million (of which \$588.6 million related to real estate held for investment on our consolidated balance sheet), approximately \$166.1 million and approximately \$124.3 million, respectively. The consolidated financial statements of the Operating Partnership included the same three VIEs at December 31, 2016.

Our accounting policy is to consolidate entities in which we have a controlling financial interest and significant decision making control over the entity's operations. In determining whether we have a controlling financial interest in a partially owned entity and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, board representation, management representation, size of our investment (including loans), authority to control decisions, and contractual and substantive participating rights of the members. In addition to evaluating control rights, we consolidate entities in which the other members have no substantive kick-out rights to remove the Company as the managing member.

Entities in which the equity investors do not have sufficient equity at risk to finance their endeavors without additional financial support or the holders of the equity investment at risk do not have a controlling financial interest are VIEs. We evaluate whether an entity is a VIE and whether we are the primary beneficiary. We are deemed to be the primary beneficiary of a VIE when we have the power to direct the activities of the VIE that most significantly impact the VIEs' economic performance and the obligation to absorb losses or receive benefits that could potentially be significant to the VIE.

If the requirements for consolidation are not met, the Company would account for investments under the equity method of accounting if we have the ability to exercise significant influence over the entity. Equity method investments would be initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. The Company did not have any equity method investments at December 31, 2017 or December 31, 2016.

Significant Accounting Policies

Acquisitions

Subsequent to our adoption of ASU No. 2017-01 on January 1, 2017, which was adopted on a prospective basis, acquisitions of operating properties and development and redevelopment opportunities generally no longer meet the definition of a business and are accounted for as asset acquisitions. For these asset acquisitions, we record the acquired tangible and intangible assets and assumed liabilities based on each asset's and liability's relative fair value at the acquisition date of the total purchase price plus any capitalized acquisition costs. We record the acquired tangible and intangible assets and assumed liabilities of acquisitions of operating properties and development and redevelopment opportunities that meet the accounting criteria to be accounted for as business combinations at fair value at the acquisition date.

The acquired assets and assumed liabilities for an acquisition generally include but are not limited to (i) land and improvements, buildings and improvements, undeveloped land and construction in progress and (ii) identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market operating leases and ground leases, acquired in-place lease values and tenant relationships, if any. Any debt assumed and equity (including common units of the Operating Partnership) issued in connection with a property acquisition is recorded at fair value on the date of acquisition.

The fair value of land and improvements is derived from comparable sales of land and improvements within the same submarket and/or region. The fair value of buildings and improvements, tenant improvements and leasing costs considers the value of the property as if it was vacant as well as current replacement costs and other relevant market rate information.

The fair value of the above-market or below-market component of an acquired in-place operating lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining non-cancellable lease term and (ii) our estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition measured over the remaining non-cancellable term of the lease for above-market operating leases and the initial non-cancellable term plus the term of

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

any below-market fixed rate renewal options, if applicable, for below-market operating leases. Our below-market operating leases generally do not include fixed rate or below-market renewal options. The amounts recorded for above-market operating leases are included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases. The amounts recorded for below-market operating leases are included in deferred revenue and acquisition-related intangible liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases plus the term of any below-market fixed rate renewal options, if applicable. The amortization of the below-market ground lease obligation is recorded as an increase to ground lease expense in the consolidated statements of operations for the periods presented. The amortization of the above-market ground lease obligation is recorded as a decrease to ground lease expense in the consolidations statements of operations for the periods presented.

The fair value of acquired in-place leases is derived based on our assessment of lost revenue and costs incurred for the period required to lease the “assumed vacant” property to the occupancy level when purchased. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases. Fully amortized intangible assets are written off each quarter.

Subsequent to our adoption of “ASU 2017-01” on January 1, 2017, transaction costs associated with our acquisitions are capitalized as part of the purchase price of the acquisition. Prior to our adoption of “ASU 2017-01,” costs associated with all operating property acquisitions and those development and redevelopment acquisitions that met the criteria to be accounted for as business combinations were expensed as incurred and costs associated with development acquisitions accounted for as asset acquisitions were capitalized as part of the cost of the asset.

Operating Properties

Operating properties are generally carried at historical cost less accumulated depreciation. Properties held for sale are reported at the lower of the carrying value or the fair value less estimated cost to sell. The cost of operating properties includes the purchase price or development costs of the properties. Costs incurred for the renovation and betterment of the operating properties are capitalized to our investment in that property. Maintenance and repairs are charged to expense as incurred.

When evaluating properties to be held and used for potential impairment, we first evaluate whether there are any indicators of impairment for any of our properties. If any impairment indicators are present for a specific property, we then perform an undiscounted cash flow analysis and compare the net carrying amount of the property to the property’s estimated undiscounted future cash flow over the anticipated holding period. If the estimated undiscounted future cash flow is less than the net carrying amount of the property, we then perform an impairment loss calculation to determine if the fair value of the property is less than the net carrying value of the property. Our impairment loss calculation compares the net carrying amount of the property to the property’s estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. We would recognize an impairment loss if the asset’s net carrying amount exceeds the asset’s estimated fair value. If we were to recognize an impairment loss, the estimated fair value of the asset (less costs to sell for assets held for sale) would become its new cost basis. For a depreciable long-lived asset, the new cost basis would be depreciated (amortized) over the remaining useful life of that asset.

Cost Capitalization

All costs clearly associated with the development, redevelopment and construction of a property are capitalized as project costs, including internal compensation costs. In addition, the following costs are capitalized as project costs during periods in which activities necessary to prepare development and redevelopment properties for their intended use are in progress: pre-construction costs essential to the development of the property, interest, real estate taxes and insurance.

- For office development and redevelopment properties that are pre-leased, we cease capitalization when revenue recognition commences, which is upon substantial completion of tenant improvements deemed to be the Company’s asset for accounting purposes.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- For office development and redevelopment properties that are not pre-leased, we may not immediately build out the tenant improvements. Therefore, we cease capitalization when revenue recognition commences upon substantial completion of the tenant improvements deemed to be the Company's asset for accounting purposes, but in any event, no later than one year after the cessation of major construction activities. We also cease capitalization on a development or redevelopment property when activities necessary to prepare the property for its intended use have been suspended.
- For office development or redevelopment properties with multiple tenants and staged leasing, we cease capitalization and begin depreciation on the portion of the development or redevelopment property for which revenue recognition has commenced.
- For residential development properties, we cease capitalization when the property is substantially complete and available for occupancy.

Once major construction activity has ceased and the development or redevelopment property is in the lease-up phase, the costs capitalized to construction in progress are transferred to land and improvements, buildings and improvements, and deferred leasing costs on our consolidated balance sheets as the historical cost of the property.

Depreciation and Amortization of Buildings and Improvements

The costs of buildings and improvements and tenant improvements are depreciated using the straight-line method of accounting over the estimated useful lives set forth in the table below. Depreciation expense for buildings and improvements for the three years ended December 31, 2017, 2016, and 2015 was \$190.5 million, \$172.0 million, and \$159.5 million, respectively.

Asset Description	Depreciable Lives
Buildings and improvements	25 – 40 years
Tenant improvements	1 – 20 years ⁽¹⁾

(1) Tenant improvements are amortized over the shorter of the lease term or the estimated useful life.

Real Estate Assets Held for Sale, Dispositions and Discontinued Operations

A real estate asset is classified as held for sale when certain criteria are met, including but not limited to the availability of the asset for immediate sale, the existence of an active program to locate a buyer and the probable sale or transfer of the asset within one year. If such criteria are met, we present the applicable assets and liabilities related to the real estate asset held for sale, if material, separately on the balance sheet and we would cease to record depreciation and amortization expense. Real estate assets held for sale are reported at the lower of their carrying value or their estimated fair value less the estimated costs to sell. As of December 31, 2017, we did not have any properties classified as held for sale. As of December 31, 2016, we classified one operating property located in San Diego, California as held for sale.

Effective January 1, 2015, the Company adopted FASB ASU No. 2014-08 (“ASU 2014-08”), which changed the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the guidance, only property disposals representing a strategic shift that has (or will have) a major effect on an entity’s operations and financial results, such as a major line of business, a major geographical area or a major equity investment, are required to be presented as discontinued operations. If we were to determine that the property disposition represents a strategic shift, the revenues, expenses and net gain (loss) on dispositions of the property would be recorded in discontinued operations for all periods presented through the date of the applicable disposition. The Company adopted and applied the new guidance on a prospective basis as required by ASU 2014-08. In accordance with this guidance, the operations of eleven, six and ten properties sold during the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively, are presented in continuing operations as they did not represent a strategic shift in the Company’s operations and financial results.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The net gains (losses) on dispositions of non-depreciable real estate property, including land, are reported in the consolidated statements of operations as gains (losses) on sale of land within continuing operations in the period the land is sold.

Revenue Recognition

We recognize revenue from rent, tenant reimbursements, parking and other revenue once all of the following criteria are met: (i) the agreement has been fully executed and delivered, (ii) services have been rendered, (iii) the amount is fixed or determinable and (iv) the collectability of the amount is reasonably assured.

Minimum annual rental revenues are recognized in rental revenues on a straight-line basis over the non-cancellable term of the related lease. Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space. In order for the tenant to take possession, the leased space must be substantially complete and ready for its intended use. In order to determine whether the leased space is substantially ready for its intended use, we begin by determining whether the Company or the tenant owns the tenant improvements. When we conclude that the Company is the owner of tenant improvements, rental revenue recognition begins when the tenant takes possession of the finished space, which is generally when Company owned tenant improvements are substantially complete. In certain instances, when we conclude that the Company is not the owner (the tenant is the owner) of tenant improvements, rental revenue recognition begins when the tenant takes possession of or controls the space.

When we conclude that the Company is the owner of tenant improvements, we record the cost to construct the tenant improvements, including costs paid for or reimbursed by the tenants, as a capital asset. For these tenant improvements, we record the amount funded by or reimbursed by the tenants as deferred revenue, which is amortized on a straight-line basis as additional rental income over the term of the related lease.

When we conclude that the tenant is the owner of tenant improvements for accounting purposes, we record our contribution towards those improvements as a lease incentive, which is included in deferred leasing costs and acquisition-related intangible assets, net on our consolidated balance sheets and amortized as a reduction to rental income on a straight-line basis over the term of the lease.

For residential properties, we commence revenue recognition upon occupancy of the units by the tenants. Residential rental revenue is recognized on a straight-line basis over the term of the related lease, net of any concessions.

Tenant Reimbursements

Reimbursements from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period the recoverable costs are incurred. Tenant reimbursements are recognized and recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier, and have credit risk.

Other Property Income

Other property income primarily includes amounts recorded in connection with lease terminations, tenant bankruptcy settlement payments, broken deal income and property damage settlement related payments. Lease termination fees are amortized over the remaining lease term, if applicable. If there is no remaining lease term, they are recognized when received and realized. Other property income also includes miscellaneous income from tenants, such as fees related to the restoration of leased premises to their original condition and fees for late rental payments.

Allowances for Uncollectible Tenant and Deferred Rent Receivables

We carry our current and deferred rent receivables net of allowances for uncollectible amounts. Our determination of the adequacy of these allowances is based primarily upon evaluations of individual receivables, current economic conditions, and other relevant factors. The allowances are increased or decreased through the provision for bad debts on our consolidated statements of operations.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Cash and Cash Equivalents

We consider all highly-liquid investments with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consists of cash proceeds from dispositions that are temporarily held at qualified intermediaries for purposes of facilitating potential Section 1031 Exchanges and cash held in escrow related to acquisition and disposition holdbacks. Restricted cash also includes cash held as collateral to provide credit enhancement for the Operating Partnership's mortgage debt, including cash reserves for capital expenditures, tenant improvements and property taxes. As of December 31, 2017, we did not have any restricted cash held at qualified intermediaries for the purpose of facilitating Section 1031 Exchanges. As of December 31, 2016, we had \$48.4 million restricted cash held at qualified intermediaries for the purpose of facilitating Section 1031 Exchanges. In January 2017, the Section 1031 Exchange was completed and the cash was released from the qualified intermediary.

Marketable Securities / Deferred Compensation Plan

Marketable securities reported in our consolidated balance sheets represent the assets held in connection with the Kilroy Realty Corporation 2007 Deferred Compensation Plan (the "Deferred Compensation Plan") (see Note 16 "Employee Benefit Plans" for additional information). The Deferred Compensation Plan assets are held in a limited rabbi trust and invested in various mutual and money market funds. As a result, the marketable securities are treated as trading securities for financial reporting purposes and are adjusted to fair value at the end of each accounting period, with the corresponding gains and losses recorded in interest income and other net investment gains.

At the time eligible management employees ("Participants") defer compensation or earn mandatory Company contributions, or if we were to make a discretionary contribution, we record compensation cost and a corresponding deferred compensation plan liability, which is included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheets. This liability is adjusted to fair value at the end of each accounting period based on the performance of the benchmark funds selected by each Participant, and the impact of adjusting the liability to fair value is recorded as an increase or decrease to compensation cost. The impact of adjusting the deferred compensation plan liability to fair value and the changes in the value of the marketable securities held in connection with the Deferred Compensation Plan generally offset and therefore do not significantly impact net income.

Deferred Leasing Costs

Costs incurred in connection with successful property leasing are capitalized as deferred leasing costs and classified as investing activities in the statement of cash flows. Deferred leasing costs consist primarily of leasing commissions and also include certain internal payroll costs and lease incentives, which are amortized using the straight-line method of accounting over the lives of the leases which generally range from one to 20 years. We reevaluate the remaining useful lives of leasing costs as the creditworthiness of our tenants and economic and market conditions change. If we determine that the estimated remaining life of a lease has changed, we adjust the amortization period accordingly. Fully amortized deferred leasing costs are written off each quarter.

Deferred Financing Costs

Financing costs related to the origination or assumption of long-term debt are deferred and generally amortized using the straight-line method of accounting, which approximates the effective interest method, over the contractual terms of the applicable financings. Fully amortized deferred financing costs are written off when the corresponding financing is repaid.

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Debt Discounts and Premiums

Original issuance debt discounts and discounts/premiums related to recording debt acquired in connection with operating property acquisitions at fair value are generally amortized and accreted on a straight-line basis, which approximates the effective interest method. Discounts are recorded as additional interest expense from date of issuance or acquisition through the contractual maturity date of the related debt. Premiums are recorded as a reduction to interest expense from the date of issuance or acquisition through the contractual maturity date of the related debt.

Noncontrolling Interests - Common Units of the Operating Partnership in the Company's Consolidated Financial Statements

Common units of the Operating Partnership within noncontrolling interests in the Company's consolidated financial statements represent the common limited partnership interests in the Operating Partnership not held by the Company ("noncontrolling common units"). Noncontrolling common units are presented in the equity section of the Company's consolidated balance sheets and are reported at their proportionate share of the net assets of the Operating Partnership. Noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or shares of common stock must be further evaluated to determine whether equity or temporary equity classification on the balance sheet is appropriate. Since the common units contain such a provision, we evaluated the accounting guidance and determined that the common units qualify for equity presentation in the Company's consolidated financial statements. Net income attributable to noncontrolling common units is allocated based on their relative ownership percentage of the Operating Partnership during the reported period. The noncontrolling interest ownership percentage is determined by dividing the number of noncontrolling common units by the total number of common units outstanding. The issuance or redemption of additional shares of common stock or common units results in changes to the noncontrolling interest percentage as well as the total net assets of the Company. As a result, all equity transactions result in an allocation between equity and the noncontrolling interest in the Company's consolidated balance sheets and statements of equity to account for the changes in the noncontrolling interest ownership percentage as well as the change in total net assets of the Company.

Noncontrolling Interests in Consolidated Property Partnerships

Noncontrolling interests in consolidated property partnerships represent the equity interests held by unrelated third parties in our three consolidated property partnerships (see Note 11 "Noncontrolling Interests on the Company's Consolidated Financial Statements" and see Note 12 "Noncontrolling Interests on the Operating Partnership's Consolidated Financial Statements"). Noncontrolling interests in consolidated property partnerships are not redeemable and are presented as permanent equity in the Company's consolidated balance sheets. We account for the noncontrolling interests in consolidated property partnerships using the hypothetical liquidation at book value ("HLBV") method to attribute the earnings or losses of the consolidated property partnerships between the controlling and noncontrolling interests. Under the HLBV method, the amounts reported as noncontrolling interests in consolidated property partnerships in the consolidated balance sheets represent the amounts the noncontrolling interests would hypothetically receive at each balance sheet reporting date under the liquidation provisions of the governing agreements assuming the net assets of the consolidated property partnerships were liquidated at recorded amounts and distributed between the controlling and noncontrolling interests in accordance with the governing documents. The net income attributable to noncontrolling interests in consolidated property partnerships in the consolidated statements of operations is associated with the increase or decrease in the noncontrolling interest holders' contractual claims on the respective entities' balance sheets assuming a hypothetical liquidation at the end of that reporting period when compared with their claims on the respective entities' balance sheets assuming a hypothetical liquidation at the beginning of that reporting period, after removing any contributions or distributions.

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Preferred Stock on the Company's Consolidated Balance Sheets

Preferred stock of the Company as of December 31, 2016 represented the then publicly issued and outstanding 4,000,000 6.875% Series G Cumulative Redeemable Preferred Stock ("Series G Preferred Stock") and the 4,000,000 6.375% Series H Cumulative Redeemable Preferred Stock ("Series H Preferred Stock"). As of December 31, 2016, the Series G and Series H Preferred Stock were presented in the permanent equity section of the Company's consolidated balance sheets given that the Series G and Series H Preferred Units could only be redeemed at our option. The Company redeemed all 4,000,000 shares of the Series G Preferred Stock and all 4,000,000 shares of the Series H Preferred Stock on March 30, 2017 and August 15, 2017, respectively (see Note 13 "Stockholders' Equity of the Company").

Preferred Partnership Interests on the Operating Partnership's Consolidated Balance Sheets

Preferred partnership interests of the Operating Partnership as of December 31, 2016 represented the then issued and outstanding 4,000,000 6.875% Series G Cumulative Redeemable Preferred Units ("Series G Preferred Units") and the 4,000,000 6.375% Series H Cumulative Redeemable Preferred Units ("Series H Preferred Units"). As of December 31, 2016, the Series G and Series H Preferred Units were presented in the permanent equity section of the Operating Partnership's consolidated balance sheets given that the Series G and Series H Preferred Units could only be redeemed at our option. The Company was the holder of both the Series G and Series H Preferred Units and for each Series G and Series H Preferred Unit the Company had an equivalent number of shares of the Company's 6.875% Series G Cumulative Redeemable Preferred Stock ("Series G Preferred Stock") and shares of the Company's 6.375% Series H Cumulative Redeemable Preferred Stock ("Series H Preferred Stock") publicly issued and outstanding. The Company redeemed all 4,000,000 shares of the Series G Preferred Stock and all 4,000,000 shares of the Series H Preferred Stock on March 30, 2017 and August 15, 2017, respectively, resulting in the Operating Partnership redeeming the Series G and Series H Preferred Units on the same dates (see Note 14 "Preferred and Common Units of the Operating Partnership").

Common Partnership Interests on the Operating Partnership's Consolidated Balance Sheets

The common units held by the Company and the noncontrolling common units held by the common limited partners are both presented in the permanent equity section of the Operating Partnership's consolidated balance sheets in partners' capital. The redemption rights of the noncontrolling common units permit us to settle the redemption obligation in either cash or shares of the Company's common stock at our option (see Note 11 "Noncontrolling Interests on the Company's Consolidated Financial Statements" for additional information).

Noncontrolling Interests on the Operating Partnership's Consolidated Financial Statements

Noncontrolling interests in the Operating Partnership's consolidated financial statements include the noncontrolling interest in property partnerships (see Note 12 "Noncontrolling Interests on the Operating Partnership's Consolidated Financial Statements") and the Company's 1.0% general partnership interest in the Finance Partnership. The 1.0% general partnership interest in the Finance Partnership noncontrolling interest is presented in the permanent equity section of the Operating Partnership's consolidated balance sheets given that these interests are not convertible or redeemable into any other ownership interest of the Company or the Operating Partnership.

Equity Offerings

Underwriting commissions and offering costs incurred in connection with common equity offerings and our at-the-market stock offering program (see Note 13 "Stockholders' Equity of the Company") are reflected as a reduction of additional paid-in capital. Issuance costs incurred in connection with preferred equity offerings are reflected as a reduction of the carrying value of the preferred equity.

The Company records preferred stock issuance costs as a non-cash preferred equity distribution at the time we notify the holders of preferred stock or units of our intent to redeem such shares or units. Refer to Notes 13 "Stockholders' Equity of the Company" and 14 "Partners' Capital of the Operating Partnership" for details related to the redemption of the Series G and Series H Preferred Stock.

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The net proceeds from any equity offering of the Company are generally contributed to the Operating Partnership in exchange for a number of common or preferred units equivalent to the number of shares of common or preferred stock issued and are reflected in the Operating Partnership's consolidated financial statements as an increase in partners' capital.

Share-based Incentive Compensation Accounting

Compensation cost for all share-based awards, including options, requires measurement at estimated fair value on the grant date. Compensation cost is recognized on a straight-line basis over the service vesting period, which represents the requisite service period. The grant date fair value of market measure-based share-based compensation plans are calculated using a Monte Carlo simulation pricing model. The grant date fair value of stock option grants is calculated using the Black-Scholes valuation model. Equity awards settled in cash are valued at the fair value of our common stock on the period end date through the settlement date. Equity awards settled in cash are remeasured at each reporting period and are recognized as a liability in the consolidated balance sheet during the vesting period until settlement. Forfeitures of all share-based awards are recognized when they occur as forfeitures generally are not common or expected and have not historically been significant.

For share-based awards in which the performance period precedes the grant date, we recognize compensation cost over the requisite service period, which includes both the performance and service vesting periods, using the accelerated attribution expense method. The requisite service period begins on the date the Executive Compensation Committee authorizes the award and adopts any relevant performance measures.

For share-based awards with performance-based measures, the total estimated compensation cost is based on our most recent estimate of the probable achievement of the pre-established specific corporate performance measures. These estimates are based on our latest internal forecasts for each performance measure. For share-based awards with market measures, the total estimated compensation cost is based on the fair value of the award at the grant date. For share-based awards with performance-based measures and market measures, the total estimated compensation cost is based on the fair value per share at the grant date multiplied by our most recent estimate of the number of shares to be earned based on the probable achievement of the pre-established corporate performance measures based on our latest internal forecasts.

In accordance with the provisions of our share-based incentive compensation plan, we accept the return of shares of Company common stock, at the current quoted market price, from employees to satisfy minimum statutory tax-withholding requirements related to shares that vested during the period.

For share-based awards granted by the Company, the Operating Partnership issues a number of common units equal to the number of shares of common stock ultimately granted by the Company in respect of such awards.

Basic and Diluted Net Income Available to Common Stockholders per Share

Basic net income available to common stockholders per share is computed by dividing net income available to common stockholders, after preferred distributions and the allocation of income to participating securities, by the weighted-average number of shares of common stock outstanding for the period. Diluted net income available to common stockholders per share is computed by dividing net income available for common stockholders, after preferred distributions and the allocation of income to participating securities, by the sum of the weighted-average number of shares of common stock outstanding for the period plus the assumed exercise of all dilutive securities. The impact of the outstanding common units is considered in the calculation of diluted net income available to common stockholders per share. The common units are not reflected in the diluted net income available to common stockholders per share calculation because the exchange of common units into common stock is on a one for one basis, and the common units are allocated net income on a per share basis equal to the common stock (see Note 20 "Net Income Available to Common Stockholders Per Share of the Company"). Accordingly, any exchange would not have any effect on diluted net income (loss) available to common stockholders per share.

Nonvested share-based payment awards (including nonvested restricted stock units ("RSUs"), vested market-measure RSUs and vested dividend equivalents issued to holders of RSUs) containing nonforfeitable rights to dividends or dividend equivalents are accounted for as participating securities and included in the computation of basic and diluted

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net income available to common stockholders per share pursuant to the two-class method. The dilutive effect of stock options is reflected in the weighted average diluted outstanding shares calculation by application of the treasury stock method. The dilutive effect of the outstanding nonvested shares of common stock (“nonvested shares”) and RSUs that have not yet been granted but are contingently issuable under the share-based compensation programs is reflected in the weighted average diluted shares calculation by application of the treasury stock method at the beginning of the quarterly period in which all necessary conditions have been satisfied.

Basic and Diluted Net Income Available to Common Unitholders per Unit

Basic net income available to common unitholders per unit is computed by dividing net income available to common unitholders, after preferred distributions and the allocation of income to participating securities, by the weighted-average number of vested common units outstanding for the period. Diluted net income available to common unitholders per unit is computed by dividing net income available to common unitholders, after preferred distributions and the allocation of income to participating securities, by the sum of the weighted-average number of common units outstanding for the period plus the assumed exercise of all dilutive securities.

The dilutive effect of stock options, outstanding nonvested shares, RSUs, and awards containing nonforfeitable rights to dividend equivalents are reflected in diluted net income available to common unitholders per unit in the same manner as noted above for net income available to common stockholders per share.

Fair Value Measurements

The fair values of our financial assets and liabilities are disclosed in Note 19, “Fair Value Measurements and Disclosures,” to our consolidated financial statements. The only financial assets recorded at fair value on a recurring basis in our consolidated financial statements are our marketable securities. We elected not to apply the fair value option for any of our eligible financial instruments or other items.

We determine the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. This hierarchy requires the use of observable market data when available. The following is the fair value hierarchy:

- *Level 1* – quoted prices for identical instruments in active markets;
- *Level 2* – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- *Level 3* – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We determine the fair value for the marketable securities using quoted prices in active markets for identical assets. Our other financial instruments, which are only disclosed at fair value, are comprised of secured debt, unsecured senior notes, unsecured line of credit and unsecured term loan facility.

We generally determine the fair value of our secured debt, unsecured debt, and unsecured line of credit by performing discounted cash flow analyses using an appropriate market discount rate. We calculate the market rate by obtaining period-end treasury rates for maturities that correspond to the maturities of our fixed-rate debt and then adding an appropriate credit spread based on information obtained from third-party financial institutions. These credit spreads take into account factors, including but not limited to, our credit profile, the tenure of the debt, amortization period, whether the debt is secured or unsecured, and the loan-to-value ratio of the debt to the collateral. These calculations are significantly affected by the assumptions used, including the discount rate, credit spreads and estimates of future cash flow. We calculate the market rate of our unsecured line of credit, unsecured term loan facility, and unsecured term loan by obtaining the period-end London Interbank Offered Rate (“LIBOR”) and then adding an appropriate credit spread based on our credit ratings, and the amended terms of our unsecured line of credit, unsecured term loan facility,

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and unsecured term loan agreement. We determine the fair value of each of our publicly traded unsecured senior notes based on their quoted trading price at the end of the reporting period, if such prices are available.

Carrying amounts of our cash and cash equivalents, restricted cash and accounts payable approximate fair value due to their short-term maturities.

Income Taxes

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code. To qualify as a REIT, we must distribute annually at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders and satisfy certain other organizational and operating requirements. We generally will not be subject to federal income taxes if we distribute 100% of our taxable income for each year to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and we may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property and to federal income taxes and excise taxes on our undistributed taxable income. We believe that we have met all of the REIT distribution and technical requirements for the years ended December 31, 2017, 2016 and 2015, and we were not subject to any federal income taxes (see Note 24 “Tax Treatment of Distributions” for additional information). We intend to continue to adhere to these requirements and maintain the Company’s REIT status. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

In addition, any taxable income from our taxable REIT subsidiary, which was formed in 2002, is subject to federal, state, and local income taxes. For the years ended December 31, 2017, 2016 and 2015 the taxable REIT subsidiary had *de minimis* taxable income.

Uncertain Tax Positions

We include favorable tax positions in the calculation of tax liabilities if it is more likely than not that our adopted tax position will prevail if challenged by tax authorities.

We evaluated the potential impact of identified uncertain tax positions for all tax years still subject to audit under state and federal income tax law and concluded that we did not have any unrecognized tax benefits or any additional tax liabilities as of December 31, 2017 or 2016. As of December 31, 2017, the years still subject to audit are 2013 through 2017 under the California state income tax law and 2014 through 2017 under the federal income tax law.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Segments

We currently operate in one operating segment, our office properties segment.

Concentration of Credit Risk

All of our properties and development and redevelopment projects are owned and all of our business is currently conducted in the state of California with the exception of the ownership and operation of twelve office properties and one development project under construction located in the state of Washington. The ability of tenants to honor the terms of their leases is dependent upon the economic, regulatory, and social factors affecting the communities in which our tenants operate.

As of December 31, 2017, our 15 largest tenants represented approximately 40.3% of total annualized base rental revenues, of which 5.0% was attributable to our largest tenant.

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We have deposited cash with financial institutions that is insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per institution. As of December 31, 2017 and 2016, we had cash accounts in excess of FDIC insured limits.

Accounting Standards Issued But Not Yet Effective at December 31, 2017

Accounting Pronouncements Adopted January 1, 2018

Revenue From Contracts with Customers

Effective January 1, 2018, we adopted FASB ASU No. 2014-09 “Revenue From Contracts with Customers (Topic 606)” (“ASU 2014-09”) and the related FASB ASU Nos. 2016-12 and 2016-20, which provide practical expedients, technical corrections, and improvements for certain aspects of ASU 2014-09, on a modified retrospective basis. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes most of the existing revenue recognition guidance.

In connection with our long term project on this standard, we evaluated each of the Company’s revenue streams to determine the sources of revenue that are impacted by ASU 2014-09 and concluded that only sales of real estate and certain of our multi-tenant parking arrangements fall under the scope of Topic 606. Specifically, we evaluated the impact of the guidance on timing of gain recognition for dispositions and concluded there was no impact to our consolidated financial statements given the simplicity of the Company’s historical disposition transactions and no pending sales of real estate as of December 31, 2017. In addition, we also evaluated the impact of the guidance on the timing and pattern of revenue recognition for certain of our multi-tenant parking arrangements that fall under the scope of Topic 606 and determined there was no change in the timing or pattern of revenue recognition for such arrangements as compared to current accounting practice. Therefore we have concluded that adoption of the new revenue recognition guidance did not have an impact on our consolidated financial statements or notes to our consolidated financial statements.

Other Pronouncements Adopted January 1, 2018

Effective January 1, 2018 we adopted FASB ASU No. 2017-09 “Compensation - Stock Compensation (Topic 718)” on a prospective basis. Under the guidance, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions, and classification as an equity or liability instrument remain the same immediately before and after the change. The adoption of this guidance did not have an impact on our consolidated financial statements or notes to our consolidated financial statements.

Effective January 1, 2018 we adopted FASB ASU No. 2017-05 “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)” (“ASU 2017-05”) on a retrospective basis. This standard clarifies the scope of the original guidance within Subtopic 610-20 “Gains and Losses from the Derecognition of Nonfinancial Assets” that was issued in connection with ASU 2014-09 “Revenue From Contracts with Customers” which provided guidance for recognizing gains and losses from the transfer of nonfinancial assets in transactions with noncustomers. Additionally, ASU 2017-05 adds guidance pertaining to the partial sales of real estate and clarifies that nonfinancial assets within the scope of Accounting Standards Codification Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. For example, a parent may transfer control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary. The adoption of this guidance did not have an impact on our consolidated financial statements or notes to our consolidated financial statements.

Effective January 1, 2018 we adopted FASB ASU No. 2016-15 (“ASU 2016-15”) which provides guidance where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, on a retrospective basis. The adoption of this guidance did not have an impact on our consolidated financial statements or notes to our consolidated financial statements.

Effective January 1, 2018 we adopted FASB ASU No. 2016-01 (“ASU 2016-01”) which amends the accounting guidance on the classification and measurement of financial instruments. The standard requires that all investments in equity securities, including other ownership interests, are reported at fair value with changes in fair value reported in net income. This requirement does not apply to investments that qualify for equity method accounting or to those that

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result in consolidation of the investee or for which the entity has elected the predictability exception to fair value measurement. Additionally, the standard requires that the portion of the total fair value change caused by a change in instrument-specific credit risk for financial liabilities for which the fair value option has been elected would be recognized in other comprehensive income. Any accumulated amount remaining in other comprehensive income is reclassified to earnings when the liability is extinguished. The adoption of this guidance did not have an impact on our consolidated financial statements or notes to our consolidated financial statements since our only financial assets are the marketable securities related to our deferred compensation plan which are recorded as trading securities which are reported at fair value and marked to market through earnings each reporting period.

Accounting Pronouncements Effective January 1, 2019

Leases

On February 25, 2016, the FASB issued ASU No. 2016-02 “Leases (Topic 842)” (“ASU 2016-02”) to amend the accounting guidance for leases. The accounting applied by a lessor is largely unchanged under ASU 2016-02. However, the standard requires lessees to recognize lease assets and lease liabilities for leases classified as operating leases on the balance sheet. Lessees will recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it will recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted.

In January 2018, the FASB released an exposure draft to ASU No. 2016-02 that if issued in its current form would (1) simplify transition requirements for both lessees and lessors by adding an option that would permit an organization to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and, (2) provide a practical expedient for lessors that would permit lessors to not be required to separate nonlease components from the associated lease components if certain conditions are met.

We continue to have an active project team, led by senior accounting management, that is proactively working to analyze and evaluate the impact of the guidance and the proposed exposure draft on our consolidated financial statements. For leases where we are the lessor, we currently believe that we would be able to elect the practical expedient proposed in the exposure draft and would not be required to separately bifurcate and report common area maintenance revenue for operating leases on our consolidated statements of operations. We also currently believe that such leases would be accounted for in a similar method to existing standards with the underlying leased asset being reported and recognized as a real estate asset.

ASU 2016-02 also specifies that upon adoption, lessors will no longer be able to capitalize and amortize certain leasing related costs and instead will only be permitted to capitalize and amortize incremental direct leasing costs. As a result, we have concluded that upon the adoption of the standard, we will be required to expense as incurred certain leasing costs we are currently able to capitalize and amortize as deferred leasing costs under existing guidance. We are currently in the process of analyzing the impact of this change in the guidance and we currently believe this change will have a material impact to the Company’s consolidated financial statements and results of operations upon adoption of the standard.

For leases where we are the lessee, specifically for our ground leases, we currently believe that the adoption of the standard will significantly change the accounting on our consolidated balance sheets since both existing ground leases and any future ground leases will be required to be recorded on the Company’s consolidated balance sheets as an obligation of the Company. We currently believe that existing ground leases executed before the January 1, 2019 adoption date will continue to be accounted for as operating leases and will not have a material impact on our recognition of ground lease expense or our results of operations. However, we believe that we will be required to recognize a right of use asset and a lease liability on our consolidated balance sheets equal to the present value of the minimum lease payments required in accordance with each ground lease. As of December 31, 2017, our future undiscounted minimum rental payments under these leases totaled \$251.4 million, with several of the leases containing provisions for rental payments to fluctuate based on fair market value and operating income measurements with expirations through 2093. In addition, we currently believe that for new ground leases entered into after the adoption date of the new standard, such leases could be required to be accounted for as a financing type lease, resulting in ground lease expense recorded

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using the effective interest method instead of on a straight-line basis over the term of the lease. This could have a significant impact on our results of operations if we enter into material new ground leases after the date of adoption since ground lease expense calculated using the effective interest method results in an increased amount of ground lease expense in the earlier years of a ground lease as compared to the current straight-line method.

We currently expect to adopt ASU 2016-02 using the practical expedients proposed in the standard and the proposed exposure draft if issued in final form.

Accounting Pronouncements Effective 2020 and Beyond

On June 16, 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”) to amend the accounting for credit losses for certain financial instruments. Under the new guidance, an entity recognizes its estimate of expected credit losses as an allowance, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not currently anticipate that the guidance will have a material impact on our consolidated financial statements or notes to our consolidated financial statements.

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3. Acquisitions

Operating Property Acquisitions

We did not acquire any operating properties during the year ended December 31, 2017. During the year ended December 31, 2016 we acquired the seven operating properties listed below in three transactions with unrelated third parties.

<u>Property</u>	<u>Date of Acquisition</u>	<u>Number of Buildings</u>	<u>Rentable Square Feet (unaudited)</u>	<u>Occupancy as of December 31, 2016 (unaudited)</u>	<u>Purchase Price (in millions) ⁽¹⁾</u>
2016 Acquisitions					
1290-1300 Terra Bella Avenue, Mountain View, CA ⁽²⁾	June 8, 2016	1	114,175	100.0%	\$ 55.4
8560-8590 West Sunset Blvd., West Hollywood, CA ⁽³⁾	December 7, 2016	4	178,699	87.5%	209.2
1701 Page Mill Rd. and 3150 Porter Dr., Palo Alto, CA ⁽⁴⁾	December 19, 2016	2	165,585	100.0%	130.0
Total ⁽⁵⁾		<u>7</u>	<u>458,459</u>		<u>\$ 394.6</u>

- (1) Excludes acquisition-related costs and non-lease related accrued liabilities assumed. Includes assumed unpaid leasing commissions and tenant improvements.
(2) In connection with this acquisition, the Company assumed \$0.2 million in accrued liabilities that are not included in the purchase price above.
(3) This acquisition encompasses a 10-story office tower, three retail buildings, a four-level subterranean parking structure and three billboards. In connection with this acquisition, the Company assumed \$0.1 million in accrued liabilities that are not included in the purchase price above.
(4) In connection with this acquisition, the Company entered into a long-term ground lease expiring in December 2067.
(5) The results of operations for the properties acquired during 2016 contributed \$5.2 million and \$1.7 million to revenue and net income from continuing operations, respectively, for the year ended December 31, 2016.

The related assets, liabilities and results of operations of the acquired properties are included in the consolidated financial statements as of the date of acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the respective acquisition dates for our 2016 operating property acquisitions:

<u>Acquisitions</u>	<u>Total 2016 Acquisitions ⁽¹⁾</u>
<u>Assets</u>	<u>(in thousands)</u>
Land and improvements	\$ 120,110
Buildings and improvements ⁽²⁾	259,301
Deferred leasing costs and acquisition-related intangible assets ⁽³⁾	33,529
Total assets acquired	<u>412,940</u>
<u>Liabilities</u>	
Accounts payable, accrued expenses and other liabilities	1,122
Deferred revenue and acquisition-related intangible liabilities ⁽⁴⁾	18,050
Total liabilities assumed	<u>19,172</u>
Net assets and liabilities acquired	<u>\$ 393,768</u>

- (1) The purchase price of the three acquisitions completed during the year ended December 31, 2016 were individually less than 5% and in aggregate less than 10% of the Company's total assets as of December 31, 2015.
(2) Represents buildings, building improvements and tenant improvements.
(3) Represents in-place leases (approximately \$27.1 million with a weighted average amortization period of 3.9 years), above-market leases (approximately \$0.6 million with weighted average amortization period of 15.8 years) and leasing commissions (approximately \$5.8 million with a weighted average amortization period of 5.1 years).
(4) Represents below-market leases (approximately \$18.1 million with a weighted average amortization period of 8.4 years)

Development Project Acquisitions

On October 10, 2017, the Company completed the acquisition of a 1.2 acre development site located in the Little Italy neighborhood of downtown San Diego, California in three separate transactions from separate unrelated third parties for a total purchase price of \$19.4 million and the assumption of \$1.4 million of accrued liabilities.

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During the year ended December 31, 2016 we acquired an approximately 1.75 acre development site located at 610-620 Brannan Street in San Francisco, California from an unrelated third party. This land parcel is immediately adjacent to our Flower Mart project in the SOMA submarket of San Francisco. The acquisition was funded through \$31.0 million in cash and the issuance of 867,701 common units in the Operating Partnership valued at approximately \$48.0 million (see Note 14). In addition, the Company paid \$2.4 million in seller transaction costs and recorded \$4.7 million in accrued liabilities in connection with this acquisition.

Acquisition Costs

During the years ended December 31, 2017, 2016, and 2015, we capitalized \$4.6 million, \$0.5 million, and \$1.1 million, respectively, of acquisition costs. During the years ended December 31, 2016 and 2015, we expensed \$1.9 million and \$0.5 million of acquisition costs, respectively.

4. Dispositions and Real Estate Assets Held for Sale

Operating Property Dispositions

The following table summarizes the operating properties sold during the years ended December 31, 2017, 2016 and 2015:

Location	Month of Disposition	Number of Buildings	Rentable Square Feet (unaudited)	Sales Price (in millions) ⁽¹⁾
2017 Dispositions				
5717 Pacific Center Boulevard, San Diego, CA ⁽²⁾	January	1	67,995	\$ 12.1
Sorrento Mesa and Mission Valley Properties ⁽³⁾	September	10	675,143	174.5
Total 2017 Dispositions		<u>11</u>	<u>743,138</u>	<u>\$ 186.6</u>
2016 Dispositions				
Torrey Santa Fe Properties ⁽⁴⁾	January	4	465,812	\$ 262.3
4930, 4939 & 4955 Directors Place, San Diego, CA ⁽⁵⁾	July	2	136,908	49.0
Total 2016 Dispositions		<u>6</u>	<u>602,720</u>	<u>\$ 311.3</u>
2015 Dispositions				
15050 NE 36th Street, Redmond, WA	April	1	122,103	\$ 51.2
San Diego Properties - Tranches 1 and 2 ⁽⁶⁾	April/July	9	924,291	258.0
Total 2015 Dispositions		<u>10</u>	<u>1,046,394</u>	<u>\$ 309.2</u>

(1) Represents gross sales price before the impact of broker commissions and closing costs.

(2) This property was classified as held for sale at December 31, 2016.

(3) The Sorrento Mesa and Mission Valley Properties includes the following properties: 10390, 10394, 10398, 10421, 10445 and 10455 Pacific Center Court, 2355, 2365, 2375 and 2385 Northside Drive and Pacific Corporate Center - Lot 8, a 5.0 acre undeveloped land parcel. We recognized a gain on sale of land of \$0.4 million related to the sale of Pacific Corporate Center - Lot 8 during the year ended December 31, 2017.

(4) The Torrey Santa Fe Properties include the following properties: 7525, 7535, 7545 and 7555 Torrey Santa Fe. These properties were classified as held for sale at December 31, 2015.

(5) Includes two operating properties totaling 136,908 rentable square feet and a 7.0 acre undeveloped land parcel.

(6) The San Diego Properties - Tranche 1 includes the following properties: 10770 Wateridge Circle, 6200 and 6220 Greenwich Drive. The San Diego Properties - Tranche 2 includes the following properties: 6260, 6290, 6310, 6340, 6350 Sequence Drive and 4921 Directors Place.

The total gains on the sales of the properties sold during the years ended December 31, 2017, 2016 and 2015 were \$39.5 million, \$164.3 million and \$110.0 million, respectively.

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Operating Properties Held for Sale

We did not have any properties classified as held for sale as of December 31, 2017. As of December 31, 2016, the property listed below was classified as held for sale.

Properties	Submarket	Property Type	Number of Buildings	Rentable Square Feet (unaudited)
2016 Held for Sale				
5717 Pacific Center Drive ⁽¹⁾	Sorrento Mesa	Office	1	67,995

(1) In January 2017, the Company completed the sale of this property for a total sales price of \$12.1 million as indicated on the table above.

The major classes of assets and liabilities of the property held for sale as of December 31, 2016 were as follows:

	December 31, 2016 (in thousands)
Real estate assets and other assets held for sale	
Land and improvements	\$ 2,693
Buildings and improvements	10,500
Total real estate held for sale	13,193
Accumulated depreciation and amortization	(3,900)
Total real estate held for sale, net	9,293
Prepaid expenses and other assets, net	124
Real estate and other assets held for sale, net	\$ 9,417
Liabilities of real estate assets held for sale	
Accounts payable, accrued expenses and other liabilities	\$ 56
Liabilities of real estate assets held for sale	\$ 56

Land Dispositions

The following table summarizes the land dispositions completed during the years ended December 31, 2016 and 2015:

Properties	Submarket	Month of Disposition	Gross Site Acreage (unaudited)	Sales Price ⁽¹⁾ (in millions)
2016 Land Dispositions				
Carlsbad Oaks - Lot 7 ⁽²⁾	Carlsbad	January	7.6	\$ 4.5
Carlsbad Oaks - Lots 4 & 5	Carlsbad	June	11.2	6.0
Carlsbad Oaks - Lot 8	Carlsbad	June	13.2	8.9
Total 2016 Land Dispositions ⁽³⁾⁽⁴⁾			32.0	\$ 19.4
2015 Land Disposition				
17150 Von Karman ⁽⁴⁾	Irvine	January	8.5	\$ 26.0

(1) Represents gross sales price before the impact of commissions and closing costs.

(2) This land parcel was classified as held for sale as of December 31, 2015.

(3) In connection with these land dispositions, \$2.3 million of secured debt was assumed by the buyers.

(4) The 2016 land dispositions resulted in a net loss on sales of \$0.3 million and the 2015 land disposition resulted in gain on sale of \$17.3 million.

Restricted Cash Related to Dispositions

We did not have any restricted cash related to dispositions or Section 1031 Exchanges as of December 31, 2017. As of December 31, 2016 approximately \$48.4 million of net proceeds related to the land and operating property dispositions during the year ended December 31, 2016 was temporarily held at a qualified intermediary, at our direction, for the purpose of facilitating Section 1031 Exchanges. During January 2017, the Section 1031 Exchange was successfully completed and the cash proceeds were released from the qualified intermediary.

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5. Deferred Leasing Costs and Acquisition-related Intangible Assets and Liabilities, net

The following table summarizes our deferred leasing costs and acquisition-related intangible assets (acquired value of leasing costs, above-market operating leases, in-place leases and below-market ground lease obligation) and intangible liabilities (acquired value of below-market operating leases and above-market ground lease obligation) as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
	(in thousands)	
Deferred Leasing Costs and Acquisition-related Intangible Assets, net:		
Deferred leasing costs	\$ 248,598	\$ 239,958
Accumulated amortization	(101,917)	(89,633)
Deferred leasing costs, net	146,681	150,325
Above-market operating leases	4,199	10,304
Accumulated amortization	(3,068)	(6,933)
Above-market operating leases, net	1,131	3,371
In-place leases	82,097	94,813
Accumulated amortization	(46,625)	(40,593)
In-place leases, net	35,472	54,220
Below-market ground lease obligation	490	490
Accumulated amortization	(46)	(38)
Below-market ground lease obligation, net	444	452
Total deferred leasing costs and acquisition-related intangible assets, net	<u>\$ 183,728</u>	<u>\$ 208,368</u>
Acquisition-related Intangible Liabilities, net: ⁽¹⁾		
Below-market operating leases	\$ 65,440	\$ 69,472
Accumulated amortization	(40,495)	(33,689)
Below-market operating leases, net	24,945	35,783
Above-market ground lease obligation	6,320	6,320
Accumulated amortization	(626)	(525)
Above-market ground lease obligation, net	5,694	5,795
Total acquisition-related intangible liabilities, net	<u>\$ 30,639</u>	<u>\$ 41,578</u>

(1) Included in deferred revenue and acquisition-related intangible liabilities, net in the consolidated balance sheets.

The following table sets forth amortization related to deferred leasing costs and acquisition-related intangibles for the years ended December 31, 2017, 2016 and 2015.

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Deferred leasing costs ⁽¹⁾	\$ 31,675	\$ 28,639	\$ 27,866
Above-market operating leases ⁽²⁾	2,240	1,509	2,532
In-place leases ⁽¹⁾	18,650	11,676	14,622
Below-market ground lease obligation ⁽³⁾	8	8	8
Below-market operating leases ⁽⁴⁾	(10,768)	(8,674)	(10,980)
Above-market ground lease obligation ⁽⁵⁾	(101)	(101)	(101)
Total	<u>\$ 41,704</u>	<u>\$ 33,057</u>	<u>\$ 33,947</u>

(1) The amortization of deferred leasing costs and in-place leases is recorded to depreciation and amortization expense and the amortization of lease incentives is recorded as a reduction to rental income in the consolidated statements of operations for the periods presented.

(2) The amortization of above-market operating leases is recorded as a decrease to rental income in the consolidated statements of operations for the periods presented.

(3) The amortization of the below-market ground lease obligation is recorded as an increase to ground lease expense in the consolidated statements of operations for the periods presented.

(4) The amortization of below-market operating leases is recorded as an increase to rental income in the consolidated statements of operations for the periods presented.

(5) The amortization of the above-market ground lease obligation is recorded as a decrease to ground lease expense in the consolidated statements of operations for the periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table sets forth the estimated annual amortization expense related to deferred leasing costs and acquisition-related intangibles as of December 31, 2017 for future periods:

Year	Deferred Leasing Costs	Above-Market Operating Leases ⁽¹⁾	In-Place Leases	Below-Market Ground Lease Obligation ⁽²⁾	Below-Market Operating Leases ⁽³⁾	Above-Market Ground Lease Obligation ⁽⁴⁾
(in thousands)						
2018	\$ 30,033	\$ 395	\$ 13,286	\$ 8	\$ (9,456)	\$ (101)
2019	25,501	207	8,850	8	(6,854)	(101)
2020	20,085	53	5,610	8	(3,942)	(101)
2021	16,048	53	2,508	8	(1,253)	(101)
2022	13,332	40	1,708	8	(790)	(101)
Thereafter	41,682	383	3,510	404	(2,650)	(5,189)
Total	\$ 146,681	\$ 1,131	\$ 35,472	\$ 444	\$ (24,945)	\$ (5,694)

- (1) Represents estimated annual amortization related to above-market operating leases. Amounts will be recorded as a decrease to rental income in the consolidated statements of operations.
- (2) Represents estimated annual amortization related to below-market ground lease obligations. Amounts will be recorded as an increase to ground lease expense in the consolidated statements of operations.
- (3) Represents estimated annual amortization related to below-market operating leases. Amounts will be recorded as an increase to rental income in the consolidated statements of operations.
- (4) Represents estimated annual amortization related to above-market ground lease obligations. Amounts will be recorded as a decrease to ground lease expense in the consolidated statements of operations.

6. Receivables

Current Receivables, net

Current receivables, net is primarily comprised of contractual rents and other lease-related obligations due from tenants. The balance consisted of the following as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
(in thousands)		
Current receivables	\$ 19,235	\$ 15,172
Allowance for uncollectible tenant receivables	(2,309)	(1,712)
Current receivables, net	\$ 16,926	\$ 13,460

Deferred Rent Receivables, net

Deferred rent receivables, net consisted of the following as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
(in thousands)		
Deferred rent receivables	\$ 249,629	\$ 220,501
Allowance for deferred rent receivables	(3,238)	(1,524)
Deferred rent receivables, net	\$ 246,391	\$ 218,977

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7. Prepaid Expenses and Other Assets, Net

Prepaid expenses and other assets, net consisted of the following at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
	(in thousands)	
Furniture, fixtures and other long-lived assets, net	\$ 39,686	\$ 4
Notes receivable ⁽¹⁾	19,912	1
Prepaid expenses & acquisition deposits	55,108	1
Total Prepaid Expenses and Other Assets, Net	\$ 114,706	\$ 7

(1) Our notes receivables are held by two unrelated third parties. Approximately \$15.1 million of our notes receivable balance was secured by real estate as of December 31, 2017 and 2016.

8. Secured and Unsecured Debt of the Company

In this Note 8, the “Company” refers solely to Kilroy Realty Corporation and not to any of our subsidiaries. The Company itself does not hold any indebtedness. All of our secured and unsecured debt is held directly by the Operating Partnership.

The Company generally guarantees all the Operating Partnership’s unsecured debt obligations including the unsecured revolving credit facility, the \$150.0 million unsecured term loan facility and all of the unsecured senior notes. At December 31, 2017 and 2016, the Operating Partnership had \$2.0 billion and \$1.8 billion, respectively, outstanding in total, including unamortized discounts and deferred financing costs, under these unsecured debt obligations.

In addition, although the remaining \$0.3 billion and \$0.5 billion of the Operating Partnership’s debt as of December 31, 2017 and 2016, respectively, is secured and non-recourse to the Company, the Company provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities.

Debt Covenants and Restrictions

One of the covenants contained within the unsecured revolving credit facility and the unsecured term loan facility as discussed further below in Note 9 prohibits the Company from paying dividends during an event of default in excess of an amount which results in distributions to us in an amount sufficient to permit us to pay dividends to our stockholders that we reasonably believe are necessary to (a) maintain our qualification as a REIT for federal and state income tax purposes and (b) avoid the payment of federal or state income or excise tax.

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9. Secured and Unsecured Debt of the Operating Partnership

Secured Debt

The following table sets forth the composition of our secured debt as of December 31, 2017 and 2016:

<u>Type of Debt</u>	<u>Annual Stated Interest Rate</u> ⁽¹⁾	<u>GAAP Effective Rate</u> ⁽¹⁾⁽²⁾	<u>Maturity Date</u>	<u>December 31,</u>	
				<u>2017</u>	<u>2016</u>
(in thousands)					
Mortgage note payable	3.57%	3.57%	December 2026	\$ 170,000	\$ 170,000
Mortgage note payable ⁽³⁾	4.48%	4.48%	July 2027	93,081	94,754
Mortgage note payable ⁽³⁾⁽⁴⁾	6.05%	3.50%	June 2019	78,894	82,443
Mortgage note payable ⁽³⁾⁽⁵⁾	4.27%	4.27%	February 2018	—	125,756
Mortgage note payable ⁽⁶⁾	7.15%	7.15%	May 2017	—	1,215
Total secured debt				\$ 341,975	\$ 474,168
Unamortized Deferred Financing Costs				(1,175)	(1,396)
Total secured debt, net				\$ 340,800	\$ 472,772

(1) All interest rates presented are fixed-rate interest rates.

(2) Represents the effective interest rate including the amortization of initial issuance discounts/premiums excluding the amortization of deferred financing costs.

(3) The secured debt and the related properties that secure the debt are held in a special purpose entity and the properties are not available to satisfy the debts and other obligations of the Company or the Operating Partnership.

(4) As of December 31, 2017 and 2016, the mortgage loan had unamortized debt premiums of \$2.6 million and \$4.4 million, respectively.

(5) This mortgage note payable, held by a consolidated property partnership, was repaid in November 2017 at par. NBREM contributed \$54.4 million to fund their proportionate share of the payoff. Refer to Note 11 “Noncontrolling Interests on Company’s Consolidated Financial Statements” for additional information.

(6) This mortgage note payable was repaid in February 2017 at par.

The Operating Partnership’s secured debt was collateralized by operating properties with a combined net book value of approximately \$338.2 million as of December 31, 2017.

Although our mortgage loans are secured and non-recourse to the Company and the Operating Partnership, the Company provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities.

As of December 31, 2017, all of the Operating Partnership’s secured loans contained restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt. The mortgage notes payable are secured by deeds of trust on certain of our properties and the assignment of certain rents and leases associated with those properties.

Unsecured Senior Notes

The following table summarizes the balance and significant terms of the registered unsecured senior notes issued by the Operating Partnership and outstanding, which are presented net of unamortized discounts of \$6.3 million and \$6.6 million, as of December 31, 2017 and 2016, respectively:

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	Issuance date	Maturity date	Stated coupon rate	Effective interest rate ⁽¹⁾	Net Carrying Amount as of December 31,	
					2017	2016
(in thousands)						
3.450% Unsecured Senior Notes ⁽²⁾	December 2017	December 2024	3.450%	3.471%	\$ 425,000	\$ —
Unamortized discount and deferred financing costs					(4,047)	—
Net carrying amount					\$ 420,953	\$ —
3.450% Unsecured Senior Notes ⁽³⁾	February 2017	February 2029	3.450%	3.450%	\$ 75,000	\$ —
Unamortized discount and deferred financing costs					(475)	—
Net carrying amount					\$ 74,525	\$ —
3.350% Unsecured Senior Notes ⁽³⁾	February 2017	February 2027	3.350%	3.350%	\$ 175,000	\$ —
Unamortized discount and deferred financing costs					(1,056)	—
Net carrying amount					\$ 173,944	\$ —
4.375% Unsecured Senior Notes ⁽⁴⁾	September 2015	October 2025	4.375%	4.444%	\$ 400,000	\$ 400,000
Unamortized discount and deferred financing costs					(4,292)	(4,846)
Net carrying amount					\$ 395,708	\$ 395,154
4.250% Unsecured Senior Notes ⁽⁵⁾	July 2014	August 2029	4.250%	4.352%	\$ 400,000	\$ 400,000
Unamortized discount and deferred financing costs					(6,164)	(6,696)
Net carrying amount					\$ 393,836	\$ 393,304
3.800% Unsecured Senior Notes ⁽⁶⁾	January 2013	January 2023	3.800%	3.804%	\$ 300,000	\$ 300,000
Unamortized discount and deferred financing costs					(1,382)	(1,656)
Net carrying amount					\$ 298,618	\$ 298,344
4.800% Unsecured Senior Notes ⁽⁶⁾⁽⁷⁾	July 2011	July 2018	4.800%	4.827%	\$ —	\$ 325,000
Unamortized discount and deferred financing costs					—	(767)
Net carrying amount					\$ —	\$ 324,233
6.625% Unsecured Senior Notes ⁽⁸⁾	May 2010	June 2020	6.625%	6.744%	\$ 250,000	\$ 250,000
Unamortized discount and deferred financing costs					(1,321)	(1,868)
Net carrying amount					\$ 248,679	\$ 248,132
Total Unsecured Senior Notes, Net					\$ 2,006,263	\$ 1,659,167

(1) Represents the effective interest rate including the amortization of initial issuance discounts, excluding the amortization of deferred financing costs.

(2) Interest on these notes is payable semi-annually in arrears on June 15th and December 15th of each year.

(3) Interest on these notes is payable semi-annually in arrears on February 17th and August 17th of each year.

(4) Interest on these notes is payable semi-annually in arrears on April 1st and October 1st of each year.

(5) Interest on these notes is payable semi-annually in arrears on February 15th and August 15th of each year.

(6) Interest on these notes is payable semi-annually in arrears on January 15th and July 15th of each year.

(7) Certain common limited partners in the Operating Partnership that previously contributed their interests in the property at 6255 W. Sunset Blvd., Los Angeles, California to the Operating Partnership entered into an agreement with the Company. Pursuant to this agreement, such common limited partners will reimburse the Company for a portion of any amounts the Company may be required to pay pursuant to its guarantee of the Operating Partnership's 4.800% Senior Notes due 2018 or that the Company may otherwise become required to pay under applicable law with respect to such notes. These notes were redeemed by the Company in December 2017.

(8) Interest on these notes is payable semi-annually in arrears on June 1st and December 1st of each year.

Unsecured Senior Notes - Registered Offerings

In December 2017, the Operating Partnership issued \$425.0 million of aggregate principal amount of unsecured senior notes in a registered public offering, as shown on the table above. The outstanding balance of the unsecured senior notes is included in unsecured debt, net of initial issuance discount of \$0.6 million, on our consolidated balance sheet. The unsecured senior notes, which are scheduled to mature on December 15, 2024, require semi-annual interest payments each June and December based on a stated annual interest rate of 3.450%. The Operating Partnership may redeem the notes at any time prior to September 15, 2024, either in whole or in part, subject to the payment of an early redemption premium.

In December 2017, we used a portion of the net proceeds from the issuance of our \$425.0 million, 3.450% unsecured senior notes to early redeem, at our option, the \$325.0 million aggregate principal amount of our outstanding 4.800%

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unsecured senior notes that were scheduled to mature on July 15, 2018, as shown on the table above. In connection with our early redemption, we incurred a \$5.3 million loss on early extinguishment of debt comprised of \$5.0 million premium paid to the note holders at the redemption date and \$0.3 million write-off of the unamortized discount and deferred financing costs.

Unsecured Senior Notes - Private Placement

On September 14, 2016, the Operating Partnership entered into a Note Purchase Agreement in a private placement (the “Note Purchase Agreement”), in connection with the issuance and sale of \$175.0 million principal amount of the Operating Partnership’s 3.35% Senior Notes, Series A, due February 17, 2027 (the “Series A Notes”), and \$75.0 million principal amount of the Operating Partnership’s 3.45% Senior Notes, Series B, due February 17, 2029 (the “Series B Notes” and, together with the Series A Notes, the “Series A and B Notes”), as shown on the table above. Under the delayed draw option of the Series A and B Notes, the Operating Partnership was required to issue \$175.0 million principal amount of its Series A Notes and \$75.0 million principal amount of its Series B Notes by February 17, 2017.

On February 17, 2017, the Operating Partnership issued the \$175.0 million principal amount of its Series A Notes and the \$75.0 million principal amount of its Series B Notes. The Series A Notes mature on February 17, 2027, and the Series B Notes mature on February 17, 2029, in each case unless earlier redeemed or prepaid pursuant to the terms of the Note Purchase Agreement. Interest on the Series A and B Notes is payable semi-annually in arrears on February 17 and August 17 of each year. As of December 31, 2017, there was \$175.0 million and \$75.0 million issued and outstanding aggregate principal amount of Series A and B Notes, respectively.

The Operating Partnership may, at its option and upon notice to the purchasers of the Series A and B Notes, prepay at any time all, or from time to time any part of the Series A and B Notes then outstanding (in an amount not less than 5% of the aggregate principal amount of the Series A and B Notes then outstanding in the case of a partial prepayment), at 100% of the principal amount so prepaid, plus the make-whole amount determined for the prepayment date with respect to such principal amount as set forth in the Note Purchase Agreement.

In connection with the issuance of the Series A and B Notes, the Company entered into a guaranty agreement whereby it guarantees the payment by the Operating Partnership of all amounts due with respect to the Series A and B Notes and the performance by the Operating Partnership of its obligations under the Note Purchase Agreement.

Unsecured Revolving Credit Facility and Term Loan Facility

In July 2017, the Operating Partnership amended and restated the terms of its unsecured revolving credit facility and unsecured term loan facility (together, the “Facility”). The amendment and restatement increased the size of the unsecured revolving credit facility from \$600.0 million to \$750.0 million, maintained the size of the unsecured term loan facility of \$150.0 million, reduced the borrowing costs and extended the maturity date of the Facility to July 2022. The unsecured term loan facility features a 12-month delayed draw option (subject to a specified reduction in commitments unless 50% drawn within six months).

The following table summarizes the balance and terms of our unsecured revolving credit facility as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
	(in thousands)	
Outstanding borrowings	\$ —	\$ —
Remaining borrowing capacity	750,000	600,000
Total borrowing capacity ⁽¹⁾	\$ 750,000	\$ 600,000
Interest rate ⁽²⁾	2.56%	1.82%
Facility fee-annual rate ⁽³⁾	0.200%	
Maturity date	July 2022	July 2019

(1) As of December 31, 2017, we may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$600.0 million under an accordion feature under the terms of the unsecured revolving credit facility and unsecured term

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loan facility. As of December 31, 2016, we had the option to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$311.0 million under an accordion feature under the terms of the unsecured revolving credit facility and unsecured term loan facility.

- (2) Our unsecured revolving credit facility interest rate was calculated based on an annual rate of LIBOR plus 1.000% and LIBOR plus 1.050% as of December 31, 2017 and December 31, 2016, respectively.
- (3) Our facility fee is paid on a quarterly basis and is calculated based on the total borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of December 31, 2017 and 2016, \$6.0 million and \$3.3 million of unamortized deferred financing costs, respectively, which are included in prepaid expenses and other assets, net on our consolidated balance sheets, remained to be amortized through the respective maturity date of our unsecured revolving credit facility,

The Company intends to borrow under the unsecured revolving credit facility from time to time for general corporate purposes, to finance development and redevelopment expenditures, to fund potential acquisitions and to potentially repay long-term debt.

The following table summarizes the balance and terms of our unsecured term loan facility as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
	(in thousands)	
Outstanding borrowings ⁽¹⁾	\$ —	\$ 150,000
Remaining borrowing capacity	150,000	—
Total borrowing capacity ⁽²⁾	\$ 150,000	\$ 150,000
Interest rate ⁽³⁾	2.66%	1.85%
Undrawn facility fee-annual rate ⁽⁴⁾	0.200%	—%
Maturity date	July 2022	July 2019

(1) In July 2017, the unsecured term loan facility was paid down and the Facility was amended to include a 12-month delayed draw option (subject to a specified reduction in commitments unless 50% drawn within six months) on the unsecured term loan facility. The Company may draw on the unsecured term loan facility through July 2018, at which time the outstanding balance will become the balance of the unsecured term loan facility and no additional draws may be made. In January 2018, the Company borrowed \$75.0 million under the unsecured term loan facility.

(2) As of December 31, 2017 and December 31, 2016, \$1.2 million and \$0.7 million of unamortized deferred financing costs, respectively, remained to be amortized through the maturity date of our unsecured term loan facility.

(3) Our unsecured term loan facility interest rate was calculated based on an annual rate of LIBOR plus 1.100% and LIBOR plus 1.150% as of December 31, 2017 and December 31, 2016, respectively.

(4) In July 2017, the Facility was amended to include a facility fee on the remaining borrowing capacity of the unsecured term loan facility, which is paid on a monthly basis.

As of December 31, 2016 the Operating Partnership had a \$39.0 million unsecured term loan outstanding with an annual interest rate of LIBOR plus 1.150% that was to mature in July 2019. Concurrently with the amendment of the Facility, the Operating Partnership repaid its \$39.0 million unsecured term loan. As of December 31, 2016, there was \$0.2 million of unamortized deferred financing costs on the unsecured term loan.

Debt Covenants and Restrictions

The unsecured revolving credit facility, the unsecured term loan facility, the unsecured senior notes, the Series A and B Notes and certain other secured debt arrangements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Some of the more restrictive financial covenants include a maximum ratio of total debt to total asset value, a minimum fixed-charge coverage ratio, a minimum unsecured debt ratio and a minimum unencumbered asset pool debt service coverage ratio. Noncompliance with one or more of the covenants and restrictions could result in the full principal balance of the associated debt becoming immediately due and payable. We believe we were in compliance with all of our debt covenants as of December 31, 2017 and 2016.

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Debt Maturities

The following table summarizes the stated debt maturities and scheduled amortization payments as of December 31, 2017:

Year	(in thousands)	
2018	\$	3,584
2019		76,309
2020		255,137
2021		5,342
2022		5,554
Thereafter		2,018,469
Total aggregate principal value ⁽¹⁾	\$	2,364,395

(1) Includes gross principal balance of outstanding debt before the effect of the following at December 31, 2017: \$13.6 million of unamortized deferred financing costs for the unsecured senior notes and secured debt, \$6.3 million of unamortized discounts for the unsecured senior notes and \$2.6 million of unamortized premiums for the secured debt.

Capitalized Interest and Loan Fees

The following table sets forth gross interest expense, including debt discount/premium and deferred financing cost amortization, net of capitalized interest, for the years ended December 31, 2017, 2016 and 2015. The interest expense capitalized was recorded as a cost of development and increased the carrying value of undeveloped land and construction in progress.

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Gross interest expense	\$ 112,577	\$ 105,263	\$ 109,647
Capitalized interest and deferred financing costs	(46,537)	(49,460)	(51,965)
Interest expense	\$ 66,040	\$ 55,803	\$ 57,682

10. Deferred Revenue and Acquisition Related Liabilities, net

Deferred revenue and acquisition-related liabilities, net consisted of the following at December 31, 2017 and 2016:

	December 31,	
	2017	2016
	(in thousands)	
Deferred revenue related to tenant-funded tenant improvements	\$ 104,260	\$ 99,489
Other deferred revenue	10,991	9,293
Acquisition-related intangible liabilities, net ⁽¹⁾	30,639	41,578
Total	\$ 145,890	\$ 150,360

(1) See Note 5 “Deferred Leasing Costs and Acquisition-related Intangible Assets and Liabilities, net” for additional information regarding our acquisition-related intangible liabilities.

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Deferred Revenue Related to Tenant-funded Tenant Improvements

During the years ended December 31, 2017, 2016, and 2015, \$16.8 million, \$13.2 million and \$13.3 million, respectively, of deferred revenue related to tenant-funded tenant improvements was amortized and recognized as rental income. The following is the estimated amortization of deferred revenue related to tenant-funded tenant improvements as of December 31, 2017 for the next five years and thereafter:

Year Ending	(in thousands)
2018	\$ 16,644
2019	14,851
2020	14,062
2021	12,607
2022	11,458
Thereafter	34,638
Total	\$ 104,260

11. Noncontrolling Interests on the Company’s Consolidated Financial Statements

Common Units of the Operating Partnership

The Company owned a 97.9% and 97.5% common general partnership interest in the Operating Partnership as of December 31, 2017 and 2016, respectively. The remaining 2.1% and 2.5% common limited partnership interest as of December 31, 2017 and 2016, respectively, was owned by non-affiliated investors and certain of our executive officers and directors in the form of noncontrolling common units. There were 2,077,193 and 2,381,543 common units outstanding held by these investors, executive officers and directors as of December 31, 2017 and 2016, respectively. The decrease in the common units from December 31, 2016 to December 31, 2017 was attributable to 304,350 common unit redemptions.

