KILROY REALTY CORP
Form 10-K
February 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(MARK ONE)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-12675 (Kilroy Realty Corporation)
Commission file number 000-54005 (Kilroy Realty, L.P.)

KILROY REALTY CORPORATION
KILROY REALTY, L.P.
(Exact name of registrant as specified in its charter)

Kilroy Realty Corporation	Maryland	95-4598246
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Kilroy Realty, L.P.	Delaware (State or other jurisdiction of incorporation or organization)	95-4612685 (I.R.S. Employer Identification No.)

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (310) 481-8400

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Name of each exchange on which registered
Kilroy Realty Corporation	Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
Kilroy Realty, L.P.	Common Units Representing Limited Partnership Interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Kilroy Realty Corporation Yes x No ¨ Kilroy Realty, L. P. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Kilroy Realty Corporation Yes ¨ No x Kilroy Realty, L. P. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Kilroy Realty Corporation Yes x No ¨ Kilroy Realty, L. P. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Kilroy Realty Corporation Yes x No ¨ Kilroy Realty, L. P. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Kilroy Realty Corporation

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

Kilroy Realty, L.P.

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

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 x Kilroy Realty, L. P. Yes ¨ No x

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 it 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;
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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;

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- 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.

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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	% of Energy Generated From Renewable Resources	Like-for-Like Change in Energy Consumption of Portfolio Area with Data	% of Eligible Portfolio that has Obtained an Energy Rating and

		Coverage (MWh) (3)		Coverage (4)	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 %

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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 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. 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

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(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)
Los Angeles and Ventura Counties								
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
	(3)	1	2016	104,504	83.6	%	5,894	67.46

1500 N. El Centro Ave., Los Angeles, California								
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,	(3)	1	2016	73,032	83.6	%	3,236	52.99

Del Mar, California							
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

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(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.

(9) For this property, leases of approximately 226,000 rentable square feet are written on a full service gross basis and approximately 5,000 rentable square feet are written on a triple net basis.

(10) For this property, leases of approximately 106,000 rentable square feet are written on a full service gross basis and approximately 9,000 rentable square feet are written on a gross basis.

(11) For this property, leases of approximately 14,000 rentable square feet are written on a triple net basis and approximately 6,000 rentable square feet are written on a gross basis.

(12) For this property, leases of approximately 236,000 rentable square feet are written on a modified gross basis and approximately 15,000 rentable square feet are written on a full service gross basis.

(13) For this property, leases of approximately 280,000 rentable square feet are written on a full service gross basis, approximately 16,000 rentable square feet are written on a triple net basis and approximately 5,000 rentable square feet are written on a modified gross basis.

(14) For this property, leases of approximately 7,000 rentable square feet are written on a modified gross basis and approximately 3,000 rentable square feet are written on a full service gross basis.

(15) For this property, leases of approximately 50,000 rentable square feet are written on a full service gross basis and approximately 46,000 rentable square feet are written on a modified net basis.

(16) For this property, leases of approximately 32,000 rentable square feet are written on a full service gross basis and approximately 8,000 rentable square feet are written on a triple net basis.

(17) For this property, leases of approximately 107,000 rentable square feet are written on a modified gross basis, approximately 25,000 rentable square feet are written on a gross basis and approximately 9,000 rentable square feet are written on a full service gross basis.

(18) This property is vacant.

(19) For this property, leases of approximately 61,000 rentable square feet are written on a full service gross basis, and approximately 4,000 rentable square feet are written on a triple net basis.

(20) For this property, leases of approximately 227,000 rentable square feet are written on a full service gross basis and approximately 8,000 rentable square feet are written on a modified gross basis.

(21) For this property, leases of approximately 72,000 rentable square feet are written on a modified gross basis and approximately 3,000 rentable square feet are written on a full service gross basis.

(22) For this property, leases of approximately 36,000 rentable square feet are written on a full service gross basis and approximately 3,000 rentable square feet are written on a modified gross basis.

(23) For this property, leases of approximately 125,000 rentable square feet are written on a modified gross basis and approximately 5,000 rentable square feet are written on a full service gross basis.

(24) For this property, leases of approximately 80,000 rentable square feet are written on a modified gross basis, approximately 26,000 rentable square feet are written on a full service gross basis and approximately 17,000 rentable square feet are written on a gross basis.

(25) For this property, leases of approximately 91,000 rentable square feet are written on a modified gross basis and approximately 24,000 rentable square feet are written on a full service gross basis.

(26) For this property, leases of approximately 77,000 rentable square feet are written on a modified gross basis and approximately 2,000 rentable square feet are written on a full service gross basis.

(27) For this property, leases of approximately 108,000 rentable square feet are written on a modified gross basis and approximately 20,000 rentable square feet are written on a full service gross basis.

