CEO ANNUAL LETTER
2016

KILROY

Through the years, we have operated with a consistent strategy - drive shareholder value by using our extensive real estate knowledge to build the premier franchise located in the best markets along the West Coast. We utilized this platform in 2015 to generate impressive results: sector-leading same-store growth, strong earnings growth, significant value-creating development deliveries, the highest grades in sustainability and the maintenance of a strong balance sheet during a period of substantial funding needs. Looking ahead, we will continue to shape our portfolio and adapt our enterprise for the markedly different work world now emerging: a world of newly empowered knowledge workers; of broad-based, innovation progress; and of highly fluid business markets. Our tenants now succeed by the value of their insights, the creativity of their employees, and, above all, by their ability to navigate through constant change.

To Our Shareholders

KRC delivered another year of strong operating and financial results for our shareholders in 2015. Our success in creating functional, flexible and increasingly efficient work environments in our West Coast real estate markets continued to attract a wide range of dynamic companies, while enhancing the intrinsic long-term value of our enterprise.

Across the year, we produced solid leasing results that increased average occupancy 80 bps in our stabilized portfolio and generated cash same-store results that were 4.7% higher year over year. We reported strong financial results, notably a 19% increase in funds from operations (FFO) per share. As with most of our REIT peers, our market valuation suffered in 2015 but we believe, over time, the significant value we have and will continue to create for our shareholders will be reflected in our share price. Our three-year total shareholder return of 43.3% outpaced the average of our peer group and the relevant REIT indices.

On the development front, we delivered $270 million of fully leased, new office space in 2015. Our $1.2 billion of projects under construction remain on track for

BOX, Crossing 900, San Francisco Bay Area

completion in 2016. And we made significant headway on entitlements for our near-term and future development pipelines. The impact of delivering fully-leased development projects, combined with prudently managing our balance sheet, reduced our debt to EBITDA significantly to 5.7x at year-end. We raised more than $1.1 billion in fresh capital from our capital recycling program and public equity and debt offerings, replenishing our funding capacity while ensuring the overall financial strength of our enterprise.

We also made progress on our larger goal: to reshape our real estate portfolio and adapt our enterprise for the dramatically different work world now emerging. This is a world of newly empowered knowledge workers, of fierce, innovation-driven competition, and of highly fluid, often volatile business markets. Our tenants now succeed by the value of their insights and the creativity of their employees—and, above all, by their ability to successfully navigate through constant change.

1.5
MILLION SF
of New or Renewing Leases Signed

96.1%
LEASED
Portfolio by End of 2015

94.8%
OCCUPIED
Portfolio by End of 2015

19%
GROWTH
Funds from Operations (FFO) Per Share

11%
TOTAL REVENUE
increase to just over $581 million

Our Competitive Advantage Drives Value Creation

Capturing Market Demand; Delivering Strong Results

We signed new or renewing leases totaling 1.5 million square feet in 2015 at rental rates that were 22% higher on a cash basis and 33% higher on a GAAP basis compared to prior leases. We ended the year with the portfolio 94.8% occupied and 96.1% leased.

With rising rents and strong average occupancy across the year, the net operating income (NOI) generated by our stabilized portfolio also improved. Adjusted for non-recurring items, same-store NOI grew 4.7% on a cash basis and 3.6% on a GAAP basis. Our total revenues climbed 11%, to just over $581 million. Funds from operations (FFO) grew 26% in 2014 to $317 million and FFO per share increased 19% to $3.39.

Developing Modern Work Environments; Generating Superior Long-Term Value Creation

Our early commitment to key markets, our financial capacity to acquire top quality sites, and our willingness to innovate in the design, materials and operating systems of our new properties

NeueHouse, Columbia Square, Greater Los Angeles

have all placed us at the center of today's most dynamic West Coast real estate markets, and given us a leading role in shaping the look, feel and functionality of contemporary work space.
Our development pipeline now extends from Seattle to San Diego. Our new properties are attracting leading names in the region's most prominent industries, from technology to entertainment to health sciences, and all the creative and business services that support them.

