CEO ANNUAL LETTER

2015

KILROY

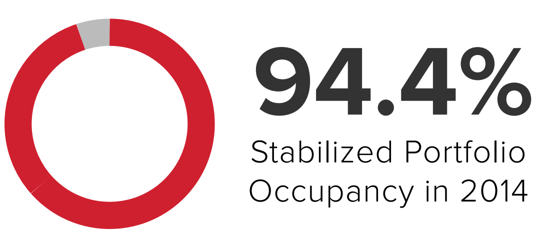
We're transforming our real estate enterprise in step with a changing business world—one that is more collaborative, fluid, innovation-driven, and focused on sustainable practices. Our commitment to innovate alongside our tenants, developing work environments that contribute to their success, is the key to our competitive advantage in today's dynamic real estate markets, which will directly translate to long-term shareholder value.

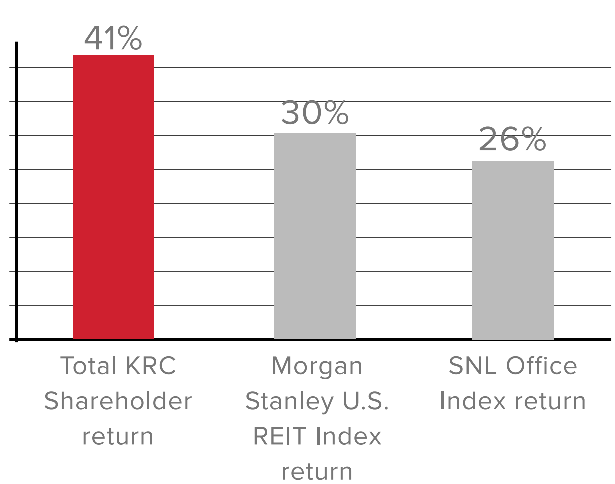
To Our Shareholders

2014 was another very strong year for KRC. Amid improving economic conditions that heightened both demand and competition in our West Coast real estate markets, KRC leveraged a larger market presence and a deeper, more experienced management team to deliver the company's strongest performance since the end of the recession five years ago.

Our teams met or exceeded every key goal set in operations, development, acquisitions and capital recycling. We closed 2014 with a new company leasing record, which boosted preleasing in our office development program to 82% and increased our stabilized portfolio occupancy to 94.4%, the highest level since 2008. We delivered two state-of-the art office projects to LinkedIn and Synopsys and successfully reloaded our development pipeline in the most desirable locations along the West Coast. We enhanced our liquidity and debt maturity profile and executed on our capital recycling program to help fund our strategic initiatives and maintain a strong balance sheet.

We also generated solid financial results that improved in each quarter of the year. The market rewarded this performance with a total shareholder return of 41%, surpassing the Morgan Stanley U.S. REIT Index return of 30% and the SNL Office Index return of 26%.





NeueHouse, Columbia Square, Greater Los Angeles

Throughout 2014, we continued to transform our real estate enterprise in step with a changing business world — one that is more collaborative, more fluid, more innovation-driven, and more focused on resource conservation and sustainable operating practices. It is our commitment to innovate alongside our tenants, creating work environments that contribute to their success, setting us further apart from our competitors in today's dynamic real estate markets and driving our ability to create long-term value for our shareholders.

2.3
MILLION SF
of New / Renewing Leases Signed for Stabilized Portfolio

835
THOUSAND SF
of Leases Signed for In-Process Development Pipeline

15%
GROWTH
Funds from operations (FFO)

82%
PRELEASED
In-Place Office Development Pipeline

96.3%
LEASED
Stabilized Portfolio

Value Creation Across the Franchise

Solid financial results

Funds from operations (FFO) grew 15% in 2014 to $251 million and FFO per share increased 7% to $2.85. Our total revenues (including discontinued operations) climbed 6%, to just over $529 million. Net operating income (NOI) generated by our stabilized portfolio also improved, with same-store NOI up 7.5% on a cash adjusted basis and 6.9% on a GAAP adjusted basis.

A new company leasing record

We signed new or renewing leases on 2.3 million square feet in our stabilized portfolio during 2014, along with 835,000 square feet in our in-process development pipeline. The combined total, exceeding 3.1 million square feet, established a new company record for KRC. Further, we made significant progress in reducing our future lease expirations.

Within our development program, we executed long term agreements with strong credit, high-profile tenants including Dropbox, Box, NeueHouse and Viacom. This activity is a testament to the brand we have established and the premier quality work environments we provide.