(28) For this property, leases of approximately 79,000 rentable square feet are written on a full service gross basis, approximately 22,000 rentable square feet are written on a gross basis and approximately 3,000 rentable square feet are written on a modified gross basis.

(29) For this property, leases of approximately 25,000 rentable square feet are written on a triple net basis and approximately 20,000 rentable square feet are written on a gross basis.

(30) For this property, leases of approximately 305,000 rentable square feet are written on a modified gross basis, approximately 286,000 rentable square feet are written on a full service gross basis, approximately 38,000 rentable square feet are written on a gross basis and approximately 24,000 rentable square feet are written on a triple net basis.

(31) For this property, leases of approximately 353,000 rentable square feet are written on a full service gross basis, approximately 84,000 rentable square feet are written on a gross basis and approximately 8,000 rentable square feet are written on a triple net basis.

(32) For this property, leases of approximately 254,000 rentable square feet are written on a full service gross basis, approximately 19,000 rentable square feet are written on a modified gross basis, approximately 11,000 rentable square feet are written on a triple net basis and approximately 1,000 rentable square feet are written on a gross basis.

(33) For this property, leases of approximately 370,000 rentable square feet are written on a modified gross basis, approximately 57,000 rentable square feet are written on a full service gross basis and approximately 3,000 rentable square feet are written on a triple net basis.

(34) For this property, leases of approximately 182,000 rentable square feet are written on a modified gross basis and approximately 4,000 rentable square feet are written on a triple net basis.

(35) For this property, leases of approximately 472,000 rentable square feet are written on a triple net basis and approximately 7,000 rentable square feet are written on a modified gross basis.

(36) For this property, leases of approximately 378,000 rentable square feet are written on a full service gross basis and approximately 20,000 rentable square feet are written on a triple net 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 Start Date	Completion Date	Stabilization Date	Rentable Square Feet	Office % Leased (1)
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 Start Date	Completion Date	Estimated Stabilization Date (1)	Estimated Rentable Square Feet	Office % Leased
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

(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) (in thousands)	Percentage of Total Annualized Base Rental Revenue(1)	Lease Expiration Date
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.

2017	High	Low	Close	Per Share Common Stock Dividends Declared
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	High	Low	Close	Per Share Common Stock Dividends Declared
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.

2017	Per Unit Common Unit Distribution Declared
First quarter	$ 0.3750
Second quarter	0.4250
Third quarter	0.4250
Fourth quarter	0.4250
2016	Per Unit Common Unit Distribution Declared
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.

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	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

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(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.

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	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 “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;

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- 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)				
	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)	Weighted Average Lease Term (in months)
	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 %	64

(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

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(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

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(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

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(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.

	Year Ended December 31, 2017	2016	Dollar Change	Percentage Change
	($ 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	$512,975	$469,995	$42,980	9.1 %

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 Develop-ment	Acquisitions	Disposi-tions & Other	Total	Same Store	Stabilized Develop-ment	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 %

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* Percentage not meaningful

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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:

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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	108	14,025,856

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	$303,798	$238,604	$65,194	27.3 %
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	$469,995	$422,033	$47,962	11.4 %

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 Develop-ment	Acquisitions	2016 Held for Sale Dispositi-ons & Other	Total	Same Store	Stabilized Develop-ment	Acquisitions	2016 Held for Sale Dispositi-ons & 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
	(777)	(129.9)	116	100.0	51	100.0	65	(122.6)	(545)	(100.0)

Provision for bad debts										
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.

	Year Ended December 31,		Dollar Change	Percentage Change
	2016	2015		
	($ 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	$55,803	$57,682	$(1,879)	(3.3)%

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, depositary 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 on-going 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	%

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(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				
	Less than 1 Year (2018)	2-3 Years (2019-2020)	4-5 Years (2021-2022)	More than 5 Years (After 2022)	Total
	(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

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(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,			
	2017	2016	Dollar Change	Percentage Change
	($ 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)	$346,787	$333,742	$316,612	$250,744	$218,621

(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.

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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 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

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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:

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)

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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

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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.

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

/s/ Gary R. Stevenson	Director	February 12, 2018
Gary R. Stevenson		
/s/ Peter B. Stoneberg	Director	February 12, 2018
Peter B. Stoneberg		

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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.

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

/s/ Gary R. Stevenson	Director	February 12, 2018
Gary R. Stevenson		
/s/ Peter B. Stoneberg	Director	February 12, 2018
Peter B. Stoneberg		

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
ASSETS		
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
LIABILITIES AND EQUITY		
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	719,001	642,572	581,275
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	512,493	448,742	412,298
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	(65,849)	(54,039)	(57,439)
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