Last year, we delivered two fully-leased projects encompassing approximately 450,000 square feet of space to two tenants, Box, Inc. in Redwood City and NeueHouse in Hollywood. We believe, at prevailing market prices, the combined projects add roughly $270 million of net incremental value to our portfolio.

With the ground-breaking of The Exchange on 16th, a 700,000 square-foot office campus in the vibrant Mission Bay neighborhood of San Francisco last September, we currently have five projects under construction. These five projects encompass approximately 1.9 million square feet and represent a total estimated investment of $1.2 billion. We also have one office building in lease-up that has a total estimated investment of approximately $45 million. We believe, at prevailing market prices, combined, these six projects will add roughly $1.2 billion of net incremental value to our portfolio.

Lastly, we replenished our development pipeline with the acquisition of two development opportunities in 2015 – one is a fully entitled site in San Francisco and the other is in the prime South Lake Union submarket of Seattle.

The Exchange on Sixteenth Street, San Francisco Bay Area

Bolstering Our Balance Sheet; Positioning Us For The Future

Capital recycling plays a key role in our commitment to financial discipline. Over the past decade, selling non-strategic properties and land sites at favorable cap rates has provided a substantial portion of the capital we have invested in higher value, state-of-the-art development. Last year, we sold ten non-core properties and a non-strategic land parcel for total proceeds of $335 million. And, in December, we agreed to sell a four-building office campus and a second non-strategic land parcel for a total of $267 million.

We also raised more than $790 million in new public equity and debt in 2015, including $250 million in a direct equity placement and $400 million of 10-year unsecured senior notes. Our At-The-Market equity program generated an additional $140 million in equity during the year. We ended the year with a debt-to-EBITDA ratio of 5.7x, dramatically down from 7.3x last year and among the lowest in our peer group. Both Standard and Poor's and Moody's upgraded our credit ratings by one notch to Baa2 and BBB, respectively, during the year.

333 Dexter, Pacific Northwest

Our commitment to recycle capital wisely and maintain a strong balance sheet provides the ballast that allows us to navigate market cycles, up and down. Our financial strength has been a significant advantage to us in recent years, as real estate markets have strengthened and competition has intensified. It will be equally advantageous in less favorable market circumstances, should they arise.

Building A More Sustainable Portfolio; Raising Our Industry to Higher Standards

Building and operating environmentally sound properties is an industry work in progress. We are determined to be a leader in that effort. A key pillar of our development program is creating properties to meet the highest possible LEED certification, and all of our current and future development projects are designed to achieve LEED Gold or Platinum status. We are also committed to improving the energy efficiency and environmental performance of our existing portfolio. At year-end, approximately 47% of our existing assets were LEED certified and 65% were Energy Star certified.

Our sustainability efforts in 2015 were once again recognized by our peers with leadership awards from several organizations. GRESB, the real estate industry's most rigorous standard for sustainability performance, ranked KRC first among 155 North American real estate companies across all asset types. And NAREIT recognized KRC for the second year in a row with its 2015 Leader in the Light award for superior, comprehensive and continuous sustainability practices in the office sector.

Creating Value Across Our Enterprise – An Unwavering Commitment

Our view of the future has not changed. Innovation, fierce competition, and constant, often disruptive change will continue to shape the business environment, drive the commercial property needs of major businesses, and compel our industry to adapt.

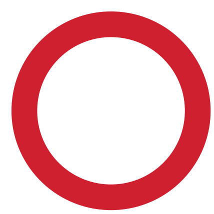
We're determined to do so, innovating alongside our tenants, developing a better work environment to unleash their creativity and enhance their productivity—and, in the process, building a more valuable portfolio and a stronger real estate enterprise for our shareholders.