The noncontrolling common units may be redeemed by unitholders for cash. Except under certain circumstances, we, at our option, may satisfy the cash redemption obligation with shares of the Company’s common stock on a one-for-one basis. If satisfied in cash, the value for each noncontrolling common unit upon redemption is the amount equal to the average of the closing quoted price per share of the Company’s common stock, par value \$0.01 per share, as reported on the NYSE for the ten trading days immediately preceding the applicable redemption date. The aggregate value upon redemption of the then-outstanding noncontrolling common units was \$154.5 million and \$174.9 million as of December 31, 2017 and 2016, respectively. This redemption value does not necessarily represent the amount that would be distributed with respect to each noncontrolling common unit in the event of our termination or liquidation. In the event of our termination or liquidation, it is expected in most cases that each common unit would be entitled to a liquidating distribution equal to the liquidating distribution payable in respect of each share of the Company’s common stock.

Noncontrolling Interest in Consolidated Property Partnerships

On August 30, 2016, the Operating Partnership entered into agreements with Norges Bank Real Estate Management (“NBREM”) whereby NBREM invested, through two REIT subsidiaries, in two existing companies that owned the Company’s 100 First Street and 303 Second Street office properties located in San Francisco, California. Based on a gross valuation of the two properties of approximately \$1.2 billion, NBREM contributed a total of \$452.9 million, for a 44% common equity interest in the companies, which was net of approximately \$55.3 million of its proportionate share of the existing mortgage debt on 303 Second Street as of the transaction date. In November 2017, NBREM contributed \$54.4 million to fund their proportionate share of the Company’s repayment of this mortgage debt.

The transaction was structured with a staggered closing. On August 30, 2016, the first tranche of the transaction closed and NBREM contributed \$191.4 million plus a working capital contribution of \$2.1 million for a 44% common ownership interest in 100 First LLC. On November 30, 2016, the second tranche of the transaction closed and NBREM contributed \$261.5 million, which was net of its proportionate share of the existing mortgage debt secured by the 303

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Second Street property of approximately \$55.3 million, plus a working capital contribution of \$2.9 million for a 44% common ownership interest in 303 Second LLC.

The transactions did not meet the criteria to qualify as sales of real estate because the Company continues to effectively control the properties and therefore continued to account for the 100 First Street and 303 Second Street office properties on a consolidated basis in its financial statements. At formation, the Company accounted for the transactions as equity transactions and recognized noncontrolling interests in its consolidated balance sheets totaling approximately \$124.5 million, which was equal to 44% of the aggregate net asset value of 100 First LLC and 303 Second LLC immediately prior to the transactions (which was net of NBREM's 44% share of the existing mortgage debt of \$55.3 million) plus an additional \$5.0 million working capital contribution made by NBREM. The amount of NBREM's total contribution not recognized as noncontrolling interest, net of transaction costs, was approximately \$329.0 million. This amount was not reflected as a gain on sale of operating properties in the Company's consolidated statements of operations and instead was reflected as an increase in additional paid-in capital and partners' capital in the Company's and the Operating Partnership's consolidated balance sheets, respectively. Transfers of less than 50% of an entity ownership interest are normally not subject to certain tax assessments in California and therefore the Company believes that the two tranches of the transaction do not meet the statutory requirements for such tax assessments. If the taxing authority attempted to assess such tax assessments on the transactions, the Company estimates it could incur additional taxes of up to \$10.9 million and \$18.0 million for the first and second tranches of the transaction, respectively, plus potential penalties and interest. In connection with the transaction, the Company provides customary property management, leasing and construction management services for both properties. 100 First Street is a 467,095 square foot office tower, and 303 Second Street is a 740,047 square foot office property, both located in the South of Market submarket in San Francisco, California.

The noncontrolling interests in 100 First LLC and 303 Second LLC as of December 31, 2017 and 2016 were \$175.4 million and \$124.3 million, respectively, which is recognized in noncontrolling interests in consolidated property partnerships on the Company's consolidated balance sheets. The remaining amount of noncontrolling interests in consolidated property partnerships represents the third party equity interest in Redwood LLC. This noncontrolling interest was \$6.2 million and \$6.4 million as of December 31, 2017 and 2016, respectively.

12. Noncontrolling Interests on the Operating Partnership's Consolidated Financial Statements

Consolidated Property Partnerships

On August 30, 2016, the Operating Partnership entered into agreements with NBREM whereby NBREM invested, through two REIT subsidiaries, in two existing companies that owned the Company's 100 First Street and 303 Second Street office properties located in San Francisco, California. Based on a gross valuation of the two properties of approximately \$1.2 billion, NBREM contributed a total of \$452.9 million for a 44% common equity interest in the companies, which is net of approximately \$55.3 million of its proportionate share of the existing mortgage debt.

In November 2017, the Company repaid the mortgage debt secured by the 303 Second Street office property. Prior to the repayment, NBREM contributed \$54.4 million to fund their proportionate share of the repayment. Refer to Note 11 for additional information regarding these transactions.

13. Stockholders' Equity of the Company

Preferred Stock

On August 15, 2017, the Company redeemed all 4,000,000 shares of its 6.375% Series H Cumulative Redeemable Preferred Stock ("Series H Preferred Stock"). The shares of Series H Preferred Stock were redeemed at a redemption price equal to their stated liquidation preference of \$25.00 per share, representing \$100.0 million in aggregate. The redemption payment did not include any additional accrued dividends because the redemption date was also the dividend payment date.

On March 30, 2017 (the "Series G Redemption Date"), the Company redeemed all 4,000,000 shares of its 6.875% Series G Cumulative Redeemable Preferred Stock ("Series G Preferred Stock"). The shares of Series G Preferred Stock

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were redeemed at a redemption price equal to their stated liquidation preference of \$25.00 per share, representing \$100.0 million in aggregate, plus all accrued and unpaid dividends to the Series G Redemption Date.

In connection with the redemption of the Series G and Series H Preferred Stock, during the year ended December 31, 2017 we recorded non-cash charges of \$7.6 million as a reduction to net income available to common stockholders for the original issuance costs of the Series H and Series G Preferred Stock.

Common Stock

Common Stock Issuances

In January 2017, the Company completed an underwritten public offering of 4,427,500 shares of its common stock. The net offering proceeds, after deducting underwriting discounts and offering expenses, were approximately \$308.8 million. We used a portion of the proceeds to partially fund our \$1.90 per share of special dividends declared by our Board of Directors in December 2016 and used the remaining proceeds for general corporate uses, to fund development expenditures and to repay outstanding indebtedness.

In July 2015, the Company completed the sale and issuance of 3,733,766 shares of its common stock at a price of \$66.19 per share for aggregate gross proceeds of \$249.8 million and aggregate net proceeds after offering costs of \$249.6 million through a registered direct placement with an institutional investor.

At-The-Market Stock Offering Program

Under our current at-the-market stock offering program, which commenced in December 2014, we may offer and sell shares of our common stock having an aggregate gross sales price of up to \$300.0 million from time to time in “at-the-market” offerings. Since commencement of the program through December 31, 2017, we have sold 2,694,242 shares of common stock having an aggregate gross sales price of \$200.1 million. As of December 31, 2017, shares of common stock having an aggregate gross sales price of up to \$99.9 million remain available to be sold under this program. Actual future sales will depend upon a variety of factors, including but not limited to market conditions, the trading price of the Company’s common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under this program.

The following table sets forth information regarding sales of our common stock under our at-the-market offering programs for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in millions, except share data)		
Shares of common stock sold during the period	235,077	451,398	1,866,267
Aggregate gross proceeds	\$ 17.7	\$ 32.3	\$ 140.1
Aggregate net proceeds after selling commissions	\$ 17.5	\$ 31.9	\$ 138.2

The proceeds from sales were used to fund acquisitions, development expenditures and general corporate purposes including repayment of borrowings under the unsecured revolving credit facility.

Common Stock Repurchases

On February 23, 2016, the Company’s Board of Directors approved a 4,000,000 share increase to the Company’s existing share repurchase program bringing the total current repurchase authorization to 4,988,025 shares. The Company did not repurchase shares of common stock under this program during the years ended December 31, 2017 or December 31, 2015. In March 2016, the Company repurchased 52,199 shares of common stock at a weighted average price of \$55.45 per share of common stock for \$2.9 million. As of December 31, 2017, 4,935,826 shares remain eligible for repurchase under the Company’s share repurchase program.

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Accrued Dividends and Distributions

The following tables summarize accrued dividends and distributions for the noted outstanding shares of common stock, preferred stock, and noncontrolling units as of December 31, 2017 and 2016:

	December 31,	
	2017	2016 ⁽¹⁾
(in thousands)		
Dividends and Distributions payable to:		
Common stockholders	\$ 41,914	\$ 212,074
Noncontrolling common unitholders of the Operating Partnership	883	5,418
RSU holders ⁽²⁾	651	3,158
Total accrued dividends and distribution to common stockholders and noncontrolling unitholders	43,448	220,650
Preferred stockholders ⁽³⁾	—	1,656
Total accrued dividends and distributions	\$ 43,448	\$ 222,306

- (1) Dividends and distributions payable to common stockholders, noncontrolling common unitholders of the Operating Partnership and RSU holders in 2016 include a special cash dividend of \$1.90 per share that was declared by the Company's Board of Directors on December 13, 2016. On January 13, 2017, the Company paid \$184.3 million of special cash dividends to stockholders of record on December 30, 2016. This special dividend payment was in addition to the \$36.4 million of regular dividends also paid on January 13, 2017 to common stockholders, unitholders and RSU holders of record on December 30, 2016.
- (2) The amount includes the value of the dividend equivalents that will be paid with additional RSUs (see Note 15 "Share-Based Compensation" for additional information).
- (3) The Series G and Series H Preferred stock were redeemed in March 2017 and August 2017, respectively, and the Company did not have any preferred stock outstanding as of December 31, 2017.

	December 31,	
	2017	2016
Outstanding Shares and Units:		
Common stock ⁽¹⁾	98,620,333	93,219,439
Noncontrolling common units	2,077,193	2,381,543
RSUs ⁽²⁾	1,488,724	1,395,189
Series G Preferred stock ⁽³⁾	—	4,000,000
Series H Preferred stock ⁽³⁾	—	4,000,000

- (1) The amount includes nonvested shares.
- (2) The amount includes nonvested RSUs. Does not include 665,110 and 659,051 market measure-based RSUs because not all the necessary performance conditions have been met as of December 31, 2017 and 2016, respectively. Refer to Note 15 "Share-Based Compensation" for additional information.
- (3) The Series G and Series H Preferred stock were redeemed in March 2017 and August 2017, respectively.

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14. Partners' Capital of the Operating Partnership

Preferred Units

On August 15, 2017, the Company redeemed all 4,000,000 shares of its 6.375% Series H Preferred Stock. For each share of Series H Preferred Stock that was outstanding, the Company had an equivalent number of 6.375% Series H Preferred Units ("Series H Preferred Units") outstanding with substantially similar terms as the Series H Preferred Stock. In connection with the redemption of the Series H Preferred Stock, the Series H Preferred Units held by the Company were redeemed by the Operating Partnership.

On March 30, 2017, the Company redeemed all 4,000,000 shares of its 6.875% Series G Preferred Stock. For each share of Series G Preferred Stock that was outstanding, the Company had an equivalent number of 6.875% Series G Preferred Units ("Series G Preferred Units") outstanding with substantially similar terms as the Series G Preferred Stock. In connection with the redemption of the Series G Preferred Stock, the Series G Preferred Units held by the Company were redeemed by the Operating Partnership.

In connection with the redemption of the Series G and Series H Preferred Stock, during the year ended December 31, 2017 we recorded non-cash charges of \$7.6 million as a reduction to net income available to common unitholders for the original issuance costs of the Series H and Series G Preferred Stock.

Common Units

Issuance of Common Units

In January 2017, the Company completed an underwritten public offering of 4,427,500 shares of its common stock (see Note 13 "Stockholders' Equity of the Company"). The net offering proceeds of approximately \$308.8 million were contributed by the Company to the Operating Partnership in exchange for 4,427,500 common units.

In March 2016, the Operating Partnership issued 867,701 common units in connection with a development acquisition (see Note 3 "Acquisitions"). Each common unit was valued at \$55.36, which was based on a trailing ten-day average of the closing quoted price per share of the Company's common stock, par value \$.01 per share, as reported on the NYSE, as calculated in accordance with the Partnership Agreement.

In July 2015, the Company completed the sale and issuance of 3,733,766 shares of its common stock at a price of \$66.19 per share for aggregate gross proceeds of \$249.8 million and aggregate net proceeds after offering costs of \$249.6 million through a registered direct placement with an institutional investor (see Note 13 "Stockholders' Equity of the Company" for additional information). The net offering proceeds were contributed by the Company to the Operating Partnership in exchange for 3,733,766 common units.

At-The-Market Stock Offering Program

During the years ended December 31, 2017, 2016 and 2015, the Company utilized its at-the-market stock offering programs to issue shares of common stock (see Note 13 "Stockholders' Equity of the Company" for additional information). The net offering proceeds and property acquired using net offering proceeds were contributed by the Company to the Operating Partnership in exchange for common units for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in millions, except share and per share data)		
Shares of common stock contributed by the Company	235,077	451,398	1,866,267
Common units exchanged for shares of common stock by the Company	235,077	451,398	1,866,267
Aggregate gross proceeds	\$ 17.7	\$ 32.3	\$ 140.1
Aggregate net proceeds after selling commissions	\$ 17.5	\$ 31.9	\$ 138.2

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Common Units Outstanding

The following table sets forth the number of common units held by the Company and the number of common units held by non-affiliated investors and certain of our executive officers and directors in the form of noncontrolling common units as well as the ownership interest held on each respective date:

	December 31, 2017	December 31, 2016
Company owned common units in the Operating Partnership	98,620,333	93,219,439
Company owned general partnership interest	97.9%	97.5%
Noncontrolling common units of the Operating Partnership	2,077,193	2,381,543
Ownership interest of noncontrolling interest	2.1%	2.5%

For a further discussion of the noncontrolling common units during the years ended December 31, 2017 and 2016, refer to Note 11 “Noncontrolling Interests on the Company’s Consolidated Financial Statements.”

Accrued Distributions

The following tables summarize accrued distributions for the noted common and preferred units as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016 ⁽¹⁾
	(in thousands)	
Distributions payable to:		
General partner	\$ 41,914	\$ 212,074
Common limited partners	883	5,418
RSU holders ⁽²⁾	651	3,158
Total accrued distributions to common unitholders	43,448	220,650
Preferred unitholders ⁽³⁾	—	1,656
Total accrued distributions	\$ 43,448	\$ 222,306

(1) Distributions payable to the general partner, noncontrolling common unitholders of the Operating Partnership and RSU holders in 2016 include a special cash dividend of \$1.90 per share that was declared by the Company’s Board of Directors on December 13, 2016. On January 13, 2017, the Company paid \$184.3 million of special cash dividends to unitholders of record on December 30, 2016. This special dividend payment was in addition to the \$36.4 million of regular dividends also paid on January 13, 2017 to common stockholders, unitholders and RSU holders of record on December 30, 2016.

(2) The amount includes the value of the dividend equivalents that will be paid with additional RSUs (see Note 15 “Share-Based Compensation” for additional information).

(3) The Series G and Series H Preferred units were redeemed in March 2017 and August 2017, respectively, and the Company did not have any preferred stock outstanding at December 31, 2017.

	December 31, 2017	December 31, 2016
Outstanding Units:		
Common units held by the general partner	98,620,333	93,219,439
Common units held by the limited partners	2,077,193	2,381,543
RSUs ⁽¹⁾	1,488,724	1,395,189
Series G Preferred units ⁽²⁾	—	4,000,000
Series H Preferred units ⁽²⁾	—	4,000,000

(1) Does not include 665,110 and 659,051 market measure-based RSUs because not all the necessary performance conditions have been met as of December 31, 2017 and 2016, respectively. Refer to Note 15 “Share-Based Compensation” for additional information.

(2) The Series G and Series H Preferred units were redeemed in March 2017 and August 2017, respectively.

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15. Share-Based Compensation

Stockholder Approved Share-Based Incentive Compensation Plan

As of December 31, 2017, we maintained one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan, as amended (the “2006 Plan”). The Company has a currently effective registration statement registering 9.2 million shares of our common stock for possible issuance under our 2006 Incentive Award Plan. As of December 31, 2017, approximately 1.9 million shares were available for grant under the 2006 Plan. The calculation of shares available for grant is presented after taking into account a reserve for a sufficient number of shares to cover the vesting and payment of 2006 Plan awards that were outstanding on that date, including performance-based vesting awards at (i) levels actually achieved for the performance conditions (as defined below) for which the performance period has been completed and (ii) at target levels for the other performance and market conditions (as defined below) for awards still in a performance period.

The Executive Compensation Committee (the “Compensation Committee”) of the Company’s Board of Directors may grant the following share-based awards to eligible individuals, as provided under the 2006 Plan: incentive stock options, nonqualified stock options, restricted stock (nonvested shares), stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units (“RSUs”), profit interest units, performance bonus awards, performance-based awards and other incentive awards. For each award granted under our share-based incentive compensation programs, the Operating Partnership simultaneously issues to the Company a number of common units equal to the number of shares of common stock ultimately paid by the Company in respect of such awards.

Stock Award Deferral Program

We have a Stock Award Deferral Program (the “RSU Program”) under the 2006 Plan. Under the RSU Program, participants may defer receipt of awards of nonvested shares that may be granted by electing to receive an equivalent number of RSUs in lieu of such nonvested shares, or defer payment of RSU awards. Each RSU represents the right to receive one share of our common stock in the future and is subject to the same vesting conditions that would have applied if the award had been issued in nonvested shares. RSUs carry with them the right to receive dividend equivalents such that participants receive additional RSUs at the time dividends are paid equal to the value of the dividend earned on the shares underlying the participant’s RSUs. The dividend equivalents earned vest based on terms specified under the related RSU award agreement. Shares issued upon settlement of vested RSUs, including RSUs paid on dividend equivalents, are distributed in a single lump sum distribution upon the earlier of (1) the date specified by the participant when the election is made or (2) occurrence of certain other events specified under the RSU program.

Share-Based Compensation Programs

The Compensation Committee has historically awarded nonvested shares and RSUs under the share-based compensation programs described below. These share-based awards were valued based on the quoted closing share price of the Company’s common stock on the NYSE on the applicable grant date. The Compensation Committee grants annual long-term equity awards as an incentive for the year in which the awards are granted and subsequent years.

Executive Officer and Key Employee Share-Based Compensation Programs

The Compensation Committee has annually approved compensation programs that include the potential issuance of share-based awards to our executive officers and other key employees as part of their annual and long-term incentive compensation. The share-based awards are generally issued in the first quarter after the end of our prior fiscal year. The share-based awards generally have a service vesting period, which has historically ranged from one to five years, depending on the type of award.

Non-Employee Board Member Share-Based Compensation Program

The Board of Directors awards nonvested shares or nonvested RSUs to non-employee board members on an annual basis as part of such board members’ annual compensation and to newly elected non-employee board members in

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accordance with our Board of Directors compensation program. The share-based awards are generally issued in the second quarter, and the individual share awards vest in equal annual installments over the applicable service vesting period, which will be one year for the annual non-employee board awards and four years for the awards relating to newly elected non-employee board members.

2017, 2016 and 2015 Share-Based Compensation Grants

In February 2017, the Compensation Committee of the Company's Board of Directors awarded 229,976 RSUs to certain officers of the Company under the 2006 Plan, which included 130,956 RSUs (at the target level of performance) that are subject to time-based, market-measure based and performance-based vesting requirements (the "2017 Performance-Based RSUs") and 99,020 RSUs that are subject to time-based vesting requirements (the "2017 Time-Based RSUs"). Additionally, during 2017, 43,081 RSUs were granted to the board of directors and certain members of management subject to time vesting requirements.

On January 28, 2016, the Compensation Committee of the Company's Board of Directors awarded 294,821 RSUs to certain officers of the Company under the 2006 Plan, which included 168,077 RSUs (at the target level of performance) that are subject to time-based, market-measure based and performance-based vesting requirements (the "2016 Performance-Based RSUs") and 126,744 RSUs that are subject to time-based vesting requirements ("2016 Time-Based RSUs"). Additionally, during 2016, 47,003 RSUs were granted to the board of directors and certain members of management subject to time vesting requirements.

On January 27, 2015, the Compensation Committee of the Company's Board of Directors awarded 212,468 RSUs to certain officers of the Company under the 2006 Plan, which included 127,657 RSUs (at the target level of performance), that are subject to time-based, market-measure based and performance-based vesting requirements (the "2015 Performance-Based RSUs") and 84,811 RSUs, that are subject to time-based vesting requirements ("2015 Time-Based RSUs").

2017, 2016 and 2015 Performance-Based RSU Grants

The 2017 Performance-Based RSUs are scheduled to cliff vest at the end of a three-year period based upon the achievement of pre-defined FFO per share goals for the year ended December 31, 2017 (the "2017 FFO Performance Condition") and also based upon either the average FAD per share growth or the Company's average debt to EBITDA ratio (together, the "Other 2017 Performance Conditions") or the relative total stockholder return versus a comparative group of companies that consist of companies in the SNL US REIT Office Index (the "2017 Market Condition") for the three-year period ending December 31, 2019. The 2017 FFO Performance Condition was achieved at a weighted average of approximately 131% of target for the 2017 Performance-Based RSUs. The number of 2017 Performance-Based RSUs ultimately earned could fluctuate based upon the levels of achievement for the Other 2017 Performance Conditions and the 2017 Market Condition.

The 2016 Performance-Based RSUs are also scheduled to cliff vest at the end of a three-year service period based upon the achievement of pre-defined FFO per share goals for the year ended December 31, 2016 (the "2016 FFO Performance Condition") and also upon the average annual relative total stockholder return versus a comparative group of companies that consist of companies in the SNL US REIT Office Index (the "2016 Market Condition") for the three-year period ending December 31, 2018. The 2016 FFO Performance Condition was achieved at approximately 144% of target for the 2016 Performance-Based RSUs. The number of 2016 Performance-Based RSUs ultimately earned could fluctuate based upon the levels of achievement for the 2016 Market Condition.

The 2015 Performance-Based RSUs cliff vested at the end of the three-year service period based upon the achievement of pre-defined FFO per share goals for the year ended December 31, 2015 (the "2015 FFO Performance Condition") and also upon the average annual relative total shareholder return versus a comparative group of companies that consist of companies in the SNL US REIT Office Index (the "2015 Market Condition") for the three-year period ending December 31, 2017. Based upon the combined results of the final 2015 FFO Performance Condition and final 2015 Market Condition, the 2015 Performance-Based RSUs achieved 150% of their target level of performance.

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As of December 31, 2017, the estimated number of RSUs earned for the 2017 and 2016 Performance-Based RSUs and the actual number of RSUs earned for the 2015 Performance-Based RSUs was as follows:

	2017 Performance-Based RSUs	2016 Performance-Based RSUs	2015 Performance-Based RSUs
Service vesting period	February 24, 2017 - January, 2020	January 28, 2016 - January, 2019	January 27, 2015 - January, 2018
Target RSUs granted	130,956	168,077	127,657
Estimated RSUs earned ⁽¹⁾	170,994	241,438	185,510
Date of valuation	February 24, 2017	January 28, 2016	January 27, 2015

(1) Estimated RSUs earned for the 2017 Performance-Based RSUs are based on the actual achievement of the 2017 FFO Performance Condition and assumes target level achievement of the 2017 Market Condition and Other Performance Conditions. Estimated RSUs earned for the 2016 Performance-Based RSUs are based on the actual achievement of the 2016 FFO Performance Condition and assumes target level achievement of the 2016 Market Condition. The 2015 Performance-Based RSUs earned are based on actual performance of the 2015 FFO Performance Condition and the 2015 Market Condition.

Each Performance-Based RSU represents the right to receive one share of our common stock in the future, subject to, and as modified by, the Company's level of achievement of the applicable performance and market conditions. The fair values of the 2017 Performance-Based RSUs, 2016 Performance-Based RSUs and 2015 Performance-Based RSUs were \$10.3 million at February 24, 2017, \$9.6 million at January 28, 2016 and \$10.1 million at January 27, 2015, respectively. The fair values for the awards with market conditions were calculated using a Monte Carlo simulation pricing model based on the assumptions in the table below. The determination of the fair value of the 2017, 2016 and 2015 Performance-Based RSUs takes into consideration the likelihood of achievement of the 2017, 2016 and 2015 Performance Conditions and the 2017, 2016 and 2015 Market Conditions, respectively, as discussed above. As of December 31, 2017, the number of 2017 Performance-Based RSUs estimated to be earned based on the Company's estimate of the performance conditions measured against the applicable goals was 170,994, and the compensation cost recorded to date for this program was based on that estimate. For the portion of the 2017 Performance-Based RSUs subject to the 2017 Market Condition, for the year ended December 31, 2017, we recorded compensation expense based upon the \$80.89 fair value per share at February 24, 2017. Compensation expense will be variable for the portion of the 2017 Performance-Based RSUs subject to the Other 2017 Performance Conditions, based upon the outcome of those conditions. For the years ended December 31, 2017 and 2016, we recorded compensation expense for the 2016 Performance-Based RSUs based upon the \$57.08 fair value per share at January 28, 2016 multiplied by the 241,438 RSUs, which is net of forfeitures, estimated to be earned at December 31, 2016. For the years ended December 31, 2017, 2016 and 2015, we recorded compensation expense for the 2015 Performance-Based RSUs based upon \$78.55 fair value per share at January 27, 2015 multiplied by the 185,510 RSUs, which is net of forfeitures, estimated to be earned at December 31, 2015. Compensation expense for the Performance-Based RSUs is recorded on a straight-line basis over the respective three-year periods. The following table summarizes the assumptions utilized in the Monte Carlo simulation pricing models:

	2017 Award Fair Value Assumptions	2016 Award Fair Value Assumptions	2015 Award Fair Value Assumptions
Valuation date	February 24, 2017	January 28, 2016	January 27, 2015
Fair value per share on valuation date	\$80.89	\$57.08	\$75.34
Expected share price volatility	21.00%	26.00%	20.00%
Risk-free interest rate	1.39%	1.13%	0.92%
Expected life	2.8 years	2.9 years	2.9 years

The computation of expected volatility was based on a blend of the historical volatility of our shares of common stock over approximately five years, as this is expected to be most consistent with future volatility and equates to a time period twice as long as the approximate two and a half year remaining performance period of the RSUs and implied volatility data based on the observed pricing of six month publicly-traded options on shares of our common stock. The risk-free interest rate was based on the yield curve on zero-coupon U.S. Treasury STRIP securities in effect at February 24, 2017, January 28, 2016 and January 27, 2015.

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2017, 2016 and 2015 Time-Based RSU Grants

The 2017, 2016 and 2015 Time-Based RSUs (collectively, the “Time-Based RSUs”) are scheduled to vest in equal installments over the periods listed below. Compensation expense for the Time-Based RSUs will be recognized on a straight-line basis from the grant date through the continued service vesting periods. Each Time-Based RSU represents the right to receive one share of our common stock in the future, subject to continued employment through the applicable vesting date. The total fair value of the Time-Based RSUs is based on the Company’s closing share price on the NYSE on the respective fair valuation dates as detailed in the table below:

	2017 Time-Based RSU Grant ⁽¹⁾	2016 Time-Based RSU Grant	2015 Time-Based RSU Grant
Service vesting period	February 2017 - January 5, 2020	January 28, 2016 - January 5, 2019	January 27, 2015 - January 5, 2018
Fair value on valuation date (in millions)	\$ 7.5	\$ 7.1	\$ 6.4
Fair value per share	\$ 73.30	\$ 56.23	\$ 75.34
Date of fair valuation	February 2017	January 28, 2016	January 27, 2015

(1) The 2017 Time-Based RSUs consist of 41,119 RSUs granted on February 3, 2017 at a fair value per share of \$73.30 and 57,901 RSUs granted on February 24, 2017 at a fair value per share of \$77.16.

Summary of Performance and Market-Measure Based RSUs

A summary of our performance and market-measure based RSU activity from January 1, 2017 through December 31, 2017 is presented below:

	Nonvested RSUs		Vested RSUs	Total RSUs
	Amount	Weighted-Average Fair Value Per Share ⁽¹⁾		
Outstanding at January 1, 2017	659,051	\$ 64.95	—	659,051
Granted	170,994	78.97	—	170,994
Vested	(188,048)	64.93	188,048	—
Settled ⁽²⁾			(136,191)	(136,191)
Issuance of dividend equivalents ⁽³⁾	23,539	73.00	6,943	30,482
Forfeited	(426)	78.55	(3,128)	(3,554)
Outstanding as of December 31, 2017 ⁽⁴⁾	665,110	\$ 68.83	55,672	720,782

(1) Represents the grant-date fair value for all awards, excluding the 2014 Performance-Based RSU Grant, which was re-measured upon stockholder approval of the amended 2006 Plan on May 22, 2014, as an insufficient number of shares were available to settle these RSUs upon initial grant on January 29, 2014.

(2) Represents vested RSUs that were settled in shares of the Company’s common stock. Total shares settled include 72,938 shares that were tendered in accordance with the terms of the 2006 Plan to satisfy minimum statutory tax withholding requirements related to the RSUs settled. We accept the return of RSUs at the current quoted closing share price of the Company’s common stock to satisfy tax obligations.

(3) Represents the issuance of dividend equivalents earned on the underlying RSUs. The dividend equivalents vest based on terms specified under the related RSU award agreement.

(4) Outstanding RSUs as of December 31, 2017 represent the actual achievement of the FFO performance conditions and assumes target levels for the market and other performance conditions. The number of restricted stock units ultimately earned is subject to change based upon actual performance over the three-year vesting period. Dividend equivalents earned will vest along with the underlying award and are also subject to changes based on the number of RSUs ultimately earned for each underlying award.

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A summary of our performance and market-measure based RSU activity for years ended December 31, 2017, 2016 and 2015 is presented below:

Years ended December 31,	RSUs Granted		RSUs Vested	
	Non-Vested RSUs Granted ⁽¹⁾	Weighted-Average Fair Value Per Share ⁽²⁾	Vested RSUs	Total Vest-Date Fair Value (in thousands)
2017	170,994	\$ 78.97	(194,991)	\$ 14,270
2016	258,393	57.36	(36,914)	2,788
2015	191,483	79.25	—	—

(1) Non-vested RSUs granted during the years ended December 31, 2017 and 2016 are based on the actual achievement of the FFO performance conditions and assumes target level achievement for the market and other performance conditions. Non-vested RSUs granted during the year ended December 31, 2015 are based on the final performance of both the 2015 FFO performance and market conditions, and are non-vested as of December 31, 2017 as they are subject to the Compensation Committee's confirmation of final performance.

(2) Represents the grant-date fair value for all awards, excluding the 2014 Performance-Based RSU Grant, which was re-measured upon stockholder approval of the amended 2006 Plan on May 22, 2014, as an insufficient number of shares were available to settle these RSUs upon initial grant on January 29, 2014.

Summary of Time-Based RSUs

A summary of our time-based RSU activity from January 1, 2017 through December 31, 2017 is presented below:

	Nonvested RSUs		Vested RSUs	Total RSUs
	Amount	Weighted Average Fair Value Per Share ⁽¹⁾		
Outstanding at January 1, 2017	366,439	\$ 59.07	1,028,750	1,395,189
Granted	142,101	74.91	—	142,101
Vested	(172,731)	57.77	172,731	—
Settled ⁽²⁾			(171,093)	(171,093)
Issuance of dividend equivalents ⁽³⁾	8,601	73.00	55,364	63,965
Transferred to restricted stock ⁽⁴⁾	(10,610)	60.16	—	(10,610)
Forfeited	(2,254)	63.27	—	(2,254)
Canceled ⁽⁵⁾			(4,824)	(4,824)
Outstanding as of December 31, 2017	331,546	\$ 66.83	1,080,928	1,412,474

(1) Represents the grant-date fair value for all awards, excluding the 2014 Performance-Based RSU Grant, which was re-measured upon stockholder approval of the amended 2006 Plan on May 22, 2014, as an insufficient number of shares were available to settle these RSUs upon initial grant on January 29, 2014.

(2) Represents vested RSUs that were settled in shares of the Company's common stock. Total shares settled include 77,866 shares that were tendered in accordance with the terms of the 2006 Plan to satisfy minimum statutory tax withholding requirements related to the RSUs settled. We accept the return of RSUs at the current quoted closing share price of the Company's common stock to satisfy tax obligations.

(3) Represents the issuance of dividend equivalents earned on the underlying RSUs. The dividend equivalents vest based on terms specified under the related RSU award agreement.

(4) During January 2017, RSUs were transferred to restricted stock based on the elected distribution date.

(5) For shares vested but not yet settled, we accept the return of RSUs at the current quoted closing share price of the Company's common stock to satisfy minimum statutory tax-withholding requirements related to either the settlement or vesting of RSUs in accordance with the terms of the 2006 Plan.

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A summary of our time-based RSU activity for the years ended December 31, 2017, 2016 and 2015 is presented below:

Year ended December 31,	RSUs Granted		RSUs Vested	
	Non-Vested RSUs Issued	Weighted-Average Grant Date Fair Value Per Share	Vested RSUs	Total Vest-Date Fair Value ⁽¹⁾ (in thousands)
2017	142,101	\$ 74.91	(228,095)	\$ 16,735
2016	173,747	58.29	(130,784)	8,438
2015	98,802	74.49	(107,541)	7,528

(1) Total fair value of RSUs vested was calculated based on the quoted closing share price of the Company's common stock on the NYSE on the day of vesting. Excludes the issuance of dividend equivalents earned on the underlying RSUs. The dividend equivalents vest based on terms specified under the related RSU award agreement.

Summary of Nonvested Restricted Stock

A summary of our nonvested restricted stock activity from January 1, 2017 through December 31, 2017 is presented below:

	Nonvested Restricted Stock	Weighted-Average Grant Date Fair Value Per Share
Outstanding at January 1, 2017	36,535	\$ 47.93
Transferred from time-based RSUs	10,610	60.16
Vested ⁽¹⁾	(24,261)	46.39
Outstanding as of December 31, 2017	22,884	\$ 55.23

(1) The total shares vested includes 10,792 shares that were tendered in accordance with the terms of the 2006 Plan to satisfy minimum statutory tax withholding requirements related to the restricted shares that have vested. We accept the return of shares at the current quoted closing share price of the Company's common stock to satisfy tax withholding obligations.

A summary of our nonvested and vested restricted stock activity for years ended December 31, 2017, 2016 and 2015 is presented below:

Years ended December 31,	Shares Granted		Shares Vested	
	Nonvested Shares Issued	Weighted-Average Grant Date Fair Value Per Share	Vested Shares	Total Fair Value at Vest Date ⁽¹⁾ (in thousands)
2017	—	\$ —	(24,261)	\$ 1,781
2016	—	—	(24,262)	1,527
2015	—	—	(24,264)	1,725

(1) Total fair value of shares vested was calculated based on the quoted closing share price of the Company's common stock on the NYSE on the date of vesting.

Summary of Stock Options

On February 22, 2012, the Compensation Committee of the Company granted non-qualified stock options to certain key members of our senior management team, including our Executive Officers, to purchase an aggregate 1,550,000 shares of the Company's common stock (the "February 2012" Grant) at an exercise price per share equal to \$42.61, the closing price of the Company's common stock on the grant date. The options will vest ratably in annual installments over a five year period, subject to continued employment through the applicable vesting date. The term of each option is ten years from the date of the grant. Dividends will not be paid on vested or unvested options. The options were granted pursuant to the 2006 Plan.

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The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions for the February 2012 Grant.

	February 2012 Option Grant
Fair value of options granted per share	\$9.20
Expected stock price volatility	33.00%
Risk-free interest rate	1.35%
Dividend yield	3.80%
Expected life of option	6.5 years

The computation of expected volatility is based on a blend of the historical volatility of our shares of common stock over a time period longer than the expected life of the option and implied volatility data based on the observed pricing of six-month publicly traded options on our shares of common stock. The risk-free interest rate is based on the yield curve on zero-coupon U.S. Treasury STRIP securities in effect at the grant date. The expected dividend yield is estimated by examining the average of the historical dividend yield levels over the expected life of the option and the current dividend yield as of the grant date. The expected life of the options is calculated as the average of the vesting term and the contractual term. During the years ended December 31, 2017, 2016 and 2015, 261,000, 267,000 and 298,000 stock options vested, respectively, with a total fair value of \$2.4 million, \$2.5 million and \$2.7 million, respectively.

A summary of our stock option activity related to the February 2012 grant from January 1, 2017 through December 31, 2017 is presented below:

	Number of Options	Exercise Price	Intrinsic Value (in millions) ⁽¹⁾
Outstanding at December 31, 2016	314,500	\$ 42.61	\$ 9.6
Exercised	(285,000)	42.61	8.8
Forfeited	(3,000)	42.61	0.1
Outstanding at December 31, 2017 ⁽²⁾	26,500	\$ 42.61	\$ 0.8
Options exercisable at December 31, 2017 ⁽³⁾	26,500	\$ 42.61	\$ 0.8

(1) The intrinsic value of a stock option is the amount by which the fair value of the underlying stock exceeds the exercise price of an option. The fair value of the underlying stock was determined by using the closing share price on the NYSE on the date of exercise, forfeiture or respective period end.

(2) As of December 31, 2017, the average remaining life of stock options outstanding was 4.1 years.

(3) As of December 31, 2017, the average remaining life of stock options exercisable was approximately 4.1 years.

In accordance with the provisions of the 2006 Plan, we allow shares of our common stock to be withheld to satisfy the payment of exercise price and/or minimum statutory tax withholding obligations due upon the exercise of stock options. The value of the shares withheld is calculated based on the closing market price of our common stock on the NYSE on the day prior to the exercise date. During the year ended December 31, 2017, 15,270 shares were withheld on stock option exercises with an aggregate value of \$1.2 million. During the year ended December 31, 2016, 25,680 shares were withheld on stock option exercises with an aggregate value of \$1.8 million. During the year ended December 31, 2015, 62,072 shares were withheld on stock option exercises with an aggregate value of \$3.9 million.

Share-Based Compensation Cost Recorded During the Period

The total compensation cost for all share-based compensation programs was \$26.3 million, \$26.6 million and \$18.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. Of the total share-based compensation costs, \$7.3 million, \$5.6 million and \$3.3 million was capitalized as part of real estate assets and deferred leasing costs for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, there was approximately \$27.2 million of total unrecognized compensation cost related to nonvested incentive awards granted under share-based compensation arrangements that is expected to be recognized over a weighted-average period of 1.9 years. The remaining compensation cost related to these nonvested incentive awards had been recognized in periods

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prior to December 31, 2017. The \$27.2 million of unrecognized compensation costs does not reflect the future compensation cost related to share-based awards that were granted subsequent to December 31, 2017.

16. Employee Benefit Plans

401(k) Plan

We have a retirement savings plan designed to qualify under Section 401(k) of the Code (the “401(k) Plan”). Our employees are eligible to participate in the 401(k) Plan on the first day of the month after three months of service. The 401(k) Plan allows eligible employees (“401(k) Participants”) to defer up to 60% of their eligible compensation on a pre-tax basis, subject to certain maximum amounts allowed by the Code. The 401(k) Plan provides for a matching contribution by the Company in an amount equal to 50 cents of each one dollar of participant contributions up to a maximum of 10% of the 401(k) Participant’s annual salary. 401(k) Participants vest immediately in the amounts contributed by us. For each of the years ended December 31, 2017, 2016, and 2015, we contributed \$1.3 million, \$1.2 million and \$1.1 million, respectively, to the 401(k) Plan.

Deferred Compensation Plan

In 2007, we adopted the Deferred Compensation Plan, under which directors and certain management employees may defer receipt of their compensation, including up to 70% of their salaries and up to 100% of their director fees and bonuses, as applicable. In addition, employee participants will receive mandatory Company contributions to their Deferred Compensation Plan accounts equal to 10% of their gross monthly salaries, without regard to whether such employees elect to defer salary or bonus compensation under the Deferred Compensation Plan. Our board of directors may, but has no obligation to, approve additional discretionary contributions by the Company to Participant accounts. We hold the Deferred Compensation Plan assets in a limited rabbi trust, which is subject to the claims of our creditors in the event of bankruptcy or insolvency.

See Note 19 “Fair Value Measurements and Disclosures” for further discussion of our Deferred Compensation Plan assets as of December 31, 2017 and 2016. Our liability of \$20.6 million and \$14.7 million under the Deferred Compensation Plan was fully funded as of December 31, 2017 and 2016, respectively.

17. Future Minimum Rent

We have operating leases with tenants that expire at various dates through 2037 and are either subject to scheduled fixed increases or adjustments in rent based on the Consumer Price Index. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future contractual minimum rent under operating leases as of December 31, 2017 for future periods is summarized as follows:

Year Ending	(in thousands)	
2018	\$	555,393
2019		546,587
2020		525,637
2021		497,566
2022		476,146
Thereafter		2,569,163
Total ⁽¹⁾	\$	5,170,492

(1) Excludes residential leases and leases with a term of one year or less.

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18. Commitments and Contingencies

General

As of December 31, 2017, we had commitments of approximately \$696.1 million, excluding our ground lease commitments, for contracts and executed leases directly related to our operating and development properties.

Ground Leases

The following table summarizes our properties that are held subject to long-term noncancellable ground lease obligations and the respective contractual expiration dates:

Property	Contractual Expiration Date ⁽¹⁾
601 108th Ave NE, Bellevue, WA	November 2093
701, 801 and 837 N. 34th Street, Seattle, WA ⁽²⁾	December 2041
1701 Page Mill Road and 3150 Porter Drive, Palo Alto, CA	December 2067
Kilroy Airport Center Phases I, II, and III, Long Beach, CA	July 2084

(1) Reflects the contractual expiration date prior to the impact of any extension or purchase options held by the Company.

(2) The Company has three 10-year and one 45-year extension options for this ground lease, which if exercised would extend the expiration date to December 2116.

The minimum commitment under our ground leases as of December 31, 2017 for five years and thereafter is as follows:

Year Ending	(in thousands)
2018	\$ 4,957
2019	4,957
2020	4,957
2021	4,957
2022	4,957
Thereafter	226,633
Total ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	\$ 251,418

(1) Excludes contingent future rent payments based on gross income or adjusted gross income and reflects the minimum ground lease obligations before the impact of ground lease extension options.

(2) One of our ground lease obligations is subject to a fair market value adjustment every five years; however, the lease includes ground rent subprotection and infrastructure rent credits which currently limit our annual rental obligations to \$1.0 million. The contractual obligations for that ground lease included above assumes the lesser of \$1.0 million or annual lease rental obligation in effect as of December 31, 2017.

(3) One of our ground lease obligations includes a component which is based on the percentage of gross income that exceeds the minimum ground rent. The minimum rent is subject to increases every five years based on 50% of the average annual percentage rent for the previous five years. The contractual obligations for that lease included above assume the current annual ground lease obligation in effect at December 31, 2017 for the remainder of the lease term since we cannot predict future adjustments.

(4) One of our ground lease obligations is subject to a fair market value adjustment every five years based on a combination of CPI adjustments and third-party appraisals limited to maximum increases annually. The contractual obligations for that lease included above assume the current annual ground lease obligation in effect at December 31, 2017 for the remainder of the lease term since we cannot predict future adjustments.

(5) One of our ground lease obligations includes a component which is based on the percentage of adjusted gross income that exceeds the minimum ground rent. The minimum rent is subject to increases every 10 years by an amount equal to 60% of the average annual percentage rent for the previous three years. The contractual obligations for this lease included above assume the current annual ground lease obligation in effect at December 31, 2017 for the remainder of the lease term since we cannot predict future adjustments.

Environmental Matters

We follow the policy of monitoring all of our properties, both acquisition and existing stabilized portfolio properties, for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to our stabilized portfolio properties that would have a material adverse effect on our financial condition, results of operations and cash flow, or that we believe would require additional disclosure or the recording of a loss contingency.

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As of December 31, 2017 and 2016, we had accrued environmental remediation liabilities of approximately \$28.3 million and \$25.1 million, respectively, recorded on our consolidated balance sheets in connection with certain of our in-process and future development projects. The accrued environmental remediation liabilities represent the costs we estimate we will incur when we commence development at various development acquisition sites. These estimates, which we developed with the assistance of third party experts, consist primarily of the removal of contaminated soil and other related costs since we are required to dispose of any existing contaminated soil when we develop new office properties at these sites.

We record estimated environmental remediation obligations for acquired properties at the acquisition date when we are aware of such costs and when such costs are probable and can be reasonably estimated. Costs incurred in connection with the development related environmental remediation liabilities are recorded as an increase to the cost of the development project. These accruals are adjusted as an increase or decrease to the development project costs and as an increase or decrease to the accrued environmental remediation liability if we obtain further information or circumstances change. The environmental remediation obligations recorded at December 31, 2017 and 2016 were not discounted to their present value since we expect to complete the remediation activities in the next one to five years in connection with development activities at the various sites. It is possible that we could incur additional environmental remediation costs in connection with these future development projects. However, given we are in the pre-development phase on these future development projects, potential additional environmental costs cannot be reasonably estimated at this time and certain changes in estimates could occur as the site conditions, final project timing, design elements, actual soil conditions and other aspects of the projects, which may depend upon municipal and other approvals beyond the control of the Company, are determined.

Other than the accrued environmental liabilities discussed above, we are not aware of any unasserted claims and assessments with respect to an environmental liability that we believe would require additional disclosure or the recording of an additional loss contingency.

Litigation

We and our properties are subject to litigation arising in the ordinary course of business. To our knowledge, neither we nor any of our properties are presently subject to any litigation or threat of litigation which, if determined unfavorably to us, would have a material adverse effect on our cash flow, financial condition, or results of operations.

Insurance

We maintain commercial general liability, auto liability, employers' liability, umbrella/excess liability, special form property, difference in conditions including earthquake and flood, environmental, rental loss, and terrorism insurance covering all of our properties. Management believes the policy specifications and insured limits are reasonable given the relative risk of loss, the cost of the coverage, and industry practice. We do not carry insurance for generally uninsurable losses such as loss from governmental action, nuclear hazard, and war and military action. Policies are subject to various terms, conditions, and exclusions and some policies may involve large deductibles or co-payments.

Property Damage Settlement

During the year ended December 31, 2016, we settled an outstanding property damage matter and received cash proceeds totaling \$5.0 million, which is included in other property income on our consolidated statements of operations.

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19. Fair Value Measurements and Disclosures

Assets and Liabilities Reported at Fair Value

The only assets we record at fair value on our consolidated financial statements are the marketable securities related to our Deferred Compensation Plan (see Note 16 “Employee Benefit Plans” for additional information). The following table sets forth the fair value of our marketable securities as of December 31, 2017 and 2016:

<u>Description</u>	Fair Value (Level 1) ⁽¹⁾	
	2017	2016
	(in thousands)	
Marketable securities ⁽²⁾	\$ 20,674	\$ 14,773

(1) Based on quoted prices in active markets for identical securities.

(2) The marketable securities are held in a limited rabbi trust.

We report the change in the fair value of the marketable securities at the end of each accounting period in interest income and other net investment gains (losses) in the consolidated statements of operations. We also adjust the related Deferred Compensation Plan liability to fair value at the end of each accounting period based on the performance of the benchmark funds selected by each participant, which results in a corresponding increase or decrease to compensation cost for the period.

The following table sets forth the net gain (loss) on marketable securities recorded during the years ended December 31, 2017, 2016 and 2015:

<u>Description</u>	December 31,		
	2017	2016	2015
	(in thousands)		
Net gain (loss) on marketable securities	\$ 3,023	\$ 1,130	\$ (269)

Financial Instruments Disclosed at Fair Value

The following table sets forth the carrying value and the fair value of our other financial instruments as of December 31, 2017 and 2016:

<u>Liabilities</u>	December 31,			
	2017		2016	
	Carrying Value	Fair Value ⁽¹⁾	Carrying Value	Fair Value ⁽¹⁾
(in thousands)				
Secured debt, net	\$ 340,800	\$ 346,858	\$ 472,772	\$ 469,234
Unsecured debt, net	2,006,263	2,077,199	1,847,351	1,900,487

(1) Fair value calculated using Level II inputs, which are based on model-derived valuations in which significant inputs and significant value drivers are observable in active markets.

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20. Net Income Available to Common Stockholders Per Share of the Company

The following table reconciles the numerator and denominator in computing the Company's basic and diluted per-share computations for net income available to common stockholders for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, except unit and per unit amounts)		
Numerator:			
Net income attributable to Kilroy Realty Corporation	\$ 164,612	\$ 293,788	\$ 234,081
Total preferred dividends	(13,363)	(13,250)	(13,250)
Allocation to participating securities ⁽¹⁾	(1,975)	(3,839)	(1,634)
Numerator for basic and diluted net income available to common stockholders	<u>\$ 149,274</u>	<u>\$ 276,699</u>	<u>\$ 219,197</u>
Denominator:			
Basic weighted average vested shares outstanding	98,113,561	92,342,483	89,854,096
Effect of dilutive securities – contingently issuable shares and stock options	613,770	680,551	541,679
Diluted weighted average vested shares and common stock equivalents outstanding	<u>98,727,331</u>	<u>93,023,034</u>	<u>90,395,775</u>
Basic earnings per share:			
Net income available to common stockholders per share	<u>\$ 1.52</u>	<u>\$ 3.00</u>	<u>\$ 2.44</u>
Diluted earnings per share:			
Net income available to common stockholders per share	<u>\$ 1.51</u>	<u>\$ 2.97</u>	<u>\$ 2.42</u>

(1) Participating securities include nonvested shares, certain time-based RSUs and vested market measure-based RSUs.

Share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities. The impact of potentially dilutive common shares, including stock options, RSUs and other securities are considered in our diluted earnings per share calculation for the years ended December 31, 2017, 2016, and 2015. Certain market measure-based RSUs are not included in dilutive securities as of December 31, 2017, 2016, and 2015 as not all performance metrics had been met by the end of the applicable reporting periods.

See Note 15 "Share-Based Compensation" for additional information regarding the stock options and other share-based compensation.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

21. Net Income Available to Common Unitholders Per Unit of the Operating Partnership

The following table reconciles the numerator and denominator in computing the Operating Partnership’s basic and diluted per-unit computations for net income available to common unitholders for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, except unit and per unit amounts)		
Numerator:			
Net income attributable to Kilroy Realty, L.P.	\$ 167,440	\$ 300,063	\$ 238,137
Total preferred distributions	(13,363)	(13,250)	(13,250)
Allocation to participating securities ⁽¹⁾	(1,975)	(3,839)	(1,634)
Numerator for basic and diluted net income available to common unitholders	<u>\$ 152,102</u>	<u>\$ 282,974</u>	<u>\$ 223,253</u>
Denominator:			
Basic weighted average vested units outstanding	100,246,567	94,771,688	91,645,578
Effect of dilutive securities - contingently issuable shares and stock options	613,770	680,551	541,679
Diluted weighted average vested units and common unit equivalents outstanding	<u>100,860,337</u>	<u>95,452,239</u>	<u>92,187,257</u>
Basic earnings per unit:			
Net income available to common unitholders per unit	<u>\$ 1.52</u>	<u>\$ 2.99</u>	<u>\$ 2.44</u>
Diluted earnings per unit:			
Net income available to common unitholders per unit	<u>\$ 1.51</u>	<u>\$ 2.96</u>	<u>\$ 2.42</u>

(1) Participating securities include nonvested shares, certain time-based RSUs and vested market measure-based RSUs.

Share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities. The impact of potentially dilutive common units, including stock options, RSUs and other securities are considered in our diluted earnings per share calculation for the years ended December 31, 2017, 2016, and 2015. Certain market measure-based RSUs are not included in dilutive securities as of December 31, 2017 and 2016 as not all performance metrics had been met by the end of the applicable reporting periods.

See Note 15 “Share-Based Compensation” for additional information regarding the stock options and other share-based compensation.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

22. Supplemental Cash Flow Information of the Company

Supplemental cash flow information follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid for interest, net of capitalized interest of \$44,757, \$47,675, and \$50,923 as of December 31, 2017, 2016 and 2015, respectively	\$ 67,336	\$ 54,295	\$ 54,747
NON-CASH INVESTING TRANSACTIONS:			
Accrual for expenditures for operating properties and development and redevelopment properties	\$ 116,089	\$ 62,589	\$ 109,715
Tenant improvements funded directly by tenants	\$ 15,314	\$ 18,050	\$ 13,387
Assumption of other assets and liabilities in connection with operating and development property acquisitions, net (Note 3)	\$ 1,443	\$ 5,863	\$ 6,254
Accrual for receivable related to development properties	\$ —	\$ 1,350	\$ —
Release of holdback funds to third party	\$ —	\$ —	\$ 9,279
NON-CASH FINANCING TRANSACTIONS:			
Accrual of dividends and distributions payable to common stockholders and common unitholders (Notes 13 and 27)	\$ 43,448	\$ 220,650	\$ 33,336
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders (Note 13)	\$ —	\$ 1,656	\$ 1,656
Issuance of common units of the Operating Partnership in connection with an acquisition (Note 3)	\$ —	\$ 48,033	\$ —
Secured debt assumed by buyers in connection with land disposition (Note 4)	\$ —	\$ 2,322	\$ —
Exchange of common units of the Operating Partnership into shares of the Company's common stock	\$ 10,939	\$ 8,893	\$ 1,223

The following is a reconciliation of our cash and cash equivalents and restricted cash at the beginning and end of the years ended December 31, 2017, 2016 and 2015.

	Year Ended December 31,		
	2017	2016	2015
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:			
Cash and cash equivalents at beginning of period	\$ 193,418	\$ 56,508	\$ 23,781
Restricted cash at beginning of period	56,711	696	75,185
Cash and cash equivalents and restricted cash at beginning of period	\$ 250,129	\$ 57,204	\$ 98,966
Cash and cash equivalents at end of period	\$ 57,649	\$ 193,418	\$ 56,508
Restricted cash at end of period	9,149	56,711	696
Cash and cash equivalents and restricted cash at end of period	\$ 66,798	\$ 250,129	\$ 57,204

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

23. Supplemental Cash Flow Information of the Operating Partnership:

Supplemental cash flow information follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid for interest, net of capitalized interest of \$44,757, \$47,675, and \$50,923 as of December 31, 2017, 2016 and 2015, respectively	\$ 67,336	\$ 54,295	\$ 54,747
NON-CASH INVESTING TRANSACTIONS:			
Accrual for expenditures for operating properties and development and redevelopment properties	\$ 116,089	\$ 62,589	\$ 109,715
Tenant improvements funded directly by tenants	\$ 15,314	\$ 18,050	\$ 13,387
Assumption of other assets and liabilities in connection with operating and development property acquisitions, net (Note 3)	\$ 1,443	\$ 5,863	\$ 6,254
Accrual for receivable related to development properties	\$ —	\$ 1,350	\$ —
Release of holdback funds to third party	\$ —	\$ —	\$ 9,279
NON-CASH FINANCING TRANSACTIONS:			
Accrual of dividends and distributions payable to common stockholders and common unitholders (Notes 14 and 27)	\$ 43,448	\$ 220,650	\$ 33,336
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders (Note 14)	\$ —	\$ 1,656	\$ 1,656
Issuance of common units in connection with a development property acquisition (Note 3)	\$ —	\$ 48,033	\$ —
Secured debt assumed by buyers in connection with land disposition (Note 4)	\$ —	\$ 2,322	\$ —

The following is a reconciliation of our cash and cash equivalents and restricted cash at the beginning and end of the years ended December 31, 2017, 2016 and 2015.

	Year Ended December 31,		
	2017	2016	2015
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:			
Cash and cash equivalents at beginning of period	\$ 193,418	\$ 56,508	\$ 23,781
Restricted cash at beginning of period	56,711	696	75,185
Cash and cash equivalents and restricted cash at beginning of period	\$ 250,129	\$ 57,204	\$ 98,966
Cash and cash equivalents at end of period	\$ 57,649	\$ 193,418	\$ 56,508
Restricted cash at end of period	9,149	56,711	696
Cash and cash equivalents and restricted cash at end of period	\$ 66,798	\$ 250,129	\$ 57,204

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

24. Tax Treatment of Distributions

The following table reconciles the dividends declared per share of common stock to the dividends paid per share of common stock during the years ended December 31, 2017, 2016 and 2015 as follows:

Dividends	Year Ended December 31,		
	2017	2016	2015
Dividends declared per share of common stock	\$ 1.650	\$ 3.375	\$ 1.400
Less: Dividends declared in the current year and paid in the following year	(0.425)	(2.275)	(0.350)
Add: Dividends declared in the prior year and paid in the current year ⁽¹⁾	2.275	0.350	0.350
Dividends paid per share of common stock	<u>\$ 3.500</u>	<u>\$ 1.450</u>	<u>\$ 1.400</u>

(1) The fourth quarter 2016 dividend of \$2.275 per share of common stock consists of a special cash dividend of \$1.90 per share of common stock and a regular quarterly cash dividend of \$0.375 per share of common stock. The \$1.90 per share special distribution is treated as paid in two tax years for income tax purposes: \$1.587 is treated as paid on December 31, 2016 and \$0.313 is treated as paid on January 13, 2017. The \$0.375 per share regular quarterly distribution is considered a 2017 dividend distribution for income tax purposes.

The unaudited income tax treatment for the dividends to common stockholders reportable for the years ended December 31, 2017, 2016 and 2015 as identified in the table above was as follows:

Shares of Common Stock	Year Ended December 31,					
	2017		2016		2015	
Ordinary income	\$ 1.356	70.87%	\$ 1.500	49.40%	\$ 0.992	70.86%
Qualified dividend	0.002	0.11	0.002	0.06	0.002	0.13
Return of capital	0.344	18.00	—	—	—	—
Capital gains ⁽¹⁾	—	—	1.212	39.89	0.051	3.65
Unrecaptured section 1250 gains	0.211	11.02	0.323	10.65	0.355	25.36
	<u>\$ 1.913</u>	<u>100.00%</u>	<u>\$ 3.037</u>	<u>100.00%</u>	<u>\$ 1.400</u>	<u>100.00%</u>

(1) Capital gains are comprised entirely of 20% rate gains.

The 6.875% Series G Cumulative Redeemable Preferred Stock was issued in March 2012 and redeemed in March 2017. The unaudited income tax treatment for the dividends to Series G preferred stockholders reportable for the years ended December 31, 2017, 2016, and 2015 was as follows:

Preferred Shares	Year Ended December 31,					
	2017		2016		2015	
Ordinary income	\$ 0.371	86.43%	\$ 0.848	49.31%	\$ 1.218	70.86%
Qualified dividend	0.001	0.14	0.001	0.06	0.002	0.13
Capital gains ⁽¹⁾	—	—	0.687	39.97	0.063	3.65
Unrecaptured section 1250 gains	0.058	13.43	0.183	10.66	0.436	25.36
	<u>\$ 0.430</u>	<u>100.00%</u>	<u>\$ 1.719</u>	<u>100.00%</u>	<u>\$ 1.719</u>	<u>100.00%</u>

(1) Capital gains are comprised entirely of 20% rate gains.

The 6.375% Series H Cumulative Redeemable Preferred Stock was issued in August 2012 and redeemed in August 2017. The unaudited income tax treatment for the dividends to Series H preferred stockholders reportable for the years ended December 31, 2017, 2016, and 2015 was as follows:

Preferred Shares	Year Ended December 31,					
	2017		2016		2015	
Ordinary income	\$ 1.033	86.43%	\$ 0.786	49.31%	\$ 1.129	70.86%
Qualified dividend	0.002	0.14	0.001	0.06	0.002	0.13
Capital gains ⁽¹⁾	—	—	0.637	39.97	0.059	3.65
Unrecaptured section 1250 gains	0.160	13.43	0.17	10.66	0.404	25.36
	<u>\$ 1.195</u>	<u>100.00%</u>	<u>\$ 1.594</u>	<u>100.00%</u>	<u>\$ 1.594</u>	<u>100.00%</u>

(1) Capital gains are comprised entirely of 20% rate gains.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

25. Quarterly Financial Information of the Company (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2017 and 2016 was as follows:

	2017 Quarter Ended ⁽¹⁾			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share amounts)			
Revenues	\$ 179,308	\$ 180,598	\$ 181,534	\$ 177,561
Net income	37,281	35,306	75,488	32,540
Net income attributable to Kilroy Realty Corporation	33,525	31,448	71,110	28,529
Total preferred dividends and distributions	(7,196)	(1,615)	(4,552)	—
Net income available to common stockholders	26,329	29,833	66,558	28,529
Net income available to common stockholders per share – basic	0.27	0.30	0.67	0.28
Net income available to common stockholders per share – diluted	0.26	0.30	0.67	0.28

	2016 Quarter Ended ⁽¹⁾			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share amounts)			
Revenues	\$ 145,446	\$ 160,133	\$ 168,348	\$ 168,645
Net income	178,113	33,892	56,375	35,418
Net income attributable to Kilroy Realty Corporation	174,308	32,847	53,895	32,738
Preferred dividends and distributions	(3,313)	(3,312)	(3,313)	(3,312)
Net income available to common stockholders	170,995	29,535	50,582	29,426
Net income available to common stockholders per share – basic	1.85	0.32	0.54	0.29
Net income available to common stockholders per share – diluted	1.84	0.31	0.54	0.29

(1) The summation of the quarterly financial data may not equal the annual number reported on the consolidated statements of operations due to rounding. For the year ended December 31, 2016, the summation of the quarterly net income available to common stockholders per share does not equal the annual number reported on the consolidated statements of operations due to the Company's repurchase of common stock and its at-the-market stock offering programs that occurred during the year.

26. Quarterly Financial Information of the Operating Partnership (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2017 and 2016 was as follows:

	2017 Quarter Ended ⁽¹⁾			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per unit amounts)			
Revenues	\$ 179,308	\$ 180,598	\$ 181,534	\$ 177,561
Net income	37,281	35,306	75,488	32,540
Net income attributable to the Operating Partnership	34,054	31,971	72,402	29,013
Total preferred distributions	(7,196)	(1,615)	(4,552)	—
Net income available to common unitholders	26,858	30,356	67,850	29,013
Net income available to common unitholders per unit – basic	0.26	0.30	0.67	0.28
Net income available to common unitholders per unit – diluted	0.26	0.30	0.67	0.28

	2016 Quarter Ended ⁽¹⁾			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per unit amounts)			
Revenues	\$ 145,446	\$ 160,133	\$ 168,348	\$ 168,645
Net income	178,113	33,892	56,375	35,418
Net income attributable to the Operating Partnership	177,833	33,590	55,254	33,386
Preferred distributions	(3,313)	(3,312)	(3,313)	(3,312)
Net income available to common unitholders	174,520	30,278	51,941	30,074
Net income available to common unitholders per unit – basic	1.85	0.31	0.54	0.29
Net income available to common unitholders per unit – diluted	1.84	0.31	0.54	0.29

(1) The summation of the quarterly financial data may not equal the annual number reported on the consolidated statements of operations due to rounding. For the year ended December 31, 2016, the summation of the quarterly net income available to common stockholders per share does not equal the annual number reported on the consolidated statements of operations due to the issuance of common units in connection with an acquisition, the Company's repurchase of common stock and the its at-the-market stock offering programs that occurred during the year.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

27. Subsequent Events

On January 12, 2018, \$43.4 million of dividends were paid out to common stockholders, common unitholders and RSU holders of record on December 29, 2017.

In January 2018, the Operating Partnership borrowed \$75.0 million on the unsecured term loan facility.

On January 29, 2018, the Executive Compensation Committee granted 56,015 RSUs to key employees under the 2006 Plan. The compensation cost related to the RSUs is expected to be recognized over a period of three years.