At year-end 2014, our stabilized portfolio was 94.4% occupied and 96.3% leased, our in-place office development pipeline was 82% preleased, and average rents in leases executed across the year were up 13% on a cash basis and 25% on a GAAP basis.

Linkedin, 555 Mathilda, San Francisco Bay Area

Development remains a key force shaping our portfolio at KRC today

We believe new development currently provides the best opportunities to add value to our real estate portfolio. It also allows us to create, from the ground up, work environments that address the collaborative needs and the efficiency and sustainability goals of today's innovation-driven businesses.

In 2014, we delivered two projects with a total estimated investment of approximately $479 million, ahead of time and under budget, to LinkedIn and Synopsys. To replenish this pipeline, we initiated construction on a $45 million office project in the San Diego submarket of Del Mar and acquired three land sites in the strongest performing office market in the country.

We now have six projects under construction that encompass 1.7 million square feet and represent a total estimated investment of just over $1.0 billion, located in the vibrant submarkets of the San Francisco Bay Area, Hollywood and Del Mar. At prevailing market prices, we believe these projects will add between $650 million and $1 billion of net incremental value to our portfolio.

Early in 2015, we completed the acquisition of four adjacent land sites totaling 2.4 acres in the lively and dynamic South Lake Union submarket of Seattle, extending our development franchise across our entire West Coast footprint.

333 Dexter, Pacific Northwest

Opportunistic acquisitions continue to provide both near term and potential future earnings

We completed two economically attractive acquisitions in 2014 for a combined investment of approximately $207 million. Both are 100% occupied, immediately accretive to earnings, and carry embedded future value-creation opportunities.

In March, we purchased a four-story, LEED Gold-certified life science property in the South Lake Union submarket of Seattle, one of only five such facilities developed in the Puget Sound Region over the last ten years. The property's current footprint could be enlarged to accommodate additional rentable square footage. In November, we acquired a four-building office project in the Sunnyvale submarket of the Silicon Valley. Situated on 17 acres of land in the path of tenant expansion and growth, the project represents both a strong near-term addition to our portfolio and a longer-term re-development opportunity.

Salesforce, 350 Mission, San Francisco Bay Area

Strategic sales of non-core assets recycle capital for new investments

Capital recycling continues to play an important role in funding our growth. It allows us to invest in a higher quality portfolio while maintaining our financial strength. Last year, we sold five non-core properties and one non-income producing land parcel generating $138 million in total proceeds. Over the past five years, we have generated more than $1 billion from the sale of non-strategic properties and non-income producing land at favorable cap rates and recycled the capital into higher value, state-of-the-art development. We continue to take advantage of improving markets to sell non-strategic assets to enhance and diversify the quality of our portfolio.

Financial discipline ensures a strong balance sheet

We raised more than $520 million in new public debt and equity in 2014, increased the size of our credit line while lowering pricing, established a larger At-The-Market equity program and continued to reduce our overall leverage. Standard and Poor's and Moody's also upgraded our rating's outlook to Positive. We ended 2014 with a debt to market capitalization ratio of 28%, among the lowest in our peer group. Our commitment to maintain a strong and flexible balance sheet is an essential tool in our ability to navigate market cycles, up or down. In today's improving market conditions, financial strength provides us with a significant competitive advantage, allowing us to respond quickly to attractive opportunities as they arise.

Focused effort drives industry leadership in sustainable practices

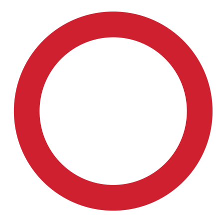
Our focus on building and operating environmentally sound properties continues to broaden. In 2014, we were recognized for our efforts with multiple industry leadership awards. The Global Real Estate Sustainability Benchmark, the real estate industry's most rigorous standard for sustainability performance, ranked KRC first among 151 North American real estate companies across all asset types. Additionally, we won the National Association of Real Estate Investment Trusts' 2014 Leader in the Light award for superior, comprehensive and continuous sustainability practices in the office sector. At year-end, approximately 40% of our existing assets were Leadership in Energy and Environmental Design (LEED) certified and more than half were Energy Star certified. All our development projects are designed to achieve the highest possible LEED certification.