47%

LEED CERTIFIED
Nearly half of our entire portfolio was LEED Certified in 2015

65%

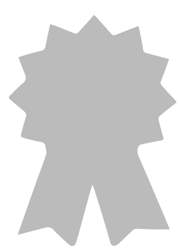
ENERGY STAR
Over half of our portfolio was Energy Star Certified in 2015



100%

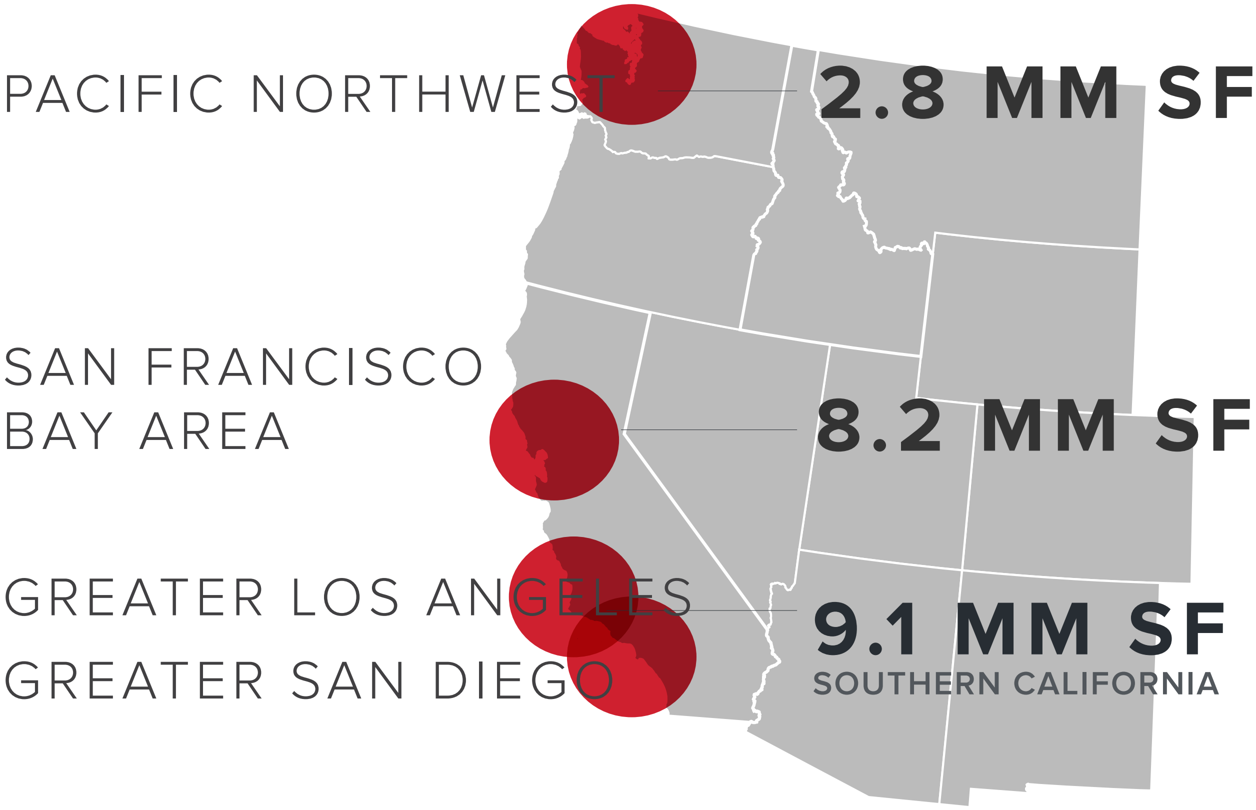
GOLD OR PLATINUM
All developments were designed to be LEED Gold or Platinum in 2015

GRESB
North American Leader, Regional Sector Leader 2015



ENERGY STAR
Partner of the Year 2015

NAREIT
Leader in the Light Award Office Sector 2015



Data as of March 31, 2016 and pro forma to include projects under construction, in-lease up and near-term development projects as well as The Flower Mart.

We remain committed to our core strategy: competing in the best markets, operating the highest quality portfolio, and pursuing a high quality, financially strong tenant base. And we are more confident than ever in our ability to execute.

We have entered 2016 with, in our view, the best real estate portfolio on the West Coast, the strongest development pipeline, and an extremely capable management team, rich in talent, experience and market knowledge. We have the financial capacity to fund our future, and to withstand any potential headwinds. And we have a clear track record of transforming market opportunities into a superior real estate portfolio and a greater enterprise value.

As always, we appreciate your support.

Cordially,

John B. Kilroy, CEO

KILROY