On January 31, 2018, the Company completed the acquisition of three, two-story lab buildings encompassing 146,000 square feet for approximately \$111.0 million in the Oyster Point submarket of South San Francisco.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2017, 2016 and 2015
(in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Recoveries (Deductions)	Balance at End of Period ⁽¹⁾
<i>Allowance for Uncollectible Tenant Receivables for the year ended December 31,</i>				
2017 – Allowance for uncollectible tenant receivables	\$ 1,712	\$ 1,517	\$ (920)	\$ 2,309
2016 – Allowance for uncollectible tenant receivables	2,080	—	(368)	1,712
2015 – Allowance for uncollectible tenant receivables	1,999	303	(222)	2,080
<i>Allowance for Deferred Rent Receivables for the year ended December 31,</i>				
2017 – Allowance for deferred rent	\$ 1,524	\$ 1,752	\$ (38)	\$ 3,238
2016 – Allowance for deferred rent	1,882	—	(358)	1,524
2015 – Allowance for deferred rent	1,989	242	(349)	1,882

KILROY REALTY CORPORATION AND KILROY REALTY, L.P
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2017

Property Location	Initial Cost			Costs Capitalized Subsequent to Acquisition/Improvement	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Depreciation Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾ (unaudited)
	Encumbrances	Land and improvements	Buildings and Improvements		Land and improvements	Buildings and Improvements	Total				
(\$ in thousands)											
<i>Office Properties:</i>											
23925 Park Sorrento, Calabasas, CA		\$ 50	\$ 2,346	\$ 505	\$ 50	\$ 2,851	\$ 2,901	\$ 1,785	35	2001 (C)	11,873
23975 Park Sorrento, Calabasas, CA		765	17,720	8,948	765	26,668	27,433	15,576	35	2002 (C)	104,797
24025 Park Sorrento, Calabasas, CA		845	15,896	8,780	845	24,676	25,521	14,669	35	2000 (C)	108,670
2829 Townsgate Rd., Thousand Oaks, CA		5,248	8,001	7,991	5,248	15,992	21,240	11,056	35	1997 (A)	84,098
2240 E. Imperial Highway, El Segundo, CA		1,044	11,763	29,488	1,048	41,247	42,295	24,400	35	1983 (C)	122,870
2250 E. Imperial Highway, El Segundo, CA		2,579	29,062	35,553	2,547	64,647	67,194	50,919	35	1983 (C)	298,728
2260 E. Imperial Highway, El Segundo, CA		2,518	28,370	36,620	2,547	64,961	67,508	11,814	35	1983 (C)	298,728
909 N. Sepulveda Blvd., El Segundo, CA		3,577	34,042	47,184	3,577	81,226	84,803	35,309	35	2005 (C)	244,136
999 N. Sepulveda Blvd., El Segundo, CA		1,407	34,326	13,370	1,407	47,696	49,103	21,309	35	2003 (C)	128,588
6115 W. Sunset Blvd., Los Angeles, CA	(4)	1,313	3	15,386	2,455	14,247	16,702	970	35	2015 (C)	26,105
6121 W. Sunset Blvd., Los Angeles, CA	(4)	11,120	4,256	43,912	8,703	50,585	59,288	4,003	35	2015 (C)	91,173
1525 N. Gower Street, Los Angeles, CA	(4)	1,318	3	9,633	1,318	9,636	10,954	522	35	2016 (C)	9,610
1575 N. Gower Street, Los Angeles, CA	(4)	22,153	51	119,891	22,153	119,942	142,095	4,438	35	2016 (C)	251,245
1500 N. El Centro Avenue, Los Angeles, CA	(4)	9,235	21	55,627	9,235	55,648	64,883	1,907	35	2016 (C)	104,504
1550 N. El Centro Avenue, Los Angeles, CA	(4)	16,970	39	135,390	16,970	135,429	152,399	6,012	35	2016 (C) ⁽⁵⁾	
6255 W. Sunset Blvd., Los Angeles, CA		18,111	60,320	40,177	18,111	100,497	118,608	23,147	35	2012 (A)	323,920
3750 Kilroy Airport Way, Long Beach, CA		—	1,941	11,022	—	12,963	12,963	10,005	35	1989 (C)	10,457
3760 Kilroy Airport Way, Long Beach, CA		—	17,467	12,031	—	29,498	29,498	24,461	35	1989 (C)	165,278
3780 Kilroy Airport Way, Long Beach, CA		—	22,319	20,119	—	42,438	42,438	35,747	35	1989 (C)	219,745
3800 Kilroy Airport Way, Long Beach, CA		—	19,408	20,176	—	39,584	39,584	22,575	35	2000 (C)	192,476
3840 Kilroy Airport Way, Long Beach, CA		—	13,586	9,635	—	23,221	23,221	14,695	35	1999 (C)	136,026
3880 Kilroy Airport Way, Long Beach, CA		—	9,704	11,167	—	20,871	20,871	3,118	35	1997 (A)	96,035
3900 Kilroy Airport Way, Long Beach, CA		—	12,615	11,397	—	24,012	24,012	16,058	35	1997 (A)	129,893
Kilroy Airport Center, Phase IV, Long Beach, CA ⁽⁶⁾		—	—	4,997	—	4,997	4,997	4,993	35		—
8560 W. Sunset Blvd, West Hollywood, CA		9,720	50,956	169	9,720	51,125	60,845	2,204	35	2016 (A)	71,875
8570 W. Sunset Blvd, West Hollywood, CA		31,693	27,974	256	31,693	28,230	59,923	1,075	35	2016 (A)	43,603
8580 W. Sunset Blvd, West Hollywood, CA		10,013	3,695	35	10,013	3,730	13,743	137	35	2016 (A)	7,126
8590 W. Sunset Blvd, West Hollywood, CA		39,954	27,884	272	39,954	28,156	68,110	1,178	35	2016 (A)	56,095
12100 W. Olympic Blvd., Los Angeles, CA	170,000 ⁽⁷⁾	352	45,611	18,417	9,633	54,747	64,380	25,353	35	2003 (C)	152,048
12200 W. Olympic Blvd., Los Angeles, CA	(7)	4,329	35,488	23,274	3,977	59,114	63,091	34,746	35	2000 (C)	150,832
12233 W. Olympic Blvd., Los Angeles, CA		22,100	53,170	3,848	22,100	57,018	79,118	9,610	35	2012 (A)	151,029

12312 W. Olympic Blvd., Los Angeles, CA	(7)	3,325	12,202	11,326	3,399	23,454	26,853	10,573	35	1997 (A)	76,644
1633 26th St., Santa Monica, CA		2,080	6,672	3,139	2,040	9,851	11,891	6,638	35	1997 (A)	43,857
2100/2110 Colorado Ave., Santa Monica, CA	93,081 (8)	5,474	26,087	14,373	5,476	40,458	45,934	22,311	35	1997 (A)	102,864
3130 Wilshire Blvd., Santa Monica, CA		8,921	6,579	14,931	9,188	21,243	30,431	13,546	35	1997 (A)	90,002

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION – (Continued)
December 31, 2017

Property Location	Initial Cost			Costs Capitalized Subsequent to Acquisition/Improvement	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Depreciation Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾ (unaudited)
	Encumbrances	Land and improvements	Buildings and Improvements		Land and improvements	Buildings and Improvements	Total				
(\$ in thousands)											
501 Santa Monica Blvd., Santa Monica, CA	(9)	4,547	12,044	13,173	4,551	25,213	29,764	14,092	35	1998 (A)	76,803
2211 Michelson, Irvine, CA	(8)	9,319	82,836	5,779	9,319	88,615	97,934	24,029	35	2010 (A)	271,556
12225 El Camino Real, Del Mar, CA		1,700	9,633	2,982	1,673	12,642	14,315	8,274	35	1998 (A)	58,401
12235 El Camino Real, Del Mar, CA		1,507	8,543	8,657	1,540	17,167	18,707	8,927	35	1998 (A)	53,751
12340 El Camino Real, Del Mar, CA		4,201	13,896	8,851	4,201	22,747	26,948	10,375	35	2002 (C)	88,377
12390 El Camino Real, Del Mar, CA		3,453	11,981	1,380	3,453	13,361	16,814	8,646	35	2000 (C)	72,332
12348 High Bluff Dr., Del Mar, CA		1,629	3,096	6,144	1,629	9,240	10,869	5,760	35	1999 (C)	38,806
12400 High Bluff Dr., Del Mar, CA	(9)	15,167	40,497	14,337	15,167	54,834	70,001	25,468	35	2004 (C)	209,220
3579 Valley Centre Dr., Del Mar, CA		2,167	6,897	7,461	2,858	13,667	16,525	8,977	35	1999 (C)	52,418
3611 Valley Centre Dr., Del Mar, CA		4,184	19,352	18,843	5,259	37,120	42,379	22,592	35	2000 (C)	129,656
3661 Valley Centre Dr., Del Mar, CA		4,038	21,144	15,535	4,725	35,992	40,717	18,966	35	2001 (C)	128,364
3721 Valley Centre Dr., Del Mar, CA		4,297	18,967	14,557	4,254	33,567	37,821	14,278	35	2003 (C)	115,193
3811 Valley Centre Dr., Del Mar, CA		3,452	16,152	20,092	4,457	35,239	39,696	20,243	35	2000 (C)	112,067
12770 El Camino Real, Del Mar, CA		9,360	—	31,914	9,360	31,914	41,274	830	35	2015 (C)	73,032
12780 El Camino Real, Del Mar, CA		18,398	54,954	2,382	18,398	57,336	75,734	9,642	35	2013 (A)	140,591
12790 El Camino Real, Del Mar, CA		10,252	21,236	1,426	10,252	22,662	32,914	3,788	35	2013 (A)	78,836
13280 Evening Creek Dr. South, I-15 Corridor, CA		3,701	8,398	4,597	3,701	12,995	16,696	4,544	35	2008 (C)	41,196
13290 Evening Creek Dr. South, I-15 Corridor, CA		5,229	11,871	5,919	5,229	17,790	23,019	5,105	35	2008 (C)	61,180
13480 Evening Creek Dr. North, I-15 Corridor, CA		7,997	—	48,184	7,997	48,184	56,181	16,885	35	2008 (C)	149,817
13500 Evening Creek Dr. North, I-15 Corridor, CA		7,581	35,903	8,761	7,580	44,665	52,245	18,895	35	2004 (A)	147,533
13520 Evening Creek Dr. North, I-15 Corridor, CA		7,581	35,903	13,232	7,580	49,136	56,716	20,855	35	2004 (A)	141,129
2305 Historic Decatur Rd., Point Loma, CA		5,240	22,220	7,309	5,240	29,529	34,769	7,695	35	2010 (A)	103,900
4690 Executive Dr., University Towne Centre, CA		1,623	7,926	3,670	1,623	11,596	13,219	6,819	35	1999 (A)	47,846
4100 Bohannon Dr., Menlo Park, CA	(9)	4,835	15,526	505	4,860	16,006	20,866	3,352	35	2012 (A)	47,379
4200 Bohannon Dr., Menlo Park, CA	(9)	4,798	15,406	2,343	4,662	17,885	22,547	4,165	35	2012 (A)	45,451
4300 Bohannon Dr., Menlo Park, CA	(9)	6,527	20,958	2,963	6,470	23,978	30,448	6,140	35	2012 (A)	63,079
4400 Bohannon Dr., Menlo Park, CA	(9)	4,798	15,406	2,530	4,939	17,795	22,734	4,321	35	2012 (A)	48,146
4500 Bohannon Dr., Menlo Park, CA	(9)	6,527	20,957	1,757	6,470	22,771	29,241	4,795	35	2012 (A)	63,078
4600 Bohannon Dr., Menlo Park, CA	(9)	4,798	15,406	3,266	4,939	18,531	23,470	4,177	35	2012 (A)	48,147
4700 Bohannon Dr., Menlo Park, CA	(9)	6,527	20,958	1,412	6,470	22,427	28,897	4,658	35	2012 (A)	63,078
1290 - 1300 Terra Bella Avenue, Mountain View, CA		28,730	27,555	—	28,730	27,555	56,285	2,198	35	2016 (A)	114,175
331 Fairchild Dr., Mountain View, CA	(9)	18,396	17,712	7,958	18,396	25,670	44,066	3,772	35	2013 (C)	87,147
680 E. Middlefield Rd., Mountain View, CA		34,605	—	56,464	34,605	56,464	91,069	6,003	35	2014 (C)	170,090
690 E. Middlefield Rd., Mountain View, CA		34,755	—	56,707	34,755	56,707	91,462	6,029	35	2014 (C)	170,823

1701 Page Mill Rd, Palo Alto, CA	—	99,522	—	—	99,522	99,522	3,000	35	2016 (A)	128,688
3150 Porter Drive, Palo Alto, CA	—	21,715	—	—	21,715	21,715	796	35	2016 (A)	36,897

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION – (Continued)
December 31, 2017

Property Location	Initial Cost			Costs Capitalized Subsequent to Acquisition/Improvement	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Depreciation Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾ (unaudited)
	Encumbrances	Land and improvements	Buildings and Improvements		Land and improvements	Buildings and Improvements	Total				
(\$ in thousands)											
900 Jefferson Ave., Redwood City, CA ⁽¹⁰⁾		16,668	—	109,272	18,063	107,877	125,940	8,114	35	2015 (C)	228,505
900 Middlefield Rd., Redwood City, CA ⁽¹⁰⁾		7,959	—	49,713	8,626	49,046	57,672	3,497	35	2015 (C)	118,764
303 Second St., San Francisco, CA ⁽¹¹⁾		63,550	154,153	56,675	63,550	210,828	274,378	60,664	35	2010 (A)	740,047
100 First St., San Francisco, CA ⁽¹²⁾		49,150	131,238	35,190	49,150	166,428	215,578	45,677	35	2010 (A)	467,095
250 Brannan St., San Francisco, CA		7,630	22,770	4,421	7,630	27,191	34,821	8,520	35	2011 (A)	95,008
201 Third St., San Francisco, CA		19,260	84,018	57,295	19,260	141,313	160,573	37,393	35	2011 (A)	346,538
301 Brannan St., San Francisco, CA		5,910	22,450	5,226	5,910	27,676	33,586	6,047	35	2011 (A)	74,430
360 Third St., San Francisco, CA		—	88,235	112,295	28,504	172,026	200,530	32,575	35	2011 (A)	429,796
333 Brannan, San Francisco, CA		18,645	—	78,078	18,645	78,078	96,723	4,109	35	2016 (C)	185,602
350 Mission Street, San Francisco, CA		52,815	—	211,581	52,815	211,581	264,396	11,205	35	2016 (C)	455,340
1310 Chesapeake Terrace, Sunnyvale, CA	(9)	16,700	11,020	486	16,700	11,506	28,206	1,581	35	2014 (A)	76,244
1315 Chesapeake Terrace, Sunnyvale, CA	(9)	12,260	7,930	463	12,260	8,393	20,653	1,490	35	2014 (A)	55,635
1320-1324 Chesapeake Terrace, Sunnyvale, CA	(9)	17,360	10,720	538	17,360	11,258	28,618	2,076	35	2014 (A)	79,720
1325-1327 Chesapeake Terrace, Sunnyvale, CA	(9)	12,610	8,160	345	12,610	8,505	21,115	1,516	35	2014 (A)	55,383
505 Mathilda Ave., Sunnyvale, CA		37,843	1,163	50,429	37,943	51,492	89,435	4,913	35	2014 (C)	212,322
555 Mathilda Ave., Sunnyvale, CA		37,843	1,163	50,426	37,943	51,489	89,432	4,913	35	2014 (C)	212,322
605 Mathilda Ave., Sunnyvale, CA		29,014	891	77,266	29,090	78,081	107,171	10,756	35	2014 (C)	162,785
599 Mathilda Ave., Sunnyvale, CA		13,538	12,559	58	13,538	12,617	26,155	2,971	35	2012 (A)	75,810
601 108th Ave., Bellevue, WA		—	214,095	32,822	—	246,917	246,917	60,705	35	2011 (A)	488,470
10900 NE 4th St., Bellevue, WA		25,080	150,877	24,038	25,080	174,915	199,995	38,829	35	2012 (A)	416,755
10210 NE Points Dr., Kirkland, WA		4,336	24,187	3,072	4,336	27,259	31,595	7,219	35	2011 (A)	84,641
10220 NE Points Dr., Kirkland, WA		2,554	12,080	1,550	2,554	13,630	16,184	3,487	35	2011 (A)	49,851
10230 NE Points Dr., Kirkland, WA		5,071	24,694	6,148	5,071	30,842	35,913	7,680	35	2011 (A)	98,982
3933 Lake WA Blvd. NE, Kirkland, WA		2,380	15,114	6,591	2,380	21,705	24,085	5,550	35	2011 (A)	46,450
837 N. 34th St., Lake Union, WA		—	37,404	2,555	—	39,959	39,959	8,291	35	2012 (A)	111,580
701 N. 34th St., Lake Union, WA		—	48,027	5,221	—	53,248	53,248	11,830	35	2012 (A)	138,994
801 N. 34th St., Lake Union, WA		—	58,537	183	—	58,720	58,720	11,997	35	2012 (A)	169,412
320 Westlake Avenue North, WA	76,314 ⁽¹³⁾	14,710	82,018	4,320	14,710	86,338	101,048	13,865	35	2013 (A)	184,644
321 Terry Avenue North, Lake Union, WA	(13)	10,430	60,003	9,935	10,430	69,938	80,368	10,520	35	2013 (A)	135,755
401 Terry Avenue North, Lake Union, WA		22,500	77,046	—	22,500	77,046	99,546	10,222	35	2014 (A)	140,605
TOTAL OPERATING PROPERTIES	339,395	1,033,949	2,754,699	2,196,321	1,076,172	4,908,797	5,984,969	1,264,162			13,720,597

Undeveloped land and construction in progress	—	692,241	—	740,567	692,241	740,567	1,432,808	—	—
TOTAL ALL PROPERTIES	<u>\$339,395</u> ₍₁₄₎	<u>\$1,726,190</u>	<u>\$2,754,699</u>	<u>\$ 2,936,888</u>	<u>\$1,768,413</u>	<u>\$5,649,364</u>	<u>\$7,417,777</u>	<u>\$ 1,264,162</u>	<u>13,720.597</u>

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION – (Continued)
December 31, 2017

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- (1) The initial costs of buildings and improvements are depreciated over 35 years using a straight-line method of accounting; improvements capitalized subsequent to acquisition are depreciated over the shorter of the lease term or useful life, generally ranging from one to 20 years.
 - (2) Represents our date of construction or acquisition, or of our predecessor, the Kilroy Group.
 - (3) Includes square footage from our stabilized portfolio.
 - (4) These properties include the costs of a shared parking structure for a complex comprised of five office buildings and one residential tower. The costs of the parking structure are allocated amongst the six buildings.
 - (5) This property represents the 200-unit Columbia Square - Residential tower that stabilized in 2016.
 - (6) These costs represent infrastructure costs incurred in 1989. During the third quarter of 2009, we exercised our option to terminate the ground lease at Kilroy Airport Center, Phase IV in Long Beach, California. We had previously leased this land, which is adjacent to our Office Properties at Kilroy Airport Center, Long Beach, for potential future development opportunities.
 - (7) These properties secure a \$170.0 million mortgage note.
 - (8) These properties secure a \$93.1 million mortgage note.
 - (9) These properties secure intercompany promissory notes between KRLP and consolidated property partnerships.
 - (10) These properties are owned by Redwood City Partners LLC, a consolidated property partnership.
 - (11) This property is owned by 303 Second Street Member LLC, a consolidated property partnership.
 - (12) This property is owned by 100 First Street Member LLC, a consolidated property partnership.
 - (13) These properties secure a \$76.3 million mortgage note.
 - (14) Represents gross aggregate principal amount before the effect of the unamortized premium of approximately \$2.6 million and deferred financing costs of \$1.2 million as of December 31, 2017.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION – (Continued)
December 31, 2017

As of December 31, 2017, the aggregate gross cost of property included above for federal income tax purposes approximated \$6.3 billion.

The following table reconciles the historical cost of total real estate held for investment from January 1, 2015 to December 31, 2017:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Total real estate held for investment, beginning of year	\$ 7,060,754	\$ 6,328,146	\$ 6,057,932
Additions during period:			
Acquisitions	19,829	460,957	139,123
Improvements, etc.	533,939	386,836	536,411
Total additions during period	553,768	847,793	675,534
Deductions during period:			
Cost of real estate sold	(191,610)	(68,200)	(231,984)
Properties held for sale	—	(13,193)	(160,074)
Other	(5,135)	(33,792)	(13,262)
Total deductions during period	(196,745)	(115,185)	(405,320)
Total real estate held for investment, end of year	\$ 7,417,777	\$ 7,060,754	\$ 6,328,146

The following table reconciles the accumulated depreciation from January 1, 2015 to December 31, 2017:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Accumulated depreciation, beginning of year	\$ 1,139,853	\$ 994,241	\$ 947,664
Additions during period:			
Depreciation of real estate	190,515	171,983	159,524
Total additions during period	190,515	171,983	159,524
Deductions during period:			
Write-offs due to sale	(66,206)	(22,471)	(66,603)
Properties held for sale	—	(3,900)	(46,191)
Other	—	—	(153)
Total deductions during period	(66,206)	(26,371)	(112,947)
Accumulated depreciation, end of year	\$ 1,264,162	\$ 1,139,853	\$ 994,241

EXHIBIT INDEX

Exhibit Number	Description
3.(i)1	Kilroy Realty Corporation Articles of Restatement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2012)
3.(i)2	Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
3.(i)3	Amendment to the Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
3.(i)4	Articles Supplementary reclassifying shares of the Series G Preferred Stock of the Company (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 23, 2017)
3.(i)5	Articles Supplementary reclassifying shares of the Series H Preferred Stock of the Company (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 23, 2017)
3.(ii)1	Fifth Amended and Restated Bylaws of Kilroy Realty Corporation (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 1, 2017)
3.(ii)2	Seventh Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated August 15, 2012, as amended (previously filed by Kilroy Realty Corporation on Form 10-Q for the quarter ended June 30, 2014)
4.1	Kilroy Realty Corporation Form of Certificate for Common Stock (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
4.2	Registration Rights Agreement, dated January 31, 1997 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
4.3	Form of Certificate for Partnership Units of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
4.4	Indenture, dated May 24, 2010, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 6.625% Senior Notes due 2020 and the form of the related guarantee (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 25, 2010)
4.5	Registration Rights Agreement, dated July 31, 2012 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2012)
4.6	Officers' Certificate pursuant to Sections 101, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "3.800% Notes due 2023," including the form of 3.800% Notes due 2023 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 14, 2013)
4.7	Indenture, dated March 1, 2011, by and among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit to the Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on October 2, 2013)
4.8	Supplemental Indenture, dated July 5, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit to the Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on October 2, 2013)

Exhibit Number	Description
4.9	Officers' Certificate pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "4.25% Senior Notes due 2029," including the form of 4.25% Senior Notes due 2029 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 6, 2014)
4.10	Officers' Certificate, dated September 16, 2015, pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "4.375% Senior Notes due 2025," including the form of 4.375% Senior Notes due 2025 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on September 16, 2015)
4.11	Officers' Certificate, dated December 11, 2017, pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "3.450% Senior Notes due 2024," including the form of 3.450% Senior Notes due 2024 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 11, 2017)
4.12	The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request
10.1	Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
10.2†	1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
10.3	License Agreement by and among the Registrant and the other persons named therein (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 4 to Form S-11 (No. 333-15553))
10.4†	Form of Restricted Stock Award Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 8, 2007)
10.5†	Kilroy Realty Corporation Stock Award Deferral Program (previously filed by Kilroy Realty Corporation as an exhibit to Form 8-K as filed with the Securities and Exchange Commission on January 2, 2008)
10.6†	Form of Indemnification Agreement of Kilroy Realty Corporation with certain officers and directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2009)
10.7†	Kilroy Realty Corporation Form of Stock Option Grant Notice and Stock Option Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 24, 2012)
10.8†	Amended and Restated Employment Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2012)
10.9†	Noncompetition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2012)
10.10†	Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and Jeffrey C. Hawken, dated April 4, 2013 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)
10.11†	Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and John Kilroy, Jr., dated March 30, 2012 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)

Exhibit Number	Description
10.12†	Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)
10.13†	Form of Stock Award Deferral Program Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)
10.14†	Form of Performance-Vest Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)
10.15†	Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)
10.16†	Form of Restricted Stock Unit Agreement for Non-Employee Members of the Board of Directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)
10.17	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and RBC Capital Markets, LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.18	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jefferies LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.19	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and KeyBanc Capital Markets Inc. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.20	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and BNP Paribas Securities Corp. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.21	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and J.P. Morgan Securities LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.22	Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Barclays Capital Inc. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)
10.23†	Form of Performance-Vest Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)
10.24†	Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)
10.25†	Form of Restricted Stock Unit Agreement for Non-Employee Members of the Board of Directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)
10.26†	Amended and Restated Employment Agreement and Non-Competition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of December 31, 2015 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2015)
10.27†	Kilroy Realty Corporation Director Compensation Policy effective as of January 1, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2015)
10.28†	Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and Jeffrey C. Hawken, dated January 9, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2016)
10.29†	Amended and Restated Employment Agreement and Non-Competition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 28, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2016)

Exhibit Number	Description
10.30†	Amended and Restated Employment Agreement and Non-Competition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Justin W. Smart effective as of January 28, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2016)
10.31	Note Purchase Agreement dated September 14, 2016 (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on September 14, 2016)
10.32	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and RBC Capital Markets, LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.33	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jefferies LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.34	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and KeyBanc Capital Markets Inc. (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.35	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and BNP Paribas Securities Corp. (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.36	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and J.P. Morgan Securities LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.37	Amendment to Sales Agreement, dated September 29, 2016, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Barclays Capital Inc. (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.38	Form of Time Sharing Agreement of Kilroy Realty, L.P. (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended September 30, 2016)
10.39*	Promissory Note, dated November 29, 2016
10.40*	Loan Agreement, dated November 29, 2016, by and between KR WMC, LLC and Massachusetts Mutual Life Insurance Company
10.41*	Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated November 29, 2016
10.42*	Assignment of Leases and Rents, dated November 29, 2016
10.43*	Recourse Guaranty Agreement, dated November 29, 2016
10.44*	Environmental Indemnification Agreement, dated November 29, 2016
10.45†	Kilroy Realty Corporation 2007 Deferred Compensation Plan, as amended and restated effective January 1, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-K for the year ended December 31, 2016)
10.46	General Partner Guaranty Agreement, dated February 17, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-Q for the quarter ended March 31, 2017)
10.47†	Kilroy Realty 2006 Incentive Award Plan (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 23, 2017)
10.48	Second Amended and Restated Credit Agreement dated as of July 24, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-Q for the quarter ended June 30, 2017)
10.49	Second Amended and Restated Guaranty dated as of July 24, 2017 (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P., as an exhibit on Form 10-Q for the quarter ended on June 30, 2017)

Exhibit Number	Description
12.1*	Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges and Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends of Kilroy Realty Corporation
12.2*	Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges of Kilroy Realty, L.P.
21.1*	List of Subsidiaries of Kilroy Realty Corporation
21.2*	List of Subsidiaries of Kilroy Realty, L.P.
23.1*	Consent of Deloitte & Touche LLP for Kilroy Realty Corporation
23.2*	Consent of Deloitte & Touche LLP for Kilroy Realty, L.P.
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty Corporation
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty Corporation
31.3*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty, L.P.
31.4*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty, L.P.
32.1*	Section 1350 Certification of Chief Executive Officer of Kilroy Realty Corporation
32.2*	Section 1350 Certification of Chief Financial Officer of Kilroy Realty Corporation
32.3*	Section 1350 Certification of Chief Executive Officer of Kilroy Realty, L.P.
32.4*	Section 1350 Certification of Chief Financial Officer of Kilroy Realty, L.P.
101.1	The following Kilroy Realty Corporation and Kilroy Realty, L.P. financial information for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Capital, (v) Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements. ⁽¹⁾

* Filed herewith

† Management contract or compensatory plan or arrangement.

(1) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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Section 2: EX-10.39 (EXHIBIT 10.39)

Exhibit 10.39

Mortgage Loan No. 16714

PROMISSORY NOTE

\$170,000,000.00

November 29, 2016

FOR VALUE RECEIVED, KR WMC, LLC, a Delaware limited liability company, with an address of 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064 (“Borrower”), hereby promises to pay to the order of MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation, and its successors and assigns (“Lender”), the principal sum of ONE HUNDRED SEVENTY MILLION AND 00/100 DOLLARS (\$170,000,000.00), or so much thereof as shall have been advanced from time to time, in lawful money of the United States of America and in immediately available funds to the account of Lender, pursuant to written instructions provided by Lender to Borrower, on the dates and in the principal amounts provided in the Agreement (as hereinafter defined), and to pay interest on the unpaid principal amount of such Loan, in like money and funds, for the period commencing on the date of the Loan until such Loan shall be paid in full, at the rates per annum and on the dates provided in the Agreement. This Note may not be prepaid other than as expressly provided in the Agreement.

The date, amount, and interest rate of the Loan made by Lender to Borrower, and each payment made on account of the principal thereof, shall be recorded by Lender on its books, provided that the failure of Lender to make any such recordation shall not affect the obligations of Borrower to make a payment when due of any amount owing under the Agreement or hereunder in respect of the Loan made by Lender.

This Note is the Promissory Note referred to in that certain Loan Agreement of even date herewith (as modified and supplemented and in effect from time to time, the “Agreement”) between Borrower and Lender, and evidences the Loan made by Lender pursuant to the Agreement.

Terms used but not defined in this Note have the respective meanings assigned to them in the Agreement. This Note is secured by, and has the benefit of, the Mortgage encumbering all of the Mortgaged Property, the Assignment of Leases and Rents with respect to the Mortgaged Property, and the liens and security interests granted in the other Loan Documents. This Note is subject to the terms and provisions of the Agreement.

The Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayment of this Note, in whole or in part, upon the terms and conditions specified therein.

Notwithstanding anything contained herein to the contrary, Borrower's liability hereunder is subject to the limitation on liability provisions of Article 11 of the Agreement, which Article 11 is incorporated herein by reference, mutatis mutandis, as if such Article 11 was set forth in full herein.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

[No Further Text On This Page]

IN WITNESS WHEREOF, Borrower has executed this Note as of the date first above written.

BORROWER:

KR WMC, LLC,
a Delaware limited liability company

By: Kilroy Realty, L.P.,
a Delaware limited partnership
its sole managing member

By: Kilroy Realty Corporation,
a Maryland corporation,
its general partner

By: /s/ Tyler H. Rose
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /s/ Michelle Ngo
Name: Michelle Ngo
Title: Senior Vice President and Treasurer

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Section 3: EX-10.40 (EXHIBIT 10.40)

Exhibit 10.40

Mortgage Loan No.: 16714

LOAN AGREEMENT

between

KR WMC LLC,

as Borrower

and

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

as Lender

Dated as of November 29, 2016

Relating to Property Located at:

12100, 12200 & 12312 West Olympic Boulevard, Los Angeles, California

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EXHIBIT F	- FORM OF SUBORDINATION, NON-DISTURBANCE AND ATTORNEY AGREEMENT
EXHIBIT G-1	- FORM OF U.S. TAX COMPLIANCE CERTIFICATE
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EXHIBIT G-3	- FORM OF U.S. TAX COMPLIANCE CERTIFICATE
EXHIBIT G-4	- FORM OF U.S. TAX COMPLIANCE CERTIFICATE

LOAN AGREEMENT

This Loan Agreement (this "Agreement") is entered into as of November 29, 2016 by and between **KR WMC LLC**, a Delaware limited liability company ("Borrower"), and **MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY**, a Massachusetts corporation ("Lender").

RECITALS:

A. Borrower owns certain property and related land and improvements legally described in Exhibit A and has applied to Lender for a loan in a principal amount of \$170,000,000.00 which shall be secured, in part, by all of such assets.

B. Lender desires to make the Loan to Borrower upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the terms and covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and agreed to, the parties hereto agree to be bound as follows:

ARTICLE 1.

CERTAIN DEFINITIONS

Section 1.1 Certain Definitions. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1.1:

"*Acceleration Event*" has the meaning assigned to such term in Subsection 2.5(c).

"*Acceptable Lease*" means a New Lease that is either a No-Approval Lease or that is actually or deemed approved by Lender in accordance with this Agreement.

"*ACH*" has the meaning assigned to such word in Subsection 2.7(a).

"*Administrative Agent*" means Barings Real Estate Advisers Inc. or any successor pursuant to Article 13 of this Agreement.

"*Advances*" means, other than Loan proceeds, all sums, amounts or expenses advanced or paid and all costs incurred by Administrative Agent or Lender, as provided in this Agreement or in any other Loan Document, upon failure of Borrower to pay or perform any obligation or covenant contained herein or in such other Loan Document.

"*Affiliate*" means any Person that is, directly or indirectly, Controlled by, in Control of or under common Control with any other Person.

"*Agreement*" means this Loan Agreement, as amended or modified from time to time.

“Anti-Money Laundering Laws” means the USA Patriot Act of 2001, as amended, the Bank Secrecy Act, as amended, Executive Order 13324 – Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, as amended, and other federal laws and regulations and executive orders administered by OFAC which prohibit, among other things, the engagement in transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals (such individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanction and embargo programs), and such additional laws and programs administered by OFAC which prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on any of the OFAC lists.

“Application” means the Application for Real Estate Mortgage Loan dated September 14, 2016 submitted by or on behalf of Borrower to Lender for the Loan.

“Appurtenances” is defined in the Granting Clauses of the Mortgage.

“Assignment of Leases and Rents” means the Assignment of Leases and Rents of even date herewith from Borrower in favor of Lender in connection with the Loan, as the same may be amended, modified, consolidated, extended, substituted or replaced from time to time.

“Bail-In Action” has the meaning assigned to such term in Section 12.28.

“Bail-In Legislation” has the meaning assigned to such term in Section 12.28.

“Bankruptcy Proceeding” means any proceeding, action, petition or filing under the Federal Bankruptcy Code or any similar state or federal law now or hereafter in effect relating to bankruptcy, reorganization or insolvency, or the arrangement or adjustment of debts.

“Borrower” has the meaning assigned in the introductory paragraph on page one of this Agreement, any subsequent owner of the Mortgaged Property and its or their respective permitted successors and assigns.

“Business Day” means any day other than a Saturday, Sunday or other day on which national banks in either the Commonwealth of Massachusetts or the State are not open for business.

“Charter” means the Articles of Restatement of Kilroy Realty Corporation, dated as of May 23, 2012.

“Closed Period Prepayment Premium” has the meaning assigned to such term in Subsection 2.5(c).

“Closed Prepayment Date” has the meaning assigned to such term in Subsection 2.5(a).

“Closing Date” means the date that the Loan (or the initial portion thereof) is advanced to Borrower.

“Code” means the Internal Revenue Code of 1986, as amended.

“*Collateral*” is defined in the Granting Clauses of the Mortgage.

“*Confidential Information*” means information that Borrower, Indemnitor or any Principal furnishes to Lender, but does not include any such information that is or becomes generally available to the public other than by way of a breach of the confidentiality provisions of Section 12.26 or that is or becomes available to Lender from a source other than Borrower, Indemnitor or any Principal and not in violation of any confidentiality agreement with respect to such information that is actually known to Lender.

“*Contract Rate*” has the meaning assigned to such term in Subsection 2.2(a).

“*Control*” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract, relation to individuals or otherwise; and the terms “Controlling” or “Controlled” have meanings correlative to the foregoing.

“*Costs*” has the meaning assigned to such term in Section 12.25.

“*Cure Notice*” has the meaning assigned to such term in Subsection 9.1(c).

“*Current Debt Yield*” means, as of the date such calculation is made, the quotient, expressed as a percentage, obtained by dividing the Net Operating Income from the Mortgaged Property by the then outstanding principal balance of the Loan.

“*Debt Yield*” means, as of the date such calculation is made, the quotient, expressed as a percentage, obtained by dividing the Net Operating Income from the Mortgaged Property by the then outstanding principal balance of the Loan.

“*Default Rate*” has the meaning assigned to such term in Subsection 2.2(c).

“*Deficiency Amount*” has the meaning assigned to such term in Subsection 3.2(d)(iv).

“*Dollars*” and “\$” means lawful money of the United States of America.

“*Easement Agreements*” has the meaning assigned to such term in Section 6.3.

“*Easements*” has the meaning assigned to such term in Section 6.3.

“*EEA Financial Institution*” has the meaning assigned to such term in Section 12.28.

“*EEA Member Country*” has the meaning assigned to such term in Section 12.28.

“*EEA Resolution Authority*” has the meaning assigned to such term in Section 12.28.

“*Environmental Indemnification Agreement*” means the Environmental Indemnification Agreement of even date herewith executed by Borrower and Indemnitor in favor of Lender and the Lender Parties and Administrative Agent, as applicable, as amended from time to time.

“**Equipment**” has the meaning assigned to such word in the Granting Clauses of the Mortgage.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

“**ERISA Affiliate**” means any corporation or trade or business that is a member of any group of organizations (a) described in Section 414(b) or (c) of the Code, of which Borrower is a member, and (b) solely for purposes of potential liability or any lien arising under Section 302 of ERISA and Section 412 of the Code, described in Section 414(m) or (o) of the Code, of which Borrower is a member.

“**Escrow Agent**” means the financial institution designated by Lender from time to time, to hold any reserve accounts hereunder (*e.g.*, tax and insurance reserve account), which account(s) shall be under the complete control of Lender. For avoidance of doubt, the Escrow Agent and escrow accounts, may be replaced, at any time and from time to time, by Lender.

“**EU Bail-In Legislation Schedule**” has the meaning assigned to such term in Section 12.28.

“**Event of Default**” means any one or more of the events described in Section 9.1.

“**Excluded Taxes**” means any of the following Taxes imposed on or with respect to a Lender or required to be withheld or deducted from a payment to a Lender: (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Lender being organized under the laws of, or having its principal office or its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) Taxes imposed as a result of a present or former connection between such Lender and the jurisdiction imposing such Tax (other than connections arising from such Lender having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced the Loan Document), (b) withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in the Loan pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Loan or (ii) such Lender changes its lending office, except in each case to the extent that, pursuant to Section 6.4, amounts with respect to such Taxes were payable either to such Lender's assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its lending office, (c) Taxes attributable to such Lender's failure to comply with Section 12.26 and (d) any U.S. federal withholding Taxes imposed under FATCA.

“**FATCA**” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b)(1) of the Code (or any amended or successor version described above), and any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code and any fiscal

or regulatory legislation, rules or practices adopted pursuant to such intergovernmental agreement.

“**Federal Bankruptcy Code**” means Title 11 of the United States Code, as the same may be amended from time to time or any successor statute thereto.

“**Federal Funds Rate**” means the rate published in The Wall Street Journal as the average federal funds rate in the Money Rates section as of the applicable date, or if The Wall Street Journal is not published on such date because such date is not a Business Day, on the preceding date on which it was published. If The Wall Street Journal ceases to publish such average rates or is no longer in publication, then any other publication acceptable to Lender in its reasonable discretion quoting daily market average federal funds rates will be used.

“**Financial Information**” has the meaning assigned to such term in Section 7.1.

“**Financial Information Fee**” has the meaning assigned to such term in Subsection 7.1(c).

“**Fiscal Year**” means each calendar year during the term of this Agreement, or such other fiscal year of Borrower as Borrower may select from time to time with the prior consent of Lender (such consent not to be unreasonably withheld, delayed or conditioned). During the first year of the term hereof, Borrower’s Fiscal Year shall be deemed to have commenced on the date of this Agreement and shall end on the regular Fiscal Year ending date as indicated in the immediately preceding sentence.

“**Foreign Lender**” means a Lender that is not a U.S. Person.

“**GAAP**” means generally accepted accounting principles.

“**Impositions**” means all property taxes or payments in lieu of property taxes of every kind and nature, and assessments, levies, and all other charges imposed upon or assessed against the Mortgaged Property or any portion thereof (including the Property Income), any of which might, if unpaid, affect the enforceability of any of the remedies provided in this Agreement or any other Loan Documents or result in a lien on the Mortgaged Property or any portion thereof, regardless of to whom assessed.

“**Improvements**” is defined in the Granting Clauses of the Mortgage.

“**Indebtedness**” means the aggregate of all principal and interest payments that accrue or are due and payable in connection with the Loan, together with all other obligations and liabilities and all amounts, sums and expenses due Lender hereunder or under any other Loan Document.

“**Indemnified Taxes**” means Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of Borrower under any Loan Document.

“**Indemnitor**” means, collectively, Kilroy LP, and any other guarantor or indemnitor of all or any of Borrower’s obligations or liabilities under the Loan Documents, including but not limited to Article 11 of this Agreement.

“**Independent Defense Events**” has the meaning assigned to such term in Subsection 4.1(g).

“**Intangibles**” has the meaning assigned to such word in the Granting Clauses of the Mortgage.

“**Investor**” has the meaning assigned to such term in Section 12.13.

“**Kilroy LP**” means Kilroy Realty, L.P., a Delaware limited partnership, and any successor thereto that is permitted hereunder without the requirement to obtain Lender’s consent.

“**Land**” means the parcel or parcels of land described in Exhibit A attached to this Agreement.

“**Late Charge**” has the meaning assigned to such term in Subsection 2.2(b).

“**L-C Draw Amount**” has the meaning assigned to such term in Subsection 5.1(h).

“**Lease Approval Package**” has the meaning assigned to such term in Subsection 5.1(a)(ii).

“**Lease Default Damages**” has the meaning assigned to such term in Subsection 5.1(h).

“**Lease Termination Approval Package**” has the meaning assigned to such term in Subsection 5.1(a)(iii).

“**Lease Termination Reserve Account**” has the meaning assigned to such term in Subsection 5.1(g).

“**Leases**” has the meaning assigned to such word in the Granting Clauses of the Mortgage.

“**Lender**” means, collectively, Massachusetts Mutual Life Insurance Company and any Lender Successor.

“**Lender Parties**” means Lender, Barings Real Estate Advisers, LLC, Barings Real Estate Advisers Inc., and any present and future loan participants, co-lenders, loan servicers, custodians and trustees, and each of their respective directors, officers, employees, shareholders, agents, affiliates, heirs, legal representatives, successors and assigns to the extent permitted pursuant to Section 12.13 hereof.

“**Lender Successor**” means each holder from time to time of the Note (other than Massachusetts Mutual Life Insurance Company), and each such holder’s successors and assigns,

in connection with a Transfer or Participation of the Loan made in accordance with Section 12.13 hereof.

“**Lien**” means any interest, or claim thereof, in the Mortgaged Property securing an obligation owed to, or a claim by, any Person other than the owner of the Mortgaged Property, whether such interest is based on common law, statute or contract, including the lien or security interest arising from a deed of trust, mortgage, assignment, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term “Lien” shall include reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting the Mortgaged Property.

“**Loan**” means the loan to be evidenced by the Note and made by Lender to Borrower under this Agreement and all other amounts secured by the Loan Documents.

“**Loan Documents**” means collectively, this Agreement, the Note, the Mortgage, the Assignment of Leases and Rents, the Environmental Indemnification Agreement, the Recourse Guaranty Agreement, the Uniform Commercial Code Financing Statements naming Borrower as debtor and Lender as secured party and all other documents now or hereafter executed by Borrower or any other Person to evidence or secure the payment of the Indebtedness or the performance of Borrower or otherwise now or hereafter executed in connection with this Agreement, the Note or the Mortgage and all amendments, modification, restatements, extensions, renewals and replacements of the foregoing.

“**Loan Term**” means the term of the Note from the date of the Note through and including the Maturity Date.

“**Loan to Value Ratio**” means the ratio, expressed as a percentage, of (a) the unpaid principal balance of the Loan to (b) the value of the Mortgaged Property. Such value shall be determined as specified in the applicable provisions of this Agreement.

“**Losses**” means all claims, suits, liabilities, actions, proceedings, obligations, debts, damages, losses, costs, fines, penalties, charges, fees, expenses, judgments, awards, amounts paid in settlement and damages of every kind and nature (including, but not limited to, reasonable attorneys’ fees and the costs and expenses of collection and enforcement).

“**LPE Requirements**” has the meaning assigned to such term in Section 6.12.

“**Maturity Date**” means December 1, 2026.

“**Monthly Payment Differential**” has the meaning assigned to such term in Section 2.5.

“**Mortgage**” means that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith executed by Borrower in favor of Lender securing Borrower’s obligations hereunder and under the other Loan Documents, as the same may be amended, modified, consolidated, extended, substituted or replaced from time to time.

“**Mortgaged Property**” means the Premises and the Collateral.

“Net Operating Income” means, for any date of determination, the difference between Operating Revenue and Operating Expenses for the twelve (12) month period following the date of determination. Borrower shall provide Lender with Borrower’s proposed calculation of Net Operating Income, certified by the chief financial officer, general partner or managing member of Borrower, together with all relevant supporting detail required to determine the same. Lender shall then perform Lender’s own independent calculation of Net Operating Income, which shall be the definitive determination of Net Operating Income, absent manifest error.

“New Lease” means all Leases entered into after the date of this Agreement.

“New Lease Modification” means all amendments, modifications, assignments, extensions or renewals of any Lease entered into after the date of this Agreement.

“Note” or **“Notes”** means the Promissory Note or the Promissory Notes of even date herewith executed and delivered by Borrower in the original principal amount of \$170,000,000.00, as the same may be modified, amended, split, consolidated, replaced, substituted or extended from time to time.

“OFAC” means the United States Department of the Treasury, Office of Foreign Assets Control, or any successor or replacement agency.

“OFAC Prohibited Person” means, a country, territory, individual or Person that is or that is owned, controlled by, acting on behalf of or affiliated with any Person (i) listed on, included within or associated with any of the countries, territories, individuals or entities referred to on OFAC’s List of Specially Designated Nationals and Blocked Persons or any other prohibited person lists maintained by governmental authorities, or otherwise prohibited by OFAC or any other Anti-Money Laundering Laws, or (ii) which is obligated to pay, donate, transfer or otherwise assign any property, money, goods, services, or other benefits from any of the Mortgaged Property directly or indirectly, to any countries, territories, individuals or entities on or associated with anyone on such list or prohibited by such laws.

“Operating Agreements” means any property management agreements or leasing commission agreements concerning the Mortgaged Property, in each case entered into from and after the date hereof.

“Operating Expenses” means, as of the date of calculation, the projected ordinary and necessary operating expenses applicable to the Mortgaged Property for the twelve (12) month period immediately following the date of determination, including, but not limited to, expenses for utilities, administration, cleaning, landscaping, security, repairs and maintenance, ground rent payments, if any, management fees, fully assessed (or estimated fully assessed) real estate and other taxes and assessments and insurance premiums, but excluding from any such expenses any deductions for federal, state and other income taxes, debt service, depreciation or amortization of capital expenditures (including leasing commissions, tenant improvements, and other leasing costs) and other similar non-cash items.

“Operating Revenue” means, as of the date of calculation, the projected gross rents, revenues and other income from the operation of the Mortgaged Property, based on a stabilized property and stabilized expenses, for the twelve (12) month period immediately following the

date of determination, taking into account both (a) the amount of all such rents, revenues and other income derived from Acceptable Leases which are expected to continue for at least the following twelve (12) month period, and (b) the amount of all such rents, revenues and other income to be derived from Acceptable Leases scheduled either to have increases in rent or to commence by their terms during the immediately following twelve (12) month period, in the case of both (a) and (b), after giving effect to any extension options under such Leases which are reasonably expected to be exercised, and reduced by the amount of all rents and revenues and other income from all Leases expiring or terminating or being modified, or reasonably anticipated to expire, terminate or be modified, during the immediately following twelve (12) month period.

“**Participant Register**” has the meaning assigned to such term in Section 12.13.

“**Participation**” has the meaning assigned to such term in Section 12.13.

“**Payment Date**” means January 1, 2017 and the first Business Day of each calendar month thereafter to and including the Maturity Date.

“**Pension Plan**” means any “**employee pension benefit plan**” within the meaning of Section 3(2) of ERISA that is covered by Title IV of ERISA or subject to the minimum funding standards of Section 412 of the Code, including a “**multiemployer plan**” within the meaning of Section 4001(a)(3) of ERISA.

“**Permitted Encumbrances**” means with respect to the Premises, only the outstanding liens, easements, restrictions, security interests and other exceptions to title expressly set forth in Schedule B to title insurance policy no. 23085904LP-JV issued or to be issued promptly following the Closing Date by Fidelity National Title Insurance Company insuring the Mortgage for the benefit of Lender, together with the liens and security interests in favor of Lender created by the Loan Documents and such other matters as are permitted pursuant to the Loan Documents.

“**Person**” means and includes any individual, corporation, partnership, joint venture, limited liability company, association, bank, joint-stock company, trust, unincorporated organization or government, or an agency or political subdivision thereof.

“**Plan**” means an “**employee benefit plan**” as defined in Section 3(3) of ERISA, including an “**employee welfare benefit plan**” as defined in Section 3(1) of ERISA.

“**Plan Assets Regulation**” means the U.S. Department of Labor Regulation codified at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA.

“**Premises**” means the Land, the Improvements and the Appurtenances, but excluding any portion of the Premises released pursuant to Section 8.3 hereof.

“**Prepayment Date**” means the date set forth in Borrower’s written notice to Lender (as required under Section 2.5) of Borrower’s intention to make a prepayment of the Loan, or if no such notice is required or provided, the date of any prepayment of the Loan, in whole or in part.

“Prepayment Premium” has the meaning assigned to such term in Subsection 2.5(b).

“Principal” means (a) Borrower, (b) Indemnitator, (c) each person or entity that directly or indirectly owns ten percent (10%) or more of the equity interests in Borrower or Indemnitator (a **“10% Interest”**), and (d) any person or entity that does not own a 10% Interest but directly or indirectly Controls Borrower or Indemnitator, excluding in each case any Person who owns an indirect interest in Borrower as a result of its ownership of common, preferred or other beneficial ownership interests in Sponsor through the New York Stock Exchange, the NASDAQ national market, or other national or international exchange.

“Proceeds” has the meaning assigned to such word in the Granting Clauses of the Mortgage.

“Processing Fee” has the meaning assigned to such term in Subsection 8.2(a).

“Property Income” has the meaning assigned to such term in the Granting Clauses of the Mortgage.

“Proposed Transferee” has the meaning assigned to such term in Section 8.2.

“Qualified Real Estate Investor” means, with respect to any Proposed Transferee or its principal or Affiliate, as applicable, any reputable entity which is domiciled in the U.S. with principals who are U.S. citizens and which is reasonably determined by Lender to have satisfied all of the following conditions: said entity or entities, as applicable (1) have the qualifications and experience at least equal to that of Borrower and its Sponsor on the Closing Date; (2) have (a) real estate assets with a current market value of not less than \$750,000,000 (excluding the Mortgaged Property), (b) net worth of not less than \$300,000,000, and (c) liquid assets of not less than \$10,000,000, and (3) is not and has not been, as of the date for the closing of the applicable transfer or at any time prior thereto, (a) in default on any indebtedness or loan from Lender or any affiliate of Lender, (b) involved as a debtor or as the principal of a debtor in any bankruptcy, reorganization or insolvency proceeding, (c) the subject of any criminal charges or proceedings, (d) involved in litigation which is deemed significant by Lender, or (e) an OFAC Prohibited Person. All of the foregoing conditions must be satisfied as of the date of the request for approval of transfer of title to the Mortgaged Property as provided in Section 8.2 and on the date of the proposed closing of said transfer.

“Recourse Guaranty Agreement” means that certain Recourse Guaranty Agreement from Indemnitator for the benefit of Lender, as amended and modified from time to time.

“Register” has the meaning assigned to such term in Section 12.15.

“Reinvestment Yield” has the meaning assigned to such term in Section 2.5.

“Rents” has the meaning assigned to such word in the Assignment of Leases and Rents.

“Reported Net Operating Income” means the difference between Reported Operating Revenue and Reported Operating Expenses for the applicable period of time for which Reported Net Operating Income is being calculated.

“Reported Operating Expenses” means all ordinary and necessary operating expenses applicable to the Mortgaged Property for a specified period of time, including, but not limited to, expenses for utilities, administration, cleaning, landscaping, security, repairs and maintenance, ground rent payments, if any, management fees, fully assessed (or estimated fully assessed) real estate and other taxes and assessments, insurance premiums, but excluding from any such expenses any deductions for federal, state and other income taxes, debt service, depreciation or amortization of capital expenditures (including leasing commissions, tenant improvements, and other leasing costs) and other similar non-cash items.

“Reported Operating Revenue” means all of the gross rents, revenues and other income from the operation of the Mortgaged Property for a specified period of time.

“Reserve Waiver Requirement” has the meaning assigned to such term in Subsection 5.3(d).

“Sponsor” means Kilroy Realty Corporation, a Maryland corporation.

“Sponsor Indebtedness” means any indebtedness of Sponsor, whether or not contingent, in respect of: (a) borrowed money or evidenced by bonds, notes, debentures or similar instruments; (b) indebtedness secured by any lien on any property or asset owned by Sponsor on a consolidated basis, but only to the extent of the lesser of (i) the amount of indebtedness so secured and (ii) the fair market value of the property subject to such lien; (c) reimbursement obligations, contingent or otherwise, in connection with any letters of credit actually issued or amounts representing the balance deferred and unpaid of the purchase price of any property except any such balance that constitutes an accrued expense or trade payable; (d) any lease of property by Sponsor on a consolidated basis as lessee which is required to be reflected on Sponsor’s balance sheet as a capitalized lease in accordance with GAAP; or (e) to the extent not otherwise included, any obligation of Sponsor to be liable for, or to pay, as obligor, guarantor or otherwise (other than for purposes of collection in the ordinary course of business), indebtedness (of any of the types described in this definition) of another Person.

“State” means the state or commonwealth in which the Land is situated.

“Substitute Property” shall have the same meaning assigned to such term in Section 8.3.

“Substitution Debt Yield” means, as of the date such calculation is made, the ratio, expressed as a percentage, of (a) the Net Operating Income from the Mortgaged Property (assuming the Mortgaged Property has been released and substituted with the Substitute Property in accordance with Section 8.3 hereof), to (b) the then outstanding principal balance of the Loan.

“Substitution LTV Requirement” has the meaning assigned to such term in Subsection 8.3(f).

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any governmental authority, including any interest, additions to tax or penalties applicable thereto.

“Title Transfer” has the meaning assigned to such term in Section 8.2.

“**Transfer**” has the meaning assigned to such term in Section 12.13.

“**Transfer Debt Yield Requirement**” has the meaning assigned to such term in Subsection 8.2(h).

“**Transfer Fee**” has the meaning assigned to such term in Subsection 8.2(g).

“**Transfer Loan to Value Ratio Requirement**” has the meaning assigned to such term in Subsection 8.2(i).

“**Treasury Issue**” means United States Treasury issued bills, notes and bond instruments specifically excluding any strips, inflation indexed issues and other types of derivative instruments.

“**U.S. Person**” means any Person that is a “United States Person” as defined in Section 7701(a)(30) of the Code.

“**Undepreciated Real Estate Assets**” means, as of any date, the book value of the real estate assets of Sponsor on a consolidated basis as of such date, without giving effect to depreciation and amortization of any such real estate assets, determined on a consolidated basis in accordance with GAAP.

“**Upstream Owner**” means any Person having a direct or indirect legal, beneficial or other ownership interest in Borrower (e.g., if Borrower is a limited liability company, and one of Borrower’s members is a limited partnership, whose partner is a corporation, then such limited partnership, corporation and the shareholders of such corporation would each be an Upstream Owner).

“**Utility Charges**” means all sewer rents, charges for water, for setting or repairing meters and for all other utilities serving the Premises, and inspection and license fees.

“**Withholding Agent**” means Lender or Administrative Agent, as applicable.

“**Work**” has the meaning assigned to such word in Subsection 3.2(a).

“**Write-Down and Conversion Powers**” has the meaning assigned to such term in Section 12.28.

Section 1.2 **Interpretation**.

For all purposes of this Agreement and each other Loan Document, except as otherwise expressly required or unless the context clearly indicates a contrary intent:

(a) the capitalized terms defined in this Article have the meanings assigned to them in this Article, include the plural as well as the singular, and, when used with respect to any instrument, contract or agreement, include all extensions, modifications, amendments and supplements from time to time thereto;

(b) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Agreement and each other Loan Document as a whole and not to any particular Article, Section, or other subdivision;

(c) the words “include” and “including” and other words of similar import shall be construed as if followed by the phrase “, without limitation,”;

(d) the phrase “satisfactory to any Lender” means in form and substance satisfactory to such Lender, as the case may be, in all respects; the phrase “with Lender’s consent” or “with Lender’s approval” means such consent or approval at Lender’s sole discretion, and the phrase “acceptable to Lender” means acceptable to Lender in its sole discretion, unless a different standard for consent or approval is expressly set forth in this Agreement;

(e) any provision of this Agreement or in the other Loan Documents permitting the recovery of “attorneys’ fees”, “attorneys’ fees and expenses”, “attorneys’ fees and costs” or “attorneys’ fees, costs and expenses” or any similar term shall: (i) include all fees, costs and expenses, including attorneys’ fees, costs and expenses, in each case, to the extent reasonably incurred, related or incidental to, or incurred in any judicial, arbitration, administrative, probate, appellate, bankruptcy, insolvency or receivership proceeding, as well as in any post-judgment proceeding to collect or enforce any judgment or order relating to the Indebtedness or any of the Loan Documents, as well as any defense or assertion of the rights or claims of Lender in respect of any thereof, by litigation or otherwise; and (ii) be separate and several and survive merger into judgment;

(f) references to any Section, Article or Exhibit in a Loan Document shall mean a section, article or exhibit to such Loan Document, unless provided otherwise.

ARTICLE 2.

LOAN TERMS

Section 2.1 The Loan and The Note.

Lender agrees, on the terms and conditions of this Agreement, to make the Loan, and Borrower agrees to accept the Loan, in the principal amount equal to **ONE HUNDRED SEVENTY MILLION AND 00/100 DOLLARS (\$170,000,000.00)**, and to repay the Loan in accordance with this Agreement, the Note and the other Loan Documents. The Note evidences the indebtedness of Borrower under the Loan.

Section 2.2 Interest Rate; Late Charge; Default Rate.

(a) Except for any time when the Default Rate is applicable pursuant to the terms of this Agreement, the outstanding principal balance of the Loan (including any amounts added to principal under the Loan Documents) shall bear interest at a rate equal to THREE AND 57/100 PERCENT (3.57%) per annum (the “**Contract Rate**”). All interest accruing hereunder shall be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days each, except that any interest due at any time for a period of less than

a full calendar month shall be calculated by multiplying the Contract Rate by a fraction, the numerator of which is the actual number of days elapsed in such partial month and the denominator of which is three hundred sixty (360).

(b) If any regular monthly installment of principal or interest due under this Agreement, or any monthly deposit for taxes, ground rent, insurance, replacements and other sums if required under any Loan Document, shall not be paid as required under this Agreement or any other Loan Document, as the case may be, within five (5) days following the date the same is due, Borrower shall pay to Lender a late charge (the “**Late Charge**”) of four cents (\$0.04) for each dollar so overdue in order to compensate Lender for its loss of the timely use of the money and frustration of Lender in the meeting of its financial commitments and to defray part of Lender’s incurred cost of collection occasioned by such late payment. Any Late Charge incurred shall be immediately due and payable. If, however, during any consecutive twelve (12) month period Borrower on more than two (2) occasions shall pay any such installments or deposits after the due dates thereof (whether prior to or after the time that the Late Charge is payable as above), then

the time period after which a Late Charge will be charged and paid shall thereafter be reduced from five (5) days to two (2) days after the applicable due date. Nothing herein contained shall be deemed to constitute a waiver or modification of the due date for such installments or deposits or the requirement that Borrower make all payment of installments and deposits as and when the same are due and payable. The Late Charge represents the reasonable estimate of Borrower and Lender of a fair average compensation for loss that may be sustained by Lender as a result of the failure of Borrower to make timely payments. Such Late Charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid upon a default hereunder or under any other Loan Document, including without limitation interest at the Default Rate, or to declare a default hereunder, under the Mortgage or under any other Loan Document.

(c) Following the occurrence and during the continuance of an Event of Default, or on the Maturity Date, the unpaid principal balance of the Loan shall thereafter bear interest at the per annum interest rate (the "**Default Rate**") equal to the lesser of:

- (i) the highest rate permitted by law to be charged on a promissory note secured by a commercial mortgage, or
- (ii) the sum of three percent (3%) plus the greater of:
 - (x) the Contract Rate; or
 - (y) the Federal Funds Rate.

Interest at the Default Rate as provided in this Section shall be immediately due and payable to Lender and shall constitute additional Indebtedness evidenced by the Note and secured by the Loan Documents.

Section 2.3 **Terms of Payment.** The Loan shall be payable by Borrower as follows:

(a) On the date the Loan is made, a payment of interest only shall be due and payable for the period from such date to the first (1st) day of the next calendar month;

(b) Successive monthly installments of interest (in arrears) only in the amount of Five Hundred Five Thousand Seven Hundred Fifty and 00/100 Dollars (\$505,750.00), shall be made on the first (1st) day of January 2017 and on the first day of each calendar month thereafter up to and including the first day of December 2019;

(c) Successive monthly installments of principal and interest (in arrears), in the constant amount of Seven Hundred Seventy Thousand Thirty-Four and 14/100 Dollars (\$770,034.14), shall be made on the first (1st) day of January 2020 and on the first day of each calendar month thereafter up to and including the first day of the month immediately prior to the Maturity Date. The monthly payments of combined principal and interest required under this Agreement are based upon a thirty (30) year amortization period; and

(d) On the Maturity Date or on any earlier date as a result of an Acceleration Event, Borrower shall pay all outstanding principal, accrued and unpaid interest, and any other amounts due under the Loan Documents. Borrower acknowledges that, since the term of the Loan is shorter than the amortization period, all or a substantial portion of the principal amount of the Loan will be due on the Maturity Date.

Section 2.4 **Term of Loan.**

(a) The term of the Loan shall commence on the date hereof and expire on the Maturity Date.

Section 2.5 **Prepayment.** There are no full or partial prepayment privileges of the principal amount of the Loan except as expressly set forth in this Agreement:

(a) Borrower shall have the right to pay the Loan in full (but not in part, other than in accordance with Sections 8.2 and 8.3 hereof) on any Business Day on or after, but not prior to December 1, 2018 (the “**Closed Prepayment Date**”), provided that Borrower gives Lender at least thirty (30) days prior written notice of its intention to make any such prepayment, the date thereof and the amount to be prepaid, and that Borrower also pays to Lender, as consideration for the privilege of making such prepayment, the Prepayment Premium.

(b) The “**Prepayment Premium**” shall be equal to the greater of (x) or (y) where:

(x) is equal to the amount to be prepaid multiplied by one percent

(1%); and

(y) is the present value of the series of Monthly Payment Differentials from the date of prepayment to the Maturity Date, discounted at the Reinvestment Yield on a monthly basis.

The “**Monthly Payment Differential**” means the monthly interest (without amortization), which would be earned if the prepayment were invested at the Contract Rate less

the monthly interest that would be earned by reinvesting the prepayment at the Reinvestment Yield.

The "**Reinvestment Yield**" means 25 basis points, plus the yield to maturity of a Treasury Issue, adjusted from a semi-annual to a monthly rate, which has the closest maturity (month and year) prior to the Maturity Date, as quoted in *The Wall Street Journal* published in print or on-line on the second (2nd) calendar day immediately preceding the date for prepayment as set forth in Borrower's notice of its intention to prepay, but if said second (2nd) day is not a Business Day, then as quoted on the preceding Business Day. If more than one Treasury Issue has the same maturity date, then the Treasury Issue having the market yield that differs least from the Contract Rate will be used in the calculations. If *The Wall Street Journal* is not in publication on the applicable date, or ceases to publish such Treasury Issue information in print or on-line on the applicable date, then any other publication selected by Lender quoting daily market yields for Treasury Issues will be used.

(c) If the Maturity Date is accelerated by Lender because of the occurrence of an Event of Default or accelerated pursuant to the provisions in the Loan Documents (an "**Acceleration Event**"), the acceleration shall be deemed to be an election on the part of Borrower to prepay the Loan. Accordingly, there shall be added to the amount due after an Event of Default and resulting acceleration, the Prepayment Premium, calculated as set forth above and using as the Prepayment Date the date on which any tender of payment is made, and Borrower agrees to pay same. Any tender of payment made (or judgment entered) after acceleration by or on behalf of Borrower (including, without limitation, payment by any guarantor or purchaser at a foreclosure sale), shall include the Prepayment Premium computed as provided above. If the Acceleration Event occurs prior to the Closed Prepayment Date, a Prepayment Premium (a "**Closed Period Prepayment Premium**") shall nevertheless be paid, which Closed Period Prepayment Premium shall be calculated as set forth in Subsection 2.5(b) above, except that with respect to clause (x), the Closed Period Prepayment Premium shall equal the amount to be prepaid multiplied by three percent (3%) (rather than one percent (1%)), and that with respect to clause (y), the Reinvestment Yield (calculated as provided for above) shall be reduced by two (2) percentage points.

(d) There will be due with any principal prepayment, all accrued and unpaid interest and all other fees, charges and payments due under this Agreement, the Note and the other Loan Documents.

(e) No Prepayment Premium shall be required to be paid in connection with payment of insurance, or condemnation Proceeds to Lender which Lender requires to be applied to the Indebtedness in accordance with the provisions of this Agreement, except if such application to the Indebtedness is after an Event of Default.

(f) Borrower acknowledges and agrees that all of the economic terms set forth in the Loan Documents, including, without limitation, the Contract Rate, have been agreed to by Lender based on Lender's expectation that the Loan will not be repaid prior to the Maturity Date (e.g., had Lender anticipated a shorter Loan Term, the Contract Rate may have been a higher rate of interest). However, in order to accommodate Borrower, Lender has agreed to permit Borrower to repay the Loan prior to the Maturity Date in accordance with, and subject to, the

terms set forth above provided that, and as consideration for such agreement, Borrower agrees to pay Lender the Prepayment Premium. Borrower acknowledges and agrees that, even if Lender is able to loan the amount prepaid by Borrower to another Person on the same terms and conditions as herein provided, Lender shall not have fully recovered Lender's lost profits, costs, expenses and damages suffered as a result of such early prepayment; therefore, Borrower and Lender have agreed on the Prepayment Premium as compensation for Lender's estimated lost profits, costs, expenses and damages resulting from such prepayment. The Prepayment Premium shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid under this Agreement, or under the other Loan Documents, or pursuant to the provisions of law.

(g) No Prepayment Premium shall be required to be paid after September 1, 2026.

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(h) TO THE FULLEST EXTENT PERMITTED BY LAW, BORROWER HEREBY EXPRESSLY (I) WAIVES ANY RIGHTS IT MAY HAVE UNDER CALIFORNIA CIVIL CODE SECTION 2954.10 TO PREPAY THE NOTE, IN WHOLE OR IN PART, WITHOUT PENALTY, UPON ACCELERATION OF THE MATURITY DATE, AND (II) AGREES THAT IF, FOR ANY REASON, A PREPAYMENT OF ALL OR ANY PORTION OF THE PRINCIPAL AMOUNT OF THE NOTE IS MADE UPON OR FOLLOWING ANY ACCELERATION OF THE MATURITY DATE BY LENDER ON ACCOUNT OF ANY DEFAULT BY BORROWER INCLUDING, WITHOUT LIMITATION, ANY TRANSFER, DISPOSITION, OR FURTHER ENCUMBRANCE PROHIBITED OR RESTRICTED BY THE MORTGAGE, THEN BORROWER SHALL BE OBLIGATED TO PAY CONCURRENTLY WITH SUCH PREPAYMENT THE PREPAYMENT PREMIUM OR CLOSED PERIOD PREPAYMENT PREMIUM, AS APPLICABLE, SPECIFIED IN THE FOREGOING PROVISIONS. BY INITIALING THIS PROVISION IN THE SPACE PROVIDED BELOW, BORROWER HEREBY DECLARES THAT THE AGREEMENT TO MAKE THE LOAN EVIDENCED BY THE NOTE AT THE INTEREST RATE AND FOR THE TERM SET FORTH IN THIS AGREEMENT CONSTITUTES ADEQUATE CONSIDERATION, GIVEN INDIVIDUAL WEIGHT BY BORROWER FOR THIS WAIVER AND AGREEMENT.

Borrower's Initials: /s/ TR MN

Section 2.6 **Security.** The Loan shall be secured by inter alia (1) the Mortgage creating a first priority lien on the Mortgaged Property, (2) the Assignment of Leases and Rents creating a first priority lien on the Leases and the Property Income, and (3) the liens and security interests granted in the other Loan Documents.

Section 2.7 **Payments.**

(a) All payments of principal, interest and other amounts to be made by Borrower under this Agreement, the Note and any other Loan Document, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to Lender. All such payments that are regularly scheduled monthly payments of principal, interest or reserves shall be made by Borrower by automatic clearing house (“ACH”) debit of a bank account of Borrower of which Lender has received at least thirty (30) days’ prior written notice. All other payments from Borrower to Lender shall be made by wire transfer of immediately available funds to an account designated by Lender in writing to Borrower.

(b) If the due date of any payment under this Agreement or the Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall accrue and be payable for any principal so extended for the period of such extension.

(c) Each payment received by Lender hereunder, under the Note or any other Loan Document shall be applied in the following order:

- (i) First, to the interest due on any Advances made by Lender under this Agreement or any other Loan Document;

- (ii) Next, to the principal amount of any Advances made by Lender under this Agreement or any other Loan Document;
- (iii) Next, to Late Charges, attorneys' fees or any other amount due hereunder or under any other Loan Document save for the amounts described in clauses (iv), (v) and (vi) immediately below;
- (iv) Next, to any Prepayment Premium or Closed Period Prepayment Premium, as applicable, then due and payable under this Agreement;
- (v) Next, to accrued interest due Lender under this Agreement or any of the other Loan Documents; and
- (vi) Finally, to the principal balance of the Loan.

Notwithstanding the foregoing, during the continuance of an Event of Default or in the event that Borrower does not pay the outstanding principal balance and accrued interest due under this Agreement, when due, whether on the Maturity Date or on any earlier date as a result of any Acceleration Event, Lender, at its option, shall apply any payments it then receives in such order as Lender deems appropriate in its sole discretion.

ARTICLE 3.

INSURANCE AND CONDEMNATION

Section 3.1 **Insurance Requirements.**

(a) **Property Insurance.** Borrower shall maintain either "all risk" or "special form" real and personal property insurance and "boiler and machinery insurance", insuring one hundred percent (100%) of the insurable replacement cost value of the Improvements and the Equipment, with a deductible not to exceed Two Hundred Thousand Dollars (\$200,000) with the exception of earthquake, named windstorm and flood, with no coinsurance or similar penalty and covering (i) "business interruption" (including "rent loss"), in an amount equal to at least eighteen (18) months of the Property Income (determined as of the most recently concluded twelve (12) month period for which financial statements are available at the time of renewal or replacement of such insurance), and an extended period of indemnity of at least one hundred eighty (180) days and (ii) "extra expenses". Covered perils shall include "acts of terrorism" (whether or not certified), "windstorm" (including "named windstorm"), "vandalism and malicious mischief". Unless all Improvements continue to comply with all applicable laws, codes and regulations, Borrower shall maintain "ordinance and law" coverage in the following minimum percentages of the value of the Improvements: Coverage A – one hundred percent (100%); Coverage B, "demolition and debris removal" – ten percent (10%); and, Coverage C, "increased costs of construction" – ten percent (10%), and must also insure the right to re-build the Improvements of the same size and height and with the same parking as the existing improvements. If the Improvements are non-conforming and such non-conformity is not covered under the "ordinance & law" provisions, Borrower may be required by Lender to purchase a separate policy covering such non-conformity for the benefit of Lender. Earthquake

insurance is required as specified in Subsection 3.1(e). Lender may from time to time also require that Borrower maintain insurance reasonably acceptable to Lender for “flood” and “builder’s risk”. Notwithstanding anything to the contrary above, any insurance required hereunder shall only be required to the extent that it is commercially available.

(b) **Liability Insurance**. Borrower shall also maintain Commercial General Liability insurance (including contractual liability and Acts of Terrorism) in an amount equal to at least One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars (\$2,000,000) in the aggregate, with a Per Location aggregate endorsement (in an amount not to exceed Fifty Million Dollars (\$50,000,000) in the aggregate) if multiple properties are insured under the same policy. In addition, Borrower shall maintain Umbrella or Excess Liability insurance in an amount Lender determines to be reasonable from time to time (in an amount not to exceed Fifty Million Dollars (\$50,000,000) per occurrence and Fifty Million Dollars (\$50,000,000) in the aggregate). Lender may, from time to time also require that Borrower maintain insurance reasonably acceptable to Lender for Commercial Auto, Workers Compensation, Environmental and such other insurance as Lender may require. Notwithstanding anything to the contrary above, any insurance required hereunder shall only be required to the extent that it is commercially available.

(c) **Evidence of Insurance By Acceptable Insurers**. Borrower and Lender acknowledge and agree that, prior to the date of this Agreement, Borrower provided to Lender the following evidences of insurance (the “Closing Insurance Certificates”): (i) an ACORD 28 (current version) Evidence of Property Insurance provided by an authorized insurance agent or broker confirming coverages are maintained for real and personal property insurance as required to be carried by Borrower under this Agreement; and (ii) an ACORD 25 Certificate of Liability Insurance, provided by an authorized insurance agent, broker or insurance carrier confirming coverages are maintained for liability insurance as required to be carried by Borrower under this Agreement. From and after the date hereof, through and including the Maturity Date, Borrower shall provide new evidences of insurance to Lender at least ten (10) days prior to the expiration date of each applicable insurance policy, which such evidences of insurance shall be subject to Lender’s approval, which such approval shall not be unreasonably withheld, conditioned or delayed. Without limiting the foregoing sentence, each evidence of insurance and certificate required to be provided during the Loan Term must include a mortgagee clause and a loss payee clause reasonably satisfactory to Lender, and any Certificate of Liability Insurance must name Lender as an Additional Insured for Commercial General Liability with respect to the Premises. Unless consented to by Lender, each insurance company providing coverage must have an A. M. Best rating of A-X or better.