40%

LEED CERTIFIED
Nearly half of our entire portfolio was LEED Certified in 2014

56%

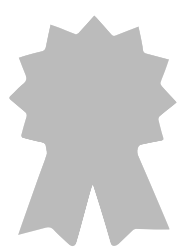
ENERGY STAR
Over half of our portfolio was Energy Star Certified in 2014



100%

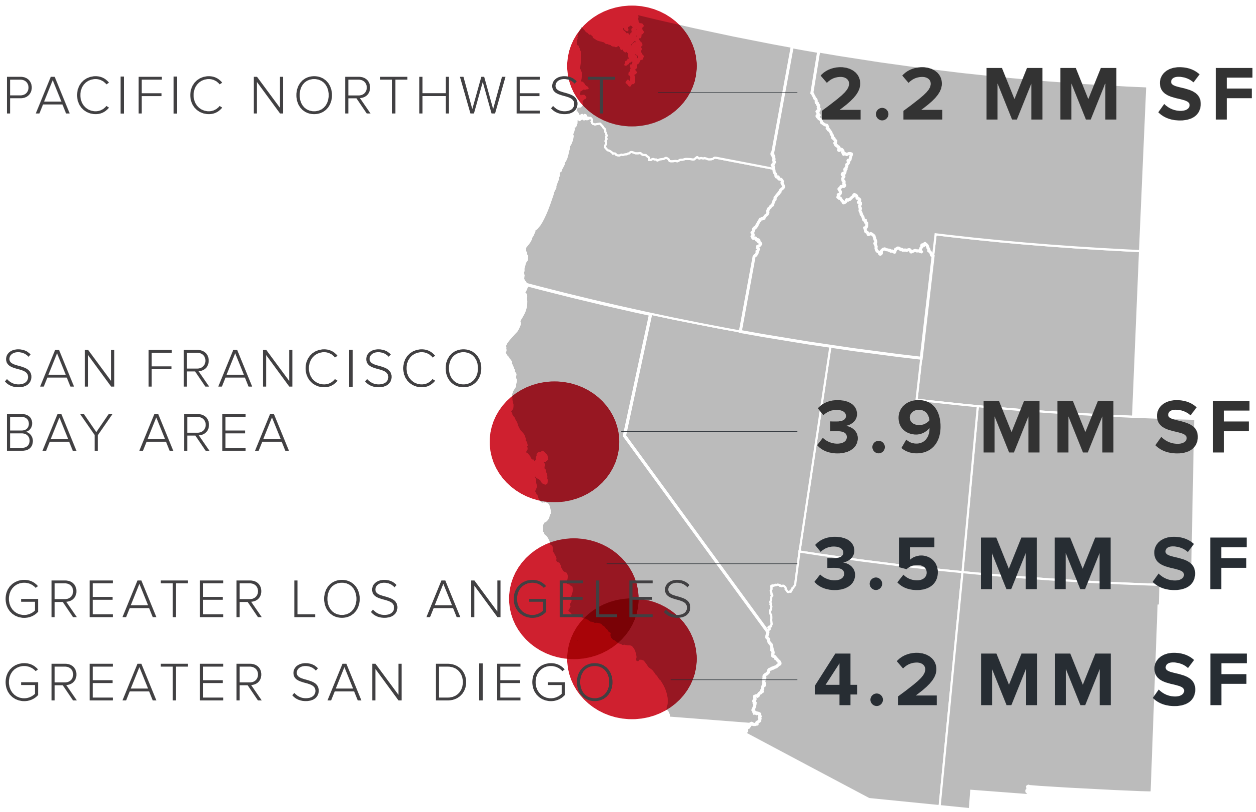
GOLD OR PLATINUM
All developments were designed to be LEED Gold or Platinum in 2014

GRESB
North American Leader, Regional Sector Leader 2014



ENERGY STAR
Partner of the Year 2014

NAREIT
Leader in the Light Award
Office Sector 2014



Our expanding West Coast platform is an engine for value creation

As West Coast commercial real estate markets steadily gain traction, our investments in talent, operating capabilities, an expanded market presence and a new approach to workspace are all paying off.

Across KRC, our teams are leveraging our growing organizational strengths with confidence, focus and discipline. We are successfully identifying, competing for and executing a wide array of opportunities —in leasing, tenant relationships, development, acquisitions and property management — that are enhancing the quality of our real estate portfolio and increasing enterprise value.

This work will continue in 2015. We remain laser focused on strong, disciplined execution, committed to delivering on all our objectives, and determined to build our position as the West Coast's preeminent office landlord.

As always, we appreciate your support.

Cordially,

John B. Kilroy

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