(d) **Blanket Insurance Policies**. Borrower’s insurance requirements under this Article 3 may be satisfied by maintaining either individual policies covering only the Premises, or blanket insurance policies covering multiple properties, provided that with respect to any blanket insurance policies Borrower also covenants to either reinstate, as soon as practicable, any limits and coverages which are used, reduced or cancelled back up to the blanket policy limits approved by Lender in its reasonable discretion with deductibles or self insurance which are customary for similarly capitalized companies and with a deductible of up to five percent (5%) for earthquake insurance, provided such insurance is commercially available, or to secure individual policy coverages for the Premises satisfying these insurance requirements with

a deductible of up to five percent (5%) for earthquake insurance, provided such insurance is commercially available. Borrower will deliver to Lender a Schedule of Locations Insured on a regional basis under any blanket insurance policy applicable to the Mortgaged Property together with the related certificates of insurance.

(e) **Earthquake Insurance.** Notwithstanding the requirement in Subsection 3.1(a) above that Borrower carry earthquake insurance during the entire Loan Term provided that such earthquake insurance is commercially available, such requirement shall be deemed satisfied by the earthquake coverage provided by Sponsor's blanket insurance policies meeting the requirements of Subsection 3.1(d) above, but only for so long as such blanket insurance policies provide for a deductible of not more than five percent (5%) for earthquake insurance. In the event that the deductible for earthquake insurance under such blanket insurance policies is increased to more than five percent (5%), Borrower shall have a period not to exceed sixty (60) days following the increase of such deductible to provide a reasonably acceptable individual policy with respect to the Premises for insurance against earthquake loss in an amount equal to the product of (A) the Scenario Upper Loss for the Premises multiplied by (B) the replacement cost of the Premises and less a five percent (5%) deductible.

(f) **Miscellaneous Insurance Requirements.**

(i) All insurance policies and endorsements required pursuant to this Agreement shall: (w) be endorsed to name Lender as a primary additional insured thereunder, as its interest may appear, with loss payable to Lender, without contribution, under a long-form, non-contributory mortgagee clause, or otherwise endorsed as Lender may reasonably require; (x) be fully paid for and contain such provisions and expiration dates and be in such form and issued by such insurance companies licensed to do business in the State; (y) without limiting the foregoing, provide that such policy or endorsement may not be canceled except upon at least thirty (30) days' prior written notice of intention of non-renewal or cancellation to Lender, and that no act or thing done by Borrower or Lender shall invalidate the policy as against Lender; and (z) subject to Subsection 3.1(f)(ii) hereof, be in form and content satisfactory to Lender in its reasonable discretion, including, without limitation, the coverages, limits and deductibles of such insurance policies and endorsements.

(ii) If an Event of Default has occurred and is continuing or a casualty with respect to the Premises and/or Equipment has occurred, within ten (10) Business Days following a request by Lender, Borrower shall deliver to Lender copies of all then current policies and endorsements required hereunder, certified by the insurance company or authorized agent as being true copies, together with any other insurance policy information and other related information (such as Probable Maximum Loss or Scenario Upper Limit studies) Lender requests from time to time, so that Lender may determine that insurance continues to be acceptable to it and satisfies all insurance requirements set forth in this Agreement; provided, however, Lender shall not require Borrower to obtain any insurance coverage in addition to the coverages described in the Closing Insurance Certificates, or to adjust the limits or deductibles of any insurance policies from the limits and deductibles of the applicable insurance policies described in the Closing Insurance Certificates, unless, in each instance, such additional insurance coverage or such adjusted limits or deductibles is attributable to the specific location and then-current characteristics of the Premises (specifically excluding Earthquake insurance, which shall

only be required in accordance with Subsection 3.1(e) above), and such requirement is generally being imposed by portfolio lenders similar to Lender in connection with loans of a similar size and type as the Loan that are secured by properties of similar type and location as the Mortgaged Property. Without limiting the foregoing provisions of this Subsection 3.1(f)(ii), Borrower shall deliver to Lender an executive summary of the RMS RiskLink Report, or equivalent, with respect to the earthquake coverage provided by Sponsor's blanket insurance policies, from time to time following Lender's request therefor; provided, however, and subject to the first sentence of this Subsection 3.1(f)(ii), Borrower shall not be required to deliver such studies more often than four (4) times during the term of the Loan. Borrower may request an extension of time not exceeding sixty (60) days to deliver the foregoing certified copies of the then current policies and endorsements if Borrower has done all things necessary to obtain the issuance thereof, including the payment of all premiums therefor, and Borrower has delivered to Lender within the above ten (10) Business Day period evidence of insurance satisfactory to Lender in its reasonable discretion issued by the approved insurer showing all required coverage to be in full force and effect for the succeeding twelve (12) month period, along with evidence satisfactory to Lender in its reasonable discretion of payment in full of all premiums. If Borrower fails to maintain insurance in compliance with this Agreement, Lender may (but shall not be obligated to) obtain such insurance and pay the premium therefor and Borrower shall reimburse Lender on demand for all such Advances.

(iii) Notwithstanding anything to the contrary contained herein or in any provision of law, the Proceeds of insurance policies coming into the possession of Lender shall not be deemed trust funds and Lender shall be entitled to dispose of such Proceeds as hereinafter provided.

Section 3.2 **Damage, Destruction and Restoration.**

(a) In the event of any damage to or destruction of the Premises and/or Equipment, Borrower shall give prompt written notice to Lender and shall promptly commence and diligently continue to completion the repair, restoration and rebuilding of the Premises and/or Equipment so damaged or destroyed in full compliance with all legal requirements and with the provisions of Subsections 3.2(e), (f) and (h), and free and clear from any and all liens and claims other than Permitted Encumbrances. Such repair, restoration and rebuilding of the Premises are sometimes hereinafter collectively referred to as the "**Work**". Except as expressly permitted under Subsection 3.2(h), Borrower shall not adjust, compromise or settle any claim for insurance Proceeds without the prior consent of Lender, such consent not to be unreasonably withheld, delayed or conditioned. Except as provided in Subsection 3.2(d), Lender shall have the option in its sole discretion to apply any insurance Proceeds (other than Proceeds of any business interruption insurance) it may receive pursuant to this Agreement (less any reasonably incurred cost to Lender of recovering and paying out such Proceeds, including reasonable attorneys' fees, costs and expenses) to the payment of the Indebtedness or to allow all or a portion of such Proceeds to be used for the Work. If any insurance Proceeds are applied to reduce the Indebtedness, provided no Event of Default shall have occurred and be continuing, Lender shall apply the same, without any Prepayment Premium, in accordance with the provisions of Subsection 2.7(c) of this Agreement. Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, Lender, at its option, may apply any insurance Proceeds to the Indebtedness in such order and priority as Lender deems appropriate in its sole discretion and a

Prepayment Premium or Closed Period Prepayment Premium shall be due and payable in accordance with the terms of Subsections 2.5(b) and (c) in connection with any such prepayment.

(b) In the event of the foreclosure of the Mortgage or other transfer of title to or assignment of the Mortgaged Property in extinguishment of the Indebtedness in whole or in part and to the extent permitted pursuant to the individual insurance policies, all right, title and interest of Borrower in and to all policies of insurance required by this Agreement and any insurance Proceeds shall inure to the benefit of and pass to Lender or any purchaser or transferee at the foreclosure sale of the Mortgaged Property.

(c) Borrower hereby irrevocably appoints Lender its attorney-in-fact, coupled with an interest, to apply and make claims for insurance Proceeds under all insurance policies, to prosecute and settle such claims and to endorse any checks, drafts or other instruments representing any insurance Proceeds whether payable by reason of loss thereunder or otherwise. Additionally, Lender may notify any and all insurers under casualty and liability insurance policies that Lender has a security interest pursuant to the provisions of this Agreement in and to such insurance policies and any proceeds thereof, and that any payments under those insurance policies are to be made directly to Lender. Lender's rights under this Section 3.2 may be exercised by Lender or a court appointed receiver appointed upon the request of Lender and irrespective of whether or not an Event of Default (or any matter which, after notice or passage of time or both, would constitute an Event of Default) shall have occurred under this Agreement.

(d) Notwithstanding the provisions of Subsection 3.2(a) or Subsection 3.3, if in Lender's reasonable judgment the cost of the Work shall not exceed fifty percent (50%) of the then outstanding principal balance of the Loan, then Lender shall, upon request by Borrower, permit Borrower to use the Proceeds for the Work (subject to the provisions of, and less Lender's costs described in, Subsection 3.2(e)), so long as:

- (i) no Event of Default shall then exist nor any matter(s) exist which, after notice of default or passage of time or both, would constitute an Event of Default;
- (ii) the Work can be completed, as determined by Lender in its reasonable discretion, by the date is twelve (12) months prior to the Maturity Date;
- (iii) except to the extent compensated pursuant to applicable business interruption insurance Proceeds, none of the Leases in effect immediately prior to the damage or destruction shall have been canceled or terminated nor shall any such Leases contain any still exercisable right to cancel or terminate, in each case as a result of such damage or destruction;
- (iv) all sums necessary to effect the Work over and above any available Proceeds (the "**Deficiency Amount**") shall be at the sole cost and expense of Borrower and, at Lender's request, Borrower shall deposit the Deficiency Amount, as estimated by Lender in its

reasonable discretion, with Lender prior to commencing any Work and at all times thereafter;

- (v) at all times during any such Work, Borrower shall maintain (or cause to be maintained), at its sole cost and expense (or at the cost and expense of the Person maintaining such insurance), workers' compensation, builders risk and public liability insurance in amounts satisfactory to Lender in its reasonable discretion and in accordance with the provisions of this Section 3.2;
- (vi) at all times during any such Work, business income and extra expense including rental value insurance shall be in full force and effect and available to cover any loss of business income and rents resulting from the damage to or destruction of the Premises and/or Equipment.
- (vii) the Improvements shall be restored to substantially the same size, character and condition that existed prior to the damage or destruction except for immaterial changes as determined by Lender in its reasonable judgment or such other changes as are consented to by Lender, such consent not to be unreasonably withheld, delayed or conditioned.

(e) If any insurance Proceeds are to be used for the Work, then, except for Work that is described in Subsection 3.2(h) below, such Proceeds together with any Deficiency Amount shall be held by Lender and shall be paid out from time to time to Borrower as the Work progresses (less any actual, out-of-pocket cost to Lender reasonably incurred in recovering and paying out such Proceeds and/or Deficiency Amount, including reasonable attorneys' fees, costs and expenses and costs allocable to inspecting the Work and the plans and specifications therefor), subject to each of the following conditions:

- (i) the Work shall be conducted under the supervision of a certified and registered architect or engineer satisfactory to Lender in its reasonable discretion. Before Borrower commences any Work, other than temporary work to protect property or prevent interference with business, Lender shall have approved the plans and specifications for the Work, which approval shall not be unreasonably withheld, delayed or conditioned, it being nevertheless understood that such plans and specifications shall provide for Work so that, upon completion thereof, the Premises shall be at least equal in value and general utility to the Premises immediately prior to the damage or destruction;
- (ii) each request for payment shall be made on not less than seven (7) Business Days prior notice to Lender and shall be accompanied by a certificate of the architect or engineer in (i) above stating: (A) that all of the Work completed has been done in compliance

with the approved plans and specifications, if required under (i) above; (B) that the sum requested is justly required to reimburse Borrower for payments by Borrower, or is justly due to the contractor, subcontractors, materialmen, laborers, engineers, architects or other Persons rendering services or materials for the Work (giving a brief description of such services and materials), and that when added to all sums previously paid out by Lender does not exceed the value of the Work done to the date of such certificate; (C) if the sum requested is to cover payment relating to repair and restoration of Equipment required or relating to the Premises, that title to the items of Equipment covered by the request for payment is vested in Borrower; and (D) that the amount of such Proceeds together with any Deficiency Amount remaining in the hands of Lender will be sufficient on completion of the Work to pay for the same in full (giving in such reasonable detail as Lender may require an estimate of the cost of such completion). Additionally, each request for payment shall contain a statement signed by Borrower approving both the Work done to date and the Work covered by the request for payment in question;

- (iii) each request for payment shall be accompanied by waivers of lien satisfactory to Lender in its reasonable discretion covering that part of the Work for which payment or reimbursement is being requested and, if required by Lender, a search prepared by a title insurance company or licensed abstractor, or by other evidence satisfactory to Lender in its reasonable discretion that there has not been filed with respect to the Premises any mechanics' or other lien relating to any part of the Work not discharged of record. Additionally, as to any Equipment covered by the request for payment, Lender shall be provided with evidence of payment therefor and such further evidence satisfactory to Lender in its reasonable discretion to assure Lender of its valid first lien on the Equipment;
- (iv) Lender shall have the right to inspect the Work at all reasonable times and may condition any disbursement of Proceeds upon the satisfactory completion, as determined in Lender's reasonable discretion, of any portion of the Work for which payment or reimbursement is being requested. Neither the approval by Lender of the plans and specifications for the Work nor the inspection by Lender of the Work shall make Lender responsible for the preparation of such plans and specifications or the compliance of such plans and specifications, or of the Work, with any applicable law, regulation, ordinance, covenant or agreement;
- (v) Proceeds shall not be disbursed more frequently than every thirty (30) days;

(vi) any request for payment made after the Work has been completed shall be accompanied by a copy or copies of any certificate or certificates required by law to render occupancy and full operation of the Premises legal;

(f) Upon any failure on the part of Borrower to promptly commence the Work or to proceed diligently and continuously to completion of the Work or if any Event of Default has occurred and is continuing, Lender, at its sole option, shall be entitled to apply at any time all or any portion of the Proceeds it then or thereafter holds to the repayment of the Indebtedness or to the curing of any Event of Default.

(g) Upon completion of the Work and payment in full therefor any unexpended Proceeds (and for purposes of this provision, any insurance Proceeds shall be deemed applied to the cost of completion of the Work prior to application of any Deficiency Amount), shall be either paid over to Borrower or, at Lender's option if an Event of Default has occurred and is continuing, applied to the reduction of the Indebtedness without any Prepayment Premium that would otherwise be applicable to a prepayment of the Loan at that time.

(h) Notwithstanding any other provision of this Section 3.2, if no Event of Default shall exist and be continuing (nor any matters have occurred which, after notice or passage of time or both, would constitute an Event of Default) and in Lender's reasonable judgment the cost of the Work is less than Three Million Five Hundred Thousand Dollars (\$3,500,000) and the Work can be completed in less than twelve (12) months, but in any event, no later than twelve (12) months prior to the Maturity Date, then Lender shall, upon request by Borrower, permit Borrower to apply for and receive the insurance Proceeds directly from the insurer (and Lender shall advise the insurer to pay over such Proceeds directly to Borrower), provided that Borrower shall apply such insurance Proceeds solely to the prompt and diligent commencement and completion of such Work.

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(i) BORROWER HEREBY ACKNOWLEDGES AND AGREES THAT IT IS AWARE OF AND UNDERSTANDS SCHOOLCRAFT V. ROSS (81 CAL. APP. 3D 75 (1981)) AND ITS PROGENY AS WELL AS CALIFORNIA CIVIL CODE SECTION 2924.7 AND FINANCIAL CODE SECTIONS 1227.3 AND 7462, WHICH PERMIT LENDER TO REQUIRE INSURANCE BUT OBLIGATE LENDER TO ALLOW BORROWER TO USE CASUALTY INSURANCE PROCEEDS FOR THE PURPOSE OF REPAIRING OR RESTORING THE PREMISES PLEDGED AS SECURITY FOR THE BORROWER'S OBLIGATIONS TO LENDER UNLESS LENDER'S SECURITY HAS BEEN IMPAIRED. BORROWER HEREBY ACKNOWLEDGES AND AGREES THAT, IN THE EVENT OF A CASUALTY TO THE PREMISES, IF BORROWER FAILS TO REPAIR OR RESTORE THE PREMISES IN A MANNER CONSISTENT WITH THE PROVISIONS OF THIS AGREEMENT, REGARDLESS OF WHETHER SUCH FAILURE IS THE RESULT OF ANY VOLUNTARY ACTION OR INACTION BY BORROWER, OR ANY ACT OR DETERMINATION OF ANY GOVERNMENTAL AUTHORITY (WHETHER PURSUANT TO ANY ZONING, LAND USE OR OTHER ORDINANCE, CODE, REGULATION OR REQUIREMENT OR OTHERWISE), SUCH FAILURE IS AND SHALL BE DEEMED A SUBSTANTIAL IMPAIRMENT OF THE MORTGAGED PROPERTY ENTITLING LENDER TO APPLY THE NET INSURANCE PROCEEDS TO THE INDEBTEDNESS IN SUCH ORDER AND MANNER AS LENDER MAY ELECT, WHETHER OR NOT DUE AND PAYABLE, WITH ANY EXCESS PAID TO BORROWER. BY INITIALING THIS PROVISION IN THE SPACE PROVIDED BELOW, BORROWER HEREBY ACKNOWLEDGES AND AGREES THAT THE TERMS OF THIS PROVISION HAVE BEEN SPECIFICALLY BARGAINED FOR AND ARE A MATERIAL INDUCEMENT FOR LENDER TO MAKE THE LOAN AND WITHOUT WHICH LENDER WOULD NOT MAKE THE LOAN.

Borrower's Initials: /s/ TR MN

Section 3.3 **Condemnation.** Borrower shall notify Lender immediately of the actual or, to Borrower's knowledge, written threatened commencement of any proceedings for the condemnation or taking of the Premises or any portion thereof and shall deliver to Lender copies of any and all papers served in connection with such proceedings. Lender may participate in such proceedings and Borrower shall deliver to Lender all instruments requested by Lender to permit such participation. Lender is hereby irrevocably appointed as Borrower's attorney-in-fact, coupled with an interest, with exclusive power to collect, receive and retain the Proceeds of any such condemnation and to make any compromise or settlement in connection with such proceedings, subject to the provisions of this Agreement. Borrower shall not adjust, compromise, settle or enter into any agreement with respect to such proceedings without the prior consent of Lender, such consent not to be unreasonably withheld, delayed or conditioned. All Proceeds of any condemnation, or purchase in lieu thereof, of the Premises or any portion thereof are hereby assigned to and shall be paid to Lender, subject to the provisions of this Agreement. Borrower hereby authorizes Lender to collect and receive such Proceeds, to give proper receipts and acquittances therefor and, except as otherwise provided in Subsection 3.2(d), to apply such Proceeds (less any actual, out-of-pocket cost to Lender reasonably incurred in

recovering and paying out such Proceeds, including reasonable attorneys' fees, costs and expenses allocable to inspecting any repair, restoration or rebuilding work and the plans and specifications therefor) toward the payment of the Indebtedness or to the repair, restoration or rebuilding of the Premises in the manner and subject to the conditions set forth in Section 3.2. If the Proceeds are used to reduce the Indebtedness, they shall be applied in the order provided in Subsection 2.7 (c), without any Prepayment Premium. Borrower shall promptly execute and deliver all instruments reasonably requested by Lender for the purpose of confirming the assignment of the condemnation Proceeds to Lender. Borrower waives the provisions of any law prohibiting Lender from taking such an election, including but not limited to, the provisions of California Code of Civil Procedure Sections 1265.210 et seq.

ARTICLE 4.

ENVIRONMENTAL MATTERS

Section 4.1 **Terms Incorporated by Reference**. The terms and provisions of the Environmental Indemnification Agreement are incorporated herein by reference in their entirety.

ARTICLE 5.

CERTAIN PROPERTY MATTERS

Section 5.1 **Lease Covenants and Limitations**.

(a) (i) Except as expressly contemplated by or permitted under Leases approved by Lender or New Leases or New Lease Modifications not requiring Lender's approval in accordance with Subsection 5.1(c) (such New Lease or New Lease Modification, as applicable, a "**No-Approval Lease**"), all New Leases, New Lease Modifications and terminations of Leases in excess of twenty thousand (20,000) net rentable square feet (other than any termination of any such Lease at the end of the applicable lease term in accordance with the terms thereof or any termination of any such Lease on account of the applicable tenant's default thereunder) shall be subject to the prior review and approval of Lender as provided in Subsection 5.1(a)(ii) and (iii) below, at Borrower's expense. Borrower shall provide Lender with executed copies of all New Leases and New Lease Modifications within sixty (60) days after the end of the first three (3) fiscal quarters of each Fiscal Year during the Loan Term, but only if requested by Lender, and within one hundred five (105) days after the end of each Fiscal Year, in accordance with Subsection 7.1(a)(i) hereof. For each New Lease permitted hereunder, upon Lender's written request, Borrower shall use commercially reasonable efforts to provide Lender with (A) a tenant estoppel certificate (which request shall not be made with respect to any New Lease more than once each calendar year unless an Event of Default shall have occurred and be continuing), executed by the tenant thereunder either on a Lender pre-approved form of tenant estoppel certificate or such other form as Lender shall reasonably approve, and (B) with respect to a New Lease in excess of twenty thousand (20,000) net rentable square feet, unless previously provided and still in effect with respect to such New Lease, a subordination, non-disturbance and attornment agreement executed by the tenant thereunder in the form attached as Exhibit F to this Agreement or such other form as Lender shall approve in its reasonable discretion.

(ii) With respect to any New Lease or New Lease Modification other than a No-Approval Lease, if, within ten (10) Business Days after Lender's receipt of Borrower's written request for such approval stating in bold uppercase letters at the top of such notice "PURSUANT TO THE TERMS OF SUBSECTION 5.1(a)(ii) OF THE LOAN AGREEMENT DATED NOVEMBER 29, 2016, BORROWER REQUESTS APPROVAL OF A NEW LEASE OR NEW LEASE MODIFICATION. ANY FAILURE OF LENDER TO RESPOND TO BORROWER'S REQUEST FOR SUCH APPROVAL WITHIN TEN (10) BUSINESS DAYS OF RECEIPT OF THIS NOTICE SHALL BE DEEMED TO BE LENDER'S APPROVAL OF SUCH NEW LEASE OR NEW LEASE MODIFICATION", together with the following, all delivered in accordance with the notice requirements set forth in Section 12.1: (w) a true, correct and complete copy of any proposed final New Lease or New Lease Modification, as applicable, including all exhibits, (x) for a New Lease, a blackline copy of the final New Lease showing differences from a standard lease form previously approved by Lender, (y) a lease summary describing in reasonable detail all material terms of the New Lease or New Lease Modification, and (z) to the extent available and permitted by any confidentiality agreement with the tenant, a description of tenant's business and owners, the tenant's most recent financial statements, and a credit report (collectively, the "**Lease Approval Package**"), Lender shall fail to approve or disapprove such New Lease or New Lease Modification (which such disapproval shall include the reasons therefor), then such New Lease or New Lease Modification, as applicable, shall be deemed approved by Lender.

(iii) With respect to any termination of any Lease for which Lender's prior approval is required, if, within ten (10) Business Days after Lender's receipt of Borrower's written request for such approval stating in bold uppercase letters at the top of such notice "PURSUANT TO THE TERMS OF SUBSECTION 5.1(a)(iii) OF THE LOAN AGREEMENT DATED NOVEMBER 29, 2016, BORROWER REQUESTS APPROVAL OF THE TERMINATION OF A LEASE. ANY FAILURE OF LENDER TO RESPOND TO BORROWER'S REQUEST FOR SUCH APPROVAL WITHIN TEN (10) BUSINESS DAYS OF RECEIPT OF THIS NOTICE SHALL BE DEEMED TO BE LENDER'S APPROVAL OF SUCH TERMINATION OF A LEASE", together with the following, all delivered in accordance with the notice requirements set forth in Section 12.1: (x) a true, correct and complete copy of any lease termination agreement, including any amendments and supplements relating thereto, (y) a reasonably detailed description of all material terms of the lease termination, including disclosure of any and all consideration to be exchanged between parties and their respective affiliates, including a description of any potential new lease that may be entered into between or among affiliates of Borrower and tenant in another property, and (z) a written request that Lender approve the Lease Termination (collectively, the "**Lease Termination Approval Package**"), Lender shall fail to approve or disapprove such Lease termination (which such disapproval shall include the reasons therefor), then such Lease termination shall be deemed approved by Lender.

(b) Borrower shall perform all obligations as lessor under all Leases and shall enforce all of the terms, covenants and conditions contained therein upon the part of the lessee thereunder to be performed or observed, short of termination thereof; provided, however, Borrower's failure to comply with this sentence shall not result in an Event of Default unless such failure is in any material respect and following the expiration of any applicable notice or cure period contemplated herein. Except as permitted pursuant to Subsection 5.1(a) above, Borrower shall not take any action which would cause any Lease to cease to be in full force and

effect. Except with the prior written consent of Lender or with respect to any No-Approval Leases, Borrower shall not: (i) cancel, terminate, surrender, sublet or assign any Lease or consent to any cancellation, termination, surrender, subletting or assignment thereof (except as permitted pursuant to the terms of any such Lease); (ii) enter into any consensual document or agreement to subordinate any Lease to any mortgage, deed of trust or other security interest that is subordinate to the Mortgage; (iii) enter into any new Lease or amend, modify or renew any existing Lease (except as permitted in Subsection 5.1(c)); (iv) waive any default under or breach of any Lease (except as permitted in Subsection 5.1(c)); (v) consent to or accept any prepayment or discount of rent or advance rent under any Lease (except as permitted in Subsection 5.1(c)); (vi) take any other action in connection with any Lease which could reasonably be expected to impair or jeopardize the validity of such Lease or Lender's interest therein; or (vii) alter, modify or change the terms of any guaranty, letter of credit or other credit support with respect to any Lease or cancel or terminate such guaranty, letter of credit or other credit support (except as permitted in Subsection 5.1(c)).

(c) Notwithstanding Subsection 5.1(a) or 5.1(b), so long as no Event of Default shall have occurred and be continuing, Lender's approval shall not be required for Borrower to enter into any New Lease or any New Lease Modification (other than any New Lease Modification that adds or amends in any material respect any lease termination options), provided that each of the following conditions are satisfied: (i) the New Lease or the existing Lease as modified by the New Lease Modification, as applicable, covers less than fifty thousand (50,000) net rentable square feet of the Improvements located on the Premises, including any square feet provided for in any expansion options and other space already leased to the subject tenant; (ii) only with respect to any New Lease that covers more than twenty thousand (20,000) net rentable square feet, such New Lease is written on a standard form approved by Lender, in advance and in writing, and without material modification; (iii) the New Lease or the New Lease Modification, as applicable, is an arm's-length transaction with a bona fide, independent third party tenant; (iv) the New Lease or New Lease Modification provides for rental rates and terms comparable to existing local market rates and terms; (v) the New Lease or the New Lease Modification, as applicable, will not violate any provision of any other Lease, restriction, covenant or public or private agreement affecting the Premises or this Agreement or any other Loan Document, including Subsection 4.1(b); (vi) the New Lease or the New Lease Modification, as applicable, imposes no tenant improvement obligations on Borrower beyond the initial lease-up and occupancy by the tenant in excess of the lesser of Fifty Dollars per square foot (\$50/sq.ft.) or Eight Hundred Thousand Dollars (\$800,000) for costs associated with expansion or extension options; (vii) the New Lease or the New Lease Modification, as applicable, contains no right of the tenant to acquire any ownership interest in any of the Mortgaged Property; (viii) if the New Lease is in excess of twenty thousand (20,000) net rentable square feet, such New Lease provides that the tenant will unconditionally attorn to a foreclosing lender without requiring Lender to execute a non-disturbance agreement, or the subject tenant agrees to execute a subordination, non-disturbance and attornment agreement in connection therewith in the form attached hereto as Exhibit F or such other form acceptable to Lender in its reasonable discretion, subject to verification by Lender that the New Lease or New Lease Modification, as applicable, otherwise qualifies as a No-Approval Lease. If any of the aforesaid conditions are not satisfied, then Lender's prior consent to such New Lease or such New Lease Modification, as applicable, shall be required. If the New Lease is less than twenty thousand (20,000) net rentable square feet, and otherwise qualifies as a No-Approval Lease, then if

requested by the tenant thereunder, Lender will provide a subordination, non-disturbance and attornment agreement in the form attached hereto as Exhibit F, or such other form acceptable to Lender in its reasonable discretion Notwithstanding Subsection 5.1(c)(iii), a New Lease Modification with respect to the Lease dated April 29, 2002 between Kilroy LP, as landlord, and Kilroy Services, LLC as tenant (the "KRC Lease") shall be exempt from the restriction in Subsection 5.1(c)(iii) and, in the event that the KRC Lease is terminated, a New Lease or a New Lease Modification, between Borrower, as landlord, and Sponsor or an Affiliate of Sponsor, as tenant, covering not more than ten thousand (10,000) net rentable square feet shall be exempt from the restriction in Subsection 5.1(c)(iii). In determining whether a Lease with Sponsor or an Affiliate of Sponsor covers more than ten thousand (10,000) net rentable square feet, all space leased to Sponsor or an Affiliate of Sponsor (whether pursuant to one or more Leases) in the Improvements located on the Premises shall be aggregated. If requested by Lender, Borrower shall provide a true copy of each such New Lease and each such New Lease Modification within one hundred five (105) days after the end of each Fiscal Year, in accordance with Subsection 7.1(a)(i) hereof. In determining under clause (i) above whether a New Lease, or an existing Lease as modified by a New Lease Modification, is for fifty thousand (50,000) net rentable square feet of building area of the Improvements located on the Premises, all space leased to any one tenant (whether pursuant to one or more Leases) in the Improvements located on the Premises shall be aggregated.

(d) [Intentionally Omitted.]

(e) Upon Lender's request, at any time following the occurrence and during the continuance of an Event of Default, Borrower shall transfer and assign to Lender any or all of the tenant security deposits, including any letters of credit securing tenant obligations, under the Leases, together with: (i) any assignment of the proceeds of such security deposits; (ii) any assignment and transfer of such letters of credit or the proceeds thereof; and (iii) to the extent required pursuant to the applicable Lease and, so long as the same can be obtained with commercially reasonable efforts, any tenants' consents to assignment of such security deposits and assignment and transfer of such letters of credit, in each case under clause (i) through (iii), as Lender shall reasonably request. All security deposits delivered to Lender shall be held without interest and may be commingled with Lender's other funds (unless the payment of interest thereon and the maintenance of a separate account therefor is required under applicable tenant leases or by applicable law).

(f) Following the occurrence and during the continuance of an Event of Default, Lender may, with or without exercising any other rights or remedies: (i) give or require Borrower to give notice to any or all tenants under the Leases and all Lease guarantors authorizing and directing them to pay all Property Income under the Leases directly to Lender and to continue to do so until the tenants and Lease guarantors are otherwise notified by Lender in writing; and (ii) apply for the appointment of a receiver of the Mortgaged Property to which appointment Borrower hereby consents, whether or not foreclosure proceedings have been commenced under any of the Mortgage and whether or not a foreclosure sale has occurred.

(g) Without limiting Lender's approval rights under Subsection 5.1(a), if any tenant is required to pay a lease termination, cancellation or contraction fee in excess of One Million Two Hundred Fifty Thousand Dollars (\$1,250,000) as a result of such tenant terminating

its Lease, and Borrower has not re-let the space vacated as a result of such Lease termination on or prior to the date of such Lease termination, then upon such Lease termination, the amount so required to be paid by such tenant shall be collaterally assigned to Lender as additional collateral for the Loan and deposited with Lender in an interest bearing account (the "**Lease Termination Reserve Account**"), with interest accruing for the benefit of Borrower. So long as no Event of Default shall have occurred and be continuing, (i) upon the execution of an Acceptable Lease for the space, or a portion of the space, vacated as a result of the Lease termination, half of the allocable amount of the Lease Termination Reserve Account relating to the Lease termination payment for the applicable space (inclusive of interest attributable thereto) shall be refunded to Borrower and (ii) upon the occupancy by the tenant under such Acceptable Lease for such space, or a portion of such space, vacated as a result of such Lease termination, the remaining half of the allocable amount of the Lease Termination Reserve Account relating to the Lease termination payment for such space (inclusive of interest attributable thereto) shall be refunded to Borrower. Should an Event of Default occur prior to any such release, all funds in the Lease Termination Reserve Account may, during the continuance of such Event of Default, be applied in payment of the charges for which such funds shall have been deposited or to the payment of the Indebtedness or any other charges affecting the Mortgaged Property, as Lender in its sole discretion may determine, but no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided.

(h) In the event any payment is made to Borrower as a result of a draw under the "L-C" (as defined in that certain Office Lease dated as of March 26, 2014 by and between Kilroy Realty, L.P., as landlord, and Riot Games, Inc., as tenant (as the same was assigned by Kilroy Realty, L.P. to Borrower, and as the same may have been and may hereafter be amended, modified, supplemented, restated or replaced from time to time, the "**Riot Games Phase 1 Lease**")), made pursuant to and in accordance with the terms and conditions of the Riot Games Phase 1 Lease, the amount so received by Borrower (the "**L-C Draw Amount**") shall be collaterally assigned to Lender as additional collateral for the Loan and deposited with Lender in an interest bearing account (the "**Riot Games Lease Reserve Account**"), with interest accruing for the benefit of Borrower. So long as no Event of Default shall have occurred and be continuing, Borrower may request disbursements of the funds then in the Riot Games Lease Reserve Account under the following circumstances: (i) to apply against any Rent (as defined in the Riot Games Phase 1 Lease) payable by the tenant under the Riot Games Phase 1 Lease that was not paid when due and/or to compensate Borrower, in its capacity as the landlord under the Riot Games Phase 1 Lease, for any and all losses and/or damages suffered by Borrower (or awarded to Borrower at law) as a result of any breach or default by the tenant under the Riot Games Phase 1 Lease, in either case in accordance with the express provisions of the Riot Games Phase 1 Lease, the amount of which disbursement shall not exceed, as applicable, the amount Borrower estimates, and Lender approves in its reasonable discretion, to be necessary to pay such Rent or to compensate Borrower for such losses and/or damages, evidence of which shall have been provided to and approved by Lender in its reasonable discretion (the amounts under this clause (i), collectively, the "**Lease Default Damages**"); (ii) to return to the tenant under the Riot Games Phase 1 Lease, to the extent required in accordance with the express provisions of the Riot Games Phase 1 Lease, the L-C Draw Amount minus the amount of previously applied Lease Default Damages, in each case in accordance with the express provisions of the Riot Games Phase 1 Lease; and (iii) following the termination of the Riot Games Phase 1 Lease, (x) upon the execution of an Acceptable Lease for the space vacated as a result of such termination,

half of the amount of the Riot Games Lease Reserve Account (inclusive of interest attributable thereto) shall be refunded to Borrower and (y) upon the occupancy by the tenant under such Acceptable Lease for such space vacated as a result of such Lease termination, the remaining half of the amount of the Riot Games Lease Reserve Account (inclusive of interest attributable thereto) shall be refunded to Borrower; provided, however, should Borrower enter into one or more Acceptable Leases for less than all of the space vacated as a result of such termination, Borrower shall be entitled to disbursements from the Riot Games Lease Reserve Account in the same proportion as the total square footage leased pursuant to each such Acceptable Lease relates to the total square footage leased pursuant to the Riot Games Phase 1 Lease. Should an Event of Default occur prior to any such disbursement, any Lease Default Damages remaining in the Riot Games Lease Reserve Account may, during the continuance of such Event of Default, be applied in payment of the charges for which such funds shall have been deposited or to the payment of the Indebtedness or any other charges affecting the Mortgaged Property, as Lender in its sole discretion may determine, but no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided. Borrower hereby acknowledges and agrees that the proceeds of any other letter of credit provided to Borrower from Riot Games, Inc. or any Affiliate thereof pursuant to the terms of the Riot Games Phase 1 Lease or any other Lease between Borrower and Riot Games, Inc. or such Affiliate thereof, shall be deposited into the Riot Games Lease Reserve Account and be held and disbursed by Lender in accordance with the terms and provisions of this Section 5.1, and the term "Riot Games Phase 1 Lease" shall be deemed to include any such other Lease for purposes of this Section 5.1.

Section 5.2 **Management**. At all times prior to the payment in full of the Indebtedness, the Mortgaged Property shall be managed by a management company satisfactory to Lender in its reasonable discretion, and for any management company other than Kilroy LP, pursuant to a management agreement satisfactory to Lender in its reasonable discretion. In addition, any leasing commissions agreement affecting the Mortgaged Property must be satisfactory to Lender in its reasonable discretion. Such management agreement and leasing commissions agreement shall be subordinate to the Lien of the Mortgage. Lender approves Kilroy LP as manager of the Mortgaged Property, reserving the right, however, to revoke such approval in accordance with the following sentence. If at any time the management company, management agreement or leasing commissions agreement is not satisfactory to Lender, Borrower shall have a reasonable period, not exceeding sixty (60) days after notice to Borrower of Lender's disapproval, to obtain a management company, management agreement and/or leasing commissions agreement approved by and satisfactory to Lender, in each case, not to be unreasonably withheld, delayed or conditioned. As a condition to Lender's approval of any such management agreement or leasing commissions agreement, Borrower, Lender and the applicable management company or leasing agent, shall execute and deliver an Assignment and Subordination of Management Agreement or an Assignment and Subordination of Leasing Commissions Agreement, as applicable, which shall be prepared on Lender's then current form and which shall otherwise be in form and content satisfactory to Lender in its reasonable discretion.

Section 5.3 **Impositions and Utility Charges**.

(a) Borrower shall pay and discharge all Impositions and Utility Charges prior to delinquency, and shall provide to Lender validated receipts or other evidence satisfactory to Lender in its reasonable discretion showing the payment of all such Impositions within fifteen (15) days after the same would otherwise have become delinquent. Borrower's obligation to pay such Impositions pursuant to this Agreement shall include, to the extent permitted by applicable law, Taxes resulting from changes in law after the date of this Agreement which impose upon Lender an obligation to pay any property taxes or other Impositions or which otherwise adversely affect Lender's interests in the Mortgaged Property or otherwise with respect to the Loan. Should Borrower default in the payment of any of such Impositions or Utility Charges, Lender may (but shall not be obligated to) pay such item or any portion thereof and Borrower shall reimburse Lender on demand for all such Advances.

(b) Borrower shall not be required to pay, discharge or remove any Imposition or Utility Charge so long as Borrower contests in good faith such Imposition or Utility Charge or the validity, applicability or amount thereof by an appropriate legal proceeding which operates to prevent the collection of such amounts and the sale of the Mortgaged Property or any portion thereof; provided, however, that, solely with respect to Impositions, such contest will not result in a tax certificate or other sale of the tax lien and prior to the date on which such Imposition would otherwise have become delinquent Borrower shall have: (i) given Lender prior notice of such contest; and (ii) deposited with Lender, and shall deposit such additional amounts as are necessary to keep on deposit at all times, an amount equal

to at least one hundred ten percent (110%) of the total of: (A) the balance of such Imposition then remaining unpaid; and (B) all interest, penalties, costs and charges accrued or accumulated thereon. Any such contest shall be prosecuted with due diligence, and Borrower shall promptly pay the amount of such Imposition as finally determined, together with all interest, penalties, costs and charges payable in connection therewith. Lender shall have full power and authority to apply any amount deposited with Lender under this Subsection 5.3(b) to the payment of any unpaid Imposition to prevent the sale of any tax lien or the sale or forfeiture of the Mortgaged Property (or any portion thereof) for non-payment thereof. Lender shall have no liability, however, for failure to so apply any amount deposited unless Borrower requests the application of such amount to the payment of the particular Imposition for which such amount was deposited. Any surplus retained by Lender after payment of the Imposition for which a deposit was made shall be repaid to Borrower unless an Event of Default shall have occurred, in which case said surplus may be retained by Lender to be applied to the Indebtedness. Notwithstanding any provision of this Subsection 5.3(b) to the contrary, Borrower shall pay any Imposition which it might otherwise be entitled to contest if, in the reasonable opinion of Lender, failure to pay will result in a tax certificate or other sale of the tax lien or the Mortgaged Property (or any portion thereof) is in jeopardy or in danger of being forfeited or foreclosed. If Borrower refuses to pay any such Imposition, Lender may (but shall not be obligated to) make such payment and Borrower shall reimburse Lender on demand for all such Advances. Additionally, in such event, if Lender is prevented by law or judicial or administrative order from paying such Imposition, then Lender, at its option, may declare the entire Indebtedness immediately due and payable.

(c) Borrower shall deposit, or cause to be deposited, with Lender, to be held by Escrow Agent, monthly, on the due date of each monthly installment under the Note, 1/12th

of the annual charges (as estimated by Lender in its reasonable discretion) for Impositions with respect to the Mortgaged Property. If required by Lender, Borrower shall also deposit, or cause to be deposited, with Lender, to be held by Escrow Agent, simultaneously with such monthly deposits and/or the execution of this Agreement, a sum of money which together with such monthly deposits will be sufficient to make the payment of each such charge at least thirty (30) days prior to the date initially due. Should such charges not be ascertainable at the time any deposit is required to be made, the deposit shall be made on the basis of the charges for the prior year or payment period, as reasonably estimated by Lender. When the charges are fixed for the then current year or period, Borrower shall deposit any deficiency on demand. Interest earned on the funds held by Escrow Agent under this Section will be retained by Lender, except to the extent prohibited by law. All funds deposited with Escrow Agent may be commingled with Escrow Agent's other funds, and shall be applied in payment of the foregoing charges when and as payable provided that no Event of Default shall have occurred and be continuing. Upon the occurrence and during the continuance of an Event of Default, the funds so deposited may be applied in payment of the charges for which such funds shall have been deposited or to the payment of the Indebtedness or any other charges affecting the Mortgaged Property, as Lender in its sole discretion may determine, but no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided. Borrower shall provide Lender with bills and all other documents necessary for the payment of the foregoing charges promptly following Borrower's receipt of the same, but in any event at least fifteen (15) days prior to the date on which each payment thereof shall first become due.

(d) Notwithstanding the requirements of Subsection 5.3(c) above, Lender shall waive the requirement for Borrower to make the monthly deposits of the annual charges for Impositions with respect to the Mortgaged Property so long as each of the following terms and conditions continues to be satisfied, as determined by Lender in its reasonable discretion (each of the following, a "**Reserve Waiver Requirement**" and, collectively, the "**Reserve Waiver Requirements**"):

- (i) Borrower shall pay and discharge all Impositions affecting the Mortgaged Property on or prior to the last date on which such Impositions may be paid without payment of any interest, late fee or penalty, and shall provide to Lender validated receipts or other evidence satisfactory to Lender in its reasonable discretion showing the timely payment of such Impositions;
- (ii) No uncured monetary default shall exist, nor shall any Event of Default have occurred and be continuing, under the Loan Documents;
- (iii) The original named Borrower as of the Closing Date must still hold sole title to the Mortgaged Property and shall not have exercised its rights pursuant Section 8.3 below. Any transfer of title to the Mortgaged Property, or any portion thereof, shall permit Lender to require institution of a real estate tax and assessment reserve;

- (iv) No other transfer of any interest in the Mortgaged Property has occurred, other than as expressly permitted by Article 8 hereof; and
- (v) There does not exist any subordinate, mezzanine or other indebtedness prohibited by any of the Loan Documents, whether or not such indebtedness is secured by any of the Mortgaged Property.

In the event that Borrower fails, at any time during which a waiver of the requirements of Subsection 5.3(c) is in effect, to satisfy any one or more of the Reserve Waiver Requirements, Borrower shall immediately commence making the monthly deposits of annual charges for Impositions with respect to the Mortgaged Property pursuant to the terms of Subsection 5.3(c), and shall continue to make such deposits for the remainder of the Loan Term, notwithstanding any subsequent satisfaction of such Reserve Waiver Requirements.

ARTICLE 6.

REPRESENTATIONS, WARRANTIES AND COVENANTS

Borrower, jointly and severally (if applicable), represents, warrants and covenants that:

Section 6.1 Organization and Authority.

(a) The execution and delivery of the Note, this Agreement, the Mortgage and the other Loan Documents have been duly authorized and there is no provision in Borrower's organizational documents, as amended, requiring further consent for such action by any other Person.

(b) Borrower is duly organized, validly existing and in good standing under the laws of the state of its formation.

(c) Borrower has all necessary franchises, licenses, authorizations, registrations, permits and approvals and full power and authority to own and operate its properties, including the Mortgaged Property, and is qualified to carry on its business as now conducted in each jurisdiction where failure to be so qualified could reasonably be expected to have a material adverse effect on the financial condition of Borrower or Borrower's ability to perform its material obligations under the Loan Documents.

(d) The execution and delivery of and performance of its obligations under the Loan Documents: (i) will not result in Borrower being in default under any provision of its organizational documents, as amended, any court order, or any mortgage, deed of trust or other agreement to which it is a party; and (ii) do not require the consent of or any filing with any governmental authority.

(e) All necessary actions have been duly taken by and on behalf of Borrower to make and constitute the Loan Documents to which Borrower is a party, and the Loan Documents to which Borrower is a party constitute, legal, valid and binding obligations

enforceable in accordance with their respective terms, subject only to the application of bankruptcy and other laws affecting the rights of creditors and general principles of equity.

Section 6.2 **Maintenance of Existence.** So long as it owns the Mortgaged Property, Borrower shall do all things necessary to preserve and keep in full force and effect its existence and all necessary franchises, licenses, authorizations, registrations, permits and approvals under the laws of the state of its formation and the State to carry on its business as now conducted and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court now or hereafter applicable to Borrower or to the Mortgaged Property or any portion thereof; provided, however, Borrower's failure to so comply with such regulations, rules, ordinances, statutes, orders and decrees shall not result in an Event of Default unless such failure is in any material respect and after the expiration of any applicable notice or cure period contemplated herein.

Section 6.3 **Title.** Borrower has good, marketable and insurable fee simple title to the Premises and good indefeasible title to the balance of the Mortgaged Property, free and clear of all Liens whatsoever, except the Permitted Encumbrances. The Mortgage creates (1) a valid, perfected Lien on the Mortgaged Property, subject only to Permitted Encumbrances and (2) perfected security interests in and to, and perfected collateral assignments of, all Collateral (including the Leases), all in accordance with the terms thereof, in each case subject only to any applicable Permitted Encumbrances and such other Liens as are permitted pursuant to the Loan Documents. Borrower will preserve such title and will forever warrant and defend the same and validity and priority of the lien hereof to Lender against all claims whatsoever. Borrower is the owner of all easements and other rights (collectively, the "**Easements**") created under the documents expressly set forth in Schedule B to title insurance policy no. 23085904LP-JV issued by Fidelity National Title Insurance Company with respect to the Mortgaged Property (collectively the "**Easement Agreements**"). The Easement Agreements and the Easements created thereunder have not been modified or amended and are in full force and effect. No defaults have occurred under the Easement Agreements, and no event has occurred which with notice or the passage of time would constitute an event of default under the Easement Agreements. Borrower has not sent, and is not in receipt of, any notice alleging or asserting the occurrence of any default under the Easement Agreements or the occurrence of any event which with notice or the passage of time would constitute an event of default thereunder.

Section 6.4 **Mortgage Taxes.**

(a) Borrower shall pay any and all Indemnified Taxes, charges, filing, registration and recording fees, excises and levies imposed upon Lender by reason of its ownership of, or measured by amounts payable under, the Note, this Agreement, the Mortgage or any other Loan Document, and shall pay all stamp taxes required to be paid on the Note, the Mortgage, this Agreement or the other Loan Documents. If Borrower fails to make such payment within ten (10) Business Days after notice thereof from Lender, Lender may (but shall not be obligated to) pay the amount due, and Borrower shall reimburse Lender on demand for all such Advances, except, for the avoidance of doubt, to the extent the Advances related to a payment of an Excluded Tax.

(b) If any applicable law (as determined in the good faith discretion of Borrower or Withholding Agent, as applicable) requires the deduction or withholding of any Tax from any payments under the Note, this Agreement, the Mortgage or any other Loan Document, then Borrower or Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant governmental authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sums payable by Borrower under the Note, this Agreement, the Mortgage or any other Loan Documents shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this [Section 6.4](#)), Lender receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(c) If Lender determines, in its sole discretion, exercised in good faith, that it has received a refund of any Taxes paid by Borrower in accordance with this [Section 6.4](#) (including by the payment of additional amounts pursuant to [Section 6.4\(b\)](#)), Lender shall pay to Borrower an amount equal to the amount of such refund actually received by Lender (but only to the extent of indemnity payments made under this [Section 6.4](#) with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of Lender and without interest (other than any interest paid by the relevant governmental authority with respect to such refund). Borrower, upon the request of Lender, shall repay to Lender the amount paid over pursuant to this [Section 6.4\(c\)](#) (plus any penalties, interest or other charges imposed by the relevant governmental authority) in the event that Lender is required to repay such refund to such governmental authority. Notwithstanding anything to the contrary in this [Section 6.4\(c\)](#), in no event will Lender be required to pay any amount to Borrower pursuant to this [Section 6.4\(c\)](#) the payment of which would place Lender in a less favorable net after-Tax position than Lender would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld, or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This [Section 6.4\(c\)](#) shall not be construed to require Lender to make available its Tax returns (or any other information relating to its Taxes) that it deems confidential) to Borrower or any other Person.

Section 6.5 **Payment of Liens.** Borrower shall pay when due all payments and charges due under or in connection with any Liens and encumbrances on and security interests in the Mortgaged Property or any portion thereof, all rents and charges under any ground leases and other leases forming a part of the Mortgaged Property, and all claims and demands of mechanics, materialmen, laborers and others which, if unpaid, could reasonably be expected to result in or permit the creation of a Lien on the Mortgaged Property or any portion thereof (excluding any Lien imposed solely on any tenant's interest in the Mortgaged Property) and shall cause the prompt (but in no event later than thirty (30) days after imposition), full and unconditional discharge of all Liens imposed on or against the Mortgaged Property or any portion thereof; provided that Borrower shall not be required to pay, discharge or remove any such Lien so long as Borrower contests in good faith such Lien or the validity, applicability or amount thereof in the manner described in [Subsection 5.3\(b\)](#), so as to prevent the sale of the Mortgaged Property or any portion thereof. Borrower shall do or cause to be done, at the sole cost of Borrower, everything necessary to fully preserve the initial priority of the Lien of the Mortgage. If Borrower fails to make any such payment or if a Lien attaches to the Mortgaged Property or any portion thereof and is not discharged within said thirty (30) days or contested in good faith in the

manner described in Subsection 5.3(b), Lender may (but shall not be obligated to) make such payment or discharge such lien and Borrower shall reimburse Lender on demand for all such Advances.

Section 6.6 **Costs of Defending and Upholding the Lien.** Lender may, after notice to Borrower: (a) appear in and defend any action or proceeding, in the name and on behalf of either Lender or Borrower, in which Lender is named or which Lender in its reasonable discretion determines may adversely affect the Mortgaged Property, the Mortgage, the Lien thereof or any other Loan Document; and (b) institute any action or proceeding which Lender in its reasonable discretion determines should be instituted to protect its interest in the Mortgaged Property or its rights under this Agreement or any other Loan Document, including foreclosure proceedings. Borrower shall pay or reimburse Lender on demand for all Advances and actual out-of-pocket expenses (including reasonable attorneys' fees, costs and expenses) reasonably incurred by Lender in connection with any such action or proceeding.

Section 6.7 **Costs of Enforcement.** If an Event of Default has occurred and is continuing, Borrower shall pay or reimburse Lender on demand for all Advances, costs and expenses (including reasonable attorneys' and appraisers' fees, costs and expenses and the expenses and reasonable fees of any receiver or similar official) related or incidental to the collection of the Indebtedness, any foreclosure of the Mortgage or any other Loan Document, any enforcement, compromise or settlement of the Mortgage, this Agreement, any other Loan Document or the Indebtedness in any in any judicial, arbitration, administrative, probate, appellate, bankruptcy, insolvency or receivership proceeding, as well as in any post-judgment proceeding to collect or enforce any judgment or order relating to the Indebtedness or any of the Loan Documents, as well as any defense or assertion of the rights or claims of Lender in respect of any thereof, by litigation or otherwise.

Section 6.8 **Indemnification.** Borrower shall indemnify, defend and hold Lender and the Lender Parties harmless from and against, and be responsible for paying, all Losses which may be imposed upon, asserted against, or incurred or paid by any of them: (a) by reason of, on account of or in connection with any act or occurrence relating to the Mortgaged Property or any bodily injury, death, other personal injury or property damage occurring in, upon or in the vicinity of the Mortgaged Property from any cause whatsoever; (b) as a result of the failure of Borrower to perform any of its obligations under any of the Loan Documents; or (c) on account of any transaction otherwise arising out of or in any way connected with the Mortgaged Property, this Agreement or the Indebtedness; provided, however, the indemnification in this Section 6.8 shall not require Borrower to pay any Taxes that are not Indemnified Taxes.

Section 6.9 **Estoppel Certificates.** Within ten (10) Business Days following a request by either party hereto (such party, the "**Requesting Party**"), the other party shall provide to the Requesting Party a duly acknowledged written statement confirming: (a) the original principal amount of the Loan; (b) the unpaid principal amount of the Loan; (c) the rate of interest of the Loan; (d) the terms of payment and maturity date of the Loan; (e) the date installments of interest and/or principal were last paid; (f) only if Lender is the Requesting Party, that, except as provided in detail in such statement, there are no offsets or defenses against the Indebtedness or defaults or events which with the passage of time or the giving of notice, or both, would constitute an Event of Default under the Note, this Agreement or the other Loan Documents; and

(g) such other information that the Requesting Party shall reasonably request. In connection with a Transfer or Participation of the Loan pursuant to Section 12.13 hereof, Borrower shall also exercise commercially reasonable efforts to provide to Lender within thirty (30) days following its request therefor tenant estoppel letters from such tenants of the Premises as Lender may require.

Section 6.10 ERISA.

(a) Borrower shall not engage in any transaction which would cause any obligation, or action taken or to be taken hereunder (or the exercise by Lender of any of its rights under the Note, the Loan Agreement or any of the other Loan Documents) to be a non-exempt (under a statutory or administrative class exemption) prohibited transaction under ERISA and/or Section 4975 of the Code.

(b) Borrower represents that (i) Borrower is not, and is not deemed (under the Plan Assets Regulation or otherwise) to hold the “plan assets” of an “employee benefit plan” that is subject to Title I of ERISA and/or a “plan” that is subject to Section 4975 of the Code; and (ii) Borrower is not a “governmental plan” within the meaning of Section 3(32) of ERISA and is not subject to state statutes regulating investments and fiduciary obligations with respect to governmental plans. Borrower covenants and agrees to deliver to Lender such certifications and other evidence from time to time, until full repayment of the Indebtedness, as are reasonably requested by Lender to confirm the representation under this clause (b);

(c) Borrower shall not agree to, enter into or consummate any transaction which would render Borrower unable to furnish the certification or other evidence referred to in Subsection 6.10(b) hereof, to the extent applicable.

(d) If Borrower or any ERISA Affiliate maintains, contributes to or has in the six year period prior to the Closing Date had any obligation to contribute to a Pension Plan, Borrower represents that, except as would not reasonably be expected to result in a material adverse effect on Borrower, Borrower and each ERISA Affiliate (i) have fulfilled their obligations under the minimum funding standards of ERISA and the Code with respect to each Pension Plan, (ii) have not incurred any direct or indirect liability with respect to the withdrawal or partial withdrawal from any Pension Plan, and (iii) have not incurred any direct or indirect liability to the Pension Benefit Guaranty Corporation or to a Pension Plan under Title IV of ERISA in connection with the termination of a Pension Plan. Borrower shall take or refrain from taking, as the case may be, such actions as may be necessary to cause the representation and warranty in this Section 6.10 to remain true and accurate until full repayment of the Indebtedness.

(e) Borrower represents that, except as would not reasonably be expected to result in a material adverse effect on Borrower, each Plan maintained by Borrower or any Affiliate of Borrower or which has been maintained by Borrower or any Affiliate of Borrower within the six year period prior to the Closing Date is, or has been, in compliance with the applicable provisions of ERISA and the Code. Borrower shall take or refrain from taking, as the case may be, such actions as may be necessary to cause the representation and warranty in this Section 6.10(e) to remain true and accurate until full repayment of the Indebtedness.

Section 6.11 **Terrorism and Anti-Money Laundering.**

(a) As of the date hereof and throughout the term of this Agreement: (i) Borrower; (ii) any Principal; or (iii) any Person for whom Borrower is acting as agent or nominee in connection with this transaction, is not an OFAC Prohibited Person.

(b) To comply with applicable Anti-Money Laundering Laws, all payments by Borrower to Lender or from Lender to Borrower will only be made and received in Borrower's name and to and from a bank account of a bank based or incorporated in or formed under the laws of the United States or a bank that is not a "foreign shell bank" within the meaning of the U.S. Bank Secrecy Act (31 U.S.C. § 5311 *et seq.*), as amended, and the regulations promulgated thereunder by the U.S. Department of the Treasury, as such regulations may be amended from time to time.

(c) Borrower shall provide Lender at any time and from time to time during the term of the Loan with such information as Lender determines in its reasonable discretion to be necessary or appropriate to comply with the Anti-Money Laundering Laws of any applicable jurisdiction, or to respond to requests for information concerning the identity of Borrower, any Person controlling or controlled by Borrower or any Person having a beneficial interest in Borrower, from any governmental authority, self-regulatory organization or financial institution in connection with its anti-money laundering compliance procedures, or to update such information.

(d) The representations and warranties set forth in this Section 6.11 shall be deemed repeated and reaffirmed by Borrower as of each date that Borrower makes a payment to Lender under the Note, this Agreement and the other Loan Documents or receives any disbursement of Loan proceeds, reserve funds or other funds from Lender. Borrower agrees promptly to notify Lender in writing should Borrower become aware of any change in the information set forth in these representations.

Section 6.12 **Limited Purpose Entity Requirements.** All of the provisions of this Section 6.12 are individually and collectively referred to as the "**LPE Requirements**".

(a) Borrower has not and shall not:

- (i) engaged in any business unrelated to the acquisition, development, ownership, holding, sale, leasing, transfer, exchange, management or operation of the Mortgaged Property;
- (ii) have any assets other than those related to the Mortgaged Property or related to any business not prohibited by Subsection 6.12(a)(i);
- (iii) incur any indebtedness, other than (A) the Indebtedness, (B) unsecured trade payables and other operational debt which are incurred, paid and processed in the ordinary course of business, (C) tenant improvement allowances or similar concessions granted to tenants, and (D) such other indebtedness as shall be permitted by

the Loan Documents (including, without limitation, indebtedness described in Subsection 6.12(a)(iv) below);

- (iv) assume or guarantee or become obligated for the debts of any other Person or hold out its credit as being available to satisfy the obligations of any other Person except for its obligations under the Loan Documents, and except for (A) payment or performance bonds, guarantees, indemnities or other assurances in connection with the performance of tenant improvements required or permitted by Leases or Lease modifications approved or deemed approved by Lender or otherwise permitted by the Loan Documents, (B) obligations under Leases or Lease modifications approved or deemed approved by Lender or otherwise permitted by the Loan Documents, (C) lease takeover arrangements in connection with Leases or Lease modifications approved or deemed approved by Lender or otherwise permitted by the Loan Documents, and (D) customary types of indemnities or other assurances with respect to existing seller liabilities the existence or incurrence of which are not in violation of the Loan Documents and that may be required by the buyer or the title company in connection with the sale of the Mortgaged Property;
- (v) acquire obligations or securities of its members or shareholders or any other Affiliate; or
- (vi) except for its obligations under the Loan Documents or as otherwise permitted by the Loan Documents, pledge its assets for the benefit of any other Person.

(b) Borrower shall not amend or modify any of its formation documents without the prior consent of Lender, which consent shall not be unreasonably withheld, delayed or conditioned. Promptly after Lender's written request from time to time, but not more frequently than once in any calendar year, Borrower shall deliver to Lender evidence satisfactory to Lender in its reasonable discretion that Borrower is in compliance with the provisions of this Section 6.12.

Section 6.13 Operating Agreements and Permitted Encumbrances.

(a) No Operating Agreement or Permitted Encumbrance shall be amended, modified, supplemented, restated or otherwise altered by Borrower, nor shall Borrower consent or otherwise acquiesce in any of the foregoing, in each case in any manner materially adverse to Lender, without in each instance the prior consent of Lender (such consent not to be unreasonably withheld, delayed or conditioned).

(b) No Operating Agreement or Permitted Encumbrance benefiting the Mortgaged Property shall be terminated by Borrower unless such terminated Operating Agreement or such terminated Permitted Encumbrance is replaced with a similar agreement upon

terms and conditions, and with such third parties, as are acceptable to Lender in its reasonable discretion; provided, however, if a property management agreement with respect to the Mortgaged Property is so terminated, Borrower shall not be required to replace such agreement so long as the Mortgaged Property is managed by Kilroy LP following such termination.

(c) Borrower shall deliver to Lender, at the same time received or sent by Borrower, copies of all notices, demands or requests sent or otherwise sent by Borrower or received from any other Person under or pursuant to any Operating Agreement or Permitted Encumbrance.

(d) The term of any Operating Agreement or Permitted Encumbrance shall not be extended or otherwise renewed by Borrower (unless pursuant to a right currently afforded Borrower thereunder) without in each instance Lender's prior written approval (such approval not to be unreasonably withheld, delayed or conditioned).

(e) Borrower shall observe, perform and discharge in all material respects all obligations, covenants and warranties required to be kept and performed by Borrower under the Operating Agreements and Permitted Encumbrances.

(f) Borrower shall enforce or secure the performance of each and every material obligation, term, covenant, condition and agreement to be performed by any other party to any of the Operating Agreements and Permitted Encumbrances.

Section 6.14 **Compliance with Laws.** The Mortgaged Property is in compliance in all material respects with all provisions of all zoning, subdivision, land use, environmental, traffic, fire, building, and occupational safety and health rules, regulations, codes, acts and statutes to which it is subject.

Section 6.15 **Business Purpose of Loan.** Borrower stipulates and warrants that the purpose of the Loan is for the sole purpose of carrying on or acquiring a business, professional or commercial enterprise. Borrower further stipulates and warrants that all proceeds of the Loan will be used for said business, professional or commercial enterprise.

Section 6.16 **Maintenance of Mortgaged Property.** Borrower shall maintain the Mortgaged Property in good and safe condition, working order and repair, and comply with all existing and future federal, state and local laws, ordinances, rules and regulations and court orders affecting or which may be interpreted as affecting the Mortgaged Property, including the Americans with Disabilities Act and all zoning, subdivision, land use, environmental, traffic, fire, building, and occupational safety and health rules, regulations, codes, acts and statutes to which it is subject; provided, however, that Borrower's failure to so comply with such laws, ordinances, rules and regulations and court orders shall not result in an Event of Default unless such failure is in any material respect and following the expiration of any applicable notice and/or cure period contemplated herein. Borrower shall permit Lender and its agents to enter upon and inspect, in each case, subject to the rights of tenants under any applicable Leases: (a) the areas of the Mortgaged Property which are open to the public at all reasonable hours during which such areas are open to the public, without prior notice and (b) all other areas of the Mortgaged Property during normal business hours with reasonable prior notice (provided that

Lender shall in no event be required to provide Borrower with more than three (3) Business Days prior notice), except that no notice shall be required in the event of an emergency. Borrower shall not, without the prior consent of Lender, which consent may be granted or withheld in Lender's sole and absolute discretion: (i) change the use of the Premises; (ii) cause or permit the use or occupancy of any part of the Premises to be discontinued if such discontinuance would violate any zoning or other law, ordinance or regulation; (iii) apply for or consent to any subdivision, re-subdivision, zoning reclassification, modification or restriction affecting the Premises; (iv) threaten, commit or permit any waste, structural or material addition to or alteration, demolition or removal of the Mortgaged Property or any portion thereof (provided that the Equipment included within the Collateral may be removed if replaced with similar items of equal or greater value); (v) take any action whatsoever to apply for, consent to, or acquiesce in the conversion of the Mortgaged Property, or any portion thereof, to a condominium or cooperative form of ownership, or (vi) take any action whatsoever to apply for, consent to or acquiesce in any subdivision or re-subdivision of the Mortgaged Property, or any portion thereof. No provision of this Section 6.16 shall prohibit Borrower from undertaking and completing tenant improvement work authorized under Leases or Lease modifications previously approved by Lender or not requiring Lender's prior approval.

Section 6.17 **Solvency.** (1) Neither Borrower nor any Upstream Owner Controlled by Sponsor has entered into the transaction or any Loan Document with the actual intent to hinder, delay, or defraud any creditor, and (2) Borrower and each Upstream Owner Controlled by Sponsor has received reasonably equivalent value in exchange for its obligations under the Loan Documents. Giving effect to the Loan, the fair saleable value of Borrower's assets exceeds and will, immediately following the making of the Loan, exceed Borrower's total liabilities, including, without limitation, subordinated, unliquidated, disputed and contingent liabilities. The fair saleable value of Borrower's assets is and will, immediately following the making of the Loan, be greater than Borrower's probable liabilities, including the maximum amount of its contingent liabilities on its debts as such debts become absolute and matured. Borrower's assets do not and, immediately following the making of the Loan will not, constitute unreasonably small capital for such entity to carry out its business as conducted or as proposed to be conducted. Borrower does not intend to, and does not believe that it will, incur debt and other liabilities (including contingent liabilities and other commitments) beyond its ability to pay such debt and liabilities as they mature (taking into account the timing and amounts of cash to be received by it and the amounts to be payable on or in respect of obligations of such party). No petition in bankruptcy has been filed against Borrower or any Indemnitor or Principal, and neither Borrower nor any Indemnitor or Principal has ever made an assignment for the benefit of creditors or taken advantage of any insolvency act for the benefit of debtors. Neither Borrower nor Indemnitor or any Principal has been involved in a foreclosure or in a default on any debt owing to Lender or to any Affiliate of Lender. All financial and other information submitted by or on behalf of Borrower and Indemnitor to Lender in connection with the Loan is true, complete and correct. All of Borrower's material obligations to creditors, including, but not limited to, all payments and accounts relating to the Premises, are current.

Section 6.18 **Representations Regarding Mortgaged Property.**

(a) Borrower has provided to Lender, in writing, any and all material information relating to conditions in, on, under or about the Premises that are known by Borrower and that are contained in Borrower's files and records.

(b) Borrower has received no written notice from any governmental or quasi-governmental authority of any pending or threatened in writing condemnation of the Premises, or any part thereof.

(c) No part of the Premises has been designated as wetlands under any federal, state or local law or regulation or by any governmental agency, and no portion of the Premises is located within a 100-year flood plain.

(d) The Improvements and the intended use thereof as office buildings are in compliance in all material respects with (i) all applicable restrictions, covenants, conditions and requirements, and (ii) with all federal, state and municipal laws, rules, regulations and ordinances applicable thereto, including, but not limited to, zoning and The Americans with Disabilities Act of 1990, as amended from time to time.

(e) Borrower has received no written notice from any governmental or quasi governmental authority alleging that the Improvements are in violation of any federal, state or municipal laws, orders, regulations or ordinances applicable thereto.

(f) The Improvements are in good condition and repair, have not suffered any material damage which has not been fully repaired, and are free of structural or other material defects.

(g) All required licenses, permits, approvals, accreditations and qualifications necessary or appropriate for the use and operation of the Improvements as office buildings, including, but not limited to, all required certificates of occupancy, have been issued and are in full force and effect, except for recently expired elevator permits at the 12200 Building as the California Department of Industrial Relations is experiencing significant delays in conducting its annual inspections and issuing new permits.

(h) City water supply, storm and sanitary sewers and sanitary sewer capacity, and electrical, gas and telephone facilities are available to the Premises within the boundary lines thereof, and the Improvements connect to all storm and sanitary sewer lines serving the Premises, and such lines are sufficient to meet the reasonable needs of the Premises as currently used. No other utility facilities are necessary to meet the reasonable needs of the Premises as currently used, and the design and as-built conditions of the Improvements are such that surface and storm water do not accumulate on the Premises and do not drain from the Premises across land of adjacent property owners, except as permitted by an easement or other agreement with such adjacent property owners.

(i) The Premises are managed for Borrower by Kilroy LP.

(j) A true and complete rent roll for the Premises as of October 31, 2016 is attached hereto as Exhibit C and incorporated herein by reference. There has been no material adverse change in the rent roll delivered to Lender with Borrower's application for the Loan or in

the rent roll attached hereto as Exhibit C, or the financial condition, credit rating, business, operations or affairs of Borrower, Indemnitee, to Borrower's knowledge, any tenant at the Premises, or any other entity or natural person for which a financial statement has been submitted to Lender in connection with the Loan or which is providing any indemnification, guaranty, collateral or other credit support in connection with the Loan since the date of the last financial statement for such persons or entities submitted to Lender. Borrower is the owner of the landlord's interest in each of the Leases. Borrower has delivered to Lender true and correct copies of all Leases, as the same have been amended or modified. Except as disclosed to Lender in writing, the Leases are in full force and effect, no event of default exists thereunder and no event has occurred thereunder which with notice or the passage of time would constitute an event of default thereunder. Except as disclosed to Lender in writing, Borrower has received no notice alleging default by the landlord under any of the Leases, and the Leases are not subject to any assignment, other than the Assignment of Leases and Rents.

(k) For all reports provided with respect to Borrower, Borrower reports, for accounting purposes, on a fiscal year basis commencing on January 1 of each year and terminating on December 31 thereof.

(l) There are no actions, suits or proceedings, pending or, to the knowledge of Borrower, threatened, affecting Borrower, any Indemnitee, any Principal, or the Premises at law or in equity, on, before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or other governmental instrumentality. There are no outstanding judgments, arbitration awards, decrees or awards of any kind pending against Borrower, any Indemnitee, any Principal or the Premises.

ARTICLE 7.

FINANCIAL REPORTING

Section 7.1 **Financial Statements; Records.**

Borrower shall keep adequate books and records of account in accordance with GAAP related to real estate, consistently applied, and shall provide to Lender in electronic format, via e-mail and, upon Lender's request, in hard copy format, to addresses specified by Lender, within the time periods set forth, the following (collectively, the "**Financial Information**"):

(a) **Financial Information.** Borrower shall deliver to Lender the following:

- (i) a current rent roll, signed and dated by Borrower, detailing for each of the Leases, the names of all tenants of the Premises, the portion of the Premises occupied by each tenant, the annual rental, including base rent, additional rent and percentage rent, and the term of each of the Leases, including the expiration date, and any other information as is reasonably required by Lender and an executed copy of each New Lease and each New Lease Modification, within sixty (60) days after the end of the first three

- (3) fiscal quarters of each Fiscal Year during the Loan Term, but only if requested by Lender, and within one hundred five (105) days after the end of each Fiscal Year;
- (ii) unaudited quarterly operating statements of the Premises, prepared by Borrower in a form approved by Lender, detailing the revenues received, the expenses incurred and the Reported Net Operating Income and major capital improvements for that quarter and containing appropriate year to date information, within sixty (60) days after the end of the first three (3) fiscal quarters of each Fiscal Year during the Loan Term, but only if requested by Lender, and within one hundred five (105) days after the end of each Fiscal Year;
 - (iii) an annual balance sheet and income statement of Indemnitator, in a form approved by Lender, prepared and certified by Indemnitator as to the applicable statement, and, such statements, if required by Lender, shall be audited financial statements reviewed by an independent certified public accountant acceptable to Lender, within one hundred five (105) days after the close of each fiscal year of Indemnitator; provided, however, so long as both (x) Sponsor continues to be a public entity and (y) Indemnitator continues to report its financials on a consolidated basis with Sponsor, Borrower shall satisfy the requirements of this Subsection 7.1(a)(iv) by delivering to Lender, within one hundred five (105) days after the close of each fiscal year of Sponsor, the most recent Form 10-K of Sponsor;
 - (iv) an annual operating and capital budget presented on a monthly basis consistent with the annual operating statement described above for the Premises, including cash flow projections for the upcoming Fiscal Year, and all proposed capital replacements and improvements, within one hundred five (105) days after the close of each Fiscal Year; provided, however, Borrower shall use reasonable efforts to deliver said plan and budgets to Lender at least sixty (60) days after the close of each Fiscal Year; and
 - (v) an annual statement from Borrower, certifying that (i) there has been no change in the ownership and organizational structure of Borrower other than as may have been permitted pursuant to the provisions of Sections 8.1 or 8.2 hereof or otherwise approved by Lender in writing, and (ii) that Borrower has not obtained any financing prohibited by this Agreement and the other Loan Documents, signed and dated by Borrower, within one hundred five (105) days after the close of each Fiscal Year and from time to time as Lender may reasonably request.

- (b) **Financial Information Upon Request**: Upon request from Lender, but not more frequently than once per calendar year during the Loan Term unless an Event of Default shall have occurred and be continuing, Borrower shall:
- (i) deliver an accounting of all security deposits held in connection with any of the Leases, including the name and identification number of the accounts in which such security deposits are held, the name and address of the financial institutions in which such security deposits are held and the name of the person to contact at such financial institution, along with any authority or release from Borrower to obtain information regarding such accounts directly from such financial institutions;
 - (ii) deliver such other financial or management information from Borrower (including monthly or quarterly rent rolls for the Premises meeting the requirements of Subsection 7.1(a)(i) above) and Indemnitor as may, from time to time, be reasonably required by Lender and in form and substance satisfactory to Lender in its reasonable discretion;
 - (iii) make available Borrower's books and records regarding the Premises for examination, review, copying and audit by Lender or its auditors during normal business hours and convenient facilities for such examination review, copying and audit of Borrower's books and records of account;
 - (iv) deliver, to the extent Borrower has, or has the ability to obtain, and is permitted to so deliver, such information, financial statements (audited if available), including balance sheets and profit and loss statements, and copies of federal tax returns for any tenants under Leases either: (A) leasing more than twenty-five thousand (25,000) square feet of the rentable portions of the Improvements located on the Premises, and any guarantors of those Leases; and
 - (v) deliver a statement confirming: (A) whether there has been any material adverse change in the financial condition of any of the parties with respect to which Financial Information is required to be provided to Lender under this Article 7 or in the rent roll for the Premises from the Financial Information or rent roll most recently submitted to Lender, except those changes to the rent roll that have been approved or deemed approved by Lender, or that do not require Lender's consent under the terms of the Loan Documents, and if any such material adverse change has occurred providing detailed information satisfactory to Lender in its reasonable discretion with respect thereto; (B) that neither Borrower nor Indemnitor has been the subject of any bankruptcy, reorganization, dissolution or insolvency proceeding; (C) that there does not exist

any subordinate, mezzanine or other indebtedness prohibited by this Agreement or by any other Loan Document; (D) that there has not occurred any transfer, sale, pledge or encumbrance prohibited by this Agreement or by any other Loan Document, except as previously disclosed to Lender in writing and approved by Lender in writing; and (E) that there has not been a default in any material respect by Borrower, Indemnitator, or any Principal on any commercial indebtedness owing to Lender or to any other party.

(c) **Failure to Deliver Financial Information:** If Borrower fails to deliver to Lender any Financial Information required under clause (a) or (b) of this Subsection 7.1 (other than an executed copy of each New Lease and each New Lease Modification as required by Subsection 7.1(a)(i)) within ten (10) days following written notice from Lender to Borrower that Borrower has failed to timely deliver said Financial Information, Lender may, in its sole and absolute discretion, (i) declare such failure to be an Event of Default, and/or (ii) charge Borrower (and Borrower shall pay to Lender) a fee equal to Two Thousand Five Hundred Dollars (\$2,500) (the "**Financial Information Fee**"), for each thirty (30) day period or portion thereof during which Borrower fails to timely deliver to Lender any such Financial Information. Borrower hereby appoints Lender as Borrower's attorney in fact for the purpose of hiring an auditing firm at Borrower's cost to prepare and deliver to Lender any overdue Financial Information required to be provided under this Article 7 and to otherwise review Borrower's books and records following the occurrence and during the continuance of an Event of Default. Borrower shall make its books and records available to such auditors. During the existence of an Event of Default or in the case of any overdue Financial Information (regardless of whether Lender has declared an Event of Default), Borrower shall pay the costs and expenses of the auditors upon request by Lender and such obligations shall become part of the Indebtedness and shall be secured by the Loan Documents.

ARTICLE 8.

CONVEYANCES, ENCUMBRANCES AND BORROWINGS

Section 8.1 **Prohibition Against Conveyances, Encumbrances and Borrowing.** Except with the prior written consent of Lender, which consent may be granted or withheld in Lender's sole and absolute discretion, and except as expressly permitted in Sections 8.2 and 8.3 below, (a) Borrower shall not sell, transfer, convey, assign, mortgage, encumber, pledge, hypothecate, grant a security interest in, grant options (other than lease extension options or expansion options to lease additional space under Acceptable Leases) with respect to, or otherwise dispose of (directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, and whether or not for consideration or of record), all or any portion of any legal or beneficial interest in all or any portion of the Mortgaged Property including the Leases; provided, however, Leases entered into in accordance with Section 5.1 hereof shall not be prohibited hereby; and (b) no other Person shall sell, transfer, convey, assign or otherwise dispose of (directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, and whether or not for consideration or of record) all or any portion of any direct or indirect legal or beneficial interest in all or any direct ownership interest in Borrower, or pledge or encumber any direct ownership interest in Borrower, except for (i) the issuance, exchange, redemption or

other transfer of common, preferred or other beneficial ownership interests in Sponsor through the New York Stock Exchange, the NASDAQ national market, or other national or international exchange; (ii) transfers of direct or indirect ownership interest in Borrower to Affiliates of Sponsor and/or to third parties, provided that at all times after any such transfer (w) Sponsor shall be the general partner of Kilroy LP and shall own directly or indirectly not less than fifty-one percent (51%) of the ownership interests in Kilroy LP, (x) Sponsor shall own directly or indirectly not less than fifty-one percent (51%) of the ownership interests in Borrower, (y) Sponsor directly or indirectly shall Control Borrower and (z) the Mortgaged Property shall be managed by Kilroy LP or by an Affiliate of Kilroy LP in accordance with Section 5.2 hereof; and (iii) transfers of common, preferred or other beneficial ownership interests in Sponsor pursuant to subparagraph E(2)(b) of Article IV of the Charter or any similar ownership and transfer restriction provision in any current or future articles supplementary filed with respect to a series of preferred beneficial interest in Sponsor. In furtherance of the foregoing, subordinate liens (voluntary or involuntary) secured by any portion of the Mortgaged Property, or any beneficial interest in the Mortgaged Property, and any other financing obtained by Borrower or any Upstream Owner secured by any direct ownership interest in Borrower, shall not be permitted except with the prior written consent of Lender in each case. Without limiting Lender's right to withhold its consent to any transfer or encumbrance, any transfer or encumbrance must be to or with a United States citizen or an entity owned or controlled by United States citizens which is not an OFAC Prohibited Person. All requests for Lender's consent under this Section 8.1 shall be on a form previously acceptable to Lender in its reasonable discretion and shall be accompanied by the payment of Lender's standard processing fee for such transactions then in effect. Lender's consent to any of the foregoing actions, if given (in Lender's sole discretion), may be conditioned upon a change in the interest rate, maturity date, amortization period or other terms under this Agreement, the payment of a transfer or encumbrance fee and/or any other requirements of Lender. In addition to the standard processing fee and the transfer or encumbrance fee referred to in this Section 8.1, Borrower shall pay or reimburse Lender on demand for all reasonable expenses (including reasonable attorneys' fees, costs and expenses, title search costs, and title insurance endorsement premiums) incurred by Lender in connection with the review, approval and documentation of any such transaction. The foregoing prohibitions are not intended to prevent the individual Upstream Owners from obtaining loans unrelated to (and not secured by any interest in) Borrower and the Mortgaged Property and are also not intended to prevent Borrower from incurring reasonable and customary trade payables which are not evidenced by a promissory note, not secured by any of the Mortgaged Property and are satisfied within sixty (60) days of incurrence.

Section 8.2 **One-Time Permitted Transfer**. Notwithstanding the foregoing prohibitions of Section 8.1, during the period commencing on December 1, 2018, through and including November 30, 2024, Lender will permit a one-time transfer (the "**Title Transfer**") of title to the Mortgaged Property in a single transaction without modification of the terms of the Loan, to a proposed transferee (the "**Proposed Transferee**"), which benefit shall be personal to the named Borrower herein and shall not apply to any successor, assignee or transferee of Borrower, and shall be null and void upon any transfer of title to the Mortgaged Property, or any portion thereof, or upon any direct or indirect transfer of any ownership interest in Borrower or in any Upstream Owner (other than any such transfer permitted pursuant to Section 8.1), provided that all of the following terms and conditions have been fully satisfied:

(a) At least thirty (30) days prior to such Title Transfer, Borrower shall have provided Lender with written notice of the proposed Title Transfer together with a non-refundable administrative processing fee in the amount of Ten Thousand Dollars (\$10,000) (the "**Processing Fee**") along with the name(s), address(es) and organizational documents of the Proposed Transferee and of the principals, Affiliates and parent or other majority owners, as applicable, of the Proposed Transferee. Upon receipt by Lender, the Processing Fee shall be deemed earned by Lender, whether or not Borrower completes the proposed Title Transfer and whether or not any proposed Title Transfer is actually approved by Lender pursuant to this Section 8.2. A separate Processing Fee shall be required for each request for a Title Transfer. Additionally, Borrower shall furnish to Lender along with such notice the following: (i) detailed and complete financial statements of the Proposed Transferee and of the principals, Affiliates and parent or other majority owners, as applicable, of the Proposed Transferee, (ii) information with respect to the business and business experience of the Proposed Transferee and its principals, Affiliates and parent or other majority owners, as applicable, and their experience in the ownership and operation of properties similar to the Mortgaged Property and other commercial real estate, (iii) evidence that the Mortgaged Property, as of the proposed date of transfer of title and thereafter, will be managed by a management company and under a management agreement meeting the requirements of Subsection 8.2(e) below, (iv) the terms and conditions of the proposed sale and a copy of the executed purchase and sale agreement (or the most recent draft, provided that the final executed purchase and sale agreement is provided to Lender as soon as it is finalized), (v) a description, including a chart, if appropriate, of the ownership structure of the Proposed Transferee and each of its principals, Affiliates and parent or other majority owners, as applicable, (vi) if available, the Proposed Transferee's management plan for the Mortgaged Property, (vii) the status of the Proposed Transferee and, if the Proposed Transferee is a single asset entity, of its principals, parent or other majority owners, as a Qualified Real Estate Investor and (viii) such other information as Lender may reasonably request to permit Lender to determine the creditworthiness and management abilities of the Proposed Transferee and its principals, Affiliates and parent or other majority owners, as applicable;

(b) The Loan must be current in all respects and no Event of Default under the Loan Documents shall have occurred and be continuing, nor any event shall have occurred and be continuing that, with the giving of notice or passage of time, or both, would result in an Event of Default, either as of the date the notice is given to Lender under Section 8.2(a) above, or thereafter through the date of transfer of title to the Mortgaged Property;

(c) The Proposed Transferee, or, if the Proposed Transferee is a limited purpose entity, each of its principals, parent or other majority owners, as applicable, shall be a Qualified Real Estate Investor;

(d) The Proposed Transferee may in no event be a tenant in common and in no event shall the Loan Documents permit a tenancy in common form of ownership of the Property. Borrower and each and every subsequent transferee Borrower shall covenant and agree that in no event will any of the Mortgaged Property be transferred to or held by any tenant in common while the Loan is still outstanding;

(e) The Mortgaged Property must continue to be managed by a management company approved by Lender in its reasonable discretion under a written management agreement satisfactory to Lender in its reasonable discretion. The terms and provisions of any management agreement affecting the Mortgaged Property, including without limitation the right to receive any fees and payments there under, shall be expressly and unconditionally subordinate and inferior to the lien and the terms and provisions of the Loan Documents;

(f) The Proposed Transferee shall expressly assume Borrower's obligations under the Loan and the Loan Documents pursuant to a written agreement which is satisfactory to Lender in its reasonable discretion, subject to the nonrecourse provisions of the Loan Documents existing as of the date of the closing of the Title Transfer (the "**Non-Recourse Carve Outs**") and subject to Lender's right, in its sole and absolute discretion, to modify the insurance requirements set forth in this Agreement to conform to the insurance requirements set forth in Lender's then standard form of Loan Agreement. Additionally, at the time of the assumption of the Loan, the Proposed Transferee shall furnish to Lender an Environmental Indemnification Agreement satisfactory to Lender in its reasonable discretion (the "**New Indemnity**"), and a financially responsible Person and/or Persons approved by Lender shall deliver a Recourse Guaranty Agreement satisfactory to Lender in its reasonable discretion guaranteeing the Non-Recourse Carve Outs (the "**New Recourse Guaranty**"), and shall sign the New Indemnity along with the Proposed Transferee as an Indemnitor thereunder. It is understood and agreed that the New Recourse Guaranty and the New Indemnity shall be prepared on Lender's then current forms, which may be different than the forms of Recourse Guaranty Agreement and Environmental Indemnification Agreement executed by Borrower and Indemnitor, as applicable, as a result of Lender's updating Lender's standard form of Environmental Indemnification Agreement and/or Recourse Guaranty Agreement, or with respect to the Environmental Indemnification Agreement, as a result of specific environmental conditions at the Mortgaged Property. Borrower and the Proposed Transferee and such other entities or persons as Lender shall require shall also deliver and, if applicable, execute (i) evidence of authority and entity existence, (ii) Uniform Commercial Code searches, (iii) Uniform Commercial Code financing statements, (iv) an endorsement to Lender's title policy updating the effective date to the date of the transfer, showing the Proposed Transferee as the owner of the Mortgaged Property, showing no additional title exceptions, except as shall be approved by Lender and otherwise acceptable to Lender, (v) opinions of counsel acceptable to Lender in its reasonable discretion on such matters as Lender shall require, (vi) evidence of such insurance as shall be required by the Loan Documents and Lender, including evidence of insurance as may be required by any modifications to the insurance requirements set forth in this Agreement as Lender may require as a condition to the assumption of Borrower's obligations under the Loan and the Loan Documents by the Proposed Transferee, and (vii) such other documents as Lender shall require in order to effectuate the transaction as contemplated by this Section 8.2. At the closing of any approved Title Transfer, the Proposed Transferee shall deposit with Lender sufficient funds to pay when due all real estate taxes, assessments and municipal charges, and to pay any ground rents, with respect to the Mortgaged Property. In addition, Lender may require the Proposed Transferee to establish with Lender at the time of closing of any approved Title Transfer, a reserve for future tenant improvements, leasing commissions and/or capital improvements. To the extent the Loan Documents require any other reserves or deposits the same shall be established by the Proposed Transferee prior to the date of closing of the proposed Title Transfer. The foregoing requirement for deposits and reserves shall be required notwithstanding that any of the foregoing may have

been waived by Lender with respect to Borrower either in the Application, the Loan Documents or in any side letter or agreement executed by Lender;

(g) At the closing of any approved Title Transfer, Borrower shall pay, or cause to be paid, to Lender a fee in the amount of one half of one percent (0.5%) of the then outstanding principal balance of the Loan in cash or certified funds (the "**Transfer Fee**"). The Transfer Fee is being paid in order to induce Lender to allow the Proposed Transferee to assume the obligations of Borrower under the Loan Documents and to release Borrower from liability thereunder for Borrower's obligations, acts and omissions from and after the date of transfer in accordance with the provisions of this Section 8.2, provided that, in no event shall Borrower be released from any liability for acts or omissions occurring prior to the date of such Title Transfer, including, without limitation, acts or omissions leading to environmental contamination, whether known or unknown;

(h) The Debt Yield, calculated as of the last day of the calendar month ending two (2) calendar months prior to the month in which the Title Transfer is anticipated to occur, based upon financial statements satisfactory to Lender in its reasonable discretion, shall be not less than ten percent (10%) (the "**Transfer Debt Yield Requirement**"); provided, however, if the Transfer Debt Yield Requirement will not be satisfied, Borrower may, at its option, repay the outstanding principal balance of the Loan by an amount necessary to achieve the Transfer Debt Yield Requirement. In connection with any request by Borrower for a Title Transfer pursuant to this Section 8.2, Borrower shall provide Lender with Borrower's own proposed calculation of the Debt Yield, certified by an authorized officer or representative of Borrower, together with all relevant supporting detail required to calculate the same. Lender shall then perform Lender's own independent calculation of Debt Yield, which shall be conclusive and binding on Borrower absent manifest error;

(i) On the date of the closing of the Title Transfer, the Loan to Value Ratio shall not be more than sixty percent (60%), based on the acquisition price of the Mortgaged Property (the "**Transfer Loan to Value Ratio Requirement**"); provided, however, if the Transfer Loan to Value Ratio Requirement will not be satisfied, Borrower may, at its option, repay the outstanding principal balance of the Loan by an amount necessary to achieve the Transfer Loan to Value Ratio Requirement.

(j) As of the date of the closing of such proposed Title Transfer, the Proposed Transferee shall provide evidence acceptable to Lender that its cash equity investment in the Mortgaged Property is unencumbered;

(k) The proposed Title Transfer shall not cause a violation of any federal, state or local law, statute, rule, regulation or order governing the Mortgaged Property, Borrower or the Proposed Transferee or any of its or their principals, parent, or other owners;

(l) The proposed Title Transfer shall not cause any breach or violation of any of the provisions contained in Section 6.11; and

(m) Borrower shall pay all of Lender's costs and expenses reasonably incurred in connection with the proposed Title Transfer whether or not such Title Transfer actually occurs

including, without limitation, reasonable attorneys' fees, recording and filing charges, title company charges and the cost of the endorsement to Lender's title policy.

Lender will not review or process Borrower's request for approval of a proposed Title Transfer until such time as Lender has received all of the items, including the Processing Fee, required to be delivered to Lender pursuant to this Section 8.2. Notwithstanding the foregoing Subsections 8.2(h) and (i), if Borrower elects to repay the outstanding principal balance of the Loan pursuant to both Subsections 8.2(h) and (i), Borrower shall only be obligated to repay the outstanding principal balance of the Loan by the greater of the two amounts determined by Lender to be necessary to achieve the Transfer Debt Yield Requirement and the Transfer Loan to Value Ratio Requirement, respectively. Any such repayment of the outstanding principal balance of the Loan by Borrower shall be accompanied by the applicable Prepayment Premium, if any, due with respect to the principal amount of the Loan so repaid; provided, however, if the Title Transfer occurs prior to the Closed Prepayment Date, the Prepayment Premium shall be calculated as set forth in Subsection 2.5(b). In the event of such repayment, the monthly installments of interest or principal and interest, as applicable, due thereafter pursuant to Subsections 2.3(b) or 2.3(c), respectively, shall be calculated by Lender based on the Contract Rate and such reduced principal balance of the Loan.

Section 8.3 **Release and Substitution of Mortgaged Property.** From and after November __, 2024, and subject to Lender's prior written consent, which consent may be granted or withheld in Lender's sole and absolute discretion, a one-time substitution of the Mortgaged Property will be allowed, subject to the satisfaction of such terms and conditions as may be required by Lender, including, without limitation, payment to Lender by Borrower of a substitution fee equal to one half of one percent (0.50%) of the outstanding principal balance of the Loan at the time of such substitution and all applicable costs incurred by Lender in the event that Lender consents to such substitution. This provision is personal only to the named Borrower herein and shall not apply to any successor, assignee or transferee of Borrower, and shall be null and void upon any transfer of title to the Mortgaged Property, or any portion thereof, or upon any direct or indirect transfer of any ownership interest in Borrower or in any Upstream Owner (other than any such transfer permitted pursuant to Section 8.1).

ARTICLE 9.

EVENTS OF DEFAULT

Section 9.1 **Events of Default.** Each of the following shall constitute an Event of Default under this Agreement, the Note, the Mortgage and the other Loan Documents:

(a) Failure to pay (i) any monthly installment of principal or interest in accordance with Section 2.3 or any monthly reserve payment required under Subsection 5.3(c) within three (3) Business Days following the date such amount is due, or (ii) the entire amount due under the Note, this Agreement and all of the other Loan Documents by the Maturity Date;

(b) Except for the payments described in Subsections 9.1(a) and 9.1(i), failure to pay any other amount due under this Agreement, the Note, the Mortgage or any other Loan Document within ten (10) Business Days following notice from Lender that such amount is due;

(c) Except as provided in Subsection 9.1(a), 9.1(b) and 9.1(d) to 9.1(y), inclusive, failure to perform or comply with any term, obligation, covenant or condition contained in this Agreement, the Note, the Mortgage or any other Loan Documents, within thirty (30) days after the delivery of written notice (“Cure Notice”) from Lender of such failure; provided that if such default is not reasonably capable of being cured (without taking into account financial capability) within such thirty (30) day period, such failure shall not constitute an Event of Default so long as Borrower commences the cure of such default within such thirty (30) day period, diligently prosecutes such cure to completion and completes such cure within one hundred twenty (120) days after delivery of the Cure Notice from Lender;

(d) [Intentionally Omitted];

(e) [Intentionally Omitted];

(f) If any representation, warranty, certification or other statement made herein, in any other Loan Document, in any application for the Loan or in any statement or certificate at any time given to Lender in connection with the Loan shall prove to be untrue or misleading in any material respect;

(g) If Lender fails to have a legal, valid, binding and enforceable first priority lien on the Mortgaged Property or any portion thereof;

(h) Failure to permit Lender or its agents to enter to the Mortgaged Property or to access Borrower’s books and records in accordance with the terms of this Agreement and the other Loan Documents;

(i) Failure to pay any Imposition as and when due (except as expressly permitted in accordance with Subsection 5.3(b), or to maintain insurance or apply insurance proceeds as required by this Agreement;

(j) Except as permitted in this Agreement, adjusting, compromising, settling or entering into any agreement with respect to insurance settlements and condemnation proceedings, without the prior consent of Lender;

(k) [Intentionally Omitted];

(l) Except as permitted in this Agreement: (i) a change in the use of any of the Premises or causing or permitting the use or occupancy of any part of the Premises to be discontinued if such change of use or discontinuance would violate any zoning or other law, ordinance or regulation; (ii) consent to any zoning reclassification, modification or restriction affecting any of the Premises; (iii) taking any steps whatsoever to convert any of the Premises, or any portion thereof, to a condominium, cooperative or tenancy in common form of ownership; or (iv) the actual or threatened alteration, demolition or removal of any of the Improvements, without the prior consent of Lender;

(m) Failure to deliver copies of any notice from governmental or regulatory authorities in accordance with the terms of this Agreement and the other Loan Documents, which such notice requires or recommends any action or discloses any condition with respect to any

portion of the Mortgaged Property or any occupant thereof, which such action, if not taken, or such condition, if not remedied, is reasonably likely to materially impair the value of Lender's security for the Loan or to have a materially adverse impact on Borrower's ability to perform its obligations under the Loan Documents;

(n) Failure to deliver financial statements required by Article 7 following the written notice from Lender to Borrower and the expiration of the cure period described in Subsection 7.1(c) or the failure to deliver the estoppel certificates required by Section 6.9 within ten (10) Business Days after the delivery of written notice from Lender;

(o) Violation of any of the terms, obligations, covenants or conditions set forth in Subsection 5.1(a) (Leasing), Subsection 5.1(b) (Leasing), Subsection 5.1(g) (Lease Termination Reserve Account), Subsection 5.1(h) (Riot Games Lease Reserve Account), Section 6.12 (Special Purpose Entity Requirements), Section 6.13 (Operating Agreements), or Section 8.1 (Transfers);

(p) If an event of default (after giving effect to all applicable cure periods) shall occur under any permitted mortgage, encumbrance, lien or security agreement encumbering all or any portion of the Mortgaged Property which is subordinate or superior to the lien of the Mortgage, or if any party under any such instrument shall commence a foreclosure or other collection or enforcement action in connection therewith;

(q) Failure to obtain a management company, management agreement and/or leasing commissions agreement satisfactory to Lender in its reasonable discretion within the sixty (60) day period set forth in Section 5.2;

(r) Failure of Borrower, any Principal or any Indemnitor to preserve and keep in full force and effect its existence, franchises, licenses, authorizations, registrations, permits and approvals required under the laws of the state of its formation and, solely with respect to Borrower, the State;

(s) [Intentionally Omitted];

(t) If Borrower, any Upstream Owner (other than any Upstream Owner who is an Upstream Owner solely because of its ownership interest in Sponsor) or any Indemnitor consents to the filing of, or commences or consents to the commencement of, any Bankruptcy Proceeding with respect to Borrower or any Principal or Indemnitor;

(u) If any Bankruptcy Proceeding shall have been filed against Borrower, any Principal or any Indemnitor and the same is not withdrawn, dismissed, canceled or terminated within ninety (90) days of such filing;

(v) If Borrower, any Principal or any Indemnitor is adjudicated bankrupt or insolvent or a petition for reorganization of Borrower or any such Principal or Indemnitor is granted;

(w) If a receiver, liquidator or trustee of Borrower, any Principal or any Indemnitor or of any of the properties of Borrower or any such Principal or Indemnitor shall be appointed;

(x) If Borrower, any Principal or any Indemnitor shall make an assignment for the benefit of its creditors or shall admit in writing the inability to pay its debts generally as they become due; or

(y) Except as otherwise permitted herein, if Borrower, or any Indemnitor shall die or shall institute or cause to be instituted any proceeding for the termination or dissolution of Borrower, any Principal, or any Indemnitor; provided, however, that the death of an Indemnitor shall not constitute an Event of Default if Borrower shall cause a replacement indemnitor approved by Lender in its sole discretion to execute and deliver to Lender a replacement Recourse Guaranty Agreement and a replacement Environmental Indemnification Agreement within sixty (60) days following the death of said Indemnitor.

Section 9.2 **Notice of Event of Default.** Pursuant to Section 2924b(d) of the California Civil Code, Borrower and Lender request that a copy of any notice of default be mailed to Borrower and Lender, respectively, at the address for such party set forth herein.

ARTICLE 10.

REMEDIES

Section 10.1 **Remedies.** Upon the occurrence and during the continuance of any Event of Default, Lender may (1) declare the entire Loan to be immediately due and payable without presentment, demand, protest, notice of protest or dishonor, notice of intent to accelerate the maturity thereof, notice of acceleration of the maturity thereof, or other notice of default of any kind, all of which are hereby expressly waived by Borrower, (2) terminate the obligation, if any, of Lender to advance amounts hereunder, and (3) exercise all rights and remedies therefor under this Agreement, the Mortgage and the other Loan Documents and at law or in equity; provided nothing in this Section 10.1 shall limit or prejudice Lender's ability to make protective advances to protect the collateral securing the Loan.

Section 10.2 **Lender's Right to Perform the Obligations.** If Borrower shall fail, refuse or neglect to make any payment or perform any act required by the Loan Documents, then while any Event of Default exists, and without notice to or demand upon Borrower and without waiving or releasing any other right, remedy or recourse Lender may have because of such Event of Default, Lender may (but shall not be obligated to) make Advances to make such payment or perform such act for the account of and at the expense of Borrower, and shall have the right to enter upon the Premises for such purpose and to take all such action thereon and with respect to the Mortgaged Property as it may deem necessary or appropriate. If Lender shall elect to pay any sum due with reference to the Mortgaged Property, Lender may do so in reliance on any bill, statement or assessment procured from the appropriate governmental authority or other issuer thereof without inquiring into the accuracy or validity thereof. Similarly, in making any payments to protect the security intended to be created by the Loan Documents, Lender shall not be bound to inquire into the validity of any apparent or threatened adverse title, lien,

encumbrance, claim or charge before making an Advance for the purpose of preventing or removing the same. Additionally, if any Hazardous Substances affect or threaten to affect the Premises, Lender may (but shall not be obligated to) give such notices and take such actions as it deems necessary or advisable in order to abate the discharge of any Hazardous Substances or remove the Hazardous Substances. Borrower shall indemnify, defend and hold Lender harmless from and against, and be responsible for, any and all losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, suits, costs or disbursements of any kind or nature whatsoever, including reasonable attorneys' fees, incurred or accruing by reason of any acts performed by Lender pursuant to the provisions of this Section 10.2, including those arising from the joint, concurrent, or comparative negligence of Lender, except as a result of Lender's gross negligence or willful misconduct. All sums paid by Lender pursuant to this Section 10.2 and all other sums expended by Lender to which it shall be entitled to be indemnified, shall be deemed to be an Advance by Lender, shall constitute additions to the Loan, shall be secured by the Loan Documents and shall be paid by Borrower to Lender upon demand. All Advances shall bear interest at the Default Rate from the date that each such Advance or expense is made or incurred to the date of repayment. Borrower shall pay or reimburse Lender within five (5) Business Days after written demand for any and all Advances made pursuant to this Agreement, including for all interest thereon.

Section 10.3 **Cross-Default; Cross-Collateralization; Waiver of Marshalling of Assets.** To the fullest extent permitted by law, Borrower, for itself and its successors and assigns, waives all rights to a marshalling of the assets of Borrower, and others with interests in Borrower, and of the Mortgaged Property, and agrees not to assert any right under any laws pertaining to the marshalling of assets, homestead exemption, the administration of estates of decedents, or any other matters whatsoever to defeat, reduce or affect the right of Lender under the Loan Documents to a sale of the Mortgaged Property for the collection of the Indebtedness without any prior or different resort for collection or of the right of Lender to the payment of the Indebtedness out of the net proceeds of the Mortgaged Property in preference to every other claimant whatsoever. Borrower agrees that the actions, sales, proceedings and foreclosure described herein or in any of the other Loan Documents may be commenced in any order determined by Lender.

ARTICLE 11

LIMITATIONS ON LIABILITY

Section 11.1 **Limitation on Liability.**

(a) Subject to the provisions of this Section 11.1, in any action or proceedings brought on this Agreement, the Note, the Mortgage or on any of the other Loan Documents in which a money judgment is sought, Lender will look solely to the Mortgaged Property and other Collateral described in the Loan Documents (including the Property Income and any other rents and profits from such property) for payment of the Indebtedness and, specifically and without limitation, Lender agrees to waive any right to seek or obtain a deficiency judgment against Borrower.

(b) The provisions of Subsection 11.1(a) shall not:

- (i) constitute a waiver, release or impairment of any obligation evidenced or secured by this Agreement, the Note, the Mortgage or any other Loan Document;
- (ii) be deemed to be a waiver of any right which Lender may have under Sections 506(a), 506(b), 1111(b) or any other provisions of the Federal Bankruptcy Code to file a claim for the full amount of the Indebtedness evidenced by this Agreement, the Note and secured by the Mortgages or to require that all of the Mortgaged Property shall continue to secure all of the Indebtedness owing to Lender in accordance with this Agreement, the Note, the Mortgage and the other Loan Documents;
- (iii) impair the right of Lender to name Borrower or any Principal or any Indemnitor as a party or parties' defendant in any action or suit for judicial foreclosure and sale under the Mortgage;

- (iv) affect the validity or enforceability of, or limit recovery under, any indemnity (including the Environmental Indemnification Agreement), guaranty, master or other lease or similar instrument made in connection with this Agreement, the Note, the Mortgage or the other Loan Documents;
- (v) impair the right of Lender to obtain the appointment of a receiver; or
- (vi) impair Lender's rights and remedies under this Agreement, the Mortgage or any separate assignment of leases and rents regarding the assignment of Leases and Property Income to Lender.

(c) Notwithstanding any provisions of Subsection 11.1(a), Borrower shall be personally liable to Lender and Lender shall have recourse to Borrower in connection with the Loan, for each item listed below to the extent, and only to the extent, provided below with respect to such item:

- (i) Fraud or material misrepresentation in connection with the Application, this Agreement or any of the other Loan Documents or the making of the Loan – Recourse liability for any Losses incurred by Lender in connection with such acts;
- (ii) Insurance and/or condemnation Proceeds received by or on behalf of Borrower but not paid over to Lender or applied in accordance with the terms of Article 3 – Recourse liability for the amount of insurance and/or condemnation Proceeds either not paid over to Lender or applied in accordance with the terms of Article 3;
- (iii) The application or appropriation of security deposits, advances or prepaid rents, cancellation or termination payments and other

similar sums received by Borrower or any other Person in connection with the operation of the Premises from any tenants or other occupants of the Premises in violation of the terms of the Loan Documents – Recourse liability for the amount of security deposits, advances or prepaid rents, cancellation or termination payments and other similar sums either not paid over to Lender or applied in accordance with the terms of the Loan Documents;

- (iv) Any Equipment material to the operation of the Mortgaged Property which is removed from the Premises by or on behalf of Borrower and not replaced with Equipment of the same utility and of the same or greater value – Recourse liability for the replacement value of any Equipment which is removed and not so replaced;
- (v) Any act of arson, malicious destruction or waste by Borrower, any Indemnitee, any Principal, or any general partner, manager or managing member of Borrower which affects all or any portion of the Mortgaged Property – Recourse liability for any Losses incurred by Lender in connection with such acts;
- (vi) Property Income or Proceeds which are not applied to payments due under the Loan Documents or to real and personal property taxes, Impositions, capital improvements to the Premises and Operating Expenses of the Mortgaged Property (including, without limitation, any deposits or reserves required under this Agreement or any other Loan Document) – Recourse liability to the extent of any Property Income or Proceeds which are not applied as aforesaid. Lender, however, shall not have the right to recover distributions from Property Income or Proceeds to Borrower or any Principal made in good faith (after determining the sufficiency of revenues to cover the payments on the Loan and the foregoing operating and capital expenses) more than one hundred eighty (180) days prior to an Event of Default occurring under any Loan Document, or the occurrence of any event which, with the giving of notice or passage of time, or both, would constitute an Event of Default;
- (vii) The filing by Borrower, any Principal, any Indemnitee, or any general partner, manager or managing member of Borrower of a voluntary bankruptcy or insolvency proceeding, or the filing against Borrower, or any Principal, any Indemnitee, or any general partner, manager or managing member of Borrower of an involuntary bankruptcy or insolvency proceeding which is not dismissed within ninety (90) days of filing, or if Borrower or its assets are consolidated into a bankruptcy proceeding of any

Affiliate of Borrower – Recourse liability for the entire Indebtedness;

- (viii) The failure of Borrower to timely maintain, or pay the premiums for, any insurance required to be maintained under Article 3 of this Agreement or any other Loan Document, or to pay any Impositions or to pay to Lender any reserve deposits required by this Agreement or by any other Loan Document for any Imposition, real estate tax, assessment, municipal charge or ground rent – Recourse liability for any Losses incurred by Lender in connection with such failure to timely maintain insurance, pay any Imposition or pay insurance premiums or make said reserve deposits;
- (ix) A violation of the restrictions on transfers of the Mortgaged Property or any ownership interest in Borrower set forth in Article 8 – Recourse liability for the entire Indebtedness;
- (x) A violation of the restrictions on subordinate, mezzanine and other financing set forth in Section 8.1 – Recourse liability for the entire Indebtedness; and
- (xi) A violation of the LPE Requirements set forth in Section 6.12 – Recourse liability for any Losses incurred by Lender in connection with such acts.

Lender has also required that Indemnitior provide the Recourse Guaranty Agreement, which provides that Lender shall have recourse to Indemnitior to the extent of the recourse described in this Subsection 11.1(c).

ARTICLE 12

MISCELLANEOUS

Section 12.1 Notices.

(a) All notices, consents, approvals and requests required or permitted hereunder or under any other Loan Document shall be given in writing and shall be effective for all purposes if hand delivered or sent by: (i) certified or registered United States mail, postage prepaid, return receipt requested; or (ii) expedited prepaid delivery service, either commercial or United States Postal Service, with proof of attempted delivery; addressed in either case as follows:

If to Lender, at the following address:

Midland Loan Servicing
10851 Mastin, Suite 300
Overland Park, Kansas 66210
Attention: Barings Servicing Group
Loan No. 16714

With a copy to:

Massachusetts Mutual Life Insurance Company
c/o Barings
One Financial Plaza
Hartford, Connecticut 06103
Attention: Real Estate Loan Servicing
Loan No.: 16714

And a copy to:

Massachusetts Mutual Life Insurance Company
c/o Barings
One Financial Plaza
Hartford, Connecticut 06103
Attention: Legal Department
Loan No.: 16714

If to Borrower, at the following address:

KR WMC, LLC
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Corporate Finance

With a copy to:

Kilroy Realty, L.P.
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Legal Department – Lindsay Florin

And a copy to:

Latham & Watkins LLP
355 South Grand Avenue
Los Angeles, California 90071-1560
Attention: Glen B. Collyer

or to such other address and person as shall be designated from time to time by Lender or Borrower, as the case may be, in a written notice to the other party in the manner provided for in this [Section 12.1](#). A notice shall be deemed to have been given: in the case of hand delivery, at

the time of actual delivery; in the case of registered or certified mail, three (3) Business Days after deposit in the United States mail; in the case of expedited prepaid delivery, upon the first attempted delivery on a Business Day. A party receiving a notice that does not comply with the technical requirements for notice under this Section 12.1 may elect to waive any deficiencies and treat the notice as having been properly given.

(b) Each of Borrower and Lender acknowledge that Borrower and Lender may elect to correspond or transmit information concerning the Loan, Borrower or Indemnitor via email or the internet. Such transmissions shall be for the convenience of the parties hereto and shall not replace or supplement the required methods of delivering notices provided for above. In addition, each of Borrower and Lender acknowledge that that such information may be transmitted via the internet or by email and with or without any algorithm enhanced security software and each of Borrower and Lender waives any right to privacy in connection therewith.

(c) Borrower shall notify Lender promptly of the occurrence of any of the following: (i) receipt of notice from any governmental authority relating to the Mortgaged Property; (ii) any material change in the occupancy of the Mortgaged Property; (iii) receipt of any notice from the holder of any other lien or security interest in any of the Mortgaged Property; or (iv) commencement of any judicial or administrative proceedings by, against or otherwise affecting Borrower or any Indemnitor, any of the Mortgaged Property, or any Person Controlled by or under common Control with Borrower or any Indemnitor, or any other action by any creditor thereof as a result of any default under the terms of any loan.

Section 12.2 **Interest on Advances and Expenses.** All Advances made and any reasonable expenses incurred at any time by Lender pursuant to the provisions of this Agreement or the other Loan Documents or under applicable law shall be secured by the Mortgage as part of the Indebtedness, with equal rank and priority. All such Advances and expenses shall bear interest at the Default Rate from the date that each such Advance or expense is made or incurred to the date of repayment and all such Advances and expenses with interest thereon shall be paid by Borrower to Lender on demand.

Section 12.3 **Successors and Assigns.** This Agreement shall be binding upon Borrower's successors and assigns and shall inure to the benefit of Lender, each Lender Successor, and the Lender Parties. This Agreement shall also be binding upon Lender's successors and assigns and shall inure to the benefit of Borrower and its successors and assigns.

Section 12.4 **Joint and Several Liability.** If more than one party is executing this Agreement as a Borrower, then each party that executes this Agreement shall be jointly and severally responsible for any and all obligations of any Borrower hereunder.

Section 12.5 **Captions.** The captions of the sections and subsections of this Agreement are for convenience only and are not intended to be a part of this Agreement and shall not be deemed to modify, explain, enlarge or restrict any of the provisions hereof.

Section 12.6 **Further Assurances.** Borrower shall do, execute, acknowledge and deliver, at Borrower's sole cost and expense, such further acts, instruments or documentation, including additional title insurance policies or endorsements, and title

reinsurance, as Lender may reasonably require from time to time to better assure, transfer and confirm unto Lender the rights now or hereafter intended by Lender and Borrower to be granted to Lender under this Agreement or any other Loan Document.

Section 12.7 **Severability.** All rights, powers and remedies provided in this Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable law, and are intended to be limited to the extent (but only to the extent) necessary so that they will not render this Agreement invalid or unenforceable. If any term, covenant, condition, or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remaining terms, covenants, conditions and provisions of this Agreement, or the application of such term, covenant, condition or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, covenant, condition and provision of this Agreement shall be modified and/or limited to the extent necessary to render the same valid and enforceable to the fullest extent permitted by law.

Section 12.8 **Borrower's Obligations Absolute.** All sums payable by Borrower hereunder shall be paid without notice, demand, counterclaim, setoff, deduction or defense and without abatement, suspension, deferment, diminution or reduction, and the obligations and liabilities of Borrower hereunder shall in no way be released, discharged, or otherwise affected (except as expressly provided herein) by reason of: (a) any damage to or destruction of or any condemnation or similar taking of the Premises or any portion thereof; (b) any restriction or prevention of or interference with any use of the Premises or any portion thereof; (c) any title defect or encumbrance or any eviction from the Premises or any portion thereof by title paramount or otherwise; (d) any Bankruptcy Proceeding relating to Borrower, any Principal, any Indemnitor or any general partner, manager or managing member of Borrower, or any action taken with respect to this Agreement or any other Loan Document by any trustee or receiver of Borrower, any Principal, any Indemnitor or any general partner, manager or managing member of Borrower, or by any court, in any such proceeding; (e) any claim which Borrower has or might have against Lender; (f) any default or failure on the part of Lender to perform or comply with any of the terms hereof or of any other agreement with Borrower; or (g) any other occurrence whatsoever, whether similar or dissimilar to the foregoing, whether or not Borrower shall have notice or knowledge of any of the foregoing. Except as expressly provided herein, Borrower waives all rights now or hereafter conferred by statute or otherwise to any abatement, suspension, deferment, diminution or reduction of any sum secured hereby and payable by Borrower.

Section 12.9 **Amendments; Consents.** This Agreement cannot be altered, amended, modified or discharged orally and no executory agreement shall be effective to modify or discharge it in whole or in part, unless in writing and signed by the party against which enforcement is sought. No consent or approval required hereunder or under any other Loan Document shall be binding unless in writing and signed by the party sought to be bound.

Section 12.10 **Other Loan Documents and Exhibits.** All of the agreements, conditions, covenants, provisions and stipulations contained in the Note and the other Loan Documents, and each of them, which are to be kept and performed by Borrower are hereby made a part of this Agreement to the same extent and with the same force and effect as if they were

fully set forth in this Agreement, and Borrower shall keep and perform the same, or cause them to be kept and performed, strictly in accordance with their respective terms. The Cover Sheet and each exhibit, schedule and rider attached to this Agreement are integral parts of this Agreement and are incorporated herein by this reference. In the event of any conflict between the provisions of any such exhibit, schedule or rider and the remainder of this Agreement, the provisions of such exhibit, schedule or rider shall prevail.

Section 12.11 **Merger.** So long as any Indebtedness shall remain unpaid, fee title to and any other estate in the Mortgaged Property shall not merge, but shall be kept separate and distinct, notwithstanding the union of such estates in any Person.

Section 12.12 **Time of the Essence.** Time shall be of the essence in the performance of all obligations of Borrower under this Agreement and every other Loan Document.

Section 12.13 **Transfer of Loan.** Lender may, at any time, sell, transfer or assign this Agreement, the Note, the Mortgage and the other Loan Documents or any portion thereof, and any or all servicing rights with respect thereto (collectively, a "**Transfer**") or grant participations therein (a "**Participation**"). In the case of a Transfer, the transferee shall have, to the extent of such Transfer, the rights, benefits and obligations of "Lender" hereunder and the other Loan Documents. Lender may forward to each purchaser, transferee, assignee, servicer, participant, investor in such Transfer or Participation (collectively, the "**Investor**") and each prospective Investor or any agency maintaining databases on the underwriting and performance of commercial mortgage loans, all documents and information which Lender now has or may hereafter acquire relating to the Loan, the Mortgaged Property, Borrower, any Principal, and any Indemnitor, whether provided by Borrower, any Indemnitor, or otherwise, as Lender determines necessary or desirable. Borrower irrevocably waives any and all rights it may have under applicable state or federal law to prohibit disclosure, including any right of privacy. Further Borrower acknowledges that such information may be transmitted via the internet or by email. Lender will notify Borrower in writing of any Transfer of the Loan that results in Lender or its affiliates not retaining any ownership or servicing interest in the Loan. Any Person with whom Lender shares information pursuant to this **Section 12.13** shall be required to keep such information confidential; provided, however, Lender shall have no liability on account of the failure of any such Person to maintain such confidentiality despite such requirement. Notwithstanding the foregoing provisions of this **Section 12.13**, Lender shall not include the Loan in any rated public offering or securitize the Loan, in each case without Borrower's prior written consent. Each Lender or Investor that becomes a "Lender" hereunder and that grants a Participation of its interest in the Loan shall, acting solely for this purpose as an agent of the Borrower, cause to be kept a register on which it enters the name and address of each of its participants and the principal amounts (and stated interest) of each such participant's interest in the Loan or other obligations under the Loan Documents according to such reasonable regulations as such Investor may prescribe (the "**Participant Register**"); provided that no such Investor shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any participant or any information relating to a participant's interest in any commitments, loan, letter of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the

United States Treasury Regulations. The entries in the Participant Register shall be conclusive, absent manifest error, and such Investor shall treat each Person whose name is recorded in the Participant Register as the owner of such further Participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall not have any responsibility for maintaining a Participant Register.

Section 12.14 **Cooperation.** Borrower shall, and shall cause each Principal and Indemnitor to, cooperate with Lender in connection with servicing the Loan and any Transfer, Participation or any other financing created or obtained in connection with the Loan, including:

(a) **Estoppel Certificates.** Borrower, within ten (10) days following a request by Lender, shall provide Lender or any proposed assignee with an estoppel certificate containing the information set forth in Section 6.9 and such other information that Lender shall reasonably request, duly acknowledged and certified;

(b) **Bifurcation of Note.** The Note and the Mortgage may, at any time until the same shall be fully paid and satisfied, at the sole election of Lender, be split or divided into two or more notes and two or more security instruments, each of which shall cover all or a portion of the Mortgaged Property to be more particularly described therein. To that end, Borrower, upon written request of Lender, shall execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered by any Indemnitor or the then owner of any of the Mortgaged Property, to Lender and/or its designee or designees substitute notes and security instruments in such principal amounts, aggregating not more than the then unpaid principal amount of Indebtedness, and containing terms, provisions and clauses similar to those contained herein and in the Note, which, in the aggregate, will have economic terms consistent with the Loan, and such other documents and instruments as may be required by Lender, which have no material adverse effect on Borrower. Borrower shall not be required to reimburse Lender for any of Lender's costs incurred in connection with any such Transfer or Participation; and

(c) **No Out-of-Pocket Costs.** Borrower may be required to execute additional documents in connection with any such Transfer, Participation or financing, including a new note or notes, which have no material adverse effect on Borrower. Borrower shall not be required to incur any out of pocket costs, and Lender shall reimburse Borrower for any such out of pocket costs, in connection with any such cooperation, and reimbursement of such expenses shall be a condition to the execution of such additional documents by Borrower.

Section 12.15 **Register.** Lender or, in the event there is an Administrative Agent pursuant to Section 13.1 hereof, Administrative Agent, shall cause to be kept a register (the "**Register**") for the registration of ownership and transfer or assignment of the Note or any substitute note or notes secured by the Mortgage. The names and addresses of the registered owners of such notes, the transfers or assignment of such notes and the names and addresses of the transferees of such notes will be registered in the Register under such reasonable regulations as Lender or Administrative Agent, as applicable, may prescribe. Borrower and Lender and, if applicable, Administrative Agent, shall deem and treat the registered owner of any note as shown in the Register as the absolute owner thereof for all purposes, and neither Borrower, Lender nor, if applicable, Administrative Agent, shall be affected by any notice to the contrary and payment

of the principal of, interest on, and Prepayment Premium, if any, due on or with respect to the related note shall be made only to or upon the order of such registered owner. All such payments so made shall be valid and effective to satisfy and discharge the liability of Borrower upon such notes to the extent of the sums so paid. Upon reasonable request from time to time, Lender or Administrative Agent, as applicable, shall permit Borrower and Lender to examine the Register.

Section 12.16 **Limitation on Interest.** It is the intention of the parties hereto to conform strictly to applicable usury laws. Accordingly, all agreements between Borrower and Lender with respect to the Loan are hereby expressly limited so that in no event, whether by reason of acceleration of maturity or otherwise, shall the amount paid or agreed to be paid to Lender or charged by Lender for the use, forbearance or detention of the money to be lent hereunder or otherwise, exceed the maximum amount allowed by law. If the Loan would be usurious under applicable law (including the laws of the State and the laws of the United States of America), then, notwithstanding anything to the contrary in the Loan Documents: (a) the aggregate of all consideration which constitutes interest under applicable law that is contracted for, taken, reserved, charged or received under the Loan Documents shall under no circumstances exceed the maximum amount of interest allowed by applicable law, and any excess shall be credited, without any Prepayment Premium, to the outstanding principal of the Loan; and (b) if the Maturity Date is accelerated by reason of an election by Lender in accordance with the terms hereof, or in the event of any prepayment, then any consideration which constitutes interest may never include more than the maximum amount allowed by applicable law. In such case, excess interest, if any, provided for in the Loan Documents or otherwise, to the extent permitted by applicable law, shall be amortized, prorated, allocated and spread from the date of advance until payment in full thereof so that the actual rate of interest is uniform through the term hereof. If such amortization, proration, allocation and spreading is not permitted under applicable law, then such excess interest shall be cancelled automatically on the Note as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited, without any Prepayment Premium, to the outstanding principal of the Loan. The terms and provisions of this Section 12.16 shall control and supersede every other provision of the Loan Documents. The Loan Documents are contracts made under and shall be construed in accordance with and governed by the laws of the State as set forth in Section 12.19 hereof, except that if at any time the laws of the United States of America permit Lender to contract for, take, reserve, charge or receive a higher rate of interest than is allowed by the laws of the State (whether such federal laws directly so provide or refer to the law of any state), then such federal laws shall to such extent govern as to the rate of interest which Lender may contract for, take, reserve, charge or receive under the Loan Documents.

Section 12.17 **Survival.** All of the representations, warranties, covenants, and indemnities of Borrower hereunder (other than relating to environmental matters which are instead addressed in the Environmental Indemnification Agreement) shall survive (a) the repayment in full of the Loan and the release of the Liens evidencing or securing the Loan, (b) the transfer (by sale, foreclosure, conveyance in lieu of foreclosure or otherwise) of any or all right, title and interest in and to the Mortgaged Property to any party, and (c) in the event Lender assigns any interest in the Loan hereunder in accordance with the terms of this Agreement, the making of such assignment, notwithstanding that such assigning Lender may cease to be a "Lender" hereunder.

Section 12.18 **WAIVER OF JURY TRIAL.** TO THE EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND LENDER EACH HEREBY WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, OR RELATED TO, THE SUBJECT MATTER OF THIS AGREEMENT. THIS WAIVER IS KNOWINGLY, INTENTIONALLY, AND VOLUNTARILY MADE BY BORROWER AND LENDER, AND EACH PARTY ACKNOWLEDGES THAT THE OTHER PARTY HAS NOT MADE ANY REPRESENTATIONS OF FACT TO INDUCE THIS WAIVER OF TRIAL BY JURY OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT. BORROWER FURTHER ACKNOWLEDGES THAT BORROWER HAS BEEN REPRESENTED (OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED) IN THE SIGNING OF THIS AGREEMENT BY INDEPENDENT LEGAL COUNSEL SELECTED BY BORROWER AND THAT BORROWER HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

Section 12.19 **Governing Law.** In all respects, including, without limitation, matters of construction and performance of this Agreement and the obligations arising hereunder, this Agreement shall be governed by, and construed in accordance with, the laws of the State in which the Premises are located applicable to contracts and obligations made and performed in such State and any applicable laws of the United States of America. Interpretation and construction of this Agreement shall be according to the contents hereof and without presumption or standard of construction in favor of or against Borrower or Lender.

Section 12.20 **Consent to Jurisdiction and Venue.** Borrower hereby submits to personal jurisdiction in the State in which the Premises are located for the enforcement of the provisions of this Agreement and irrevocably waives any and all rights to object to such jurisdiction for the purposes of litigation to enforce any provision of this Agreement. Each of Lender and Borrower hereby consents to the jurisdiction of and agrees that any action, suit or proceeding to enforce this Agreement may be brought in any state or federal court in the state in which the Premises are located. Each of Lender and Borrower hereby irrevocably waives any objection that it may have to the laying of the venue of any such actions, suit, or proceeding in any such court and hereby further irrevocably waives any claim that any such action, suit or proceeding brought in such a court has been brought in an inconvenient forum.

Section 12.21 **Service of Process.** In its filings with the Secretary of State of the State of California, Borrower has appointed Paracorp Incorporated, 2804 Gateway Oaks Drive, Suite 200, Sacramento, California 95833 as its authorized agent to accept and acknowledge on its behalf service of any and all process which may be served in any such suit, action or proceeding in any federal or state court and agrees that service of process upon said agent at said address and written notice of said service, and a full copy of all documents that were served, mailed or delivered to Borrower in the manner provided herein shall be deemed in every respect effective service of process upon Borrower, in any such suit, action or proceeding in connection with this Agreement. Borrower (a) shall give prompt notice to Lender of any change of address of its authorized agent hereunder, (b) may at any time and from time to time designate a substitute authorized agent with an office in the State where the Premises are located (which substitute agent and office shall be designated as the person and address for service of process), and (c) shall promptly designate such a substitute if its authorized agent ceases to have an office the State where the Premises are located or is dissolved without leaving a successor.

Section 12.22 **Entire Agreement.** This Agreement and the other Loan Documents embody the entire agreement and understanding between Lender and Borrower and supersede all prior agreements and understandings between such parties relating to the subject matter hereof and thereof. Accordingly, the Loan Documents may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

Section 12.23 **Counterparts.** This Agreement may be executed in multiple counterparts, each of which shall constitute an original, but all of which shall constitute one document.

Section 12.24 **Pledge and Grant of Security Interest.** Borrower hereby pledges to Lender, and grants a security interest in, any and all monies now or hereafter deposited with Lender from time to time as additional security for the payment of the Loan. Borrower shall not further pledge, assign or grant any security interest in any monies on deposit therein from time to time or permit any lien or encumbrance to attach thereto, or any levy to be made thereon, or authorize any UCC-1 financing statements (except those naming Lender as the secured party) to be filed with respect thereto. Upon the occurrence and during the continuance of an Event of Default, Lender may apply any such sums then deposited with Lender to the payment of the charges for which such funds have been deposited or to the payment of the Loan or any other charges affecting the security of the Loan, as Lender may elect, but no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender. Until expended or applied as above provided, such funds shall constitute additional security for the Loan.

Section 12.25 **Costs.** Except as provided in Section 12.14, Borrower shall pay all reasonable Costs incurred by Lender in connection with the documentation, modification, workout, collection or enforcement of the Loan or any of the Loan Documents (as applicable), including probate, appellate and bankruptcy proceedings, any post-judgment proceedings to collect or enforce any judgment or order relating to the Loan or any of the Loan Documents (as applicable), and all such Costs shall be included as additional Indebtedness bearing interest at the Default Rate set forth herein until paid. In any action to foreclose the lien hereof or otherwise enforce Lender's rights and remedies hereunder, there shall be allowed and included as additional Indebtedness all Costs which may be paid or incurred by or on behalf of Lender. For the purposes hereof "**Costs**" means all expenditures and expenses which may be paid or reasonably incurred by or on behalf of Lender including repair costs, payments to remove or protect against liens, reasonable attorneys' fees (including reasonable fees of Lender's inside counsel), receivers' fees, appraisers' fees, engineers' fees, accountants' fees, independent consultants' fees (including environmental consultants), all costs and expenses reasonably incurred in connection with any of the foregoing, Lender's actual out-of-pocket costs and expenses reasonably incurred with respect to any audit or inspection of the Mortgaged Property, reasonably incurred outlays for documentary and expert evidence, stenographers' charges, stamp taxes, publication costs, and costs (which may be estimates as to items to be expended after entry of an order or judgment) for procuring all such abstracts of title, title searches and examination, title insurance policies, and similar data and assurances with respect to title as Lender may deem reasonably necessary either to prosecute any action or to evidence to bidders at any sale of the partnership interests in Borrower the true condition of the title to, or the value of, the Mortgaged

Property. Further, all "Costs" shall include such other costs, expenses and fees as may be reasonably incurred by Lender in the protection of the Mortgaged Property and the maintenance of the lien of the Mortgage, including, reasonable attorneys' fees, expenses and costs in any litigation or proceeding affecting this Agreement, the Mortgage, the Note, the other Loan Documents, the Mortgaged Property or the Personal Property, including probate, appellate, and bankruptcy proceedings, and any post-judgment proceedings to collect or enforce any judgment or order relating to this Agreement or the other Loan Documents, to obtain any court order or the appointment of a receiver to enforce Lender's rights pursuant to Section 564 of the California Code of Civil Procedure and/or Section 2929.5 of the California Civil Code or in preparation for the commencement or defense of any action or proceeding, shall be immediately due and payable to Lender, with interest thereon at the Default Rate, and shall be secured by the Mortgage. This provision is separate and several, and shall survive the merger of this provision into any judgment.

Section 12.26 **Confidentiality.** Lender shall not disclose any Confidential Information to any Person without the prior written consent of Borrower, other than (a) to Lender's Affiliates, head office, branches and representative offices, and their officers, directors, employees, agents and advisors; (b) to actual or prospective transferees of Lender's interest in the Loan, *provided* that the Persons to whom such disclosure is made pursuant to this clause (b) will agree to be informed of the confidential nature of such Confidential Information and shall have agreed in writing to keep such Confidential Information confidential in accordance with the provisions of this Section 12.26; (c) as required by any law, rule or regulation or judicial process; (d) as requested or required by any state, Federal or foreign authority or examiner regulating such Lender; (e) to any service provider of Lender (excluding Lender's inside or outside legal counsel), *provided* that the Persons to whom such disclosure is made pursuant to this clause (e) will be informed of the confidential nature of such Confidential Information and shall have agreed in writing to keep such Confidential Information confidential in accordance with the provisions of this Section 12.26; and (f) in connection with the exercise of any remedies under this Agreement or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder. Notwithstanding the foregoing, Lender shall not have any liability hereunder or otherwise to Borrower for any failure of any Person to whom Lender discloses Confidential Information in accordance with this Section 12.26 to maintain the confidentiality thereof.

Section 12.27 **Status of Lenders.**

(a) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Borrower and the Administrative Agent, at the time or times reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

(b) Without limiting the generality of the foregoing:

(i) any Lender that is a U.S. Person shall deliver to the Borrower and the Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed originals of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding Tax;

(ii) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), whichever of the following is applicable:

(A) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed originals of IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “interest” article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “business profits” or “other income” article of such tax treaty;

(B) executed originals of IRS Form W-8ECI;

(C) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in the form of Exhibit G-1 to the effect that such Foreign Lender is not a “bank” within the meaning of Section 881(c)(3)(A) of the Code, a “10 percent shareholder” of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a “controlled foreign corporation” described in Section 881(c)(3)(C) of the Code (a “**U.S. Tax Compliance Certificate**”) and (y) executed originals of IRS Form W-8BEN or W-8BEN-E; or

(D) to the extent a Foreign Lender is not the beneficial owner, executed originals of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN or W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of Exhibit G-2 or Exhibit G-3, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit G-4 on behalf of each such direct and indirect partner;

(iii) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed originals of any other form prescribed by

applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made; and

(iv) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (iv), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower and the Administrative Agent in writing of its legal inability to do so. For purposes of this Section 12.27, the term Lender shall include any Lender Successor.

Section 12.28 **Acknowledgement and Consent to Bail-In of EEA Financial Institutions.**

(a) Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among the respective parties thereto, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(i) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(ii) the effects of any Bail-in Action on any such liability, including, if applicable:

(A) a reduction in full or in part or cancellation of any such liability;

(B) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or

other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(C) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

(b) As used in this Section 12.25 the following terms have the following meanings ascribed thereto: (i) "**Bail-In Action**" means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution; (ii) "**Bail-In Legislation**" means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule; (iii) "**EEA Financial Institution**" means (x) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority; (y) any entity established in an EEA Member Country which is a parent of an institution described in clause (x) of this definition, or (z) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (x) or (y) of this definition and is subject to consolidated supervision with its parent; (iv) "**EEA Member Country**" means any of the member states of the European Union, Iceland, Liechtenstein, and Norway or any other member state of the European Economic Area; (v) "**EEA Resolution Authority**" means any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution; (vi) "**EU Bail-In Legislation Schedule**" means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time; and (vii) "**Write-Down and Conversion Powers**" means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

ARTICLE 13

THE ADMINISTRATIVE AGENT

Section 13.1 **Appointment, Powers and Immunities.** At all times when there is a Lender other than (including in addition to) Massachusetts Mutual Life Insurance Company under this Agreement, the Lenders shall be deemed to appoint and authorize the Administrative Agent to act for all purposes as their agent hereunder and under the other Loan Documents. The provisions of this Article 13 shall not apply at any time when there is only one Lender.

Section 13.2 **Reliance by Borrower on Administrative Agent.** At all times when there is more than one Lender, (1) Borrower (a) is entitled to rely on the Administrative Agent for any waiver, amendment, approval or consent given by "Lender" under the Loan Documents, (b) shall adhere only to waivers, amendments, approvals or consents given by Administrative Agent, on behalf of "Lender" under the Loan Documents, and (c) shall make all payments under the Notes and the other Loan Documents to Administrative Agent, as set forth herein, and (2) Administrative Agent shall, on behalf of all of the Lenders, be permitted to take

all actions, including exercising all remedies, permitted to be taken by “Lender” under the Loan Documents (either by law or pursuant to the terms of the Loan Documents), and (3) all legal action taken respecting the Loan Documents shall be taken by the Administrative Agent on behalf of the Lenders, and all default notices under the Loan Documents will be provided by the Administrative Agent. Unless and until the Lenders notify Borrower otherwise, the Administrative Agent is Barings Real Estate Advisers Inc. Any successor Administrative Agent shall be a U.S. Person. The use of the term “agent” in this Agreement with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties. Notwithstanding anything to the contrary contained in the Notes, unless otherwise directed by Administrative Agent in writing, all payments under this Agreement, the Notes and the other Loan Documents shall be made by Borrower to the Administrative Agent in accordance with the provisions of Subsection 2.7(a) of this Agreement.

Section 13.3 **Rights as a Lender**. If the Administrative Agent is also a Lender hereunder it shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Administrative Agent, and the term “Lender” or “Lenders” shall, unless the context otherwise indicates, include the Administrative Agent in its individual capacity.

[No Further Text on this Page.]

IN WITNESS WHEREOF, Lender and Borrower have executed and delivered this Agreement as of the date first written above.

LENDER:

MASSACHUSETTS MUTUAL LIFE
INSURANCE COMPANY, a Massachusetts corporation

By:
Barings Real Estate Advisers Inc.
Its Authorized Agent

By: /s/ Bruce Anderson
Name: Bruce Anderson
Title: Managing Director

[Signatures continue on the following page]

IN WITNESS WHEREOF, Lender and Borrower have executed and delivered this Agreement as of the date first written above.

BORROWER:

KR WMC, LLC,
a Delaware limited liability company

By: Kilroy Realty, L.P.,
a Delaware limited partnership
its sole managing member

By: Kilroy Realty Corporation,
a Maryland corporation,
its general partner

By: /s/ Tyler H. Rose
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /s/ Michelle Ngo
Name: Michelle Ngo
Title: Senior Vice President and Treasurer

EXHIBIT A

LEGAL DESCRIPTION

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL 1: (PORTION OF APN: 4259-025-008)

THE WESTERLY 265 FEET OF THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THEREFROM THAT PORTION IN OLYMPIC BOULEVARD, BEING THAT PART LYING NORTHERLY OF THE SOUTH LINE OF THE LAND DESCRIBED IN DEED TO THE STATE OF CALIFORNIA, RECORDED IN BOOK 22517 PAGE 425, OFFICIAL RECORDS.

PARCEL 2: (PORTION OF APN: 4259-025-008)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREOF SOUTH 76° 12' 45" WEST 504.08 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY, A CO-PARTNERSHIP, BY DEED RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7, OFFICIAL RECORDS, AS INSTRUMENT NO. 323; THENCE ALONG THE WESTERLY LINE OF SAID LAND NORTH 13° 41' 45" WEST TO THE SOUTHERLY LINE OF THE LAND DESCRIBED IN PARCEL NO. 20 OF CASE NO. 50830 ENTERED IN SUPERIOR COURT OF LOS ANGELES COUNTY; THENCE WESTERLY ALONG SAID SOUTHERLY LINE BEING A CURVE CONCAVE SOUTHERLY HAVING A RADIUS OF 9945.00 FEET, TO THE EASTERLY LINE OF THE WESTERLY 265 FEET OF SAID LOT 27; THENCE ALONG SAID EASTERLY LINE SOUTH 13° 41' 45" EAST TO THE SOUTHERLY LINE OF SAID LOT; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 12' 45" EAST TO THE POINT OF BEGINNING.

PARCEL 3: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A

PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREES REPORT IN CASE NO- B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 76° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13° 41' 45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED JUNE 10, 1946, RECORDED AUGUST 20, 1946 IN BOOK 23552 PAGE 383, OFFICIAL RECORDS, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREES REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY LINE OF

OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE, NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 4: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING,

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING SOUTHWESTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 78° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13° 41' 45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED THE 10TH OF JUNE, 1946, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN, AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED

APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTH LINE NORTH 78° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE, NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 5: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 6: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 27; THENCE NORTH 44° 12' 55" WEST ALONG THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE

OF 271.39 FEET TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS; THENCE SOUTH 78° 03' WEST ALONG SAID SOUTHERLY LINE A DISTANCE OF 189.75 FEET; THENCE SOUTH 44° 13' 35" EAST PARALLEL WITH THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE OF 278.45 FEET TO A POINT IN THE SOUTHERLY LINE OF SAID LOT; THENCE NORTH 76° 12' 45" EAST ALONG SAID SOUTHERLY LINE 186.17 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY 10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

PARCEL 7: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF SUPERIOR COURT, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 186.17 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HENRY O. GALLEN BY DEED RECORDED MAY 17, 1940 IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS; THENCE STILL CONTINUING ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 124.15 FEET TO A POINT; THENCE NORTH 44° 13' 35" WEST 283.15 FEET, MORE OR LESS, TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG THE SOUTHERLY LINE, NORTH 78° 03' 00" EAST 126.60 FEET TO THE NORTHWESTERLY CORNER OF SAID HENRY O. GALLEN LAND; THENCE SOUTH 44° 13' 35" EAST ALONG THE WESTERLY LINE OF SAID LAND 278.45 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHWEST 10 FEET OF SAID LAND CONVEYED TO THE STATE OF CALIFORNIA BY DEED RECORDED JUNE 5, 1946 IN BOOK 23218 PAGE 409 OF OFFICIAL RECORDS.

PARCEL 8: (PORTION OF APN: 4259-025-019)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY

10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

PARCEL 9: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2 IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH SOUTHERLY LINE OF SAID LOT 28, A DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, A DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM CITIZENS NATIONAL TRUST AND SAVINGS BANK, DATED APRIL 30, 1943, AND RECORDED MAY 21, 1943, AS INSTRUMENT NO. 40 IN BOOK 20044 PAGE 61, OFFICIAL RECORDS.

PARCEL 10: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 28; THENCE WESTERLY ALONG THE SOUTHERLY LINE THEREOF, 380.44 FEET OF THE MOST SOUTHERLY CORNER OF SAID LOT 28; THENCE NORTHWESTERLY ALONG THE SOUTHWESTERLY LINE THEREOF, TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL A OF DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS OF SAID COUNTY; THENCE EASTERLY ALONG SAID LAST MENTIONED SOUTHERLY LINE AND ITS EASTERLY PROLONGATION THEREOF, TO THE NORTHEASTERLY LINE OF SAID LOT 28; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE,

256.31 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET WITHIN THE LINES OF OLYMPIC BOULEVARD, AS GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS.

ALSO EXCEPT THEREFROM THAT PORTION THEREOF, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2, IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH THE SOUTHERLY LINE OF SAID LOT 28, A DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM CITIZENS NATIONAL TRUST AND SAVINGS BANK, DATED APRIL 30, 1943 AND RECORDED MAY 21, 1943 AS INSTRUMENT NO. 40 IN BOOK 20044 PAGE 61, OFFICIAL RECORDS.

EXHIBIT B

INTENTIONALLY OMITTED

B-1

EXHIBIT D

INTENTIONALLY OMITTED

EXHIBIT E

INTENTIONALLY OMITTED

EXHIBIT F

FORM OF SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

(See attached)

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Cox, Castle & Nicholson LLP
2029 Century Park East, 21st Floor
Los Angeles, California 90067
Attention: Adam B. Weissburg, Esq.

APN:

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

MassMutual Loan No. 16714

Massachusetts Mutual Life Insurance Company
c/o Barings
One Financial Plaza
Hartford, Connecticut 06103
Attention: Real Estate Loan Servicing
Loan No. 16714

Re: _____ *[Insert Property name and location]*

The undersigned, _____, (“**Tenant**”) understands that Massachusetts Mutual Life Insurance Company (“**Lender**”) has made or will be making a loan (the “**Loan**”) to _____ (“**Landlord**”) secured by a mortgage or deed of trust (the “**Mortgage**”) encumbering the real property (the “**Property**”) described on Exhibit A, attached hereto and made a part hereof. Tenant and Landlord entered into a lease agreement (the “**Lease**”) dated _____ by which Tenant leased from Landlord certain premises commonly known as _____ (the “**Leased Premises**”), and constituting a portion of the Property. Tenant desires to be able to obtain the advantages of the Lease and occupancy thereunder in the event of foreclosure of the Mortgage and Lender wishes to have Tenant confirm the priority of the Mortgage over the Lease.

NOW, THEREFORE, in consideration of the mutual covenants and conditions set forth herein, the parties hereto agree as follows:

1. Tenant hereby subordinates all of its right, title and interest under the Lease to the lien, operation and effect of the Mortgage and any other mortgages (as the same may be modified and/or extended from time to time) now or hereafter in force against the Property, and to any and all existing and future advances made under such Mortgage and any other mortgages.
2. In the event that Lender becomes the owner of the Property by foreclosure, deed in lieu of foreclosure, or otherwise, Tenant agrees to unconditionally attorn to Lender and to recognize it as the owner of the Property and the Landlord under the Lease. The Lender agrees not to terminate the Lease or disturb or interfere with Tenant’s possession of the Leased Premises during the term of the Lease, or any extension or renewal thereof, so long as Tenant is not in default under the Lease beyond applicable notice, grace and cure periods, if any.
3. Tenant agrees to commence paying all rents, revenues and other payments due under the Lease directly to Lender after Lender notifies Tenant that Lender is the owner and holder of the Loan and is invoking Lender’s rights under the Loan documents to directly receive from Tenant all rents, revenues and other payments due under the Lease. By making such payments to Lender, Tenant shall be deemed to have satisfied all such payment obligations to Landlord under the Lease.
4. This Agreement shall inure to the benefit of Lender’s affiliates, agents, co-lenders and participants, and each of their respective successors and assigns (each a “**Lender Party**” and collectively, the “**Lender Parties**”).

[Remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Subordination, Non-Disturbance and Attornment Agreement to be duly executed as of the ____ day of _____, 20____.

TENANT:

[INSERT NAME OF TENANT]

By: _____
Name:
Title:

LANDLORD:

[INSERT NAME OF LANDLORD]

By: _____
Name:
Title:

LENDER:

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By: Barings Real Estate Advisers Inc.,
its authorized agent

By: _____
Name:
Title:

EXHIBIT A

LEGAL DESCRIPTION

5

[\(Back To Top\)](#)

Section 4: EX-10.41 (EXHIBIT 10.41)

Exhibit 10.41

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Cox, Castle & Nicholson LLP
2029 Century Park East, 21st Floor
Los Angeles, California 90067
Attention: Adam B. Weissburg, Esq.

APNs: 4259-025-008
4259-025-018
4259-025-019

Mortgage Loan No. 16714

DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS,
SECURITY AGREEMENT AND FIXTURE FILING

Cover Sheet

Date:	As of November 29, 2016
Borrower:	KR WMC, LLC
Borrower's State of Organization:	Delaware
Borrower's Organizational ID Number:	6126861
Trustee:	Fidelity National Title Company
Lender:	MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation
Maturity Date:	December 1, 2026
State:	California
Record Owner of the Land: (as defined herein)	KR WMC, LLC, a Delaware limited liability company

THIS DOCUMENT IS ALSO A FIXTURE FILING IN ACCORDANCE WITH SECTION 9502(c) OF THE CALIFORNIA COMMERCIAL CODE

**DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS,
SECURITY AGREEMENT AND FIXTURE FILING**

THIS DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (this “**Deed of Trust**”) is made as of November 29, 2016, by KR WMC, LLC, a Delaware limited liability company, having an address at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064 (“**Borrower**”), to FIDELITY NATIONAL TITLE COMPANY, a California corporation, having an address at 1300 Dove St., Suite 310, Newport Beach, California 92660 (“**Trustee**”), for the use and benefit of MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation having an address in care of Barings, One Financial Plaza, Hartford, Connecticut 06103, Attention: Real Estate Loan Servicing (“**Lender**”). To the extent an Administrative Agent is appointed pursuant to Article 13 of the Loan Agreement, Lender hereby agrees to assign its rights under this Deed of Trust to the Administrative Agent, and thereafter this Deed of Trust shall be for the benefit of Administrative Agent.

GRANTING CLAUSES

For good and valuable consideration and to secure the payment of an indebtedness in the principal sum of ONE HUNDRED SEVENTY MILLION AND 00/100 DOLLARS (\$170,000,000.00) in lawful money of the United States, to be paid according to (i) that certain Loan Agreement of even date herewith between Borrower and Lender (as the same may hereafter be amended or modified, the “**Loan Agreement**”), and (ii) that certain Promissory Note of even date herewith from Borrower to Lender in said principal sum with a maturity date of December 1, 2026 (the “**Maturity Date**”), and any replacement(s) or substitution(s) of said Promissory Note held by Lender or by any successor or assignee of Lender (as the same may hereafter be amended, modified, split, consolidated or extended, the “**Note**”), which Loan Agreement and Note are hereby incorporated herein by this reference and made a part hereof, together with all other obligations and liabilities due or to become due by Borrower to Lender, all amounts, sums and expenses paid hereunder by or payable to Lender according to the terms hereof (including, without limitation, all Advances (as hereinafter defined) and interest thereon as provided herein and in the Loan Agreement), and all other covenants, obligations and liabilities of Borrower under the Note, the Loan Agreement, this Deed of Trust, the Assignment (as hereinafter defined) and any other instrument executed by Borrower evidencing, securing or delivered in connection with the loan evidenced by the Note, expressly excluding the obligations of Borrower under and pursuant to that certain “**Environmental Indemnification Agreement**” (as defined in the Loan Agreement) to the extent of “Unsecured Environmental Costs” (as hereinafter defined) (all of the foregoing instruments, as the same may be amended or modified from time to time, collectively, the “**Loan Documents**”), and together with all interest on said indebtedness, obligations, liabilities, amounts, sums, Advances and expenses (all of the foregoing, collectively, the “**Indebtedness**”), Borrower does by these presents grant a security interest to Beneficiary in and does by these presents WARRANT, GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER AND SET OVER unto Trustee, as trustee for the benefit of Lender, to its successors in the trust created by this Deed of Trust, and to its and their respective assigns forever, in trust, with all POWERS OF SALE and RIGHTS OF ENTRY AND POSSESSION and all STATUTORY RIGHTS AND COVENANTS in the State (as hereinafter

defined), together with all interest and estate which Borrower may hereafter acquire, in the following property:

The parcel or parcels of land described in Exhibit A attached hereto and by this reference made a part hereof (the “**Land**”);

TOGETHER with the buildings, foundations, structures and improvements (including fixtures) now or hereafter located on or in the Land (collectively, the “**Improvements**”);

TOGETHER with all right, power, privilege, option, title and interest, if any, of Borrower in and to the streets and roads, opened or proposed, abutting the Land, all strips and gores within or adjoining the Land, the air space and right to use the air space above the Land, all rights of ingress and egress to and from the Land, all easements, rights of way, reversions, remainders, estates, rights, titles, interests, privileges, servitudes, tenements, hereditaments, and appurtenances now or hereafter affecting the Land or the Improvements, all royalties and rights and privileges appertaining to the use and enjoyment of the Land or the Improvements, including all air, lateral support, streets, alleys, passages, vaults, drainage, water, oil, gas and mineral rights, development rights, all leases and licenses and options to purchase or lease, and all other interests, estates or claims, in law or in equity, which Borrower now has or hereafter may acquire in or with respect to the Land or the Improvements (collectively, the “**Appurtenances**”);

The Land, the Improvements and the Appurtenances are hereinafter collectively referred to as the “**Premises**”;

TOGETHER with all equipment, fittings, furniture, furnishings, appliances, apparatus, and machinery in which Borrower now or hereafter has a possessory or title interest and now or hereafter installed in or located upon the Premises and all building materials, supplies and equipment now or hereafter delivered to the Land and the Improvements and intended to be installed therein or located thereon; all fixtures, inventory, other goods and personal property of whatever kind and nature now contained on or in or hereafter placed on or in the Premises and used or to be used in connection with the letting or operation thereof, in which Borrower now has or hereafter may acquire a possessory or title interest and all renewals or replacements of any of the foregoing property or articles in substitution thereof, including chairs, desks, lamps, mirrors, bookcases, tables, rugs, carpeting, drapes, draperies, curtains, shades, venetian blinds, screens, paintings, hangings, pictures, dry cleaning facilities, keys or other entry systems, intercom and paging equipment, electric and electronic equipment, dictating equipment, private telephone systems, medical equipment, potted plants, heating, lighting and plumbing fixtures, fire prevention and extinguishing apparatus, cooling and air-conditioning systems, elevators, escalators, fittings, plants, apparatus, stoves, ranges, refrigerators, tools, machinery, engines, dynamos, motors, boilers, incinerators, switchboards, conduits, compressors, vacuum cleaning systems, floor cleaning, waxing and polishing equipment, call systems, brackets, electrical signs, bulbs, bells, ash and fuel, conveyors, cabinets, lockers, shelving, spotlighting equipment, dishwashers, garbage disposals, washers and dryers, and other equipment used in the operation of the Land and the Improvements (collectively, the “**Equipment**”);

TOGETHER with all right, power, privilege, option, title and interest of Borrower in and under all present or future accounts, deposit accounts, documents, instruments, chattel paper,

and general intangibles (including “payment intangibles”), as the foregoing terms are defined in the Code (as hereinafter defined), all deposits, monies or escrows held by Lender or Lender’s agent or any accounts established pursuant hereto or pursuant to any other Loan Documents, and all contract rights, equipment leases, operating leases and licenses, Operating Agreements (as hereinafter defined), derivative investments, letters of credit, and rate cap agreements, including casualty insurance policies and liability insurance policies (irrespective of whether such policies are required to be obtained or maintained in force pursuant to this Deed of Trust or other Loan Documents), trade names, trademarks, servicemarks, logos, copyrights, goodwill or franchises (excluding any of the foregoing to the extent they include the name “Kilroy” or any derivation thereof), books, records, plans, specifications, permits, licenses, approvals, actions, claims under the Federal Bankruptcy Code (as hereinafter defined) and causes of action which now or hereafter relate to, are derived from or are used in connection with the Land and the Improvements or the use, operation, maintenance, occupancy or enjoyment thereof or the conduct of any business or activities thereon (collectively, the “**Intangibles**”), except to the extent any such Intangibles are the property of any tenants under the Leases;

TOGETHER with all right, power, privilege, option, title and interest of Borrower in and under all existing and future leases, lettings, tenancies, occupancy agreements, licenses to occupy and other similar arrangements affecting the Premises or any part thereof now or hereafter entered into and all amendments, extensions, renewals and guaranties thereof, all security therefore, including letter of credit rights, guaranties and other supporting obligations, and all moneys payable thereunder, whether entered into before or after the filing by or against Borrower of any petition for relief under the Federal Bankruptcy Code (collectively, the “**Leases**”);

TOGETHER with all rents, income, accounts, receivables, issues, profits, security deposits, including the proceeds from letters of credit, guarantees and other supporting obligations, all other payments and profits from the Leases and the use and occupation of the Land and the Improvements, including fixed and additional rents, cancellation payments, option payments, all revenues and credit card receipts collected from restaurants, bars, and recreational facilities and otherwise, all receivables, customer obligations, installment payment obligations and other obligations now existing or hereafter arising or created out of sale, lease, sublease, license, concession or other grant of the right of the possession, use or occupancy of all or any portion of the Land and the Improvements, or personalty located thereon, or rendering of services by Borrower or any operator or manager of any commercial space located in the Land and the Improvements or acquired from others including from the rental of any office space, retail space, commercial space or other space, halls, stores or offices, including any deposits securing reservations of such space, exhibit or sales space of every kind, license, lease, sublease and concession fees and rentals, health club membership fees, food and beverage wholesale and retail sales, telephone and television systems, the provision or sale of other goods and services, service charges, vending machine sales, and any other payments and benefits to which Borrower may now or hereafter be entitled from the Premises, the Equipment or the Intangibles or under or in connection with the Leases (collectively, the “**Property Income**”), including the immediate and continuing right to make claim for, receive, collect and receipt for Property Income, including the right to make claim in a proceeding under the Federal Bankruptcy Code and to apply the same to the payment of the Indebtedness, all whether before or after the filing by or against Borrower of any petition for relief under the Federal Bankruptcy Code; and

TOGETHER with all proceeds, judgments, claims, compensation, awards of damages and settlements pertaining to or resulting from or in lieu of any condemnation or taking of any of Borrower's interest in the Premises by eminent domain or any casualty loss or damage to any of Borrower's interest in the Premises, the Equipment, the Intangibles, the Leases or the Property Income, and including also, the right to assert, prosecute and settle claims arising out of or pertaining to such condemnation or taking or such casualty loss under insurance policies constituting an Intangible and to apply for and receive payments of proceeds under such insurance policies and in any condemnation or taking, the right to apply for and receive all refunds with respect to the payment of property taxes and assessments and all other proceeds from the conversion, voluntary or involuntary, of any of Borrower's interest in the Premises, the Equipment, the Intangibles, the Leases or the Property Income, or any part thereof, into cash or liquidated claims. Collectively, all of the foregoing are herein referred to as the "**Proceeds**".

The Equipment, the Intangibles, the Leases, the Property Income and the Proceeds are hereinafter collectively referred to as the "**Collateral**". The Premises and the Collateral are hereinafter collectively referred to as the "**Mortgaged Property**".

TO HAVE AND TO HOLD the Mortgaged Property, with all the privileges and appurtenances to the same belonging, and with the possession and right of possession thereof, unto Trustee, as trustee for the benefit of Lender as beneficiary, to its successors in the trust created by this Deed of Trust, and to its and their successors and assigns forever, in trust, upon the terms and conditions set forth herein.

All initially capitalized terms not defined in this Deed of Trust shall have the respective meanings ascribed to such terms in the Loan Agreement.

ARTICLE I

DEFINITION OF TERMS

As used in this Deed of Trust, the terms set forth below shall have the following meanings:

"**Advances**" means all sums, amounts or expenses advanced or paid and all costs incurred by Lender, as provided in this Deed of Trust or in any other Loan Document, upon failure of Borrower to pay or perform any obligation or covenant contained herein or in such other Loan Document.

"**Appurtenances**" has the meaning assigned in the Granting Clauses.

"**Assignment**" means the Assignment of Leases and Rents from Borrower to Lender of even date herewith with respect to the Mortgaged Property.

"**Borrower**" means the party or parties identified and defined as Borrower on the Cover Sheet and in the preamble of this Deed of Trust, any subsequent owner of the Mortgaged Property, and its or their respective heirs, executors, legal representatives, successors and assigns.

“**Code**” means the Uniform Commercial Code of the State, as the same may be amended from time to time or any successor statute thereto.

“**Collateral**” has the meaning assigned in the Granting Clauses.

“**Default Rate**” has the meaning assigned in the Loan Agreement.

“**Environmental Indemnification Agreement**” has the meaning assigned in the Granting Clauses.

“**Equipment**” has the meaning assigned in the Granting Clauses.

“**Event of Default**” means any one or more of the events described in Section 9.1 of the Loan Agreement.

“**Federal Bankruptcy Code**” means Title 11 of the United States Code, as the same may be amended from time to time or any successor statute thereto.

“**Hazardous Substances**” has the meaning assigned in the Environmental Indemnification Agreement.

“**Impositions**” has the meaning assigned in the Loan Agreement.

“**Improvements**” has the meaning assigned in the Granting Clauses.

“**Indebtedness**” has the meaning assigned in the Granting Clauses.

“**Intangibles**” has the meaning assigned in the Granting Clauses.

“**Land**” has the meaning assigned in the Granting Clauses.

“**Leases**” has the meaning assigned in the Granting Clauses.

“**Lender**” means Massachusetts Mutual Life Insurance Company, the lender identified as such on the Cover Sheet and in the preamble of this Deed of Trust, and any Lender Successor.

“**Loan**” means the loan made by Lender to Borrower evidenced by the Note and governed by the Loan Agreement.

“**Loan Agreement**” has the meaning assigned in the Granting Clauses.

“**Loan Documents**” has the meaning assigned in the Granting Clauses.

“**Maturity Date**” has the meaning assigned in the Granting Clauses.

“**Mortgaged Property**” has the meaning assigned in the Granting Clauses.

“**Note**” has the meaning assigned in the Granting Clauses.

“**Permitted Encumbrances**” means the liens and security interests created by this Deed of Trust and the other Loan Documents, those exceptions to title set forth in Exhibit B and such other liens and security interests as are permitted pursuant to the Loan Documents.

“**Person**” means and includes any individual, corporation, partnership, joint venture, limited liability company, association, bank, joint-stock company, trust, unincorporated organization or government, or an agency or political subdivision thereof.

“**Premises**” has the meaning assigned in the Granting Clauses.

“**Proceeds**” has the meaning assigned in the Granting Clauses.

“**Property Income**” has the meaning assigned in the Granting Clauses.

“**State**” means the State or Commonwealth in which the Land is situated.

“**Trustee**” means the party or parties identified and defined as Trustee on the Cover Sheet and in the preamble of this Deed of Trust, and its or their respective successors in trust created by this Deed of Trust, and its or their respective successors and assigns.

“**Upstream Owner**” has the meaning assigned in the Loan Agreement.

ARTICLE II

COVENANTS, WARRANTIES AND REPRESENTATIONS OF BORROWER

Borrower covenants, warrants, represents and agrees as follows:

Section 2.01 Interest on Advances and Expenses. All Advances made and any reasonable expenses incurred at any time by Lender or Trustee pursuant to the provisions of this Deed of Trust or the other Loan Documents or under applicable law shall be secured by this Deed of Trust as part of the Indebtedness, with equal rank and priority. All such Advances and expenses shall bear interest at the Default Rate from the date that each such Advance or expenses is made or incurred to the date of repayment and all such Advances and expenses with interest thereon shall be paid to Lender by Borrower upon demand therefor.

Section 2.02 Prohibition Against Conveyances, Encumbrances and Borrowing. Except as expressly permitted under Article 8 of the Loan Agreement, neither Borrower nor any Person shall (a) sell, transfer, convey, assign, mortgage, encumber, pledge, hypothecate, grant a security interest in, grant options with respect to, or otherwise dispose of (directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, and whether or not for consideration or of record) all or any portion of any legal or beneficial interest in all or any portion of the Mortgaged Property including the Leases; or (b) sell, transfer, convey, assign, or otherwise dispose of (directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, and whether or not for consideration or of record) all or any portion of the direct or indirect legal or beneficial interest in Borrower; or pledge or encumber any direct ownership interest in Borrower.

Section 2.03 Assignment of Leases and Property Income.

(a) Borrower hereby absolutely, presently, unconditionally and irrevocably assigns, transfers and sets over to Lender all of the right, title and interest of Borrower in and to the Leases and the Property Income. Borrower shall not otherwise assign, transfer or encumber in any manner the Leases or the Property Income or any portion thereof. Borrower shall have a license, revocable by Lender, to collect and use the Property Income as the same becomes due and payable so long as no Event of Default has occurred and is continuing, but may not collect any Property Income more than thirty (30) days in advance of the date the same becomes due. The assignment in this Section 2.03 shall constitute an absolute, irrevocable and present assignment of the Leases and the Property Income, and not an additional assignment for security, and the existence or exercise of Borrower's revocable license to collect Property Income shall not operate to subordinate this assignment to any subsequent assignment. The exercise by Lender of any of its rights or remedies under this Section 2.03 shall not be deemed or construed to make Lender: (i) a mortgagee-in-possession; (ii) responsible for the payment of any taxes or assessments with respect to the Premises, (iii) liable to perform any obligation of the lessor under any Lease(s) or under applicable law, (iv) liable to any person for any dangerous or defective condition in the Premises or for any negligence in the management, upkeep, repair, or control of the Premises resulting in loss or injury or death to any Person, or (v) be liable in any manner for the remediation of any environmental impairment.

(b) Borrower shall comply with the terms and conditions of Section 5.1 of the Loan Agreement with respect to Leases of all or any portion of the Mortgaged Property.

Section 2.04 Environmental Matters. Borrower shall comply with the terms and conditions of Article 4 of the Loan Agreement, expressly including the indemnification provisions contained therein.

Section 2.05 Condemnation Awards. Borrower hereby unconditionally assigns all awards and compensation for any condemnation or other taking of the Mortgaged Property or any portion thereof, or any purchase in lieu thereof, to Lender and authorizes Lender to collect and receive such awards and compensation and to give proper receipts and acquittances therefor, subject to the terms of the Loan Agreement.

Section 2.06 Insurance Proceeds. Borrower hereby (a) unconditionally assigns to Lender all Proceeds of any insurance policies insuring against loss or damage to the Mortgaged Property, and (b) authorizes Lender to collect and receive such Proceeds and authorizes and directs the issuer of each of such insurance policies to make payment for all such losses directly to Lender, instead of to Borrower and Lender jointly, all subject to the terms of the Loan Agreement.

ARTICLE III

SECURITY AGREEMENT

Section 3.01 Warranties, Representations and Covenants of Borrower. Borrower covenants, warrants, represents and agrees with and to Lender as follows:

(a) This Deed of Trust constitutes a security agreement under the Code and serves as a fixture filing in accordance with the Code. This Deed of Trust creates, and Borrower hereby grants to Lender, a security interest in favor of Lender as secured party under the Code with respect to all of the Mortgaged Property which is covered by the Code (“**Personal Property**”). The mention of any portion of the Mortgaged Property in a financing statement filed in the records normally pertaining to personal property shall not derogate from or impair in any manner the intention of Borrower and Lender hereby declared that all items of the Collateral are part of the real property encumbered hereby to the fullest extent permitted by law, regardless of whether any such item is physically attached to the Improvements or whether serial numbers are used for the better identification of certain items. Specifically, the mention in any such financing statement of: (i) the rights in or to the Proceeds of any policy of insurance; (ii) any condemnation Proceeds; (iii) Borrower’s interest in any Leases or Property Income; or (iv) any other item included in the Mortgaged Property, shall not be construed to alter, impair or impugn any rights of Lender as determined by this Deed of Trust or the priority of Lender’s lien upon and security interest in the Mortgaged Property. Any such mention shall be for the protection of Lender in the event that notice of Lender’s priority of interest as to any portion of the Mortgaged Property is required to be filed in accordance with the Code to be effective against or take priority over the interest of any particular class of Persons, including the federal government or any subdivision or instrumentality thereof.

(b) Except for the Permitted Encumbrances and the security interest granted by this Deed of Trust, Borrower is and, as to portions of the Mortgaged Property to be acquired after the date hereof, will be the sole owner of the Mortgaged Property, free from any lien, security interest, encumbrance or adverse claim thereon of any kind whatsoever. Borrower shall notify Lender of, and shall defend the Mortgaged Property against, all claims and demands of all Persons at any time claiming the same or any interest therein.

(c) Except as expressly provided in the Loan Agreement and this Deed of Trust, Borrower shall not lease, sell, convey or in any manner transfer the Mortgaged Property without the prior consent of Lender.

(d) The Mortgaged Property is not and will not be used or bought for personal, family or household purposes.

(e) The Collateral shall be kept on the Land or in the Improvements, and Borrower shall not remove the Collateral from the Land or the Improvements without the prior consent of Lender, except such portions or items of the Collateral as are consumed or worn out in ordinary usage, all of which shall be promptly replaced by Borrower with items of equal or greater value.

(f) [Intentionally omitted.]

(g) Borrower shall not change its place of formation or its entity name without providing Lender with at least thirty (30) days' prior written notice. In the event of any change in name, identity or type of organization of Borrower, Borrower shall notify Lender thereof and promptly after request shall execute, file and record such Code forms as are necessary to maintain the priority of Lender's lien upon and security interest in the Mortgaged Property, and shall pay all expenses and fees in connection with the filing and recording thereof. If Lender shall require the filing or recording of additional Code forms or continuation statements, Borrower shall, promptly after request, execute, file and record such Code forms or continuation statements as Lender shall deem necessary (subject to Lender's right to sign such statements on behalf of Borrower as provided in Section 3.01(h)), and shall pay all expenses and fees in connection with the filing and recording thereof. If Lender shall initially pay such expenses, Borrower shall promptly reimburse Lender for the expenses.

(h) Borrower hereby authorizes Lender to file with the appropriate public office, at Borrower's expense any financing statements, amendments or continuations thereof, identifying Borrower as debtor and Lender as secured party in connection with the Mortgaged Property.

(i) Borrower represents that its exact legal name and organizational number are as set forth on the Cover Sheet of this Deed of Trust.

(j) Borrower shall not file any termination statements concerning the Mortgaged Property without Lender's prior consent unless the Indebtedness has been repaid and this Deed of Trust has been released.

(k) Where Collateral is in possession of a third party, if requested by Lender, Borrower will join with Lender in notifying the third party of Lender's interest and obtaining an acknowledgment from the third party that it is holding the Collateral for the benefit of Lender.

(l) Borrower will cooperate with Lender in obtaining control with respect to Collateral consisting of deposit accounts, investment property, letter of credit rights and electronic chattel paper.

Section 3.02 Financing Statements. A CARBON, PHOTOGRAPHIC OR OTHER REPRODUCTION OF THIS DEED OF TRUST OR ANY FINANCING STATEMENT RELATING TO THIS DEED OF TRUST SHALL BE SUFFICIENT AS A FINANCING STATEMENT.

Section 3.03 Addresses. The state of organization, organizational ID number and mailing address of Borrower and the address of Lender from which information concerning the security interest granted hereby may be obtained are set forth on the Cover Sheet and in the preamble of this Deed of Trust. Borrower maintains its sole place of business or its chief executive office at the address shown in said preamble, and Borrower shall immediately notify Lender in writing of any change in address of said place of business or chief executive office.

Section 3.04 Fixture Filing. This Deed of Trust shall constitute a fixture filing under the Code as to any goods and other personal property included in the Mortgaged Property in which Borrower has granted to Lender a security interest as provided in this Article III which are or may become fixtures under applicable law. Borrower is the “debtor” and Lender is the “secured party” as such terms are defined in the Code. This fixture filing is to be recorded in the Official Records of Los Angeles County, California.

ARTICLE IV

DEFAULT AND REMEDIES

Section 4.01 Remedies. Upon the occurrence and during the continuance of any Event of Default, Lender may take such actions against Borrower and/or the Mortgaged Property or any portion thereof as it deems advisable to protect and enforce its rights against Borrower and in and to the Mortgaged Property, without notice or demand except as set forth herein. Any such actions taken by Lender shall be cumulative and concurrent and may be pursued independently, singly, successively, together or otherwise, at such time and in such order as Lender may determine in its sole discretion, to the fullest extent permitted by law, without impairing or otherwise affecting the other rights and remedies of Lender permitted by law, equity or contract or as set forth herein or in the other Loan Documents. Such actions may include the following:

(a) Lender may declare the entire principal balance under the Note then unpaid, together with all accrued and unpaid interest thereon, prepayment fees thereunder, and all other unpaid Indebtedness, to be immediately due and payable.

(b) Lender may enter into or upon the Mortgaged Property, personally or by its agents, nominees or attorneys, and may dispossess Borrower and its agents and servants therefrom, and thereupon Lender at its sole discretion may: (i) use, operate, manage, control, insure, maintain, repair, restore and otherwise deal with all and every portion of the Mortgaged Property and conduct business thereon, in any case either in the name of Lender or in such other name as Lender shall deem best; (ii) complete any construction on the Mortgaged Property in such manner and form as Lender deems advisable; (iii) make alterations, additions, renewals, replacements and improvements to or on the Mortgaged Property; (iv) exercise all rights and powers of Borrower with respect to the Mortgaged Property, whether in the name of Borrower or otherwise, including the right to make, cancel, enforce or modify Leases, obtain and evict tenants, and demand, sue for, collect and receive all Property Income; and (v) apply the receipts of Property Income to the payment of the Indebtedness (including any prepayment fee payable under the Loan Agreement) in such order as Lender shall determine in its sole discretion, after deducting therefrom all expenses (including reasonably incurred attorneys’ fees, costs and expenses) incurred in connection with the aforesaid operations and all amounts necessary to pay the Impositions, insurance and other charges in connection with the Mortgaged Property, as well as just and reasonable compensation for the services of Lender, its agents, nominees and attorneys.

(c) With or without entry, personally or by its agents, nominees or attorneys, Lender may require Trustee to sell all or any portion of the Mortgaged Property and all or any portion of Borrower’s estate, right, title, interest, claim and demand therein and right of

redemption thereof at one or more private or public sales in the manner and to the extent permitted by law, as an entirety or in parcels or portions, and Trustee shall have any statutory power of sale as may be provided by law in the State.

(d) Lender may institute proceedings for the complete foreclosure of this Deed of Trust, in which case the Mortgaged Property may be sold for cash or upon credit, as an entirety or in parcels or portions.

(e) Lender may institute, or require Trustee to institute, proceedings for the partial foreclosure of this Deed of Trust for the portion of the Indebtedness then due and payable, subject to the continuing lien of this Deed of Trust for the balance of the Indebtedness not then due.

(f) Lender may institute, or require Trustee to institute, an action, suit or proceeding at law or in equity for the specific performance of any covenant, condition or agreement contained in the Note, this Deed of Trust or any other Loan Document, or in aid of the execution of any power granted hereunder or for the enforcement of any other appropriate legal or equitable remedy.

(g) Lender and Trustee shall have the rights and may take such actions as are set forth, described or referred to in Article VII of this Deed of Trust entitled "State Law Provisions" or as are permitted by the laws of the State.

(h) Lender may recover judgment on the Loan Agreement and the Note, either before, during or after any proceedings for the foreclosure or enforcement of this Deed of Trust.

(i) Lender may secure the appointment of a receiver, trustee, liquidator or similar official of the Mortgaged Property or any portion thereof, and Borrower hereby consents and agrees to such appointment, without notice to Borrower and without regard to the adequacy of the security for the Indebtedness and without regard to the solvency of Borrower or any other Person liable for the payment of the Indebtedness, and such receiver or other official shall have all rights and powers permitted by applicable law and such other rights and powers as the court making such appointment may confer, but the appointment of such receiver or other official shall not impair or in any manner prejudice the rights of Lender to receive the Property Income pursuant to this Deed of Trust or the Assignment.

(j) Lender may exercise any or all of the remedies available to a secured party under the Code.

(k) Lender may pursue, or require Trustee to institute, any other rights and remedies of Lender permitted by law, equity or contract or as set forth herein or in the other Loan Documents.

(l) Lender may, in its sole discretion, apply any funds then on deposit with Lender, including but not limited to such funds on deposit for the payment of Impositions, ground rent or insurance premiums, to the payment of such items or to the repayment of the Indebtedness.

(m) Lender in its sole discretion may surrender any insurance policies and collect the unearned premiums and apply such sums against the Indebtedness.

(n) To the extent permitted by law, exercise any power of sale.

Section 4.02 General Provisions Regarding Remedies.

(a) Proceeds of Sale. The proceeds of any sale of the Mortgaged Property or any part thereof received by Lender shall be distributed and applied to the amounts set forth in Section 2.7 of the Loan Agreement in such order and priority as Lender deems appropriate in its sole discretion.

(b) Effect of Judgment. No recovery of any judgment by Lender or Trustee and no levy of an execution under any judgment upon the Mortgaged Property or upon any other property of Borrower shall affect in any manner or to any extent the lien of this Deed of Trust upon the Mortgaged Property or any portion thereof, or any rights, powers or remedies of Lender hereunder. Such lien, rights, powers and remedies of Lender and Trustee shall continue unimpaired as before.

(c) Continuing Power of Sale. The power of sale conferred upon Lender in this Deed of Trust shall not be exhausted by any one or more sales as to any portion of the Mortgaged Property remaining unsold, but shall continue unimpaired until all of the Mortgaged Property is sold or all of the Indebtedness is paid.

(d) Right to Purchase. At any sale of the Mortgaged Property or any portion thereof pursuant to the provisions of this Deed of Trust, Lender or Trustee shall have the right to purchase the Mortgaged Property being sold, and in such case shall have the right to credit against the amount of the bid made therefor (to the extent necessary) all or any portion of the Indebtedness then due.

(e) Right to Terminate Proceedings. Lender or Trustee may terminate or rescind any proceeding or other action brought in connection with its exercise of the remedies provided in Section 4.01 at any time before the conclusion thereof, as determined in Lender's sole discretion and without prejudice to Lender.

(f) No Waiver or Release. Lender may resort to, or require Trustee to resort to, any remedies and the security given by the Loan Documents, in whole or in part, and in such portions and in such order as determined in Lender's sole discretion. No such action shall in any way be considered a waiver of any rights, benefits or remedies evidenced or provided by the Loan Documents. The failure of Lender or Trustee to exercise any right, remedy or option provided in the Loan Documents shall not be deemed a waiver of such right, remedy or option or of any covenant or obligation secured by the Loan Documents. No acceptance by Lender or Trustee of any payment after the occurrence and during the continuance of an Event of Default and no payment by Lender or Trustee of any Advance or obligation for which Borrower is liable hereunder shall be deemed to waive or cure such Event of Default or Borrower's liability to pay such obligation. No sale of all or any portion of the Mortgaged Property, no forbearance on the part of Lender or Trustee, and no extension of time for the payment of the whole or any portion of the Indebtedness or any other indulgence given by Lender or Trustee to Borrower or any other

Person, shall operate to release or in any manner affect Lender's or Trustee's interest in the Mortgaged Property or the liability of Borrower to pay the Indebtedness, except to the extent that such liability shall be reduced by proceeds of the sale of all or any portion of the Mortgaged Property received by Lender. No waiver by Lender or Trustee shall be effective unless it is in a writing executed by Lender and then only to the extent specifically stated therein.

(g) No Impairment; No Release. The interests and rights of Lender or Trustee under the Loan Documents shall not be impaired by any indulgence, including: (i) any renewal, extension or modification which Lender may grant with respect to any of the Indebtedness; (ii) any surrender, compromise, release, renewal, extension, exchange or substitution which Lender or Trustee may grant with respect to the Mortgaged Property or any portion thereof; or (iii) any release or indulgence granted to any maker, endorser, guarantor or surety of any of the Indebtedness. If the Mortgaged Property is sold and Lender enters into any agreement with the then owner of the Mortgaged Property extending the time of payment of the Indebtedness, or otherwise modifying the terms hereof or of any other Loan Document, Borrower shall continue to be liable to pay the Indebtedness according to the tenor of any such agreement unless expressly released and discharged in writing by Lender.

(h) Waivers and Agreements Regarding Remedies. To the fullest extent that Borrower may legally do so, Borrower:

(i) agrees that Borrower will not at any time insist upon, plead, claim or take the benefit or advantage of any laws now or hereafter in force providing for any appraisal or appraisement, valuation, stay, extension or redemption, and waives and releases all rights of redemption, valuation, appraisal or appraisement, stay of execution, extension and notice of election to accelerate or declare due the whole of the Indebtedness;

(ii) waives all rights to a marshalling of the assets of Borrower, Borrower's partners, if any, and others with interests in Borrower, including the Mortgaged Property, or to a sale in inverse order of alienation in the event of foreclosure of the interests hereby created, and agrees not to assert any right under any laws pertaining to the marshalling of assets, the sale in inverse order of alienation, homestead exemption, the administration of estates of decedents, or any other matters whatsoever to defeat, reduce or affect the right of Lender under the Loan Documents to a sale of the Mortgaged Property for the collection of the Indebtedness without any prior or different resort for collection, or the right of Lender or Trustee to the payment of the Indebtedness out of the proceeds of sale of the Mortgaged Property in preference to every other claimant whatsoever;

(iii) waives any right to bring or utilize any defense, counterclaim or setoff, other than one in good faith, which denies the existence or sufficiency of the facts upon which the foreclosure action is grounded or which is based on Lender's or Trustee's wrongful actions. If any defense, counterclaim or setoff (other than one permitted by the preceding sentence) is raised by Borrower in such foreclosure action, such defense, counterclaim or setoff shall be dismissed. If such defense, counterclaim or setoff is based on a claim which could be tried in an action for money damages, the foregoing waiver shall not bar a separate action for such damage (unless such claim is required by law or applicable rules of procedure to be pleaded in or consolidated with the action initiated by Lender or Trustee), but such separate action shall

not thereafter be consolidated with Lender's or Trustee's foreclosure action. The bringing of such separate action for money damages shall not be deemed to afford any grounds for staying any such foreclosure action;

(iv) waives and relinquishes any and all rights and remedies which Borrower may have or be able to assert by reason of the provisions of any laws pertaining to the rights and remedies of sureties;

(v) waives the defense of laches and any applicable statutes of limitation; and

(vi) waives any right to have any trial, action or proceeding tried by a jury.

(i) Lender's Discretion. Except as expressly set forth herein or in any other Loan Document to the contrary, Lender may exercise its rights, options and remedies and may make all decisions, judgments and determinations under this Deed of Trust and the other Loan Documents in its sole and absolute discretion.

(j) Recitals of Facts. In the event of a sale or other disposition of the Mortgaged Property pursuant to Section 4.01 and the execution of a deed or other conveyance pursuant thereto, the recitals therein of facts (such as default, the giving of notice of default and notice of sale, demand that such sale should be made, postponement of sale, terms of sale, purchase, payment of purchase money and other facts affecting the regularity or validity of such sale or disposition) shall be conclusive proof of the truth of such facts. Any such deed or conveyance shall be conclusive against all Persons as to such facts recited therein.

(k) Lender's Right to Waive, Consent or Release. Lender may at any time, in writing: (i) waive compliance by Borrower with any covenant herein made by Borrower to the extent and in the manner specified in such writing; (ii) consent to Borrower's doing any act which Borrower is prohibited hereunder from doing, or consent to Borrower's failing to do any act which Borrower is required hereunder to do, to the extent and in the manner specified in such writing; or (iii) release, or require Trustee to release, any portion of the Mortgaged Property, or any interest therein, from this Deed of Trust and the lien of the other Loan Documents. No such act shall in any way impair the rights of Lender or Trustee hereunder except to the extent specified by Lender in such writing.

(l) Possession of the Mortgaged Property. Following the occurrence and during the continuance of any Event of Default hereunder and upon demand by Lender at its option, Borrower shall immediately surrender or cause the surrender of possession of the interest of Borrower in the Premises to Lender. If Borrower or any other occupant is permitted to remain in possession, such possession shall be as tenant of Lender and such occupant: (i) shall on demand pay to Lender monthly, in advance, reasonable use and occupancy charges for the space so occupied; and (ii) in default thereof, may be dispossessed by the usual summary proceedings. Following the occurrence and during the continuance of any Event of Default and upon demand by Lender, Borrower shall assemble any Collateral that constitutes personal property and has been removed from the Land and make it available at the site of the Land. The covenants herein

contained may be enforced by a receiver of the Mortgaged Property or any portion thereof. Nothing in this Section 4.02(l) shall be deemed a waiver of the provisions of this Deed of Trust prohibiting the sale or other disposition of the Mortgaged Property without the prior consent of Lender.

(m) Limitations on Liability. Notwithstanding anything contained herein to the contrary, Borrower's liability hereunder is subject to the limitation on liability provisions of Article 11 of the Loan Agreement, which Article 11 is incorporated herein by reference, mutatis mutandis, as if such Article 11 was set forth in full herein.

(n) Subrogation. If all or any portion of the proceeds of the Note or any Advance shall be used directly or indirectly to pay off, discharge or satisfy, in whole or in part, any prior lien or encumbrance upon the Mortgaged Property or any portion thereof, then Lender and Trustee shall be subrogated to, and shall have the benefit of the priority of, such other lien or encumbrance and any additional security held by the holder thereof.

ARTICLE V

MISCELLANEOUS

Section 5.01 Notices. All notices, consents, approvals and requests required or permitted hereunder or under any other Loan Document shall be given in writing and shall be effective for all purposes if delivered to the Persons and locations and in the manner set forth in Section 12.1 of the Loan Agreement.

Section 5.02 Binding Obligations: Joint and Several. The provisions and covenants of this Deed of Trust shall run with the land, shall be binding upon Borrower, its successors and assigns, and shall inure to the benefit of Lender and Trustee and their respective successors and assigns. If there is more than one Borrower, all their obligations and undertakings hereunder are and shall be joint and several.

Section 5.03 Captions. The captions of the sections and subsections of this Deed of Trust are for convenience only and are not intended to be a part of this Deed of Trust and shall not be deemed to modify, explain, enlarge or restrict any of the provisions hereof.

Section 5.04 Severability. If any one or more of the provisions contained in this Deed of Trust shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Deed of Trust, but this Deed of Trust shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

Section 5.05 Amendments; Consents. This Deed of Trust cannot be altered, amended, modified or discharged orally and no executory agreement shall be effective to modify or discharge it in whole or in part, unless in writing and signed by the party against which enforcement is sought. No consent or approval required hereunder or under any other Loan Document shall be binding unless in writing and signed by the party sought to be bound.

Section 5.06 Other Loan Documents and Exhibits. All of the agreements, conditions, covenants, provisions and stipulations contained in the Loan Agreement, the Note and the other Loan Documents, and each of them, which are to be kept and performed by Borrower are hereby made a part of this Deed of Trust to the same extent and with the same force and effect as if they were fully set forth in this Deed of Trust, and Borrower shall keep and perform the same, or cause them to be kept and performed, strictly in accordance with their respective terms. The Cover Sheet and each exhibit, schedule and rider attached to this Deed of Trust are integral parts of this Deed of Trust and are incorporated herein by this reference. In the event of any conflict between the provisions of any such exhibit, schedule or rider and the remainder of this Deed of Trust, the provisions of such exhibit, schedule or rider shall prevail.

Section 5.07 Legal Construction.

(a) In all respects, including, without limitation, matters of construction and performance of this Deed of Trust and the obligations arising hereunder, this Deed of Trust shall be governed by, and construed in accordance with, the laws of the State in which the Premises are located applicable to contracts and obligations made and performed in such State and any applicable laws of the United States of America. Interpretation and construction of this Deed of Trust shall be according to the contents hereof and without presumption or standard of construction in favor of or against Borrower or Lender. All terms contained herein shall be construed, whenever the context of this Deed of Trust so requires, so that the singular number shall include the plural, and the plural the singular, and the use of any gender shall include all genders.

(b) The terms “include” and “including” as used in this Deed of Trust shall be construed as if followed by the phrase “without limitation”. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Deed of Trust shall refer to this Deed of Trust as a whole and not to any particular provision of this Deed of Trust, and Article, Section and Exhibit references contained in this Deed of Trust are references to Articles, Sections and Exhibits in or to this Deed of Trust unless otherwise specified.

(c) Any provision of this Deed of Trust or in the other Loan Documents permitting the recovery of “attorneys’ fees”, “attorneys’ fees and expenses”, “attorneys’ fees and costs” or “attorneys’ fees, costs and expenses” or any similar term shall be deemed: (i) to include such attorneys’ fees, costs and expenses, in each case, to the extent reasonably incurred; (ii) to include such fees, costs and expenses incurred in all probate, appellate and bankruptcy proceedings, as well as any post-judgment proceedings to collect or enforce any judgment or order relating to the Indebtedness or any of the Loan Documents; and (iii) shall be deemed to be separate and several, and shall survive merger into judgment.

Section 5.08 Merger. So long as any Indebtedness shall remain unpaid, fee title to and any other estate in the Mortgaged Property shall not merge, but shall be kept separate and distinct, notwithstanding the union of such estates in any Person.

Section 5.09 Time of the Essence. Time shall be of the essence in the performance of all obligations of Borrower under this Deed of Trust.

Section 5.10 Repayment and Release. If all of the Indebtedness (other than contingent obligations that survive the repayment of the Loan) is paid in full in accordance with the Loan Agreement, the Note, this Deed of Trust and the other Loan Documents and all of the covenants, warranties, conditions, undertakings and agreements made in the Loan Agreement, the Note, this Deed of Trust and the other Loan Documents are fully kept and performed, then in that event only all rights of Lender under this Deed of Trust and the other Loan Documents shall terminate and the Mortgaged Property shall become wholly clear of the liens, grants, security interests, conveyances and assignments evidenced hereby and thereby, and Lender shall release or cause to be released such liens, grants, assignments, conveyances and security interests in due form at Borrower's cost (to the extent permitted by the law of the State), and this Deed of Trust shall be void; provided, however, that no provision of this Deed of Trust or any other Loan Document which, by its own terms, is intended to survive such payment, performance, and release (nor the rights of Lender or Trustee under any such provision) shall be affected in any manner thereby and such provision shall, in fact, survive. Recitals of any matters or facts in any release instrument executed by Lender or Trustee under this Section 5.10 shall be conclusive proof of the truthfulness thereof. To the extent permitted by law, such an instrument may describe the grantee or releasee as "the person or persons legally entitled thereto" and Lender and Trustee shall not have any duty to determine the rights of persons claiming to be rightful grantees or releasees of any of the Mortgaged Property. When this Deed of Trust has been fully released or discharged by Lender and/or Trustee, the release or discharge hereof shall operate as a release and discharge of the Assignment and as a reassignment of all future Leases and Property Income with respect to the Mortgaged Property to the person or persons legally entitled thereto, unless such release expressly provides to the contrary.

Section 5.11 Intentionally Omitted.

Section 5.12 Conflict. Notwithstanding anything to the contrary herein, this Deed of Trust shall be subject to the terms and conditions of the Loan Agreement and in the event of any conflict between the terms and conditions of this Deed of Trust and the terms and conditions of the Loan Agreement, the terms and conditions of the Loan Agreement shall prevail.

ARTICLE VI

TRUSTEE

Section 6.01 Certain Actions of Trustee. Upon the written request of Lender, Trustee may at any time: (a) reconvey all or any portion of the Mortgaged Property; (b) consent to the making of any map or plat thereof; (c) join in granting any easement thereon or in creating any covenants or conditions restricting the use or occupancy thereof; or (d) join in any extension agreement or in any agreement subordinating the lien or charge hereof. Any such action may be taken by Trustee without notice, and shall not affect the personal liability of any person for the payment of the Indebtedness or the lien of this Deed of Trust upon the Mortgaged Property for the full amount of the Indebtedness.

Section 6.02 Reconveyances. Upon the written request of Lender stating that all sums secured hereby have been paid, and upon payment of its fees, Trustee shall reconvey without warranty the Mortgaged Property then held by Trustee hereunder.

Section 6.03 Trustee's Covenants and Compensation. Trustee, by its acceptance hereof, covenants faithfully to perform and fulfill the trust herein created, being liable, however, only for negligence or willful misconduct. Trustee hereby waives any statutory fee and shall be entitled to, and hereby agrees to accept, reasonable compensation in lieu thereof for all services rendered and expenses incurred in the administration or execution of the trust hereby created. Borrower hereby agrees to pay such compensation subject to any applicable legal limitations.

Section 6.04 Substitution of Trustee. Lender at any time in its sole discretion may select and appoint a successor or substitute Trustee hereunder by instrument in writing in any manner now or hereafter provided by law. Such writing, upon recordation in the county where the Land is located, shall be conclusive proof of proper substitution of such successor or substitute Trustee which shall thereupon and without conveyance from the predecessor Trustee succeed to all its title, estate rights, powers and duties.

Section 6.05 Resignation of Trustee. Trustee may resign at any time upon giving at least thirty (30) days' prior written notice to Borrower and Lender.

Section 6.06 Ratification of Acts of Trustee. Borrower hereby ratifies and confirms any and all acts which Trustee named herein or its successors or assigns in this trust shall do lawfully by virtue hereof.

ARTICLE VII

STATE LAW PROVISIONS

Section 7.01 Notice Addresses. Pursuant to Section 2924b(d) of the California Civil Code, Borrower and Lender request that a copy of any notice of default and a copy of any notice of sale be mailed to Borrower and Lender, respectively, at the address for such party set forth herein.

Section 7.02 Uniform Commercial Code.

(a) Lender shall have all of the rights and remedies of a secured party under the Code as well as all other rights and remedies available at law or in equity.

(b) Borrower agrees to deliver to Lender any financing statements, as well as extensions, renewals and amendments thereof, and to execute and deliver to Lender any reproductions of this Deed of Trust in such form as Lender may require to perfect a security interest with respect to the Personal Property. Borrower hereby authorizes and empowers Lender and irrevocably appoints Lender its agent and attorney-in-fact to file, on Borrower's behalf, all financing statements and refilings and continuations thereof as Lender deems necessary or advisable to create, preserve and protect such lien, which financing statements may describe the collateral as "all assets" of the debtor or words of similar effect. Borrower shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all reasonable costs and expenses of any record searches for financing statements as Lender may reasonably require.

(c) Except as permitted pursuant to the Loan Agreement, Borrower shall not, without the prior written consent of Lender, sell, assign, transfer, encumber, remove or permit to be removed from the Premises any of the Personal Property. Notwithstanding the foregoing, so long as no Event of Default has occurred and is continuing, Borrower may sell or otherwise dispose of any Personal Property when obsolete, worn out, inadequate, unserviceable or unnecessary for use in the operation of the Premises, but only upon replacing the same with other Personal Property at least equal in value and utility to the disposed Personal Property. Any replacement or substituted Personal Property shall be subject to the security interest granted herein.

(d) To the extent permitted by law, Borrower and Lender agree that with respect to all items of Personal Property which are or will become fixtures on the Land, this Deed of Trust, upon recording or registration in the real estate records of the proper office, shall constitute a "fixture filing" within the meaning of Sections 9501(a)(1) and 9502(b) and (c) of the Code. Borrower is the record owner of the Land.

(e) Upon the occurrence and during the continuance of an Event of Default under this Deed of Trust, Lender, pursuant to the appropriate provisions of the Code and subject to other applicable provisions of California law, shall have an option to proceed with respect to both the real property portion of the interest of Borrower in the Premises and the Personal Property in accordance with its rights, powers and remedies with respect to such real property, in which event the default provisions of the Code shall not apply. Such option shall be revocable by Lender as to all or any portion of the Personal Property at any time prior to the sale of the remainder of the interest of Borrower in the Premises. In such event Lender shall designate Trustee to conduct the sale of the Personal Property in combination with the sale of the remainder of the interest of Borrower in the Premises. Should Lender elect to sell the Personal Property or any part thereof which is real property or which Lender has elected to treat as real property or which may be sold together with the real property as provided above, Lender or Trustee shall give such notice of default and election to sell as may then be required by law. The parties agree that if Lender shall elect to proceed with respect to any portion of the Personal Property separately from such real property, ten (10) days' notice of the sale of the Personal Property shall be reasonable notice. The reasonable expenses of retaking, holding, preparing for sale, selling and the like incurred by Lender shall include, but not be limited to, reasonable attorneys' fees, costs and expenses, and other expenses incurred by Lender.

Section 7.03 Notice and Cure Periods. All notices and cure periods described herein shall not be applicable to any event which with the giving of notice, the passage of time or both would constitute an Event of Default, if such event has occurred as of the date on which Lender commences a nonjudicial foreclosure proceeding with respect to another Event or Events of Default. Such event shall constitute an independent Event of Default hereunder.

Section 7.04 Trustee's Sale. Should Lender elect to foreclose by exercise of the power of sale contained herein, Lender shall notify Trustee and shall, if required, deposit with Trustee the Note, the original or a certified copy of this Deed of Trust, and such other documents, receipts and evidences of expenditures made and secured hereby as Trustee may require. The following paragraphs are subject to the provisions of applicable California law:

(a) Upon receipt of such notice from Lender, Trustee shall cause to be recorded and delivered to Borrower such notice of default as may then be required by law and by this Deed of Trust. Trustee shall, without demand on Borrower, after lapse of such time as may then be required by law and after recordation of such notice of default and after notice of sale has been given as required by law, sell the Mortgaged Property at the time and place of sale fixed by it in said notice of sale, either as a whole or in separate lots or parcels or items as Trustee shall deem expedient, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States payable at the time of sale. Trustee shall deliver to the purchaser or purchasers at such sale its good and sufficient deed or deeds conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including, without limitation, Borrower, Trustee or Lender, may purchase at such sale. To the extent permitted by law, during any sale conducted by Trustee pursuant to the power of sale contained in this Deed of Trust, Lender may, at Lender's option, direct the Trustee to (i) sell the Mortgaged Property either as a whole or in separate parcels and in such order as Lender may determine and (ii) postpone the sale of all or any portion of the Mortgaged Property from time to time in accordance with the laws of the State of California.

(b) Trustee may postpone the sale of all or any portion of the Mortgaged Property from time to time in accordance with the laws of the State in which the Land is located.

(c) To the fullest extent allowed by law, Borrower hereby expressly waives any right which it may have to direct the order in which any of the Mortgaged Property shall be sold in the event of any sale or sales pursuant to this Deed of Trust.

(d) Upon any foreclosure sale, Lender may bid for and purchase the Mortgaged Property and shall be entitled to apply all or any part of the Indebtedness as a credit to the purchase price.

(e) Lender may from time to time rescind any notice of default or notice of sale before any Trustee's sale as provided above in accordance with the laws of the State in which the Land is located. The exercise by Lender of such right of rescission shall not constitute a waiver of any breach or default then existing or subsequently occurring, or impair the right of Lender to execute and deliver to Trustee, as above provided, other declarations or notices of default to satisfy the obligations of this Deed of Trust, or otherwise affect any provision, covenant or condition of any Loan Document or any of the rights, obligations or remedies of Trustee or Lender hereunder or thereunder.

(f) Trustee and Lender shall have all powers, rights and remedies under applicable law whether or not specifically or generally granted or described in this Deed of Trust. Nothing contained herein shall be construed to impair or to restrict such powers, rights and remedies or to preclude any procedures or process otherwise available to trustees or beneficiaries under deeds of trust in the State in which the Land is located. To the extent consistent with applicable law, Trustee and Lender, and each of them, shall be entitled to enforce the payment and performance of the Indebtedness or the obligations hereunder and to exercise all rights and powers under this Deed of Trust or under any other Loan Document or other agreement or any laws now or hereafter in force, notwithstanding the fact that some or all of the Indebtedness and

the obligations hereunder may now or hereafter be otherwise secured, whether by Deed of Trust, mortgage, pledge, lien, assignment or otherwise. Neither the acceptance of this Deed of Trust nor its enforcement, whether by court action or pursuant to the power of sale or other powers contained herein, shall prejudice or in any manner affect Trustee's or Lender's right to realize upon or enforce any other rights (other than any statutory restriction against pursuing a deficiency judgment based upon an election of remedies) or security now or hereafter held by Trustee or Lender. Trustee and Lender, and each of them, shall be entitled to enforce this Deed of Trust and any other rights or security now or hereafter held by Lender or Trustee in such order and manner as they or either of them may in their absolute discretion determine. No remedy herein conferred upon or reserved to Trustee or Lender is intended to be exclusive of any other remedy contained herein or by law provided or permitted, but each shall, to the extent permitted by law, be cumulative and in addition to every other remedy given hereunder or now or hereafter existing at law or in equity. Every power or remedy given by any of the Loan Documents to Trustee or Lender, or to which either of them may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Trustee or Lender, and either of them may pursue inconsistent remedies. To the extent permitted by applicable California law, by exercising or by failing to exercise any right, option or election hereunder, Lender shall not be deemed to have waived any provision hereof or to have released Borrower from any of the obligations secured hereby unless such waiver or release is in writing and signed by Lender. The waiver by Lender of Borrower's failure to perform or observe any term, covenant or condition referred to or contained herein to be performed or observed by Borrower shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent failure of Borrower to perform or observe the same or any other such term, covenant or condition referred to or contained herein, and no custom or practice which may develop between Borrower and Lender during the term hereof shall be deemed a waiver of or in any way affect the right of Lender to insist upon the performance by Borrower of the obligations secured hereby in strict accordance with the terms hereof or of any other Loan Document.

Section 7.05 [Intentionally Omitted.]

Section 7.06 Waiver of Lien. In accordance with California Code of Civil Procedure Section 726.5, Lender may waive its lien against the Mortgaged Property or any portion thereof, together with fixtures or personal property thereon, to the extent such property is found to be environmentally impaired, and may, subject to the requirements of such Section 726.5, exercise any and all rights and remedies of an unsecured creditor against Borrower and all of Borrower's assets and property for the recovery of any deficiency, including, without limitation, seeking an attachment order under California Code of Civil Procedure Section 483.010. No such waiver shall be final or binding on Lender unless and until a final money judgment is obtained against Borrower. As between Lender and Borrower, for purposes of California Code of Civil Procedure Section 726.5, Borrower shall have the burden of proving that the release or threatened release was not knowingly or negligently caused or contributed to, or knowingly or willfully permitted or acquiesced to by Borrower or any related party (or any affiliate or agent of Borrower or any related party) and that Borrower made written disclosure of the release to Lender or that Lender otherwise obtained actual knowledge thereof prior to the making of the loan evidenced by the Note. Notwithstanding anything to the contrary contained in this Deed of Trust or the other Loan Documents, Borrower shall be fully and personally liable for all judgments and awards entered against Borrower pursuant to California Code of Civil Procedure 726.5 and such liability

shall be an exception to any non-recourse or exculpatory provision in this Deed of Trust or the other Loan Documents and shall not be limited to the original principal amount of the obligations secured by this Deed of Trust. To the fullest extent permitted by applicable law, for the purpose of any action brought under this Section, Borrower hereby waives the defense of laches and any applicable statute of limitations. To the fullest extent permitted by applicable law, for purposes of California Code of Civil Procedure 726.5, the acts, knowledge and notice of each "726.5 Party" shall be attributed to and be deemed to have been performed by the party or parties then obligated on and liable for payment of the Note. As used herein, "726.5 Party" shall mean Borrower or, if Borrower transfers all or any portion of the Mortgaged Property, such successor owner to Borrower with respect to all or such portion of the Mortgaged Property, any related party of Borrower or any such successor and any affiliate or agent of Borrower, any such successor or any such related party.

Section 7.07 Action for Environmental Claims. In accordance with, and subject to the limitations of, California Code of Civil Procedure Section 736, Lender may, with respect to a claim that the Borrower has breached its covenants, representations and/or warranties with respect to the environmental matters contained in Sections 5 through 7 of the Environmental Indemnification Agreement (the “**Environmental Provisions**”), commence and maintain an action or actions in any court of competent jurisdiction for enforcement of the Environmental Provisions and/ or recovery of any all costs, damages, expenses, fees, penalties, fines, judgments, indemnification payments to third parties, and other actual out-of-pocket costs or expenses (including, without limitation, court costs, actual consultants’ fees and reasonable attorneys’ fees, whether incurred in litigation or not and whether before or after judgment), reasonably incurred or advanced by Lender pursuant to the Environmental Provisions (collectively, the “**Environmental Costs**”), excluding, however, any Environmental Costs not permitted to be recovered pursuant to Section 736 of the California Code of Civil Procedure. Environmental Costs that are not permitted to be recovered pursuant to Section 736 may be referred to hereinafter as the “**Unsecured Environmental Costs**”, and Environmental Costs other than the Unsecured Environmental Costs may be referred to hereinafter as the “**Secured Environmental Costs**”. Any Unsecured Environmental Costs shall not be secured by this Deed of Trust; provided, however, nothing herein shall prevent Lender from recovering any Unsecured Environmental Costs pursuant to the Environmental Indemnification Agreement to the extent they are recoverable in accordance with the Environmental Indemnification Agreement. All Secured Environmental Costs incurred by Lender shall bear interest at the rate then in effect under the Note. All Secured Environmental Costs together with interest thereon at the rate then in effect under the Note shall be secured by this Deed of Trust and shall enjoy the same priority as the original principal amount of the Note. Borrower acknowledges and agrees that notwithstanding any term or provision contained in this Deed of Trust or in the other Loan Documents, Environmental Costs shall be exceptions to any nonrecourse or exculpatory provision, if any, and Borrower shall be fully and personally liable for Environmental Costs. To the fullest extent permitted by applicable law, such liability shall not be limited to the original principal amount of the obligations secured by this Deed of Trust. To the fullest extent permitted by applicable law, for the purposes of any action brought under this subparagraph, Borrower hereby waives the defense of laches and any applicable statute of limitations.

Section 7.08 Appointment of Receiver. In addition, Lender shall have the right to appoint a receiver when permitted under Section 564 of the California Code of Civil Procedure,

including, without limitation, in order to enforce Lender's rights under Section 2929.5 of the California Civil Code. The receiver shall have all of the rights and powers to the fullest extent permitted by law. The receiver shall have the right to apply Rents to cleanup, remediation or other response action concerning the release or threatened release of Hazardous Substances, whether or not such actions are pursuant to an order of any federal, state or local governmental agency. Borrower hereby confirms the right of Lender (or a receiver appointed by Lender) to enter upon and inspect all or any portion of the Mortgaged Property for the purpose of determining the existence, location, nature and magnitude of any past or present release or threatened release of any hazardous substance into, onto, beneath, or from the Mortgaged Property in accordance with Section 2929.5 of the California Civil Code. All costs and expenses reasonably incurred by Lender pursuant to this provision or pursuant to Section 2929.5 of the California Civil Code, including, without limitation, actual out-of-pocket costs of consultants and contractors, costs of repair of any physical injury to the Mortgaged Property normal and customary to the tests and studies, court costs and reasonable attorneys' fees, actual out-of-pocket costs and expenses, whether incurred in litigation or not and whether before or after judgment, shall be payable by Borrower and, to the extent advanced or otherwise reasonably incurred by Lender, shall be reimbursed to Lender by Borrower upon demand. This provision is separate and several, and shall survive merger into any judgment.

Section 7.09 Costs. Except as provided in Section 12.14 of the Loan Agreement, Borrower shall pay all reasonable Costs incurred by Lender in connection with the documentation, modification, workout, collection or enforcement of the Loan or any of the Loan Documents (as applicable), including probate, appellate and bankruptcy proceedings, any post-judgment proceedings to collect or enforce any judgment or order relating to the Loan or any of the Loan Documents (as applicable), and all such Costs shall be included as additional Indebtedness bearing interest at the rate then in effect under the Note until paid. In any action to foreclose the lien hereof or otherwise enforce Lender's rights and remedies hereunder, there shall be allowed and included as additional Indebtedness all Costs which may be paid or incurred by or on behalf of Lender. For the purposes hereof "Costs" means all expenditures and expenses which may be paid or reasonably incurred by or on behalf of Lender including repair costs, payments to remove or protect against liens, reasonable attorneys' fees (including reasonable fees of Lender's inside counsel), receivers' fees, appraisers' fees, engineers' fees, accountants' fees, independent consultants' fees (including environmental consultants), all costs and expenses reasonably incurred in connection with any of the foregoing, Lender's actual out-of-pocket costs and expenses reasonably incurred with respect to any audit or inspection of the Mortgaged Property, reasonably incurred outlays for documentary and expert evidence, stenographers' charges, stamp taxes, publication costs, and costs (which may be estimates as to items to be expended after entry of an order or judgment) for procuring all such abstracts of title, title searches and examination, title insurance policies, and similar data and assurances with respect to title as Lender may deem reasonably necessary either to prosecute any action or to evidence to bidders at any sale of the Mortgaged Property the true condition of the title to, or the value of, the Mortgaged Property. Further, all "Costs" shall include such other costs, expenses and fees as may be reasonably incurred by Lender in the protection of the Mortgaged Property and the maintenance of the lien of this Deed of Trust, including, reasonable attorneys' fees, expenses and costs in any litigation or proceeding affecting this Deed of Trust, the Note, the other Loan Documents, the Mortgaged Property or the Personal Property, including probate, appellate, and bankruptcy proceedings, and any post-judgment proceedings to collect or enforce any judgment

or order relating to this Deed of Trust or the other Loan Documents, to obtain any court order or the appointment of a receiver to enforce Lender's rights pursuant to Section 564 of the California Code of Civil Procedure and/or Section 2929.5 of the California Civil Code or in preparation for the commencement or defense of any action or proceeding, shall be immediately due and payable to Lender, with interest thereon at the Default Rate, and shall be secured by this Deed of Trust. This provision is separate and several, and shall survive the merger of this provision into any judgment.

Section 7.10 Waivers.

(a) Borrower waives, to the extent permitted by law, (i) the benefit of all Laws now existing or that may hereafter be enacted providing for any appraisal before sale of any portion of the Mortgaged Property, (ii) all rights of redemption, valuation, appraisal, stay of execution, notice of intent to accelerate, notice of acceleration, notice of election to mature or declare due the whole of the Indebtedness in the event of foreclosure of the liens hereby created, (iii) all rights and remedies which Borrower may have or be able to assert by reason of the laws of the State of California pertaining to the rights and remedies of sureties, (iv) the right to assert any statute of limitations as a bar to the enforcement of the lien of this Deed of Trust or to any action brought to enforce the Note or any other obligation, and (v) any rights, legal or equitable, to require marshaling of assets or to require foreclosure sales in a particular order, including any rights under California Civil Code Sections 2899 and 3433, and all rights of Borrower under California Civil Code Section 2822. Lender shall have the right to determine the order in which any or all of the Mortgaged Property shall be subjected to the remedies provided herein. Lender shall have the right to determine the order in which any or all portions of the Indebtedness are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Nothing contained herein shall be deemed to be a waiver of Borrower's rights under Section 2924c of the California Civil Code.

(b) The application of the proceeds of any condemnation award shall be governed by Section 3.3 of the Loan Agreement. Any implied covenant in this Deed of Trust restricting the right of Lender to make such an election is waived by Borrower. In addition, Borrower hereby waives the provisions of any law prohibiting Lender from making such an election, including, without limitation, the provisions of California Code of Civil Procedure commencing with Section 1265.210.

Section 7.11 Beneficiary Statement. Lender may collect a fee not to exceed the maximum allowed by applicable law for furnishing the statement of obligation as provided in Section 2943 of the California Civil Code.

Section 7.12 Enforcement of Assignment of Leases and Income. Without limiting any other rights or remedies of Lender set forth in this Deed of Trust or under any of the other Loan Documents, or available at law or in equity, at any time following the occurrence and during the continuance of any Event of Default, Lender shall have the right to enforce all of the rights and remedies of an assignee under Section 2938 of the California Civil Code ("**Section 2938**"). In the event that Lender shall elect to enforce this Deed of Trust in accordance with Section 2938, the following procedures shall apply, as applicable and subject to the limitations of Section 2938:

(a) Lender may send a demand notice in the form prescribed by Section 2938 to, in the case of enforcement under Section 2938(c)(3), one or more of the tenants of the Mortgaged Property, with a copy to Borrower and any other assignee under a recorded assignment of leases, rents, issues and profits with respect to the Mortgaged Property, or, in the case of enforcement under Section 2938(c)(4), to Borrower with a copy to any such other assignees in accordance with the procedures set forth therein. Without limiting Lender's rights to any amounts received by Borrower after an Event of Default has occurred and is continuing under this Deed of Trust, Borrower shall immediately turn over to Lender any Property Income received by Borrower from any tenant of the Mortgaged Property from and after Lender's enforcement of this Deed of Trust under either of such Sections 2938(c)(3) or (4), it being understood that Borrower shall be deemed to hold such amounts as trustee for Lender until such amounts have been paid to Lender. In addition, Borrower shall also cause any collection agent for Borrower or any other person who has collected for Borrower's benefit relating to the period from and after Lender's enforcement of the assignment of Leases and Property Income contained in this Deed of Trust under either of such Sections 2938(c)(3) or (4), to turn such Property Income over to Lender.

(b) Notwithstanding anything to the contrary contained in this Deed of Trust or any other Loan Document, if Lender shall proceed to enforce this Deed of Trust by means other than the appointment of a receiver and consequently receives Property Income as a result thereof, and Lender receives written demand from Borrower (or any other party entitled under law to make demand on Lender) to pay the reasonable costs of protecting and preserving the Mortgaged Property, Lender may elect either to pay (either directly to the party to whom owed, or by joint check payable to Borrower and such party) or authorize Borrower to pay, such costs (such payments being referred to herein as "**Protective Payments**"), conditioned upon Borrower furnishing to Lender all information (such as invoices, bills, contracts, or purchase orders) necessary in order for Lender to identify the party to whom payment is owed or the work, service or item for which payment is requested and to establish that such Protective Payments are required to be paid or authorized under this Section. If Borrower is authorized to pay any Protective Payments under this Section, Lender reserves the right to deposit the amounts necessary to pay such Protective Payments into a non-interest bearing checking account, in which Borrower shall have granted to Lender a perfected, first priority security interest, from which Borrower shall be obligated to draw the funds necessary to pay such Protective Payments. In the event that Lender agrees or is required under any circumstances to pay or authorize the payment of any Protective Payments consisting of costs of improvement of the Mortgaged Property or any portion thereof (or any other costs the non-payment of which would entitle the payee to enforce mechanic's or materialman's liens or similar rights), Lender shall be authorized, before paying or authorizing the payment of any such payments, to require compliance with standard construction loan disbursement conditions with respect to such costs, including, without limitation, the receipt of unconditional mechanics' lien waivers with respect to the work for which such costs are to be paid.

(c) In no event shall Lender be obligated to pay or authorize the payment of Protective Payments in excess of any Property Income actually received by Lender as a result of the enforcement of this clause of this Section.

(d) Nothing contained in this Section shall limit the rights of Lender under any other provision of this Deed of Trust.

(e) Nothing contained in this Section shall limit either (x) Lender's right to cease at any time any further enforcement of this Deed of Trust under Section 2938 by sending written notice of the cancellation thereof to each party to whom a demand notice was sent, or (y) Lender's right to seek the appointment of a receiver, either of which if enforced by Lender, shall terminate Lender's obligations under this Section.

(f) In no event shall any enforcement of Lender's rights under this Section, including, without limitation, the payment or authorization of payment of any Protective Payments, make Lender a "mortgagee-in-possession" or limit, waive, or otherwise derogate any of Lender's other rights and remedies available to it under the Loan Documents to which Borrower is a party or at law. In no event shall any exercise of rights by the Lender under this Section, including, without limitation, the payment or authorization of payment of any Protective Payments, be construed to require the Lender to operate or manage the Mortgaged Property or be construed as an assumption by Lender of any obligation to operate or manage the Mortgaged Property, and all liabilities and obligations in relation to the operation and management of the Mortgaged Property shall remain exclusively that of the Borrower.

(g) Any Property Income received by Lender as a result of any enforcement measures shall be applied as provided in Section 4.01(b) of this Deed of Trust.

(h) Without in any way limiting Borrower's other indemnification obligations set forth in this Deed of Trust and in any of the Loan Documents to which Borrower is a party, Borrower shall indemnify, defend, protect, and hold harmless Lender, and its successors and assigns, from and against any and all actual, out-of-pocket losses, costs, expenses (including, without limitation, reasonable attorneys' fees, costs and expenses), damages (but excluding punitive damages), liabilities, or claims asserted against or suffered by Lender (i) arising from any Protective Payments made, or authorized to be made, by Lender in good faith, and (ii) arising from any work performed or goods or services furnished in connection with the ownership or operation of the Mortgaged Property at any time during which Lender shall be enforcing its rights under this Section.

(i) Without limiting the restrictions on assignment set forth in this Deed of Trust and any of the other Loan Documents to which Borrower is a party, each assignee of any interest in the Property Income shall acquire its interest in the Property Income subject to the rights of the Lender set forth in this Deed of Trust, and shall acquire no greater rights with respect to the payment of Protective Payments than the rights of Borrower as set forth in this Section.

Section 7.13 Leases. Lender is authorized to foreclose this Deed of Trust subject to the rights of any tenants of the Mortgaged Property, and the failure to make any such tenants parties defendant to any such foreclosure proceedings and to foreclose their rights will not be, nor be asserted by Borrower to be, a defense to any proceedings instituted by Lender to collect the sums secured hereby or to collect any deficiency remaining unpaid after the foreclosure sale of the Mortgaged Property. Unless otherwise agreed by Lender in writing, all leases and tenancies of

the Mortgaged Property executed subsequent to the date hereof, or any part thereof, shall be subordinate and inferior to the lien of this Deed of Trust, but superior to any other lien on the Mortgaged Property and such leases and tenancies shall contain an attornment provision pursuant to which the tenant agrees to attorn to the successful bidder at the foreclosure sale of this Deed of Trust at the option of such successful bidder. Additionally, from time to time Lender may execute and record among the land records of the jurisdiction where this Deed of Trust is recorded, subordination statements with respect to such of said leases as Lender may designate, whereby the leases so designated by Lender will be made superior to the lien of this Deed of Trust. From and after the recordation of such subordination statements, the leases therein referred to shall be superior to the lien of this Deed of Trust and shall not be affected by any foreclosure hereof. All such leases and tenancies shall contain a provision to the effect that the tenant recognizes the right of Lender to effect such subordination of this Deed of Trust and consents thereto. Further, all such leases and tenancies shall contain a provision obligating the tenant to attorn to the Lender or the successful bidder at a foreclosure sale following such foreclosure sale.

[No Further Text On This Page]

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust as of the date first above written.

BORROWER:

KR WMC, LLC,
a Delaware limited liability company

By: Kilroy Realty, L.P.,
a Delaware limited partnership
its sole managing member

By: Kilroy Realty Corporation,
a Maryland corporation,
its general partner

By: /s/ Tyler H. Rose
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /s/ Michelle Ngo
Name: Michelle Ngo
Title: Senior Vice President and Treasurer

EXHIBIT A

DESCRIPTION OF LAND

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL 1: (PORTION OF APN: 4259-025-008)

THE WESTERLY 265 FEET OF THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES. ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THEREFROM THAT PORTION IN OLYMPIC BOULEVARD, BEING THAT PART LYING NORTHERLY OF THE SOUTH LINE OF THE LAND DESCRIBED IN DEED TO THE STATE OF CALIFORNIA, RECORDED IN BOOK 22517 PAGE 425, OFFICIAL RECORDS.

PARCEL 2: (PORTION OF APN: 4259-025-008)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREOF SOUTH 76° 12' 45" WEST 504.08 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY, A CO-PARTNERSHIP, BY DEED RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7, OFFICIAL RECORDS, AS INSTRUMENT NO. 323; THENCE ALONG THE WESTERLY LINE OF SAID LAND NORTH 13° 41' 45" WEST TO THE SOUTHERLY LINE OF THE LAND DESCRIBED IN PARCEL NO. 20 OF CASE NO. 50830 ENTERED IN SUPERIOR COURT OF LOS ANGELES COUNTY; THENCE WESTERLY ALONG SAID SOUTHERLY LINE BEING A CURVE CONCAVE SOUTHERLY HAVING A RADIUS OF 9945.00 FEET, TO THE EASTERLY LINE OF THE WESTERLY 265 FEET OF SAID LOT 27; THENCE ALONG SAID EASTERLY LINE SOUTH 13° 41' 45" EAST TO THE SOUTHERLY LINE OF SAID LOT; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 12' 45" EAST TO THE POINT OF BEGINNING.

PARCEL 3: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREES REPORT IN CASE NO- B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 76° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13° 41' 45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED JUNE 10, 1946, RECORDED AUGUST 20, 1946 IN BOOK 23552 PAGE 383, OFFICIAL RECORDS, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREES REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY

MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE, NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 4: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING,

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING SOUTHWESTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 78° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13°41'45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED THE 10TH OF JUNE, 1946, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN, AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO

HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTH LINE NORTH 78° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE, NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 5: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES. AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 6: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 27; THENCE NORTH

44° 12' 55" WEST ALONG THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE OF 271.39 FEET TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS; THENCE SOUTH 78° 03' WEST ALONG SAID SOUTHERLY LINE A DISTANCE OF 189.75 FEET; THENCE SOUTH 44° 13' 35" EAST PARALLEL WITH THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE OF 278.45 FEET TO A POINT IN THE SOUTHERLY LINE OF SAID LOT; THENCE NORTH 76° 12' 45" EAST ALONG SAID SOUTHERLY LINE 186.17 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY 10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

PARCEL 7: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF SUPERIOR COURT, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 186.17 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HENRY O. GALLEN BY DEED RECORDED MAY 17, 1940 IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS; THENCE STILL CONTINUING ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 124.15 FEET TO A POINT; THENCE NORTH 44° 13' 35" WEST 283.15 FEET, MORE OR LESS, TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG THE SOUTHERLY LINE, NORTH 78° 03' 00" EAST 126.60 FEET TO THE NORTHWESTERLY CORNER OF SAID HENRY O. GALLEN LAND; THENCE SOUTH 44° 13' 35" EAST ALONG THE WESTERLY LINE OF SAID LAND 278.45 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHWEST 10 FEET OF SAID LAND CONVEYED TO THE STATE OF CALIFORNIA BY DEED RECORDED JUNE 5, 1946 IN BOOK 23218 PAGE 409 OF OFFICIAL RECORDS.

PARCEL 8: (PORTION OF APN: 4259-025-019)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY 10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

PARCEL 9: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2 IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH SOUTHERLY LINE OF SAID LOT 28, A DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, A DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM CITIZENS NATIONAL TRUST AND SAVINGS BANK, DATED APRIL 30, 1943, AND RECORDED MAY 21, 1943, AS INSTRUMENT NO. 40 IN BOOK 20044 PAGE 61, OFFICIAL RECORDS.

PARCEL 10: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 28; THENCE WESTERLY ALONG THE SOUTHERLY LINE THEREOF, 380.44 FEET OF THE MOST SOUTHERLY CORNER OF SAID LOT 28; THENCE NORTHWESTERLY ALONG THE SOUTHWESTERLY LINE THEREOF, TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL A OF DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS OF SAID COUNTY; THENCE EASTERLY ALONG SAID LAST MENTIONED SOUTHERLY LINE AND ITS EASTERLY PROLONGATION THEREOF, TO THE NORTHEASTERLY LINE OF

SAID LOT 28; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE, 256.31 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET WITHIN THE LINES OF OLYMPIC BOULEVARD, AS GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS.

ALSO EXCEPT THEREFROM THAT PORTION THEREOF, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2, IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH THE SOUTHERLY LINE OF SAID LOT 28, A DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM CITIZENS NATIONAL TRUST AND SAVINGS BANK, DATED APRIL 30, 1943 AND RECORDED MAY 21, 1943 AS INSTRUMENT NO. 40 IN BOOK 20044 PAGE 61, OFFICIAL RECORDS.

EXHIBIT B

PERMITTED ENCUMBRANCES

B-1

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Section 5: EX-10.42 (EXHIBIT 10.42)

Exhibit 10.42

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Cox, Castle & Nicholson LLP
2029 Century Park East, 21st Floor
Los Angeles, California 90067
Attention: Adam B. Weissburg, Esq.

APN: 4259-025-008
4259-025-018
4259-025-019

Mortgage Loan No. 16714

ASSIGNMENT OF LEASES AND RENTS

THIS ASSIGNMENT OF LEASES AND RENTS (this “**Assignment**”) is made as of November 29, 2016, by KR WMC, LLC, a Delaware limited liability company, having an address at 12200 West Olympic Boulevard., Suite 200, Los Angeles, California 90064 (“**Assignor**”), to and for the benefit of MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation, having an address in care of Barings, One Financial Plaza, Hartford, Connecticut 06103, Attention: Real Estate Loan Servicing (“**Assignee**”). To the extent applicable under Article 13 of the Loan Agreement, this Assignment shall be for the benefit of Administrative Agent).

RECITALS:

A. Assignor and Assignee entered into that certain Loan Agreement of even date herewith (as the same may be amended or modified from time to time, the “**Loan Agreement**”), which Loan Agreement governs a loan (the “**Loan**”) made by Assignee to Assignor, which Loan is evidenced by that certain Promissory Note of even date herewith (as the same may be amended or modified from time to time, the “**Note**”);

B. The Loan is secured in part by Assignor’s interest in and to that certain real property located in the City of Los Angeles, County of Los Angeles and State of California, and more particularly described on Exhibit A attached hereto (the “**Premises**”), as evidenced by (i) that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (as the same may be amended or modified from time to time, the “**Mortgage**”) with respect to the Premises, and (ii) this Assignment. As used herein, the Loan Agreement, the Note, the Mortgage, this Assignment, and all other instruments evidencing, securing or pertaining to the Loan, now or from time to time hereafter executed and delivered to Assignee in connection with the Loan, are referred to collectively herein as the “**Loan Documents**”.

C. Assignee has required, as a condition to making the Loan, that Assignor make and deliver this Assignment as below provided.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor, intending to be legally bound, hereby agrees as follows:

1. Recitals. The foregoing recitals are incorporated into this Assignment by this reference.

2. Defined Terms. As used in this Assignment, unless otherwise defined herein, all initially capitalized terms shall have the respective meanings ascribed to such terms in the Loan Agreement.

3. Assignment.

(a) Assignor does hereby absolutely, presently and irrevocably assign, transfer, and set over unto Assignee:

(i) All of the right, title and interest of Assignor in and to all leases, occupancy agreements, licenses to occupy, lettings, tenancies and other similar agreements, affecting all or a portion of the Premises, which leases, occupancy agreements, licenses to occupy, and other similar agreements are listed on the certified rent roll delivered from Assignor to Assignee simultaneously with this Assignment (the "**Rent Roll**"), and all other and future leases, occupancy agreements, licenses to occupy, lettings and tenancies and other similar arrangements, of the Premises, and all modifications, renewals, and extensions of the existing leases, occupancy agreements, licenses to occupy, lettings, tenancies and other similar arrangements present and future, together with guarantees, if any, of the lessee's obligations thereunder whether entered into before or after the filing by or against Assignor of any petition for relief under 11 U.S.C. §101 et. seq. as the same may be amended from time to time, or any successor statute thereto (the "**Bankruptcy Code**") (collectively the "**Leases**");

(ii) All rents, issues, income, proceeds, payments, and profits arising from the Leases and from the use and occupation of the Premises, including, without limitation, all fixed and additional rents, cancellation payments, option payments, letter of credit proceeds, supporting obligations, security deposits and all sums due and payments made under any guarantee of any of the Leases or any obligations thereunder (collectively "**Rents**"); and

(iii) All rights, powers, privileges, options and other benefits of Assignor under the Leases, including without limitation the immediate and continuing right to make claim for, receive, collect and receipt for all Rents, including the right to make such claim in a proceeding under the Bankruptcy Code, and the right to apply the same to the payment of the Indebtedness (collectively "**Rights**").

(b) Assignor and Assignee intend that this Assignment constitute a present, irrevocable and absolute assignment of the Leases and Rents, and not an assignment for additional security only. Assignee grants to Assignor a revocable license ("**License**") to collect and receive the Rents. Assignor hereby agrees that following the occurrence and during the continuance of an Event of Default, Assignee may authorize and direct the lessees named in the Leases, and any other occupants of the Premises, and all Lease guarantors, to pay over to Assignee or such other party as Assignee may direct, all Rents, upon receipt from Assignee of

written notice to the effect that an Event of Default exists, and to continue to do so until the lessees are otherwise notified by Assignee.

4. Assignor's Warranties and Representations; Covenants.

(a) Assignor hereby warrants and represents to Assignee as follows:

(i) Assignor has not executed any prior assignment of the Leases or Rents, nor has it performed any act or executed any other instrument which might prevent Assignor from fulfilling any of the terms and conditions of this Assignment or which might prevent Assignee from operating under any of the terms and conditions of this Assignment or which would limit Assignee in such operation;

(ii) Assignor has not executed or granted any modification, waiver or amendment whatsoever of any of the Leases, except as disclosed to Lender in writing prior to the date hereof; and there are no defaults now existing under the Leases, or any conditions which, after notice, passage of time, or both would constitute defaults, except as disclosed to Lender in writing prior to the date hereof;

(iii) Assignor will observe and perform all the obligations imposed upon the lessor under the Leases and will not do or permit to be done anything to impair any of the Leases;

(iv) Assignor will not collect any of the rents, issues, income, proceeds payments, and profits arising or accruing under the Leases or from the Premises more than thirty (30) days in advance of the time when the same shall become due under the Leases, nor execute any other assignment of the Leases or assignment of rents, issues, income, proceeds or profits with respect to the Premises; and

(v) Except as otherwise specifically permitted under Section 5.1 of the Loan Agreement, or with the prior written consent of the Assignee, Assignor will not alter or modify the terms of the Leases, give any consent or exercise any option required or permitted by such terms, accept a surrender thereof, or consent to any assignment of or subletting under the Leases, whether or not in accordance with their terms.

5. Revocation of License.

(a) Following the occurrence and during the continuance of an Event of Default, the License granted to Assignor in subsection 3(b) of this Assignment shall, upon notice from Lender, be revoked, and upon such notice Assignee shall immediately be entitled to the receipt and possession of all Rents, and to the assumption of the Rights whether or not Assignee enters upon or takes control of the Premises. Without limiting the foregoing, the provisions of Section 7.12 of the Mortgage are incorporated herein (to the extent of any capitalized terms used therein, such terms shall have the meaning assigned to such terms in the Mortgage) and to the extent of any conflict between this Assignment and Section 7.12 of the Mortgage, the terms of Section 7.12 of the Mortgage shall prevail.

(b) Upon demand by Assignee following the occurrence and during the continuance of an Event of Default, Assignor shall immediately deliver to Assignee all Rents in the possession of Assignor or its agents, and shall cooperate in instructing Assignor's agents and the lessees under the Leases and all others in possession of the Premises or any portion thereof to pay directly to Assignee all Rents.

(c) Upon revocation of the License pursuant to Subsection 5(a) above, Assignee may, at its option, without waiving such Event of Default and without notice or regard to the adequacy of the security for the Indebtedness, either in person or by agent, nominee or attorney, or by a receiver appointed by a court, with or without bringing any action or proceeding, dispossess Assignor and its agents and servants from the Premises, without liability for trespass, damages or otherwise, and exclude Assignor and its agents from the Premises.

(d) Upon revocation of the License pursuant to Subsection 5(a) above, Assignee may also take possession of the Premises, and all books, records and accounts relating thereto and have, hold, manage, lease and operate the Premises on such terms and for such period of time as Assignee may deem proper. In addition, and with or without taking possession of the Premises, Assignee, in its own name, may demand, sue for or otherwise collect and receive all Rents, including those past due and unpaid and may apply any Rents collected in such order of priority as Assignee in its sole discretion deems appropriate, to the payment of:

(i) all expenses of managing the Premises, including, without limitation, the salaries, fees and wages of a managing agent and such other persons or entities as Assignee may deem necessary or desirable, and all expenses of operating and maintaining the Premises, including, without limitation, all taxes, claims, assessments, ground rents, water rents, sewer rents and any other liens or charges, and premiums for all insurance which Assignee may deem necessary or desirable, and the cost of all alterations, renovations, repairs or replacements, and all expenses incident to taking and retaining possession of the Premises; and

(ii) the Indebtedness.

6. No Liability of Assignee. This Assignment shall not be construed to bind Assignee to the performance of any of the covenants, conditions, or provisions contained in any Lease, or otherwise impose any obligation upon Assignee. Assignee shall not be liable for any loss sustained by Assignor resulting from Assignee's failure to let the Premises, or from any other act or omission of Assignee either in collecting the Rents, or if Assignee shall have taken possession of the Premises, in managing the Premises, unless such loss is caused by the willful misconduct or gross negligence of Assignee.

7. No Mortgage in Possession. In the absence of taking actual possession of the Premises by Assignee, in its own right and person, Assignee (i) shall not be deemed a mortgagee in possession, (ii) shall not be responsible for the payment of any taxes or assessments with respect to the Premises, (iii) shall not be liable to perform any obligation of the lessor under any Leases or under applicable law, (iv) shall not be liable to any person for any dangerous or defective condition in the Premises nor for any negligence in the management, upkeep, repair, or control of the Premises resulting in loss or injury or death to any person, and (v) shall not be liable in any manner for the remediation of any environmental impairment.

8. Bankruptcy.

(a) Following the occurrence and during the continuance of an Event of Default, Assignee shall have the right to proceed in its own name or in the name of Assignor in respect of any claim, suit, action or proceeding, relating to any Leases in a proceeding under the Bankruptcy Code including, without limitation, the right to file and prosecute, all to the exclusion of Assignor, any proofs of claim, complaints, motions, applications, notices and other documents.

(b) If there shall be filed by or against Assignor a petition under the Bankruptcy Code, and Assignor, as lessor under any Leases, shall determine to reject any Leases pursuant to Section 365(a) of the Bankruptcy Code, then Assignor shall give Assignee not less than ten (10) days' prior notice of the date on which Assignor shall apply to the bankruptcy court for authority to reject the Leases. Assignee shall have the right, but not the obligation, to serve upon Assignor within such ten (10)-day period a notice stating that (i) Assignee demands that Assignor assume and assign the Leases to Assignee pursuant to Section 365 of the Bankruptcy Code and (ii) Assignee covenants to cure or provide adequate assurance of future performance under the Leases. If Assignee serves upon Assignor the notice described in the preceding sentence, Assignor shall not seek to reject the Leases and shall comply with the demand provided for in clause (i) of the preceding sentence within thirty (30) days after the notice shall have been given, subject to the performance by Assignee of the covenant provided for in clause (ii) of the preceding sentence.

9. Indemnity of Assignee.

(a) Except with respect to Assignee's gross negligence or willful misconduct, Assignor hereby indemnifies Assignee for, and holds Assignee harmless from, and shall be responsible for, any and all liability, loss or damage which may be incurred under the Leases, or under or by reason of this Assignment, and from any and all claims and demands whatsoever which may be asserted against Assignee by reason of any alleged obligations or undertakings under any of the Leases.

(b) Should Assignee incur any such liability under the Leases or under or by reason of this Assignment or in defense of any such claims or demands (except with respect to any such liability attributable to Assignee's gross negligence or willful misconduct), the amount thereof, including actual, out-of-pocket costs, expenses and reasonable attorneys' fees reasonably incurred by Lender, shall be secured by the Mortgage and Assignor shall reimburse Assignee therefor, immediately upon demand and upon the failure of Assignor so to do, Assignee, at its option, may declare all sums secured by the Mortgage immediately due and payable. Interest shall accrue on the amounts so expended by Assignee at the Default Rate from the date expended until repaid.

10. No Waiver of Rights by Assignee. Nothing contained in this Assignment and no act done or omitted by Assignee pursuant to the powers and rights granted it hereunder shall be deemed to be a waiver by Assignee of any of its rights and remedies under the Note, Mortgage or any other Loan Document. This Assignment is made and accepted without prejudice to any of such rights and remedies possessed by Assignee to collect the Indebtedness and to enforce the

Loan Documents, and said rights and remedies may be exercised by Assignee either prior to, simultaneously with, or subsequent to any action taken by it hereunder.

11. Releases of Parties and Security. Assignee may take or release other security for the payment of the Indebtedness, may release any party primarily or secondarily liable therefor, and may apply any other security held by it to the satisfaction of any portion of the Indebtedness without prejudice to any of its rights under this Assignment.

12. Further Assurances. Assignor agrees that it will, from time to time, upon demand therefor by Assignee, deliver to Assignee an executed counterpart of each and every Lease. Further, Assignor agrees that it will execute, acknowledge and record such additional assurances and assignments as Assignee may request covering any and all of the Leases. Such assignments shall be on forms approved by the Assignee, and Assignor agrees to pay all actual, out-of-pocket costs reasonably incurred in connection with the examination of the Leases and the preparation, execution and recording of such assignments or any other related documents, including, without limitation, fees of Assignee's local counsel.

13. Amendments. This Assignment may not be altered or amended except in writing, intended for that specific purpose, signed by both Assignor and Assignee.

14. Legal Construction.

(a) All terms contained herein shall be construed, whenever the context of this Assignment so requires, so that the singular number shall include the plural, and the plural the singular, and the use of any gender shall include all genders.

(b) The terms "include" and "including" as used in this Assignment shall be construed as if followed by the phrase "without limitation".

(c) Any provision of this Assignment permitting the recovery of attorneys' fees and costs shall be deemed to include such fees and costs reasonably incurred in all appellate proceedings.

(d) In the event there is more than one Assignor, the obligations of each Assignor shall be joint and several for all purposes.

15. Notices. All notices, consents, approvals and requests required or permitted hereunder shall be given in writing or under any other Loan Document shall be given in writing and shall be delivered in accordance with the terms and conditions of Section 12.1(a) of the Loan Agreement.

16. Controlling Law. This instrument shall be governed by and construed in accordance with the laws of the state in which the Premises are situated.

17. Discharge. Until the payment in full of the Indebtedness, this Assignment shall continue in full force and effect, whether or not recorded. Assignor hereby authorizes Assignee to furnish to any Person written notice that this Assignment remains in effect and agrees that such Person may rely upon and shall be bound by such statement. Upon payment in full of the

Indebtedness and the delivery and recording of a satisfaction or discharge of the Mortgage duly executed, this Assignment shall be void and of no effect.

18. Severability. All rights, powers and remedies provided in this Assignment may be exercised only to the extent that the exercise thereof does not violate any applicable law, and are intended to be limited to the extent (but only to the extent) necessary so that they will not render this Assignment invalid or unenforceable. If any term, covenant, condition, or provision of this Assignment or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remaining terms, covenants, conditions and provisions of this Assignment, or the application of such term, covenant, condition or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, covenant, condition and provision of this Assignment shall be modified and/or limited to the extent necessary to render the same valid and enforceable to the fullest extent permitted by law.

19. Successors and Assigns. This Assignment shall be binding upon Assignor's successors and assigns and shall inure to the benefit of Assignee and its successors and assigns, and shall survive payment of the Loan, foreclosure, deed-in-lieu of foreclosure and any other transfer of the Premises or any interest therein.

20. Conflict. Notwithstanding anything to the contrary herein, this Assignment shall be subject to the terms and conditions of the Loan Agreement and in the event of any conflict between the terms and conditions of this Assignment and the terms and conditions of the Loan Agreement, the terms and conditions of the Loan Agreement shall prevail.

[No Further Text On This Page]

IN WITNESS WHEREOF, the Assignor has duly executed this Assignment as of the date first above written.

BORROWER:

KR WMC, LLC,
a Delaware limited liability company

By: Kilroy Realty, L.P.,
a Delaware limited partnership
its sole managing member

By: Kilroy Realty Corporation,
a Maryland corporation,
its general partner

By: /s/ Tyler H. Rose
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /s/ Michelle Ngo
Name: Michelle Ngo
Title: Senior Vice President and Treasurer

EXHIBIT A

PREMISES

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL 1: (PORTION OF APN: 4259-025-008)

THE WESTERLY 265 FEET OF THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES. ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THEREFROM THAT PORTION IN OLYMPIC BOULEVARD, BEING THAT PART LYING NORTHERLY OF THE SOUTH LINE OF THE LAND DESCRIBED IN DEED TO THE STATE OF CALIFORNIA, RECORDED IN BOOK 22517 PAGE 425, OFFICIAL RECORDS.

PARCEL 2: (PORTION OF APN: 4259-025-008)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREOF SOUTH 76° 12' 45" WEST 504.08 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY, A CO-PARTNERSHIP, BY DEED RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7, OFFICIAL RECORDS, AS INSTRUMENT NO. 323; THENCE ALONG THE WESTERLY LINE OF SAID LAND NORTH 13° 41' 45" WEST TO THE SOUTHERLY LINE OF THE LAND DESCRIBED IN PARCEL NO. 20 OF CASE NO. 50830 ENTERED IN SUPERIOR COURT OF LOS ANGELES COUNTY; THENCE WESTERLY ALONG SAID SOUTHERLY LINE BEING A CURVE CONCAVE SOUTHERLY HAVING A RADIUS OF 9945.00 FEET, TO THE EASTERLY LINE OF THE WESTERLY 265 FEET OF SAID LOT 27; THENCE ALONG SAID EASTERLY LINE SOUTH 13° 41' 45" EAST TO THE SOUTHERLY LINE OF SAID LOT; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 12' 45" EAST TO THE POINT OF BEGINNING.

PARCEL 3: (PORTION OF APN: 4259-025-018)

Exhibit A-1

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREES REPORT IN CASE NO- B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 76° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13° 41' 45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED JUNE 10, 1946, RECORDED AUGUST 20, 1946 IN BOOK 23552 PAGE 383, OFFICIAL RECORDS, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREES REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY

Exhibit A-2

MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE, NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 4: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING,

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING SOUTHWESTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 78° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13°41'45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED THE 10TH OF JUNE, 1946, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN, AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO

Exhibit A-3

HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTH LINE NORTH 78° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE, NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 5: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES. AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 6: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 27; THENCE NORTH

Exhibit A-4

44° 12' 55" WEST ALONG THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE OF 271.39 FEET TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS; THENCE SOUTH 78° 03' WEST ALONG SAID SOUTHERLY LINE A DISTANCE OF 189.75 FEET; THENCE SOUTH 44° 13' 35" EAST PARALLEL WITH THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE OF 278.45 FEET TO A POINT IN THE SOUTHERLY LINE OF SAID LOT; THENCE NORTH 76° 12' 45" EAST ALONG SAID SOUTHERLY LINE 186.17 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY 10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

Exhibit A-5

PARCEL 7: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF SUPERIOR COURT, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 186.17 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HENRY O. GALLEN BY DEED RECORDED MAY 17, 1940 IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS; THENCE STILL CONTINUING ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 124.15 FEET TO A POINT; THENCE NORTH 44° 13' 35" WEST 283.15 FEET, MORE OR LESS, TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG THE SOUTHERLY LINE, NORTH 78° 03' 00" EAST 126.60 FEET TO THE NORTHWESTERLY CORNER OF SAID HENRY O. GALLEN LAND; THENCE SOUTH 44° 13' 35" EAST ALONG THE WESTERLY LINE OF SAID LAND 278.45 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHWEST 10 FEET OF SAID LAND CONVEYED TO THE STATE OF CALIFORNIA BY DEED RECORDED JUNE 5, 1946 IN BOOK 23218 PAGE 409 OF OFFICIAL RECORDS.

PARCEL 8: (PORTION OF APN: 4259-025-019)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

Exhibit A-6

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY 10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

PARCEL 9: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2 IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH SOUTHERLY LINE OF SAID LOT 28, A DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, A DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM CITIZENS NATIONAL TRUST AND SAVINGS BANK, DATED APRIL 30, 1943, AND RECORDED MAY 21, 1943, AS INSTRUMENT NO. 40 IN BOOK 20044 PAGE 61, OFFICIAL RECORDS.

PARCEL 10: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 28; THENCE WESTERLY ALONG THE SOUTHERLY LINE THEREOF, 380.44 FEET OF THE MOST SOUTHERLY CORNER OF SAID LOT 28; THENCE NORTHWESTERLY ALONG THE SOUTHWESTERLY LINE THEREOF, TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL A OF DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS OF SAID COUNTY; THENCE EASTERLY ALONG SAID LAST MENTIONED SOUTHERLY LINE AND ITS EASTERLY PROLONGATION THEREOF, TO THE NORTHEASTERLY LINE OF

Exhibit A-7

SAID LOT 28; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE, 256.31 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET WITHIN THE LINES OF OLYMPIC BOULEVARD, AS GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS.

ALSO EXCEPT THEREFROM THAT PORTION THEREOF, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2, IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH THE SOUTHERLY LINE OF SAID LOT 28, A DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM CITIZENS NATIONAL TRUST AND SAVINGS BANK, DATED APRIL 30, 1943 AND RECORDED MAY 21, 1943 AS INSTRUMENT NO. 40 IN BOOK 20044 PAGE 61, OFFICIAL RECORDS.

Exhibit A-8

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Section 6: EX-10.43 (EXHIBIT 10.43)

Exhibit 10.43

Mortgage Loan No. 16714

RECOURSE GUARANTY AGREEMENT

THIS RECOURSE GUARANTY AGREEMENT (this "**Agreement**") is made as of November 29, 2016, by KILROY REALTY, L.P., a Delaware limited partnership ("**Guarantor**"), to and for the benefit of MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation ("**Lender**") and, to the extent applicable under Article 13 of the Loan Agreement, Administrative Agent (as defined in the Loan Agreement), and for the benefit of the other Lender Parties. As used in this Agreement, "**Lender Parties**" shall mean Lender, Barings Real Estate Advisers LLC, Barings Real Estate Advisers Inc., any present and future loan participants, co-lenders, loan servicers, custodians and trustees, and each of their respective directors, officers, employees, shareholders, agents, affiliates, heirs, legal representatives, successors and assigns.

RECITALS:

A. KR WMC, LLC, a Delaware limited liability company ("**Borrower**"), and Lender entered into that certain Loan Agreement of even date herewith (as the same may be amended or modified from time to time, the "**Loan Agreement**"), which Loan Agreement governs a loan (the "**Loan**") in the stated principal amount of One Hundred Seventy Million and No/100 Dollars (\$170,000,000.00) made by Lender to Borrower, which Loan is evidenced by that certain Promissory Note of even date herewith (as the same may be amended or modified from time to time, the "**Note**").

B. The Loan is secured in part by Borrower's interest in and to that certain real property located in the City of Los Angeles, County of Los Angeles and State of California, and more particularly described in Exhibit A attached to the Mortgage described below (the "**Premises**"), as evidenced by (i) that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (as the same may be amended or modified from time to time, the "**Mortgage**") with respect to the Premises, and (ii) that certain Assignment of Leases and Rents (as the same may be amended or modified from time to time, the "**Assignment**") with respect to the Premises. Unless otherwise defined herein, all initially capitalized terms shall have the respective meanings ascribed to such terms in the Loan Agreement.

C. Lender has required as a further condition to the making of the Loan to Borrower that Guarantor guaranty payment of all amounts due under Section 11.1(c) of the Loan Agreement (the "**Recourse Provision**").

D. Guarantor is financially interested in Borrower and is materially benefited by the consummation of the Loan and has agreed to unconditionally and personally guarantee payment of all amounts due Lender under the Recourse Provision.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and in order to induce Lender to make the Loan to Borrower, Guarantor, intending to be legally bound, hereby makes the following representations and

warranties to the Lender Parties and hereby covenants and agrees with the Lender Parties as follows:

1. Guaranty. Notwithstanding any provision contained in the Loan Agreement, the Note, Mortgage or any other Loan Document to the contrary, Guarantor absolutely, irrevocably, and unconditionally guarantees to Lender and the Lender Parties payment when due of all amounts due to Lender by Borrower pursuant to the Recourse Provision (collectively, the “**Guaranteed Obligations**”). This Agreement is a direct and primary obligation of Guarantor, and Guarantor’s obligations hereunder are not as a surety. This is a guarantee of timely payment and performance and not merely of collection. In the event of a default in payment of any Guaranteed Obligation when due, Lender may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against Guarantor and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of Guarantor, wherever situated.

2. Guarantor’s Waiver of Notice. Guarantor absolutely, irrevocably and unconditionally waives (a) notice of acceptance of this Agreement, (b) notice of any payment, liability or obligation to which this Agreement may apply, (c) presentment, demand of payment, protest, notice of dishonor or nonpayment of all liabilities under this Agreement and any of the Loan Documents creating the Guaranteed Obligations, and (d) notice of any suit or other action by Lender against (including any notice from Lender to) any party liable under any Loan Document or any property which may be security for the Loan.

3. Lender’s Rights. Lender may at any time and from time to time without the consent of, or notice to, Guarantor, without incurring any responsibility to Guarantor and without impairing or releasing any of the obligations of Guarantor hereunder, upon or without any terms or conditions and in whole or in part:

(a) amend, modify, renew, supplement, extend (including extensions beyond the original term) or accelerate any of the Loan Documents, including without limitation, renew, alter or change the interest rate, manner, time, place or terms of payment or performance of any of the Guaranteed Obligations, or any liability incurred directly or indirectly in respect thereof, whereupon the guaranty herein made shall apply to the Guaranteed Obligations as so changed, extended, renewed or altered; provided that no amendment or modification of the Recourse Provision shall be made without the Guarantor’s prior written consent;

(b) sell, exchange, release, surrender, and in any manner and in any order realize upon or otherwise deal with the Premises or any property at any time directly and absolutely assigned or pledged or mortgaged to secure the Loan;

(c) consent to the transfer of the Premises or any portion thereof or any other Collateral described in the Loan Documents:

(d) exercise or refrain from exercising any rights or remedies available to Lender under the Loan Documents or pursuant to any applicable statute against Borrower

or any other person (including Guarantor) or otherwise act or refrain from acting with regard to the Loan Documents, Guaranteed Obligations or this Agreement;

(e) settle or compromise any of the Indebtedness, any security therefor or any liability (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and/or subordinate the payment of all or any part thereof to the payment of any liability of Borrower (whether or not then due) to creditors of Borrower other than Lender and Guarantor;

(f) release or discharge Borrower from its liability under any of the Loan Documents or release or discharge Guarantor or any endorser or any other party at any time directly or contingently, liable for the repayment of the Loan or any of Borrower's other obligations under the Loan Documents;

(g) apply any sums in whatever manner paid or realized to any liability or liabilities of Borrower or Guarantor to Lender regardless of what liability or liabilities of Borrower or Guarantor remain unpaid;

(h) consent to or waive any breach of or any act, omission or default under the Loan Documents or accept partial performance of any of the obligations under this Agreement or under any of the other Loan Documents; and/or

(i) sell, convey, participate or assign all or any part of Lender's interest in this Agreement and the other Loan Documents.

4. Guarantor Waiver of Defenses. Guarantor acknowledges that as a result of the waivers set forth herein, this Agreement constitutes a direct and primary obligation of Guarantor, and in connection therewith Guarantor unconditionally and irrevocably waives any defense to the enforcement of this Agreement (except as limited in this Section 4), including, without limitation:

(a) Any defense arising by reason of Lender's failure to provide presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Agreement;

(b) Any defense of any statute of limitations affecting the liability of Guarantor hereunder or the liability of Borrower, or any other guarantor under the Loan Documents, or the enforcement hereof, to the extent permitted by law;

(c) Any defense arising by reason of (i) any invalidity or unenforceability of (or any limitation of liability in) any of the Loan Documents or (ii) any defense whatsoever that Borrower may or might have to the payment of the Indebtedness or to the performance of any of the terms, provisions, covenants and agreements contained in the Loan Documents (other than any defense that Borrower is not liable under the Recourse Provision) or (iii) any manner in which Lender has exercised its rights and remedies under the Loan Documents, or (iv) cessation from any cause whatsoever;

(d) Any defense based upon any disability of Borrower or Guarantor, lack of authority of the officers, directors, partners or agents acting or purporting to act on behalf of Borrower, Guarantor or any principal of Borrower or Guarantor or any defect in the formation of Borrower, Guarantor or any principal of Borrower or Guarantor as a legal entity;

(e) Any defense based upon the application by Borrower of the proceeds of the Loan for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or Guarantor;

(f) Any defense based upon an election of remedies by Lender, including any election to proceed by judicial or nonjudicial foreclosure of any security, whether real property or personal property security, or by deed in lieu thereof, and whether or not every aspect of any foreclosure sale is commercially reasonable, or any election of remedies, including remedies relating to real property or personal property security, which destroys or otherwise impairs the subrogation rights of Guarantor to proceed against Borrower or any guarantor for reimbursement, or both;

(g) Any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in any other aspect more burdensome than that of a principal;

(h) Any defense based upon Lender's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code or any successor statute;

(i) Any defense based upon any borrowing or any grant of a security interest under Section 364 of the Federal Bankruptcy Code;

(j) Any defense based upon any duty of Lender to advise Guarantor of any information known to Lender regarding the financial condition of Borrower and all other circumstances affecting Borrower's ability to perform its obligations to Lender, it being agreed that Guarantor assumes the responsibility for being and keeping informed regarding such condition or any such circumstances;

(k) Any defense based on any right, claim or offset which Guarantor may have against Borrower; and

(l) Any other suretyship defense that may be available to Guarantor. Without limiting the generality of the foregoing, Guarantor also waives (A) any defense based upon Lender's election to waive its lien as to all or any security for the Loan pursuant to California Code of Civil Procedure ("CCP") Section 726.5 or otherwise, and (B) any and all benefits which might otherwise be available to Guarantor under California Civil Code ("Civil Code") Sections 2809, 2810, 2815, 2819, 2822, 2839, 2845 through 2850, 2899 and 3433.

5. Additional Waivers. Guarantor understands and acknowledges that if Lender forecloses judicially or nonjudicially against any real property security for the Note, that

foreclosure could impair or destroy any ability that Guarantor may have to seek reimbursement, contribution or indemnification from Borrower or others based on any right Guarantor may have of subrogation, reimbursement, contribution or indemnification for any amounts paid by Guarantor under this Agreement. Guarantor further understands and acknowledges that in the absence of this provision, the potential impairment or destruction of Guarantor's rights, if any, may entitle Guarantor to assert a defense to this Agreement based on CCP Section 580d as interpreted in *Union Bank vs. Gradsky*. By executing this Agreement, Guarantor freely, irrevocably and unconditionally: (1) waives and relinquishes that defense, and agrees that Guarantor will be fully liable under this Agreement, even though Lender may foreclose judicially or nonjudicially against any real property security for the Note; (2) agrees that Guarantor will not assert that defense in any action or proceeding that Lender may commence to enforce this Agreement; (3) acknowledges and agrees that the rights and defenses waived by Guarantor under this Agreement include any right or defense that Guarantor may have or be entitled to assert based upon or arising out of any one or more of the following: (A) CCP Sections 580a (which if Guarantor had not given this waiver, would otherwise limit Guarantor's liability after any nonjudicial foreclosure sale to the difference between the obligations for which Guarantor is liable and the fair market value of the property or interests sold at such nonjudicial foreclosure sale rather than the actual proceeds of such sale), 580b and 580d (which if Guarantor had not given this waiver, would otherwise limit Lender's right to recover a deficiency judgment with respect to purchase money obligations and after any nonjudicial foreclosure sale, respectively), or 726 (which, if Guarantor had not given this waiver, among other things, would otherwise require Lender to exhaust all of its security before a personal judgment may be obtained for a deficiency); or (B) Civil Code Section 2848; and (4) acknowledges and agrees that Lender is relying on this waiver in making the Loan, and that this waiver is a material part of the consideration that Lender is receiving for making the Loan. WITHOUT LIMITING THE FOREGOING, GUARANTOR WAIVES ALL RIGHTS AND DEFENSES THAT GUARANTOR MAY HAVE BECAUSE THE BORROWER'S DEBT AND THE GUARANTEED OBLIGATIONS ARE, OR IF ALL OF ANY PORTION OF THE BORROWER'S OBLIGATIONS ARE EVER DEEMED, SECURED BY REAL PROPERTY. THIS MEANS, AMONG OTHER THINGS:

(1) LENDER MAY COLLECT FROM GUARANTOR WITHOUT FIRST FORECLOSING ON ANY REAL OR PERSONAL PROPERTY COLLATERAL PLEDGED BY THE BORROWER; AND

(2) IF LENDER FORECLOSURES ON ANY REAL PROPERTY COLLATERAL PLEDGED BY THE BORROWER:

a. THE AMOUNT OF THE DEBT MAY BE REDUCED ONLY BY THE PRICE FOR WHICH THAT COLLATERAL IS SOLD AT THE FORECLOSURE SALE, EVEN IF THE COLLATERAL IS WORTH MORE THAN THE SALE PRICE; AND

b. LENDER MAY COLLECT FROM GUARANTOR EVEN IF LENDER, BY FORECLOSING ON THE REAL PROPERTY COLLATERAL, HAS DESTROYED ANY RIGHT GUARANTOR MAY HAVE TO COLLECT FROM THE BORROWER.

THIS IS AN UNCONDITIONAL AND IRREVOCABLE WAIVER OF ANY RIGHTS AND DEFENSES GUARANTOR HAS BECAUSE THE BORROWER'S DEBT IS, OR BECAUSE THE BORROWER'S OBLIGATIONS MAY BE DEEMED, SECURED BY REAL PROPERTY. THESE RIGHTS AND DEFENSES INCLUDE, BUT ARE NOT LIMITED TO, ANY RIGHTS OR DEFENSES BASED UPON CCP SECTIONS 580a, 580b, 580d, OR 726.

6. Bankruptcy.

(a) The obligations of Guarantor hereunder shall remain in full force and effect without regard to, and shall not be affected or impaired by any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to Borrower, Guarantor, any other guarantor (which term shall include any other party at any time directly or contingently liable for any of Borrower's obligations under the Loan Documents) or any affiliate of Borrower or any action taken with respect to this Agreement by any trustee or receiver, or by any court, in any such proceeding, whether or not Guarantor shall have had notice or knowledge of any of the foregoing.

(b) Notwithstanding any modification, discharge or extension of the maturity date of the Loan, or any amendment, modification, stay or cure of Lender's rights under the Loan Agreement, the Note, Mortgage or any other Loan Document which may occur in any bankruptcy or reorganization case or proceeding affecting Borrower, whether permanent or temporary, and whether or not assented to by Lender, Guarantor hereby agrees that Guarantor shall be obligated hereunder to pay the amounts due hereunder in accordance with the terms of this Agreement as in effect on the date hereof; provided that no amendment or modification of the Recourse Provision shall be binding on Guarantor unless Guarantor has consented to such amendment or modification.

(c) Guarantor agrees that to the extent that Borrower makes a payment or payments to Lender with respect to any of the Guaranteed Obligations, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required, for any of the foregoing reasons or for any other reasons, to be repaid or paid over to a custodian, trustee, receiver or any other party under any bankruptcy act, state or federal law, common law or equitable cause, then to the extent of such payment or repayment, the obligation or part thereof intended to be satisfied shall be revived and continue in full force and effect as if such payment had not been made and Guarantor shall be primarily liable for this obligation.

7. Subrogation Waiver/Subordination.

(a) Notwithstanding any provision to the contrary contained in the other Loan Documents or this Agreement, Guarantor hereby unconditionally and irrevocably waives until all obligations under the Loan Documents have been paid and performed in full and all applicable preference periods and fraudulent transfer periods have expired, (i) any and all rights of subrogation (whether arising under contract, 11 U.S.C. §509 or otherwise), to the claims, whether existing now or arising hereafter, Lender may have against Borrower,

and (ii) any and all rights of reimbursement, contribution or indemnity against Borrower or any future guarantors of any obligations under the Loan Documents) which may have heretofore arisen or may hereafter arise in connection with any guaranty or pledge or grant of any lien or security interest made in connection with any obligations under the Loan Documents. Guarantor hereby acknowledges that the waiver contained in the preceding sentence (the “**Subrogation Waiver**”) is given as an inducement to Lender to enter into the Loan Documents and, in consideration of Lender’s willingness to enter into the Loan Documents, Guarantor agrees not to amend or modify in any way the Subrogation Waiver without Lender’s prior written consent. If any amount shall be paid to Guarantor on account of any claim set forth at any time when all of the obligations under the Loan Documents shall not have been paid or performed in full, such amount shall be held in trust by Guarantor for Lender’s benefit, shall be segregated from the other funds of Guarantor and shall forthwith be paid over to Lender to be applied in whole or in part by Lender against such obligations, whether matured or unmatured, in accordance with Section 2.7(c) of the Loan Agreement. Nothing contained herein is intended or shall be construed to give to Guarantor any rights of subrogation or right to participate in any way in Lender’s rights, title or interest in the Loan Documents, notwithstanding any payments made by Guarantor under this Agreement, all such rights of subrogation and participation being hereby expressly waived and released until all obligations under the Loan Documents have been paid and performed in full and all applicable preference periods and fraudulent transfer periods have expired.

(b) In the event that Guarantor shall advance or become obligated to pay any sums with respect to any obligation hereby guaranteed or in the event that for any reason whatsoever Borrower or any subsequent owner of the collateral securing the Loan is now, or shall hereafter become, indebted to Guarantor, Guarantor agrees that the amount of such sums and of such indebtedness together with all interest thereon, shall at all times be subordinate as to the lien, time of payment and in all other respects, to all sums, including principal, interest and other amounts, at any time owing to Lender under any of the Loan Documents and that Guarantor shall not be entitled to enforce or receive payment thereof until all such sums owing to Lender have been paid. Nothing herein contained is intended or shall be construed to give to Guarantor any right to participate in any way in the right, title or interest of Lender in or to the collateral securing the Loan, notwithstanding any payments made by Guarantor under this Agreement, all such rights of participation being hereby expressly waived and released.

8. Guarantor’s Representations and Warranties. Guarantor makes the following representations and warranties which shall survive the execution and delivery of this Agreement:

(a) Guarantor has the power and authority to execute, deliver and perform its obligations under the terms and provisions of this Agreement and has duly authorized, executed, and delivered the same.

(b) Neither the execution and delivery of this Agreement, nor the consummation of the transactions herein contemplated, nor compliance with the terms and provisions hereof, will contravene in any material respect any provision of law, statute, rule or regulation to which Guarantor is subject or any material judgment, decree,

franchise, order or permit applicable to Guarantor, or will conflict or will be inconsistent with, or will result in any material breach of, any of the terms, covenants, conditions or provisions of, or constitute a material default under, or result in the creation or imposition of any lien, security interest, charge or encumbrance upon any of the property or assets of Guarantor pursuant to the terms of, any indenture, mortgage, deed of trust, agreement or other instrument to which Guarantor is a party or may be bound or subject.

(c) No consent or approval of, or exemption by, any governmental or public body or authority is required to authorize, or is required in connection with the execution, delivery and performance of, this Agreement or of any of the instruments or agreements herein referred to, or the taking of any action hereby contemplated.

9. Guarantor's Relationship to Borrower. Guarantor is affiliated with Borrower, has personal knowledge of and is familiar with Borrower's business affairs and books and records.

10. Mortgage Priority. Nothing herein contained shall in any manner affect the lien or priority of the Mortgage securing the Loan, and upon the occurrence and during the continuance of an Event of Default, Lender may invoke any remedies it may have under this Agreement (with respect to any such Event of Default that triggers liability under the Recourse Provision) or the other Loan Documents, either concurrently or successively and the exercise of any one or more of such remedies shall not be deemed an exhaustion of such remedy or remedies or a waiver of any other remedy or remedies and shall not be deemed an election of remedies. The exercise by Lender of any such remedies shall not release, discharge or excuse Guarantor from its obligations hereunder unless and until the full amount of the Indebtedness evidenced by the Note, governed by the Loan Agreement and secured by the Mortgage has been fully paid and satisfied.

11. Duration of Agreement. This Agreement shall remain in full force and effect until all obligations of Borrower and Guarantor under the Loan Documents have been satisfied in full and are no longer subject to disgorgement under any applicable state or federal creditor rights or bankruptcy laws. No delay on the part of Lender in exercising any options, powers or rights, or the partial or single exercise thereof, shall constitute a waiver thereof. No waiver of any rights hereunder shall be deemed to be made by Lender unless the same shall be in writing, duly signed on behalf of Lender, and each such waiver (if any) shall apply only with respect to the specific instance involved and shall in no way impair the rights of Lender or the obligations of Guarantor to Lender in any other respect at any other time. No modification or amendment of this Agreement shall be deemed to be made unless the same shall be in writing, duly signed by Lender and Guarantor. This Agreement is binding upon Guarantor, Guarantor's heirs, personal representatives, successors or assigns, and shall inure to the benefit of the Lender Parties, including, without limitation, any other permitted holder at any time of the Loan Documents.

12. Guarantor's Familiarity with the Loan Documents. Guarantor acknowledges that copies of the Loan Documents have been made available to Guarantor and that Guarantor is familiar with their contents including, without limitation, the Recourse Provision. Guarantor affirmatively agrees that upon any transfer of the Premises in accordance with the provisions of the Loan Agreement, it shall not be necessary for Guarantor to reaffirm its continuing obligations under this Agreement, but Guarantor will do so upon request by Lender.

13. Notices. All notices, consents, approvals and requests required or permitted hereunder shall be given in writing and shall be effective for all purposes if hand delivered or sent by: (i) certified or registered United States mail, postage prepaid, return receipt requested; or (ii) expedited prepaid delivery service, either commercial or United States Postal Service, with proof of attempted delivery; addressed in either case as follows:

If to Lender, at the following address:

Midland Loan Servicing
10851 Mastin, Suite 300
Overland Park, Kansas 66210
Attention: Barings Servicing Group
Loan No.: 16714

With a copy to:

Massachusetts Mutual Life Insurance Company
c/o Barings
One Financial Plaza
Hartford, Connecticut 06103
Attention: Real Estate Loan Servicing
Loan No.: 16714

and:

Massachusetts Mutual Life Insurance Company
c/o Barings
One Financial Plaza
Hartford, Connecticut 06103
Attention: Real Estate Loan Servicing
Loan No.: 16714

If to Guarantor, at the following address:

Kilroy Realty, L.P.
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Corporate Finance

With a copy to:

Kilroy Realty, L.P.
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Legal Department – Lindsay Florin

And a copy to:

Latham & Watkins LLP
355 South Grand Avenue
Los Angeles, CA 90071-1560
Attention: Glen B. Collyer

or to such other address and person as shall be designated from time to time by Lender or Guarantor, as the case may be, in a written notice to the other party in the manner provided for in this Section 13. A notice shall be deemed to have been given: in the case of hand delivery, at the time of actual delivery; in the case of registered or certified mail, three (3) Business Days after deposit in the United States mail; in the case of expedited prepaid delivery, upon the first attempted delivery on a Business Day. A party receiving a notice that does not comply with the technical requirements for notice under this Section 13 may elect to waive any deficiencies and treat the notice as having been properly given.

14. Successors and Assigns. This Agreement shall be binding upon Guarantor's successors and assigns and shall inure to the benefit of Lender, the Lender Parties and their respective successors and assigns.

15. Governing Law. In all respects, including, without limitation, matters of construction and performance of this Agreement and the obligations arising hereunder, this Agreement shall be governed by, and construed in accordance with, the laws of the state in which the Premises are located applicable to contracts and obligations made and performed in such state and any applicable laws of the United States of America. Interpretation and construction of this Agreement shall be according to the contents hereof and without presumption or standard of construction in favor of or against Guarantor or Lender.

16. Waiver of Trial by Jury. TO THE EXTENT PERMITTED BY APPLICABLE LAW, GUARANTOR AND LENDER (BY ITS ACCEPTANCE HEREOF) EACH HEREBY WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, OR RELATED TO, THE SUBJECT MATTER OF THIS AGREEMENT. THIS WAIVER IS KNOWINGLY, INTENTIONALLY, AND VOLUNTARILY MADE BY GUARANTOR AND LENDER, AND GUARANTOR AND LENDER (BY ITS ACCEPTANCE HEREOF) EACH ACKNOWLEDGE THAT THE OTHER PARTY HAS NOT MADE ANY REPRESENTATIONS OF FACT TO INDUCE THIS WAIVER OF TRIAL BY JURY OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT. GUARANTOR FURTHER ACKNOWLEDGES THAT GUARANTOR HAS BEEN REPRESENTED (OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED) IN THE SIGNING OF THIS AGREEMENT BY INDEPENDENT LEGAL COUNSEL SELECTED BY GUARANTOR AND THAT GUARANTOR HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

17. Consent to Jurisdiction and Venue. Each of Lender and Guarantor hereby submits to personal jurisdiction in the State in which the Premises are located for the enforcement of the provisions of this Agreement and irrevocably waives any and all rights to object to such jurisdiction for the purposes of litigation to enforce any provision of this Agreement. Each of Lender and Guarantor hereby consents to the jurisdiction of and agrees that any action, suit or proceeding to enforce this Agreement may be brought in any state or federal

court in the state in which the Premises are located. Each of Lender and Guarantor hereby irrevocably waives any objection that it may have to the laying of the venue of any such actions, suit, or proceeding in any such court and hereby further irrevocably waives any claim that any such action, suit or proceeding brought in such a court has been brought in an inconvenient forum.

18. Service of Process. In its filings with the Secretary of State of the State of California, Guarantor has appointed Paracorp Incorporated, with an address at 2804 Gateway Oaks Drive, Suite 200, Sacramento, California 95833, as its authorized agent to accept and acknowledge on its behalf service of any and all process which may be served in any such suit, action or proceeding in any federal or state court and agrees that service of process upon said agent at said address and written notice of said service, and a full copy of all documents that were served, mailed or delivered to Guarantor in the manner provided herein shall be deemed in every respect effective service of process upon Guarantor, in any such suit, action or proceeding in connection with this Agreement. Guarantor (a) shall give prompt notice to Lender of any change of address of its authorized agent hereunder, (b) may at any time and from time to time designate a substitute authorized agent with an office in the State where the Premises are located (which substitute agent and office shall be designated as the person and address for service of process), and (c) shall promptly designate such a substitute if its authorized agent ceases to have an office the State where the Premises are located or is dissolved without leaving a successor.

19. Attorneys' Fees; Costs. In addition to all other amounts payable by Guarantor hereunder, Guarantor hereby agrees to pay to Lender upon demand any and all reasonable Costs incurred by Lender in connection with the workout, collection or enforcement of this Agreement, including probate, appellate and bankruptcy proceedings, any post-judgment proceedings to collect or enforce any judgment or order relating to this Agreement, and all such Costs shall be included as additional Indebtedness bearing interest at the Default Rate set forth in the Loan Agreement until paid. In any action to enforce Lender's rights and remedies hereunder, there shall be allowed and included as additional Indebtedness all Costs which may be paid or incurred by or on behalf of Lender. For the purposes hereof "Costs" means all expenditures and expenses which may be reasonably incurred by or on behalf of Lender including repair costs, payments to remove or protect against liens, reasonable attorneys' fees (including reasonable fees of Lender's inside counsel), receivers' fees, appraisers' fees, engineers' fees, accountants' fees, independent consultants' fees (including environmental consultants), all costs and expenses reasonably incurred in connection with any of the foregoing, Lender's actual out-of-pocket costs and expenses related to any audit or inspection of the Mortgaged Property, all actual outlays for documentary and expert evidence, stenographers' charges, stamp taxes, publication costs, and costs (which may be estimates as to items to be expended after entry of an order or judgment) for procuring all such abstracts of title, title searches and examination, title insurance policies, and similar data and assurances with respect to title as Lender may deem reasonably necessary either to prosecute any action or to evidence to bidders at any sale of the Mortgaged Property the true condition of the title to, or the value of, the Mortgaged Property. Further, all "Costs" shall include such other costs, expenses and fees as may be reasonably incurred by Lender in the protection of the Mortgaged Property in connection with this Agreement, including reasonable attorneys' fees, expenses and costs in any litigation or proceeding affecting this Agreement, including probate, appellate, and bankruptcy proceedings, and any post-judgment proceedings to collect or enforce any judgment or order relating to this Agreement, to obtain any court order or

the appointment of a receiver to enforce Lender's rights pursuant to Section 564 of the California Code of Civil Procedure and/or Section 2929.5 of the California Civil Code or in preparation for the commencement or defense of any action or proceeding, shall be immediately due and payable to Lender, with interest thereon at the Default Rate. This provision is separate and several, and shall survive the merger of this provision into any judgment.

20. Joint and Several Liability. If more than one party is executing this Agreement as a Guarantor, then each party that executes this Agreement shall be jointly and severally responsible for any and all obligations of any Guarantor hereunder.

21. Severability. All rights, powers and remedies provided in this Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable law, and are intended to be limited to the extent (but only to the extent) necessary so that they will not render this Agreement invalid or unenforceable. If any term, covenant, condition, or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remaining terms, covenants, conditions and provisions of this Agreement, or the application of such term, covenant, condition or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, covenant, condition and provision of this Agreement shall be modified and/or limited to the extent necessary to render the same valid and enforceable to the fullest extent permitted by law.

22. Time of the Essence. Time shall be of the essence in the performance of all obligations of Guarantor under this Agreement and every other Loan Document.

23. Definitions. Any initially capitalized term not defined herein shall have the meaning set forth in the Loan Agreement.

24. Counterparts. This Agreement may be executed in counterparts, which together shall constitute one and the same original agreement.

25. Application of Payments. So long as any Event of Default has occurred and is continuing and unless otherwise required by Law or a specific agreement to the contrary, all payments received by Lender from Borrower, or any other party other than Guarantor, with respect to the Guaranteed Obligations, shall be applied by Lender in such manner and order as Lender desires, in its sole discretion. It is specifically agreed that for so long as any Event of Default has occurred and is continuing, Lender may apply such funds to obligations of Borrower which are not guaranteed hereby prior to applying any funds to the obligations guaranteed hereby.

[No Further Text On This Page]

IN WITNESS WHEREOF, Guarantor has duly executed this Agreement as of the date first above written.

GUARANTOR:

KILROY REALTY, L.P.,
a Delaware limited partnership

By: Kilroy Realty Corporation,
a Maryland corporation,
its general partner

By: /s/ Tyler H. Rose
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /s/ Michelle Ngo
Name: Michelle Ngo
Title: Senior Vice President and Treasurer

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
) ss:
COUNTY OF Los Angeles)

On November 22, 2016 before me, Yuson Shin
Notary Public (insert name and title of the officer),

personally appeared Tyler H. Rose and Michelle Ngo, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that ~~he/she~~/they executed the same in ~~his/her~~/their authorized capacity(ies), and that by ~~his/her~~/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: /s/ Yuson Shin

[Seal]

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Section 7: EX-10.44 (EXHIBIT 10.44)

Exhibit 10.44

Mortgage Loan No. 16714

ENVIRONMENTAL INDEMNIFICATION AGREEMENT

THIS ENVIRONMENTAL INDEMNIFICATION AGREEMENT (this “**Agreement**”) is made as of November 29, 2016, by KR WMC, LLC, a Delaware limited liability company (“**Borrower**”), and KILROY REALTY, L.P., a Delaware limited partnership (“**Guarantor**”), to and for the benefit of MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation (“**Lender**”) and for the benefit of the Lender Parties (as defined below) and, to the extent applicable under Article 13 of the Loan Agreement, for the benefit of Administrative Agent. Borrower and Guarantor are hereinafter collectively referred to as “**Indemnitor**”.

RECITALS:

A. Borrower and Lender entered into that certain Loan Agreement of even date herewith (as the same may be amended or modified from time to time, the “**Loan Agreement**”), which Loan Agreement governs a loan (the “**Loan**”) in the stated principal amount of One Hundred Seventy Million and No/100 Dollars (\$170,000,000.00) made by Lender to Borrower, which Loan is evidenced by that certain Promissory Note of even date herewith (as the same may be amended or modified from time to time, the “**Note**”).

B. The Loan is secured in part by Borrower’s interest in and to that certain real property located in the City of Los Angeles, County of Los Angeles and State of California, and described in Exhibit A attached hereto, including all improvements and personal property at any time existing on or in such real property, all as more completely described in the Mortgage (defined below) (collectively, the “**Premises**”), as evidenced by (i) that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (as the same may be amended or modified from time to time, the “**Mortgage**”) with respect to the Premises, and (ii) that certain Assignment of Leases and Rents (as the same may be amended or modified from time to time, the “**Assignment**”) with respect to the Premises. As used herein, the Loan Agreement, the Note, the Mortgage, the Assignment, and all other instruments evidencing, securing or pertaining to the Loan, now or from time to time hereafter executed and delivered to Lender in connection with the Loan, are referred to collectively herein as the “**Loan Documents**”. Unless otherwise defined herein, all initially capitalized terms shall have the respective meanings ascribed to such terms in the Loan Agreement.

C. Guarantor is a member of Borrower and will derive substantial benefits from Lender’s consummation of the Loan to Borrower.

D. Lender has required, as a condition to making the Loan, that Indemnitor indemnify and hold Lender harmless against and from, and be responsible for paying, certain obligations for which Lender Parties may incur liability, as herein below set forth.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Indemnitator, intending to be legally bound, hereby agrees as follows:

1. Recitals. The foregoing recitals are incorporated into this Agreement by this reference.
2. Defined Terms. As used in this Agreement, the terms set forth below have the following meanings:

“**Advances**” means all sums, amounts or expenses advanced or paid and all costs incurred by Lender, as provided in this Agreement or in any other Loan Document, upon failure of Indemnitator to pay or perform any obligation or covenant contained herein or in such other Loan Documents.

“**Borrower Environmental Report**” has the meaning assigned to such term in Section 7(b) of this Agreement.

“**Conditional Rights**” has the meaning assigned to such term in Section 26 of this Agreement.

“**Environmental Law**” means any present or future federal, state or local law, statute, regulation, rule, decree or ordinance, and any judicial or administrative order or judgment thereunder, pertaining to human health, or environmental conditions on, in, under or about the Premises, or regulating or imposing liability or standards of conduct concerning the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of any hazardous, toxic, or dangerous waste, substance, element, compound, mixture or material, as now or at any time hereafter in effect, including, without limitation: the Comprehensive Environmental Response, Compensation and Liability Act 1980, 42 U.S.C. §§ 9601 et seq.; the Superfund Amendments and Reauthorization Act, 42 U.S.C. §§9601 et seq.; the Federal Oil Pollution Act of 1990; the Resource Conservation and Recovery Act of 1976, 42 U.S.C. §§ 6901 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq.; the Water Pollution Control Act (also known as the Clean Water Act), 33 U.S.C. §§ 1251 et seq.; the Clean Air Act, 42 U.S.C. §§ 7401 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. §§ 5101 et seq.; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11011, et seq., the Atomic Energy Act, 42 U.S.C. § 2011 et seq., the Federal Insecticide, Fungicide and Rodenticide Act, as amended, 7 U.S.C. §§136 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. §300f et seq.; the National Environmental Policy Act, as amended, 42 U.S.C. §4321 et seq.; the Solid Waste Disposal Act, as amended, 42 U.S.C. §6901 et seq.; and the River and Harbors Act of 1899, 33 U.S.C. §§401 et seq.; and the California Environmental Quality Act.

“**Environmental Litigation**” has the meaning assigned to such term in Section 3(b) of this Agreement.

“**Environmental Violation**” has the meaning assigned to such term in Section 5(d) of this Agreement.

“**Equipment**” has the meaning assigned to such term in the Mortgage.

“**Hazardous Substance**” means any material, waste or substance which is or includes any material, waste or substance which is:

(i) included within the definitions of “hazardous substances”, “hazardous materials”, “toxic substances” or “solid waste” in or pursuant to any Environmental Law, or is subject to regulation under any Environmental Law;

(ii) listed in the United States Department of Transportation Optional Hazardous Materials Table, 49 C.F.R. §172.101, as to date or hereafter amended, or in the United States Environmental Protection Agency List of Hazardous Substances and Reportable Quantities, 40 C.F.R. Part 302, as to date or hereafter amended; or

(iii) toxic, explosive, radioactive, infectious or carcinogenic, including without limitation and whether or not included in such description, any asbestos containing materials, Microbial Matter, hydrocarbons, polychlorinated biphenyls, oil, or petroleum products.

“**Independent Defense Events**” has the meaning assigned to such term in Section 3(b) of this Agreement.

“**Lender Environmental Report**” has the meaning assigned to such term in Section 7(a) of this Agreement.

“**Lender Parties**” means Lender, Barings Real Estate Advisers LLC, Barings Real Estate Advisers Inc., and any present and future loan participants, co-lenders, loan servicers, custodians and trustees, and each of their respective directors, officers, employees, shareholders, agents, affiliates, heirs, legal representatives, successors and assigns, excluding any successor to any interest of Lender in or to the Premises, or any other Person that acquires all or part of the Premises by any sale, assignment, foreclosure or other exercise of remedies under the Mortgage or other Loan Documents or by conveyance in lieu thereof that is not Lender, any of its participants or any affiliate, nominee or designee.

“**Microbial Matter**” means the Release of fungi or bacterial matter which reproduces through the release of spores or the splitting of cells, including, mold, mildew and viruses, whether or not such Microbial Matter is living, which poses a threat to the health, safety or welfare of any Person or adversely affects the value of the Premises.

“**Preferential Payment**” has the meaning assigned to such term in Section 26 of this Agreement.

“**Release**” means the actual, threatened or suspected release, deposit, discharge, emission, leak, spill, seepage, migration, injection, pump, pour, empty, escape, dump or disposal of a Hazardous Substance at any time, no matter how or by whom caused, whether intentional or unintentional, foreseeable or unforeseeable.

“**Remediation**” means any response, remedial, removal or corrective action, any activity to cleanup, detoxify, decontaminate, contain or otherwise remediate any Hazardous Substance or underground storage tank, any actions to prevent, cure or mitigate any Release of a Hazardous

Substance, any action to comply with any Environmental Laws or with any permits issued pursuant thereto, any inspection, investigation, study, monitoring, assessment, audit, sampling and testing, laboratory or other analysis, or evaluation relating to any Hazardous Substances or underground storage tank.

“**Subrogation Waiver**” has the meaning assigned to such term in Section 24(a) of this Agreement.

3. Indemnity.

(a) Indemnitor shall indemnify, defend and hold Lender and the Lender Parties harmless from and against, and shall be responsible for paying, any and all claims, demands, liabilities, losses, damages, judgments, fines, penalties, costs and expenses (including reasonable attorneys’ fees, costs and expenses and all costs of collection and enforcement) directly or indirectly arising out of or attributable to: (i) a breach of any warranty or representation contained in this Agreement or in any other Loan Document relating to an Environmental Violation or a Hazardous Substance; (ii) an action against Indemnitor to enforce any of the provisions of this Agreement, in which such action Indemnitor is found to have breached any of such provisions; and (iii) any Release of a Hazardous Substance on, in, under or about the Premises or any portion thereof; (iv) all costs of any required or necessary Remediation; (v) all costs of the preparation and implementation of any plans for Remediation, closure or other required plans; and (vi) all direct, indirect and consequential damages (excluding punitive damages) arising from or relating to the items described in the preceding clauses (i) through (v). The indemnity provided in this Section 3 shall survive and be unaffected by any modification, amendment, extension, repayment, foreclosure, or deed in lieu of foreclosure of the Loan, as well as any transfer of any direct or indirect interest in Borrower or in the Premises, or the release or extinguishment of the Lien of the Mortgage. Notwithstanding anything to the contrary contained herein, this Indemnity shall not, as to any Indemnified Party, apply to any losses to the extent that a court of competent jurisdiction has determined by final and non-appealable judgment that such losses have resulted from the willful misconduct or gross negligence of such Indemnified Party.

(b) Upon written request of any of the Lender Parties and at their sole option, Indemnitor shall immediately undertake the defense of the Lender Parties, at Indemnitor’s sole cost and expense, with counsel reasonably approved by Lender, in connection with any action or proceeding relating to any obligation set forth in this Agreement for which Indemnitor has an obligation to protect, indemnify, defend, and hold harmless the Lender Parties (collectively, “**Environmental Litigation**”). In the event Indemnitor refuses to undertake the defense of the Lender Parties after receiving such request, or fails to diligently and continuously conduct such defense after receiving such request, or if Indemnitor is not a party to the Environmental Litigation, or is a party to the Environmental Litigation and, in Lender’s reasonable opinion, there is a potential conflict of interest in the sharing of counsel by Indemnitor and the Lender Parties (collectively, the “**Independent Defense Events**”), then the Lender Parties may undertake their own defense without reducing, limiting or waiving Indemnitor’s obligations to protect, indemnify and hold harmless the Lender Parties as provided in this Agreement. The actual out-of-pocket costs reasonably incurred by the Lender Parties in undertaking their own defense due to any Independent Defense Event, including but not limited to reasonable attorneys’

fees, costs and expenses, shall constitute a portion of the indemnification obligations of Indemnitor under this Agreement. In the absence of an Independent Defense Event, the Lender Parties may elect to engage additional or different counsel at any time without reducing Indemnitor's obligations to protect, indemnify and hold harmless the Lender Parties as provided in this Agreement, except that the actual attorneys' fees incurred by the Lender Parties in engaging such additional or different counsel shall not constitute an indemnification duty of the Indemnitor under this Agreement.

(c) Notwithstanding the foregoing terms of this Section 3, Indemnitor shall have no liability under this Section 3 for any violation of any Environmental Laws or any disposal of any Hazardous Substances based on any action first occurring, or condition first existing, after any foreclosure or Lender's acceptance of a deed in lieu of foreclosure of the Mortgage, unless caused by or arising from the acts or omissions of Indemnitor, any Upstream Owner or any of their respective Affiliates or agents. In the event that Indemnitor disclaims liability under this Agreement based upon the provisions of this paragraph, Indemnitor shall be responsible, at its sole cost and expense, to prove such assertion.

(d) The obligations of Indemnitor under this Section 3 shall terminate (other than with respect to any outstanding unfulfilled obligations or claims that have been made) on a date which is twelve (12) months after the date when the Loan is timely repaid in full with Borrower and Indemnitor having satisfied all of their payment and performance obligations under the Loan Documents, provided each of the following conditions have been fully satisfied: (1) Indemnitor delivers to Lender an environmental site assessment report acceptable to Lender prepared by a properly licensed environmental consultant acceptable to Lender evidencing no contamination by Hazardous Substances and no violation of any Environmental Laws with respect to the Premises; (2) there is no known or suspected contamination of the Premises due to any Hazardous Substances; and (3) there are no outstanding claims, suits or demands existing or threatened with respect to any Hazardous Substances or under any Environmental Laws relating to the Premises. In all other events, Indemnitor's obligations under this Section 3 shall survive to the fullest extent and for the maximum time period permitted under applicable law.

4. Indemnification Separate from the Loan; No Derogation of Other Available Rights; Survival.

(a) This Agreement is given solely to protect Lender against losses, damages, costs, expenses, charges, claims and liabilities, and not as additional security for, or as a means of repayment of, the Loan. Indemnitor agrees that this Agreement is separate, independent of and in addition to the undertakings of Indemnitor pursuant to the Note, the Mortgage and the other Loan Documents. The obligations of Indemnitor under this Agreement are independent of, and shall not be measured or affected by (i) any amounts at any time owing under the Note or secured by the Mortgage, (ii) the sufficiency or insufficiency of any collateral (including, without limitation, the Premises) given to Lender to secure the Note, (iii) the consideration given by Lender or any other party in order to acquire the Premises, (iv) the modification, expiration or termination of the Mortgage or any other document or instrument securing or otherwise relating to the loan evidenced by the Note, or (v) the payment in full or other cancellation of the Note (including, without limitation, by amounts paid or credit bid at a foreclosure sale or by discharge in connection with a deed in lieu of foreclosure).

(b) This Agreement is intended to be supplemental, and not in derogation of, Lender's rights under California Civil Code ("Civil Code") Section 2929.5 and California Code of Civil Procedure ("CCP") Sections 564, 726.5 and 736 and any successor sections thereof. A separate action may be brought to enforce the provisions hereof, which shall in no way be deemed to be an action on the Note, whether or not the Loan has been repaid and whether or not Lender would be entitled to a deficiency judgment following a judicial foreclosure, trustee's sale or UCC sale.

(c) The obligations of Indemnitee hereunder shall not be affected by any exculpatory provisions contained in the Note or any of the other Loan Documents. Subject to Subsections 3(c) and (d) hereof, this Agreement, and all rights and obligations hereunder, shall survive performance and repayment of the obligations evidenced by and arising under the Loan Documents, surrender of the Note, reconveyance of any Mortgage, release of other security provided in connection with the Loan, trustee's sale or foreclosure under any Mortgage and/or any of the other Loan Documents (whether by deed or other assignment in lieu of foreclosure, or otherwise), acquisition of the Premises by Lender, any other transfer of the Premises, and transfer of all of Lender's rights in the Loan, the Loan Documents, and the Premises. Indemnitee's obligations under this Agreement are secured by the Mortgage to the extent of the "Secured Environmental Costs" (as defined in the Mortgage) and are unsecured, whether by the Mortgage or otherwise, to the extent of the "Unsecured Environmental Costs" (as defined in the Mortgage).

5. Warranties and Representations of Indemnitee; Covenants of Indemnitee.

(a) Indemnitee represents and warrants to Lender regarding the Premises and Equipment as follows:

(i) To Indemnitee's knowledge, Indemnitee has not installed, used, generated, manufactured, produced, stored, Released, discharged or disposed of on, in, under or about the Premises, or transported to or from any portion of the Premises, any Hazardous Substance or allowed any other Person to do so, except under conditions that could not reasonably be expected to violate applicable Environmental Laws and except for cleaning supplies used in reasonable quantities and in the ordinary course of Borrower's operation of the Premises so long as the supplies are maintained, used, stored and disposed of in accordance with all applicable Environmental Laws;

(ii) To Indemnitee's knowledge, there are no Hazardous Substances or underground storage tanks on, in, under or about the Premises that could reasonably be expected to violate applicable Environmental Laws, except those that are both: (A) in compliance with Environmental Laws and with permits issued pursuant thereto; and (B) fully disclosed to Lender in writing in the Environmental Report;

(iii) To Indemnitee's knowledge, there are no past, present or threatened material Releases of any Hazardous Substance on, in, under or about the Premises except as described in the Environmental Report;

(iv) To Indemnitior's knowledge, there is no threat of any material Release of Hazardous Substances migrating to or from the Premises except as described in the Environmental Report;

(v) To Indemnitior's knowledge, there is no present non-compliance with Environmental Laws, or with permits issued pursuant thereto, in connection with the Premises or the Equipment, except as described in the Environmental Report;

(vi) Indemnitior does not know of, and has not received, any written notice from any Person (including a governmental entity) relating to Hazardous Substances or Remediation thereof, of possible liability of any Person pursuant to any Environmental Law, other environmental conditions in connection with the Premises or Equipment, or any actual or potential administrative or judicial proceedings in connection with any of the foregoing; and

(vii) Indemnitior has truthfully and fully made available to Lender, in writing, any and all material information relating to environmental conditions on, in, under or about the Premises that is in Indemnitior's possession and control, including any reports relating to Hazardous Substances on, in, under or about the Premises and/or to the environmental condition of the Premises.

(b) Indemnitior shall not install, use, generate, manufacture, produce, store, Release, discharge or dispose of on, in, under or about the Premises, or transport to or from any portion of the Premises, any Hazardous Substance, and Indemnitior shall use commercially reasonable efforts to not allow any other Person to do so, except under conditions permitted by applicable Environmental Laws, and except for ordinary and customary cleaning supplies in reasonable quantities used in the operation of the Premises so long as the supplies are maintained, used, stored and disposed of in accordance with all applicable Environmental Laws (provided however, Indemnitior's failure to comply with the foregoing provisions shall not result in an Event of Default unless such failure is in any material respect and following the expiration of any applicable notice or cure period contemplated in the Loan Agreement). Additionally, except with the prior consent of Lender, no portion of the Premises shall be leased, used or occupied for dry cleaning operations or the storage of any chemicals used in the dry cleaning process.

(c) Indemnitior shall keep and maintain the Premises in compliance with, and shall use commercially reasonable efforts not to cause or permit the Premises to be in violation of, applicable Environmental Laws; provided however, Indemnitior's failure to comply with this covenant shall not result in an Event of Default unless such failure is in any material respect and following the expiration of any applicable notice or cure period contemplated in the Loan Agreement.

(d) Indemnitior shall promptly provide notice to Lender of:

(i) any proceeding, investigation or inquiry commenced by any governmental authority with respect to the Release of any Hazardous Substance on, in, under or about the Premises or the migration of any Hazardous Substance to or from adjoining property;

(ii) all claims made or threatened in writing by any Person against Indemnitor, any other party occupying the Premises or any portion thereof, or the Premises, relating to any loss or injury allegedly resulting from any Hazardous Substance; and

(iii) the discovery of any occurrence or condition on the Premises or on any real property adjoining or in the vicinity of the Premises, of which Indemnitor becomes aware, which is reasonably likely to cause the Premises or any portion thereof to be in violation of any Environmental Law or subject to any restriction on ownership, occupancy, transferability or use under any Environmental Law (each, an "**Environmental Violation**"); provided, however, Indemnitor's failure to provide Lender with prompt notice of any Environmental Violation shall not result in an Event of Default unless Indemnitor fails to report any material Environmental Violation and after the expiration of any applicable notice or cure period contemplated in the Loan Agreement.

(e) Lender may join and participate in, as a party if it so determines, any legal or administrative proceeding or action concerning the Premises or Equipment under any Environmental Law. Indemnitor shall pay or reimburse Lender on demand for all Advances and actual out-of-pocket expenses (including reasonable attorneys' fees, costs and expenses) reasonably incurred by Lender in connection with any such action or proceeding.

6. Environmental Matters; Remediation.

(a) If any investigation, site monitoring, containment, cleanup, removal, restoration or other Remediation of any kind or nature is required under any applicable Environmental Law, or reasonably necessary to protect the health, safety or welfare of any occupant or transient occupant of the Premises, because of or in connection with the current or future Release of a Hazardous Substance into the air, soil, ground water, surface water; or soil vapor on, in, under or about the Premises or any portion thereof, Indemnitor shall promptly commence and diligently prosecute to completion all such Remediation. In all events, such Remediation shall be commenced within sixty (60) days after any demand therefor by Lender or such shorter period as may be required under any applicable Environmental Law.

(b) All Remediation shall be performed by qualified, licensed, insured and reputable contractors, and under the supervision of a consulting engineer, each approved in advance by Lender, such approval not to be unreasonably withheld, delayed or conditioned. All actual out-of-pocket costs and expenses of such Remediation and of Lender's monitoring or review of such Remediation (including reasonable attorneys' fees, costs and expenses), in each case to the extent reasonably incurred, shall be paid by Indemnitor. If Indemnitor does not timely commence and diligently prosecute to completion the Remediation, Lender may (but shall not be obligated to) cause such Remediation to be performed. Indemnitor agrees to bear and shall pay or reimburse Lender on demand for all Advances and expenses (including reasonable attorneys' fees, costs and expenses) relating to or incurred by Lender in connection with monitoring, reviewing or performing any Remediation.

(c) Except with Lender's prior consent, not to be unreasonably withheld, conditioned, or delayed, Indemnitor shall not commence any Remediation, unless required by Section 6(a) above or enter into any settlement agreement, consent decree or other compromise

relating to any Hazardous Substances or Environmental Laws which might, in Lender's reasonable judgment, impair the value of Lender's security for the Loan. Lender's prior consent, to such Remediation, not to be unreasonably withheld, conditioned or delayed, shall not be required, however, if the Release of Hazardous Substances on, in, under or about the Premises poses an immediate threat to the health, safety or welfare of any Person or is of such a nature that an immediate remedial response is necessary, and it is not possible to obtain Lender's prior consent. In such event Indemnitee shall notify Lender as soon as practicable of any action taken.

7. Environmental Matters: Inspection.

(a) Upon at least five (5) days advance notice, which shall include (i) the submission of a written invasive investigation plan for Indemnitee's review and approval, which approval shall not be unreasonably withheld, conditioned or delayed, and (ii) proof that Indemnitee has been named as an additional insured on the applicable insurance policy of Lender or its agents, Lender or its agents shall have the right to enter upon and inspect all or any portion of the Premises to conduct customary environmental tests, assessments, audits and soil borings. Except in an emergency, such entry shall be at reasonable times, with the advance notice described above, and subject to the rights of tenants of the Premises. Any damage to the Premises as a result of such tests or borings will be promptly and fully repaired by Lender or its agents. Lender may select a consulting engineer to conduct and prepare reports of such inspections, tests, assessments, audits and soil borings (a "**Lender Environmental Report**"). The inspection rights granted to Lender in this Section 7 shall be in addition to, and not in limitation of, any other inspection rights granted to Lender in this Agreement or the other Loan Documents.

(b) If an Event of Default has occurred and is continuing or Lender has reasonable cause to believe that there has been a Release of a Hazardous Substance on, in, under or about the Premises or any Environmental Violation exists or any Hazardous Substance is migrating to or from adjoining property), promptly upon the written request of Lender, Indemnitee shall provide Lender with an environmental site assessment or environmental audit report prepared by an environmental engineering firm acceptable to Lender in its reasonable discretion (a "**Borrower Environmental Report**"), to assess with a reasonable degree of certainty whether or not any Release exists or has occurred, along with a reasonably detailed description of the potential scope of remediation and of the potential costs that may be incurred in connection with abatement, cleanup or removal of any Hazardous Substance found on, in, under, at, or within the Premises.

(c) Indemnitee shall pay or reimburse Lender on demand for all Advances and actual out-of-pocket expenses (including reasonable attorneys' fees, costs and expenses) reasonably incurred by Lender in connection with any Lender Environmental Report and any Borrower Environmental Report required or permitted under this Agreement in the following situations:

(i) if Lender has reasonable grounds to believe, at the time any Lender Environmental Report is ordered or any Borrower Environmental Report is requested, that there exists any Environmental Violation, or there is a Release of a Hazardous Substance on, in, under or about the Premises or any Hazardous Substance is migrating to or from adjoining property,

except under conditions permitted by applicable Environmental Laws and not prohibited by any Loan Document;

(ii) if any such inspection reveals a violation of an Environmental Law or that a Hazardous Substance is present on, in, under or about the Premises or is migrating to or from adjoining property, except under conditions permitted by applicable Environmental Laws and not prohibited by any Loan Document;

(iii) if Lender has reasonable grounds to believe that there is a material adverse change in the status of any Release of any Hazardous Substance on, in, under or about the Premises;

(iv) if Lender has reasonable grounds to believe that a material adverse change in the compliance of the Premises with any Environmental Law has occurred;

(v) if Lender is not reasonably satisfied with the results or quality of an environmental site assessment or an environmental audit report which has been prepared in connection with the Premises, with the exception of the Environmental Report required by Lender in conjunction with the making of the Loan; or

(vi) if an Event of Default exists at the time such Lender Environmental Report is ordered or at the time the request is made for a Borrower Environmental Report.

8. Attorneys' Fees In addition to all other amounts payable by Indemnitee hereunder, Indemnitee hereby agrees to pay to Lender upon demand any and all reasonable Costs incurred by Lender in connection with the collection or enforcement of this Agreement, including probate, appellate and bankruptcy proceedings, any post-judgment proceedings to collect or enforce any judgment or order relating to this Agreement, and all such Costs shall be included as additional Indebtedness bearing interest at the Default Rate set forth in the Loan Agreement until paid. In any action to enforce Lender's rights and remedies hereunder, there shall be allowed and included as additional Indebtedness all Costs which may be paid or incurred by or on behalf of Lender. For the purposes hereof "Costs" means all expenditures and expenses reasonably incurred by or on behalf of Lender including reasonable attorneys' fees (including reasonable fees of Lender's inside counsel), receivers' fees, independent consultants' fees (including environmental consultants), all costs and expenses reasonably incurred in connection with any of the foregoing. Further, all "Costs" shall include such other costs, expenses and fees as may be reasonably incurred by Lender in the protection of the Mortgaged Property in connection with this Agreement, including, reasonable attorneys' fees, expenses and costs in any litigation or proceeding affecting this Agreement, including probate, appellate, and bankruptcy proceedings, and any post-judgment proceedings to collect or enforce any judgment or order relating to this Agreement, to obtain any court order or the appointment of a receiver to enforce Lender's rights pursuant to Section 564 of the California Code of Civil Procedure and/or Section 2929.5 of the California Civil Code or in preparation for the commencement or defense of any action or proceeding, shall be immediately due and payable to Lender, with interest thereon at the Default Rate. This provision is separate and several, and shall survive the merger of this provision into any judgment.

9. Joint and Several Liability. If more than one party is executing this Agreement as an Indemnitor, then each party that executes this Agreement shall be jointly and severally responsible for any and all obligations of any Indemnitor hereunder.

10. Interest. In the event that Lender or Administrative Agent incurs any obligations, reasonable costs or expenses under this Agreement, Indemnitor shall pay Lender such costs immediately, on demand. If such payment is not received within ten (10) Business Days after demand therefor, interest on such amount shall, after the expiration of such ten (10) Business Day period, accrue at the Default Rate until such amount, plus interest, is paid in full.

11. Consent to Jurisdiction and Venue. Indemnitor hereby submits to personal jurisdiction in the state in which the Premises are located for the enforcement of the provisions of this Agreement and irrevocably waives any and all rights to object to such jurisdiction for the purposes of litigation to enforce any provision of this Agreement. Indemnitor hereby consents to the jurisdiction of and agrees that any action, suit or proceeding to enforce this Agreement may be brought in any state or federal court in the state in which the Premises are located. Indemnitor hereby irrevocably waives any objection that it may have to the laying of the venue of any such actions, suit, or proceeding in any such court and hereby further irrevocably waives any claim that any such action, suit or proceeding brought in such a court has been brought in an inconvenient forum.

12. Service of Process. In its filings with the Secretary of State of the State of California, Indemnitor has appointed Paracorp Incorporated, with an address at 2804 Gateway Oaks Drive, Suite 200, Sacramento, California 95833, as its authorized agent to accept and acknowledge on its behalf service of any and all process which may be served in any such suit, action or proceeding in any federal or state court and agrees that service of process upon said agent at said address and written notice of said service, and a full copy of all documents that were served, mailed or delivered to Indemnitor in the manner provided herein shall be deemed in every respect effective service of process upon Indemnitor, in any such suit, action or proceeding in connection with this Agreement. Indemnitor (a) shall give prompt notice to Lender of any change of address of its authorized agent hereunder, (b) may at any time and from time to time designate a substitute authorized agent with an office in the State where the Premises are located (which substitute agent and office shall be designated as the person and address for service of process), and (c) shall promptly designate such a substitute if its authorized agent ceases to have an office the State where the Premises are located or is dissolved without leaving a successor.

13. Notice. All notices, consents, approvals and requests required or permitted hereunder or under any other Loan Document shall be given in writing and shall be effective for all purposes if hand delivered or sent by: (i) certified or registered United States mail, postage prepaid, return receipt requested; or (ii) expedited prepaid delivery service, either commercial or United States Postal Service, with proof of attempted delivery; addressed in either case as follows:

If to Lender, at the following address:

Midland Loan Servicing
10851 Mastin, Suite 300
Overland Park, Kansas 66210
Attention: Barings Servicing Group
Loan No.: 16714

With a copy to:

Massachusetts Mutual Life Insurance Company
c/o Barings
One Financial Plaza
Hartford, Connecticut 06103
Attention: Real Estate Loan Servicing
Loan No.: 16714

and:

Massachusetts Mutual Life Insurance Company
c/o Barings
One Financial Plaza
Hartford, Connecticut 06103
Attention: Real Estate Loan Servicing
Loan No.: 16714

If to Borrower, at the following address:

KR WMC, LLC
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Corporate Finance

With a copy to:

Latham & Watkins LLP
355 South Grand Avenue
Los Angeles, CA 90071-1560
Attention: Glen B. Collyer

If to Guarantor, at the following address:

Kilroy Realty, L.P.
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Corporate Finance

With a copy to:

Kilroy Realty, L.P.
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Legal Department – Lindsay Florin

And a copy to:

Latham & Watkins LLP
355 South Grand Avenue
Los Angeles, CA 90071-1560
Attention: Glen B. Collyer

or to such other address and person as shall be designated from time to time by Lender, Borrower or Guarantor, as the case may be, in a written notice to the other parties in the manner provided for in this Section 13. A notice shall be deemed to have been given: in the case of hand delivery, at the time of actual delivery; in the case of registered or certified mail, three (3) Business Days after deposit in the United States mail; in the case of expedited prepaid delivery, upon the first attempted delivery on a Business Day. A party receiving a notice that does not comply with the technical requirements for notice under this Section 13 may elect to waive any deficiencies and treat the notice as having been properly given.

14. Waivers.

(a) TO THE EXTENT PERMITTED BY APPLICABLE LAW, INDEMNITOR AND LENDER (BY ITS ACCEPTANCE HEREOF) EACH HEREBY WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, OR RELATED TO, THE SUBJECT MATTER OF THIS AGREEMENT. THIS WAIVER IS KNOWINGLY, INTENTIONALLY, AND VOLUNTARILY MADE BY INDEMNITOR AND LENDER, AND EACH OF INDEMNITOR AND LENDER (BY ITS ACCEPTANCE HEREOF) ACKNOWLEDGES THAT THE OTHER PARTY HAS NOT MADE ANY REPRESENTATIONS OF FACT TO INDUCE THIS WAIVER OF TRIAL BY JURY OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT. INDEMNITOR FURTHER ACKNOWLEDGES THAT INDEMNITOR HAS BEEN REPRESENTED (OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED) IN THE SIGNING OF THIS AGREEMENT BY INDEPENDENT LEGAL COUNSEL SELECTED BY INDEMNITOR AND THAT INDEMNITOR HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

(b) Indemnitor hereby waives to the fullest extent not prohibited by law:

(i) Presentment, demand, protest, notice of protest, notice of dishonor and notice of non-payment, non-performance or non-observance, and notice of acceptance of this instrument, other than any notice required to be given hereunder;

(ii) The right, if any, to the benefit of, or to direct the application of, any security held by Lender, including the Premises; and, until all of the indebtedness evidenced by the Note has been paid in full, all rights of subrogation, any right to enforce any remedy which Lender now has or hereafter may have against Indemnitor, and any right to participate in any security now or hereafter held by Lender;

(iii) The right to require any Lender Parties to proceed against any Borrower or Indemnitor or any other person or party, or to proceed against any security now or hereafter held by Lender, or to pursue any other remedy in Lender's power;

(iv) The benefits, if Indemnitor is entitled to any benefits, of any or all anti-deficiency statutes or single-action legislation;

(v) Any defense arising out of the absence, impairment, or loss of any right of reimbursement or subrogation or other right or remedy of Indemnitor against any security resulting from the exercise of election of any remedies by Lender, including a judicial foreclosure or the exercise of any power of sale, and any defense arising by reason of any disability or other defense of Indemnitor or by reason of the cessation, from any cause, of the liability of Indemnitor; and

(vi) Any suretyship defense that may be available to such Indemnitor. Without limiting the generality of the foregoing, each Indemnitor also waives (A) any defense based upon Lender's election to waive its lien as to all or any security for the Loan pursuant to CCP Section 726.5 or otherwise, and (B) any and all benefits which might otherwise be available to such Indemnitor under Civil Code Sections 2809, 2810, 2815, 2819, 2839, 2845 through 2850, 2899 and 3433.

Each Indemnitor understands and acknowledges that if this Agreement ever becomes or is deemed secured by real property security and Lender forecloses judicially or nonjudicially against any real property security for this Agreement, that foreclosure could impair or destroy any ability that such Indemnitor may have to seek reimbursement, contribution or indemnification from Borrower or others based on any right such Indemnitor may have of subrogation, reimbursement, contribution or indemnification for any amounts paid by such Indemnitor under this Agreement. Each Indemnitor further understands and acknowledges that in the absence of this provision, the potential impairment or destruction of such Indemnitor's rights, if any, may entitle such Indemnitor to assert a defense to this Agreement based on CCP Section 580d as interpreted in *Union Bank vs. Gradsky*. By executing this Agreement, each Indemnitor freely, irrevocably and unconditionally: (i) waives and relinquishes that defense, and agrees that such Indemnitor will be fully liable under this Agreement, even though Lender may foreclose judicially or nonjudicially against any real property security for this Agreement; (ii) agrees that such Indemnitor will not assert that defense in any action or proceeding that Lender

may commence to enforce this Agreement; (iii) acknowledges and agrees that the rights and defenses waived by such Indemnitor under this Agreement include any right or defense that such Indemnitor may have or be entitled to assert based upon or arising out of any one or more of the following: (A) CCP Sections 580a (which if such Indemnitor had not given this waiver, would otherwise limit such Indemnitor's liability after any nonjudicial foreclosure sale to the difference between the obligations for which such Indemnitor is liable and the fair market value of the property or interests sold at such nonjudicial foreclosure sale rather than the actual proceeds of such sale), 580b and 580d (which if such Indemnitor had not given this waiver, would otherwise limit Lender's right to recover a deficiency judgment with respect to purchase money obligations and after any nonjudicial foreclosure sale, respectively), or 726 (which, if such Indemnitor had not given this waiver, among other things, would otherwise require Lender to exhaust all of its security before a personal judgment may be obtained for a deficiency); or (B) Civil Code Section 2848; and (iv) acknowledges and agrees that Lender is relying on this waiver in making the Loan, and that this waiver is a material part of the consideration that Lender is receiving for making the Loan. WITHOUT LIMITING THE FOREGOING, EACH INDEMNITOR WAIVES ALL RIGHTS AND DEFENSES THAT INDEMNITOR MAY HAVE BECAUSE THIS AGREEMENT IS DEEMED OR BECOMES SECURED BY REAL PROPERTY. THIS MEANS, AMONG OTHER THINGS:

(vii) LENDER MAY COLLECT FROM SUCH INDEMNITOR WITHOUT FIRST FORECLOSING ON ANY REAL OR PERSONAL PROPERTY COLLATERAL PLEDGED BY BORROWER; AND

(viii) IF LENDER FORECLOSURES ON ANY REAL PROPERTY COLLATERAL PLEDGED BY BORROWER:

(1) THE AMOUNT OF LENDER'S CLAIM HEREUNDER MAY BE REDUCED ONLY BY THE PRICE FOR WHICH THAT COLLATERAL IS SOLD AT THE FORECLOSURE SALE, EVEN IF THE COLLATERAL IS WORTH MORE THAN THE SALE PRICE; AND

(2) LENDER MAY COLLECT FROM SUCH INDEMNITOR EVEN IF LENDER, BY FORECLOSING ON THE REAL PROPERTY COLLATERAL, HAS DESTROYED ANY RIGHT SUCH INDEMNITOR MAY HAVE TO COLLECT FROM BORROWER.

THIS IS AN UNCONDITIONAL AND IRREVOCABLE WAIVER OF ANY RIGHTS AND DEFENSES SUCH INDEMNITOR MAY HAVE IF THIS AGREEMENT IS DEEMED OR BECOMES SECURED BY REAL PROPERTY. THESE RIGHTS AND DEFENSES INCLUDE, BUT ARE NOT LIMITED TO, ANY RIGHTS OR DEFENSES BASED UPON CCP SECTIONS 580a, 580b, 580d, OR 726.

(c) The failure of Lender to insist upon strict compliance with any of the terms hereof shall not be considered to be a waiver of any such terms, nor shall it prevent Lender from insisting upon strict compliance with this Agreement or any of the other Loan Documents at any time thereafter.

15. Severability. All rights, powers and remedies provided in this Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable law, and are intended to be limited to the extent (but only to the extent) necessary so that they will not render this Agreement invalid or unenforceable. If any term, covenant, condition, or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remaining terms, covenants, conditions and provisions of this Agreement, or the application of such term, covenant, condition or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, covenant, condition and provision of this Agreement shall be modified and/or limited to the extent necessary to render the same valid and enforceable to the fullest extent permitted by law.

16. Inconsistencies Among the Loan Documents. Nothing contained herein is intended to modify in any way the obligations of Indemnitor under the Loan Agreement, the Note, the Mortgage or any other Loan Document. Any inconsistencies, subject to the prior sentence, among the Loan Documents shall be construed, interpreted and resolved so as to benefit Lender, and Lender's election of which interpretation or construction is for Lender's benefit shall govern.

17. Successors and Assigns. This Agreement shall be binding upon Indemnitor's successors and assigns and shall inure to the benefit of Lender, the Lender Parties and their respective successors and assigns, and shall survive payment of the Loan, foreclosure, deed-in-lieu of foreclosure and any other transfer of the Premises or any interest therein, subject to Subsections 3(c) and (d), hereof.

18. Governing Law. In all respects, including, without limitation, matters of construction and performance of this Agreement and the obligations arising hereunder, this Agreement shall be governed by, and construed in accordance with, the laws of the state in which the Premises is located applicable to contracts and obligations made and performed in such state and any applicable laws of the United States of America. Interpretation and construction of this Agreement shall be according to the contents hereof and without presumption or standard of construction in favor of or against Indemnitor or Lender.

19. Time of the Essence. Time shall be of the essence in the performance of all obligations of Indemnitor under this Agreement and every other Loan Document.

20. Legal Construction.

(a) All terms contained herein shall be construed, whenever the context of this agreement so requires, so that the singular number shall include the plural, and the plural the singular, and the use of any gender shall include all genders.

(b) The terms "include" and "including" as used in this Agreement shall be construed as if followed by the phrase "without limitation".

(c) Any provision of this Agreement permitting the recovery of attorneys' fees and costs shall be deemed to include such fees and costs incurred in all appellate proceedings.

21. Unimpaired Liability. The liability of Indemnitior under this Agreement shall in no way be limited or impaired by, and subject to the proviso in Section 23(b) of this Agreement, Indemnitior hereby consents to and agrees to be bound by, any amendment or modification of the provisions of the Note, the Loan Agreement, the Mortgage or any other Loan Document. In addition, the liability of Indemnitior under this Agreement shall in no way be limited or impaired by (i) any extensions of time for performance required by the Note, the Loan Agreement, the Mortgage or any of the other Loan Documents, (ii) any sale or transfer of all or part of the Premises, (iii) any exculpatory provision in the Note, the Loan Agreement, the Mortgage, or any other Loan Document limiting Lender Parties' recourse to the Premises or to any other security for the Loan, or limiting Lender Parties' rights to a deficiency judgment against Borrower or Indemnitior, (iv) the accuracy or inaccuracy of the representations and warranties made by any Indemnitior or Borrower under the this Agreement, the Note, the Loan Agreement, the Mortgage or any other Loan Document, (v) the release of Indemnitior or any other person or party from performance or observance of any of the agreements, covenants, terms or condition contained in any other Loan Document by operation of law, Lender's voluntary act, or otherwise, (vi) the release or substitution in whole or in part of any security for the Loan, or (vii) Lender's failure to record the Mortgage or file any UCC financing statements (or Lender's improper recording or filing of any thereof) or to otherwise perfect, protect, secure or insure any security interest or lien given as security for the Loan; and, in any such case, whether with or without notice to Indemnitior and with or without consideration. Any one or more parties liable upon or in respect of this Agreement may be released without affecting the liability of any Indemnitior not so released.

22. Availability of Other Remedies. It is understood and agreed by Indemnitior that: any rights and remedies Lender Parties may have under this Agreement, as well as any duties and obligations of Indemnitior under this Agreement, are each in addition to and independent of and shall not in any manner whatsoever supersede, replace, diminish, toll or abrogate, or be superseded, replaced, diminished, tolled or abrogated by any (A) rights and remedies Lender Parties may at any time have under this or any other documents or agreements or insurance policies, or as may be generally available at law or in equity, including, but not limited to, the right to contribution which Lender Parties may have against Indemnitior, or any other person or party, under any applicable Environmental Law, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601 et seq. and the Superfund Amendments and Reauthorization Act, 42 U.S.C. § 9601 et seq., each as amended from time to time, or any other applicable federal, State or local laws, rules or regulations, or (B) any duties and obligations of any one or more of Indemnitior under this or any other documents or agreements or insurance policies, or as may be generally imposed by law or in equity.

23. Bankruptcy.

(a) The obligations of Indemnitior hereunder shall remain in full force and effect without regard to, and shall not be affected or impaired by any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to Borrower, Indemnitior, any other guarantor (which term shall include any other party at any time directly or contingently liable for any of Borrower's obligations under the Loan Documents) or any affiliate of Borrower or any action taken with respect to this Agreement by

any trustee or receiver, or by any court, in any such proceeding, whether or not Indemnitor shall have had notice or knowledge of any of the foregoing.

(b) Notwithstanding any modification, discharge or extension of the maturity date of the Loan, or any amendment, modification, stay or cure of Lender's rights under the Loan Agreement, the Note, Mortgage or any other Loan Document which may occur in any bankruptcy or reorganization case or proceeding affecting Borrower, whether permanent or temporary, and whether or not assented to by Lender, Indemnitor hereby agrees that Indemnitor shall be obligated hereunder to pay the amounts due hereunder in accordance with the terms of this Agreement as in effect on the date hereof; provided that no such amendment or modification of any provisions affecting the obligations and liabilities for which Indemnitor may be required to indemnify hereunder shall be binding on Indemnitor unless Indemnitor has consented to such amendment or modification.

(c) Indemnitor agrees that to the extent that Borrower makes a payment or payments to Lender with respect to any claim indemnified against Indemnitor herein, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required, for any of the foregoing reasons or for any other reasons, to be repaid or paid over to a custodian, trustee, receiver or any other party under any bankruptcy act, state or federal law, common law or equitable cause, then to the extent of such payment or repayment, the obligation or part thereof intended to be satisfied shall be revived and continue in full force and effect as if such payment had not been made and Indemnitor shall be primarily liable for this obligation.

24. Subrogation Waiver/Subordination.

(a) Notwithstanding any provision to the contrary contained in the other Loan Documents or this Agreement, Indemnitor hereby unconditionally and irrevocably waives until all obligations under the Loan Documents have been paid and performed in full and all applicable preference periods and fraudulent transfer periods have expired, (i) any and all rights of subrogation (whether arising under contract, 11 U.S.C. §509 or otherwise), to the claims, whether existing now or arising hereafter, Lender may have against Borrower, and (ii) any and all rights of reimbursement, contribution or indemnity against Borrower or any future guarantors of any obligations under the Loan Documents) which may have heretofore arisen or may hereafter arise in connection with any guaranty or pledge or grant of any lien or security interest made in connection with any obligations under the Loan Documents. Indemnitor hereby acknowledges that the waiver contained in the preceding sentence (the "**Subrogation Waiver**") is given as an inducement to Lender to enter into the Loan Documents and, in consideration of Lender's willingness to enter into the Loan Documents, Indemnitor agrees not to amend or modify in any way the Subrogation Waiver without Lender's prior written consent. If any amount shall be paid to Indemnitor on account of any claim set forth at any time when all of the obligations under the Loan Documents shall not have been paid or performed in full, such amount shall be held in trust by Indemnitor for Lender's benefit, shall be segregated from the other funds of Indemnitor and shall forthwith be paid over to Lender to be applied in whole or in part by Lender against such obligations, whether matured or unmatured in accordance with Section 2.7(c) of the Loan Agreement. Nothing contained herein is intended or shall be construed to give to Indemnitor any rights of subrogation or right to participate in any way in

Lender's rights, title or interest in the Loan Documents, notwithstanding any payments made by Indemnitor under this Agreement, all such rights of subrogation and participation being hereby expressly waived and released until all obligations under the Loan Documents have been paid and performed in full and all applicable preference periods and fraudulent transfer periods have expired.

(b) In the event that Indemnitor shall advance or become obligated to pay any sums with respect to any obligation hereby guaranteed or in the event that for any reason whatsoever Borrower or any subsequent owner of the collateral securing the Loan is now, or shall hereafter become, indebted to Indemnitor, Indemnitor agrees that the amount of such sums and of such indebtedness together with all interest thereon, shall at all times be subordinate as to the lien, time of payment and in all other respects, to all sums, including principal, interest and other amounts, at any time owing to Lender under any of the Loan Documents and that Indemnitor shall not be entitled to enforce or receive payment thereof until all such sums owing to Lender have been paid. Nothing herein contained is intended or shall be construed to give to Indemnitor any right to participate in any way in the right, title or interest of Lender in or to the collateral securing the Loan, notwithstanding any payments made by Indemnitor under this Agreement, all such rights of participation being hereby expressly waived and released.

25. No Third Party Beneficiary. The terms of this Agreement are for the sole and exclusive protection and use of the Lender Parties. Except as provided herein, no party shall be a third-party beneficiary hereunder, and no provision hereof shall operate or inure to the use and benefit of any third-party.

26. Indemnitor's Subordination. From and after the date that any claim hereunder shall have been made by any of the Lender Parties, and continuing until any such claim shall have been paid in full or there has been a final determination (which shall mean a non appealable determination, or where any right of appeal exists, it has been allowed to lapse) that such claim is not valid, notwithstanding any other provision of this Agreement to the contrary, Indemnitor hereby subordinates to Lender Parties' rights under this Agreement and the other Loan Documents, any claim or other rights which Indemnitor may now have or hereafter acquire against Borrower or any guarantor of all or any of the Loan that arise from the existence or performance of Indemnitor's obligations under this Agreement (all such claims and rights are referred to as Indemnitor's "**Conditional Rights**"), including, without limitation, any right of subrogation, reimbursement, contribution, or indemnification, and any right to participate in any claim or remedy of Lender Parties against Borrower or any collateral which Lender Parties now have or hereafter acquire, whether or not such claim, remedy or right of Indemnitor arises by contract or in equity or under law, by virtue of any payment made by Indemnitor hereunder, including without limitation, the right to take or receive from Indemnitor, directly or indirectly, in cash or other property or by setoff or in any other manner, payment or security on account of such claim or other rights. If, notwithstanding the foregoing provisions, any amount shall be paid to Indemnitor hereunder on account of any such Indemnitor's Conditional Rights and either (i) such amount is paid to such Indemnitor at any time when the Loan shall not have been paid or performed in full, or (ii) regardless of when such amount is paid to such Indemnitor, any payment made by Indemnitor to Lender is at any time determined to be a preference or a Preferential Payment (hereinafter defined) under the terms of any bankruptcy or insolvency laws, rules, regulations, orders or decrees, then such amount paid to Indemnitor shall be held in trust

for the benefit of Lender and shall forthwith be paid to Lender to be credited and applied upon the Loan, whether matured or unmatured, in accordance with Section 2.7(c) of the Loan Agreement. As used herein, the term “**Preferential Payment**” shall mean any payment all or any part of which is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by Lender or paid over to a trustee, receiver or any other entity, whether pursuant to any bankruptcy or fraudulent transfer act or other similar act or law.

27. Subrogation. Indemnitee shall take any and all reasonable actions, including institution of legal action against third parties, necessary or appropriate to obtain reimbursement, payment or compensation from such persons responsible for the presence of any Hazardous Substances at, in, on, under or near the Premises, or for which it might otherwise be obligated by law to bear the cost. Lender Parties shall be and hereby are subrogated to all of Indemnitee’s rights now or hereafter in such claims.

28. Counterparts. This Agreement may be executed in counterparts, which together shall constitute one and the same original agreement.

[No Further Text On This Page]

IN WITNESS WHEREOF, Indemnitor has executed this Agreement as of the date first above written.

INDEMNITOR:

KR WMC, LLC,
a Delaware limited liability company

By: Kilroy Realty, L.P.,
a Delaware limited partnership
its sole managing member

By: Kilroy Realty Corporation,
a Maryland corporation,
its general partner

By: /s/ Tyler H. Rose
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /s/ Michelle Ngo
Name: Michelle Ngo
Title: Senior Vice President and Treasurer

KILROY REALTY, L.P.,
a Delaware limited partnership

By: Kilroy Realty Corporation,
a Maryland corporation,
its general partner

By: /s/ Tyler H. Rose
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /s/ Michelle Ngo
Name: Michelle Ngo
Title: Senior Vice President and Treasurer

EXHIBIT A

PREMISES

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL 1: (PORTION OF APN: 4259-025-008)

THE WESTERLY 265 FEET OF THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES. ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THEREFROM THAT PORTION IN OLYMPIC BOULEVARD, BEING THAT PART LYING NORTHERLY OF THE SOUTH LINE OF THE LAND DESCRIBED IN DEED TO THE STATE OF CALIFORNIA, RECORDED IN BOOK 22517 PAGE 425, OFFICIAL RECORDS.

PARCEL 2: (PORTION OF APN: 4259-025-008)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREOF SOUTH 76° 12' 45" WEST 504.08 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY, A CO-PARTNERSHIP, BY DEED RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7, OFFICIAL RECORDS, AS INSTRUMENT NO. 323; THENCE ALONG THE WESTERLY LINE OF SAID LAND NORTH 13° 41' 45" WEST TO THE SOUTHERLY LINE OF THE LAND DESCRIBED IN PARCEL NO. 20 OF CASE NO. 50830 ENTERED IN SUPERIOR COURT OF LOS ANGELES COUNTY; THENCE WESTERLY ALONG SAID SOUTHERLY LINE BEING A CURVE CONCAVE SOUTHERLY HAVING A RADIUS OF 9945.00 FEET, TO THE EASTERLY LINE OF THE WESTERLY 265 FEET OF SAID LOT 27; THENCE ALONG SAID EASTERLY LINE SOUTH 13° 41' 45" EAST TO THE SOUTHERLY LINE OF SAID LOT; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 12' 45" EAST TO THE POINT OF BEGINNING.

PARCEL 3: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO- B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS

FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 76° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13° 41' 45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED JUNE 10, 1946, RECORDED AUGUST 20, 1946 IN BOOK 23552 PAGE 383, OFFICIAL RECORDS, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREES REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTHERLY LINE NORTH 76° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE,

NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 4: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 310.32 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 193.76 FEET; THENCE NORTH 13° 41' 45" WEST 245.69 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN THE DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG SAID SOUTHERLY LINE, NORTH 78° 03' EAST 50.00 FEET; THENCE SOUTH 44° 13' 35" EAST 283.15 FEET TO THE POINT OF BEGINNING,

EXCEPT THEREFROM THAT PORTION OF SAID LAND LYING SOUTHWESTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING IN THE SOUTHERLY LINE OF SAID LOT, DISTANT SOUTH 76° 12' 45" WEST 444.33 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE NORTH 13° 41' 45" WEST 183 FEET; THENCE SOUTH 78° 18' 15" WEST 26.25 FEET; THENCE NORTH 13° 41' 45" WEST 43.98 FEET; THENCE NORTH 44° 12' 35" WEST 5.5 FEET; THENCE NORTH 13°41'45" WEST TO SAID SOUTH LINE OF OLYMPIC BOULEVARD.

ALSO EXCEPT THEREFROM THAT PORTION OF SAID LAND INCLUDED WITHIN THE PROPERTY CONVEYED TO THE STATE OF CALIFORNIA, BY GRANT DEED MADE AND EXECUTED THE 10TH OF JUNE, 1946, SPECIFICALLY COVERING THE FOLLOWING DESCRIBED PROPERTY:

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA SHOWN, AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, ON THAT CERTAIN MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF THE LAND CONVEYED TO HOWE AND COMPANY BY DEED FROM CORA MAY JANKOWSKY, RECORDED APRIL 18, 1946 IN BOOK 23126 PAGE 7 OF OFFICIAL RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, SAID POINT ALSO BEING A POINT IN THAT COURSE IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, AS PER MAP RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS, AS HAVING A BEARING OF NORTH 78° 03' 29" EAST; THENCE ALONG SAID SOUTH LINE NORTH 78° 03' EAST 50.00 FEET TO A POINT; THENCE SOUTH 44° 13' 35" EAST 11.83 FEET TO THE INTERSECTION THEREOF WITH A LINE PARALLEL WITH AND DISTANT 10.00 FEET SOUTHERLY MEASURED NORMALLY, FROM SAID COURSE IN THE SOUTHERLY

LINE OF OLYMPIC BOULEVARD; THENCE ALONG SAID PARALLEL LINE, SOUTH 78° 03' WEST 29.99 FEET; THENCE LEAVING SAID PARALLEL LINE, WESTERLY ALONG A CURVE CONCAVE SOUTHERLY, TANGENT TO THE LAST DESCRIBED COURSE AND HAVING A RADIUS OF 9945.00 FEET, THROUGH AN ANGLE OF 0° 09' AN ARC DISTANCE OF 26.04 FEET TO A POINT IN THE WESTERLY LINE OF SAID LAND CONVEYED TO HOWE AND COMPANY; THENCE ALONG SAID WESTERLY LINE, NORTH 13° 41' 45" WEST 10.04 FEET TO SAID POINT OF BEGINNING.

PARCEL 5: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 6: (PORTION OF APN: 4259-025-018)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 27; THENCE NORTH 44° 12' 55" WEST ALONG THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE OF 271.39 FEET TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS; THENCE SOUTH 78° 03' WEST ALONG SAID SOUTHERLY LINE A DISTANCE OF 189.75 FEET; THENCE SOUTH 44° 13' 35" EAST PARALLEL WITH THE NORTHEASTERLY LINE OF SAID LOT, A DISTANCE OF 278.45 FEET TO A POINT IN THE SOUTHERLY LINE OF SAID LOT; THENCE NORTH 76° 12' 45" EAST ALONG SAID SOUTHERLY LINE 186.17 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY 10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL

RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE WITH THE NORTHEASTERLY LINE OF SAID LOT 27, SAID SOUTHERLY LINE BEING DESCRIBED IN DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG SAID SOUTHERLY LINE SOUTH 78° 03' 00" WEST 139.75 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING ON SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD SOUTH 78° 03' 00" WEST 50.00 FEET TO THE SOUTHWESTERLY BOUNDARY OF THE LAND CONVEYED BY DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY; THENCE ALONG THE BOUNDARY OF SAID LAND SOUTH 44° 13' 35" EAST 125.00 FEET; THENCE NORTH 78° 03' 00" EAST AND PARALLEL TO SAID SOUTHERLY LINE OF OLYMPIC BOULEVARD 50.00 FEET; THENCE NORTH 44° 13' 35" WEST 125.00 FEET TO THE TRUE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

PARCEL 7: (PORTION OF APN: 4259-025-018)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF SUPERIOR COURT, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 186.17 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT, SAID POINT BEING THE SOUTHWESTERLY CORNER OF THE LAND CONVEYED TO HENRY O. GALLEN BY DEED RECORDED MAY 17, 1940 IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS; THENCE STILL CONTINUING ALONG THE SOUTHERLY LINE OF SAID LOT 27, SOUTH 76° 12' 45" WEST 124.15 FEET TO A POINT; THENCE NORTH 44° 13' 35" WEST 283.15 FEET, MORE OR LESS, TO A POINT IN THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL "A" IN DEED TO CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107 OF OFFICIAL RECORDS; THENCE ALONG THE SOUTHERLY LINE, NORTH 78° 03' 00"

EAST 126.60 FEET TO THE NORTHWESTERLY CORNER OF SAID HENRY O. GALLEN LAND; THENCE SOUTH 44° 13' 35" EAST ALONG THE WESTERLY LINE OF SAID LAND 278.45 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHWEST 10 FEET OF SAID LAND CONVEYED TO THE STATE OF CALIFORNIA BY DEED RECORDED JUNE 5, 1946 IN BOOK 23218 PAGE 409 OF OFFICIAL RECORDS.

PARCEL 8: (PORTION OF APN: 4259-025-019)

THAT PORTION OF LOT 27 OF SANTA MONICA-SAWTELLE TRACT IN THE RANCHO SAN VICENTE Y SANTA MONICA, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

THAT PORTION OF THE LAND DESCRIBED IN THE GRANT DEED RECORDED IN BOOK 17559 PAGE 4 OF OFFICIAL RECORDS OF SAID COUNTY, LYING EASTERLY AND NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT A POINT IN THE SOUTHERLY LINE OF SAID LOT 27, DISTANT THEREON SOUTH 76° 12' 45" WEST 100.52 FEET FROM THE MOST EASTERLY CORNER OF SAID LOT; THENCE LEAVING SAID SOUTHERLY LINE NORTH 13° 47' 15" EAST 164.20 FEET TO A LINE PARALLEL WITH AND 3.40 FEET SOUTHWESTERLY OF THE NORTHEASTERLY LINE OF SAID LOT; THENCE ALONG SAID PARALLEL LINE NORTH 44° 13' 35" WEST 69.27 FEET TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS NOW ESTABLISHED, 110 FEET WIDE, AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS OF SAID COUNTY.

EXCEPT THEREFROM THE NORTHERLY 10 FEET OF SAID LAND, SAID NORTHERLY 10 FEET BEING DESCRIBED IN THE LAND GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED IN BOOK 22095 PAGE 427 OF OFFICIAL RECORDS IN THE OFFICE OF SAID COUNTY RECORDER.

PARCEL 9: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON A MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2 IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH SOUTHERLY LINE OF SAID LOT 28, A

DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, A DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM CITIZENS NATIONAL TRUST AND SAVINGS BANK, DATED APRIL 30, 1943, AND RECORDED MAY 21, 1943, AS INSTRUMENT NO. 40 IN BOOK 20044 PAGE 61, OFFICIAL RECORDS.

PARCEL 10: (PORTION OF APN: 4259-025-019)

THAT PORTION OF THE RANCHO SAN VICENTE Y SANTA MONICA, SHOWN AS A PORTION OF LOT 28 OF SANTA MONICA-SAWTELLE TRACT, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, ON MAP FILED AS EXHIBIT "B" WITH REFEREE'S REPORT IN CASE NO. B-25296 OF THE SUPERIOR COURT, IN AND FOR SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST EASTERLY CORNER OF SAID LOT 28; THENCE WESTERLY ALONG THE SOUTHERLY LINE THEREOF, 380.44 FEET OF THE MOST SOUTHERLY CORNER OF SAID LOT 28; THENCE NORTHWESTERLY ALONG THE SOUTHWESTERLY LINE THEREOF, TO THE SOUTHERLY LINE OF OLYMPIC BOULEVARD, AS DESCRIBED IN PARCEL A OF DEED TO THE CITY OF LOS ANGELES, RECORDED IN BOOK 13947 PAGE 107, OFFICIAL RECORDS OF SAID COUNTY; THENCE EASTERLY ALONG SAID LAST MENTIONED SOUTHERLY LINE AND ITS EASTERLY PROLONGATION THEREOF, TO THE NORTHEASTERLY LINE OF SAID LOT 28; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE, 256.31 FEET TO THE POINT OF BEGINNING.

EXCEPT THEREFROM THE NORTHERLY 10 FEET WITHIN THE LINES OF OLYMPIC BOULEVARD, AS GRANTED TO THE STATE OF CALIFORNIA, BY DEED RECORDED AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS.

ALSO EXCEPT THEREFROM THAT PORTION THEREOF, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHEASTERLY LINE OF SAID LOT 28, WITH THE SOUTHEASTERLY LINE OF THAT CERTAIN STRIP OF LAND 10.00 FEET WIDE, AS DESCRIBED IN PARCEL NO. 2, IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED ON AUGUST 10, 1945 AS INSTRUMENT NO. 2504 IN BOOK 22095 PAGE 427, OFFICIAL RECORDS OF SAID COUNTY; THENCE SOUTHEASTERLY ALONG SAID NORTHEASTERLY LINE OF SAID LOT 28, A DISTANCE OF 136.00 FEET; THENCE WESTERLY PARALLEL WITH THE SOUTHERLY LINE OF SAID LOT 28, A DISTANCE OF 190.00 FEET; THENCE NORTHWESTERLY IN A DIRECT LINE TO A POINT ON THE SOUTHEASTERLY LINE OF SAID LAST MENTIONED DEED, DISTANT SOUTHWESTERLY THEREON 118.50 FEET FROM THE POINT OF BEGINNING; THENCE NORTHEASTERLY ALONG SAID SOUTHEASTERLY LINE, 118.50 FEET TO THE POINT OF BEGINNING.

ALSO EXCEPT THEREFROM 50 PERCENT OF ALL OIL, GAS AND OTHER

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Section 8: EX-12.1 (EXHIBIT 12.1)

Exhibit 12.1

KILROY REALTY CORPORATION
*Statement of Computation of Ratio of Earnings to Fixed Charges and
 Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends*
 (in thousands, except ratios)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Earnings:					
Income from continuing operations ⁽¹⁾	\$ 180,615	\$ 303,798	\$ 238,604	\$ 59,313	\$ 14,935
Plus Fixed Charges:					
Interest expense (including amortization of loan costs)	66,040	55,803	57,682	67,571	75,870
Capitalized interest and loan costs	46,537	49,460	51,965	47,090	35,368
Estimate of interest within rental expense	4,712	3,032	3,138	4,270	4,073
Distributions on Cumulative Redeemable Preferred units	—	—	—	—	—
Fixed Charges	117,289	108,295	112,785	118,931	115,311
Plus: Amortization of capitalized interest ⁽²⁾	11,236	9,865	8,412	7,001	5,823
Less: Capitalized interest and loan costs	(46,537)	(49,460)	(51,965)	(47,090)	(35,368)
Less: Distributions on Cumulative Redeemable Preferred units	—	—	—	—	—
Earnings	262,603	372,498	307,836	138,155	100,701
Combined Fixed Charges and Preferred Dividends:					
Fixed Charges (from above)	117,289	108,295	112,785	118,931	115,311
Preferred Dividends	5,774	13,250	13,250	13,250	13,250
Combined Fixed Charges and Preferred Dividends	\$ 123,063	\$ 121,545	\$ 126,035	\$ 132,181	\$ 128,561
Consolidated ratio of earnings to fixed charges	2.24x	3.44x	2.73x	1.16x	0.87x
Consolidated ratio of earnings to combined fixed charges and preferred dividends	2.13x	3.06x	2.44x	1.05x	0.78x
(Surplus) Deficiency	\$ (139,540)	\$ (250,953)	\$ (181,801)	\$ (5,974)	\$ 27,860

(1) The Company adopted Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, effective January 1, 2015. As a result, properties classified as held for sale and/or disposed of subsequent to January 1, 2015 that do not represent a strategic shift are no longer presented as discontinued operations. In accordance with the accounting pronouncement, we adopted the guidance on a prospective basis. Therefore our earnings presented prior to adoption do not include the results of operations for properties classified as held for sale and/or disposed of prior to January 1, 2015.

(2) Amount represents an estimate of capitalized interest that has been amortized each year based on our established depreciation policy and an analysis of total interest costs and loan costs capitalized since 1997.

We have computed the ratio of earnings to fixed charges by dividing earnings by fixed charges. Earnings consist of income from continuing operations before the effect of noncontrolling interest plus fixed charges and amortization of capital interest, reduced by capitalized interest and loan costs and distributions on cumulative redeemable preferred units. Fixed charges consist of interest costs, whether expensed or capitalized, amortization of loan costs, an estimate of the interest within rental expense, and distributions on cumulative redeemable preferred units.

We have computed the consolidated ratio of earnings to combined fixed charges and preferred dividends by dividing earnings by combined fixed charges and preferred dividends. Earnings consist of income from continuing operations before the effect of noncontrolling interest plus fixed charges and amortization of capitalized interest, reduced by capitalized interest and loan costs and distributions on Series A cumulative redeemable preferred units. Fixed charges consist of interest costs, whether expensed or capitalized, amortization of loan costs, an estimate of the interest within rental expense, and distributions on Series A cumulative redeemable preferred units.

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Section 9: EX-12.2 (EXHIBIT 12.2)

Exhibit 12.2

KILROY REALTY, L.P.
Statement of Computation of Ratio of Earnings to Fixed Charges
(in thousands, except ratios)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Earnings:					
Income from continuing operations ⁽¹⁾	\$ 180,615	\$ 303,798	\$ 238,604	\$ 59,313	\$ 14,935
Plus Fixed Charges:					
Interest expense (including amortization of loan costs)	66,040	55,803	57,682	67,571	75,870
Capitalized interest and loan costs	46,537	49,460	51,965	47,090	35,368
Estimate of interest within rental expense	4,712	3,032	3,138	4,270	4,073
Fixed Charges	117,289	108,295	112,785	118,931	115,311
Plus: Amortization of capitalized interest ⁽²⁾	11,236	9,865	8,412	7,001	5,823
Less: Capitalized interest and loan costs	(46,537)	(49,460)	(51,965)	(47,090)	(35,368)
Earnings	\$ 262,603	\$ 372,498	\$ 307,836	\$ 138,155	\$ 100,701
Ratio of earnings to fixed charges	2.24x	3.44x	2.73x	1.16x	0.87x

(1) The Company adopted Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, effective January 1, 2015. As a result, properties classified as held for sale and/or disposed of subsequent to January 1, 2015 that do not represent a strategic shift are no longer presented as discontinued operations. In accordance with the accounting pronouncement, we adopted the guidance on a prospective basis. Therefore our earnings presented prior to adoption do not include the results of operations for properties classified as held for sale and/or disposed of prior to January 1, 2015.

(2) Amount represents an estimate of capitalized interest that has been amortized each year based on our established depreciation policy and an analysis of total interest costs and loan costs capitalized since 1997.

We have computed the ratio of earnings to fixed charges by dividing earnings by fixed charges. Earnings consist of income from continuing operations before the effect of noncontrolling interest plus fixed charges and amortization of capital interest and reduced by capitalized interest and loan costs. Fixed charges consist of interest costs, whether expensed or capitalized, amortization of loan costs and an estimate of the interest within rental expense.

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Section 10: EX-21.1 (EXHIBIT 21.1)

Exhibit 21.1

SUBSIDIARIES OF KILROY REALTY CORPORATION

NAME OF SUBSIDIARY OR ORGANIZATION	STATE OF INCORPORATION OR FORMATION
Kilroy Realty, L.P.	Delaware
Kilroy Realty Finance, Inc.	Delaware
Kilroy Realty Finance Partnership, L.P.	Delaware
Kilroy Services, LLC	Delaware
Kilroy Realty TRS, Inc.	Delaware
Kilroy Realty Management, L.P.	Delaware
Kilroy Realty 303, LLC	Delaware
KR Westlake Terry, LLC	Delaware
KR 6255 Sunset, LLC	Delaware
KR MML 12701, LLC	Delaware
KR 690 Middlefield, LLC	Delaware
KR Lakeview, LLC	Delaware
KR Tribeca West, LLC	Delaware
KR 331 Fairchild, LLC	Delaware
KR Hollywood, LLC	Delaware
KR 350 Mission, LLC	Delaware
Fremont Lake Union Center, LLC	Delaware
KR 555 Mathilda, LLC	Delaware
KR Redwood City Member, LLC	Delaware
Redwood City Partners, LLC	Delaware
KR Academy, LLC	Delaware

KR 401 Terry, LLC	Delaware
KR Mission Bay, LLC	Delaware
KR Flower Mart, LLC	Delaware
KR SFFGA, LLC	Delaware
KR CFM, Inc.	California
KR 333 Dexter, LLC	Delaware
KR 330 Dexter, LLC	Delaware
KR 400 Aurora, LLC	Delaware
KR 401 Dexter, LLC	Delaware
KR 100 Hooper, LLC	Delaware
100 First Street Member, LLC	Delaware
KR 100 First Street Owner, LLC	Delaware
201 Third Street Member, LLC	Delaware
KR 201 Third Street Owner, LLC	Delaware
303 Second Street Member, LLC	Delaware
KR 303 Second Street Owner, LLC	Delaware
KR Terra Bella, LLC	Delaware
KR Menlo Park, LLC	Delaware
KR WMC, LLC	Delaware
KR 501 Santa Monica, LLC	Delaware
KR 12400 High Bluff, LLC	Delaware
KR Chesapeake Commons, LLC	Delaware
KR Sunset Weho, LLC	Delaware
KR 1701 Page Mill, LLC	Delaware
KR Oyster Point, LLC	Delaware
KR Rose Canyon, LLC	Delaware
KR Kettner, LLC	Delaware

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Section 11: EX-21.2 (EXHIBIT 21.2)

Exhibit 21.2

SUBSIDIARIES OF KILROY REALTY, L.P.

NAME OF SUBSIDIARY OR ORGANIZATION	STATE OF INCORPORATION OR FORMATION
Kilroy Realty Finance Partnership, L.P.	Delaware
Kilroy Services, LLC	Delaware
Kilroy Realty TRS, Inc.	Delaware
Kilroy Realty Management, L.P.	Delaware
Kilroy Realty 303, LLC	Delaware
KR Westlake Terry, LLC	Delaware
KR 6255 Sunset, LLC	Delaware
KR MML 12701, LLC	Delaware
KR 690 Middlefield, LLC	Delaware
KR Lakeview, LLC	Delaware
KR Tribeca West, LLC	Delaware
KR 331 Fairchild, LLC	Delaware
KR Hollywood, LLC	Delaware
KR 350 Mission, LLC	Delaware
Fremont Lake Union Center, LLC	Delaware
KR 555 Mathilda, LLC	Delaware
KR Redwood City Member, LLC	Delaware
Redwood City Partners, LLC	Delaware
KR Academy, LLC	Delaware
KR 401 Terry, LLC	Delaware
KR Mission Bay, LLC	Delaware
KR Flower Mart, LLC	Delaware

KR SFFGA, LLC	Delaware
KR 333 Dexter, LLC	Delaware
KR 330 Dexter, LLC	Delaware
KR 400 Aurora, LLC	Delaware
KR 401 Dexter, LLC	Delaware
KR 100 Hooper, LLC	Delaware
100 First Street Member, LLC	Delaware
KR 100 First Street Owner, LLC	Delaware
201 Third Street Member, LLC	Delaware
KR 201 Third Street Owner, LLC	Delaware
303 Second Street Member, LLC	Delaware
KR 303 Second Street Owner, LLC	Delaware
KR Terra Bella, LLC	Delaware
KR Menlo Park, LLC	Delaware
KR WMC, LLC	Delaware
KR 501 Santa Monica, LLC	Delaware
KR 12400 High Bluff, LLC	Delaware
KR Chesapeake Commons, LLC	Delaware
KR Sunset Weho, LLC	Delaware
KR 1701 Page Mill, LLC	Delaware
KR Oyster Point, LLC	Delaware
KR Rose Canyon, LLC	Delaware
KR Kettner, LLC	Delaware

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Section 12: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-213864 on Form S-3 and Registration Statement Nos. 333-43227, 333-77739, 333-135385, 333-161954, 333-167452, 333-201990, 333-204853, and 333-218241 on Form S-8 of our reports dated February 12, 2018, relating to the consolidated financial statements and financial statement schedules of Kilroy Realty Corporation and the effectiveness of Kilroy Realty Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Kilroy Realty Corporation and Kilroy Realty, L.P. for the year ended December 31, 2017.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 12, 2018

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Section 13: EX-23.2 (EXHIBIT 23.2)

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-213864-01 on Form S-3 of our reports dated February 12, 2018, relating to the consolidated financial statements and financial statement schedules of Kilroy Realty, L.P. and the effectiveness of Kilroy Realty, L.P.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Kilroy Realty, L.P. and Kilroy Realty Corporation for the year ended December 31, 2017.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 12, 2018

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Section 14: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John Kilroy, certify that:

1. I have reviewed this annual report on Form 10-K of Kilroy Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Kilroy

John Kilroy

President and Chief Executive Officer

Date: February 12, 2018

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Section 15: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Tyler H. Rose, certify that:

1. I have reviewed this annual report on Form 10-K of Kilroy Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the

statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Tyler H. Rose

Tyler H. Rose
Executive Vice President and
Chief Financial Officer

Date: February 12, 2018

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Section 16: EX-31.3 (EXHIBIT 31.3)

Exhibit 31.3

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John Kilroy, certify that:

1. I have reviewed this annual report on Form 10-K of Kilroy Realty, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external

purposes in accordance with generally accepted accounting principles;

- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Kilroy

John Kilroy

President and Chief Executive Officer

Kilroy Realty Corporation, sole general partner of
Kilroy Realty, L.P.

Date: February 12, 2018

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Section 17: EX-31.4 (EXHIBIT 31.4)

Exhibit 31.4

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Tyler H. Rose, certify that:

1. I have reviewed this annual report on Form 10-K of Kilroy Realty, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Tyler H. Rose

Tyler H. Rose
Executive Vice President and
Chief Financial Officer
Kilroy Realty Corporation, sole general partner of
Kilroy Realty, L.P.

Date: February 12, 2018

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Section 18: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation (the "Company") hereby certifies, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Kilroy

John Kilroy
President and Chief Executive Officer

Date: February 12, 2018

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company or Kilroy Realty, L.P. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 19: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation (the "Company") hereby certifies, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tyler H. Rose

Tyler H. Rose
Executive Vice President and
Chief Financial Officer

Date: February 12, 2018

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company or Kilroy Realty, L.P. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 20: EX-32.3 (EXHIBIT 32.3)

Exhibit 32.3

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation, the sole general partner of Kilroy Realty, L.P. (the "Operating Partnership"), hereby certifies, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Operating Partnership for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ John Kilroy

John Kilroy
President and Chief Executive Officer
Kilroy Realty Corporation, sole general partner of
Kilroy Realty, L.P.

Date: February 12, 2018

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of Kilroy Realty Corporation or the Operating Partnership under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Operating Partnership and will be retained by the Operating Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 21: EX-32.4 (EXHIBIT 32.4)

Exhibit 32.4

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation, the sole general partner of Kilroy Realty, L.P. (the "Operating Partnership"), hereby certifies, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Operating Partnership for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Tyler H. Rose

Tyler H. Rose
Executive Vice President and
Chief Financial Officer
Kilroy Realty Corporation, sole general partner of
Kilroy Realty, L.P.

Date: February 12, 2018

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of Kilroy Realty Corporation or the Operating Partnership under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Operating Partnership and will be retained by the Operating Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

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