KILROY REALTY CORP
Form 10-K
February 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(MARK ONE)
S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
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 (State or other jurisdiction of incorporation or organization)	95-4598246 (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
Kilroy Realty Corporation	7.80% Series E Cumulative Redeemable Preferred Stock, $.01 par value	New York Stock Exchange
Kilroy Realty Corporation	7.50% Series F Cumulative Redeemable Preferred 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. x
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

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

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 common shares held by non-affiliates of Kilroy Realty Corporation was approximately $2,308,759,615 based on the quoted closing price on the New York Stock Exchange for such shares on June 30, 2011.
As of February 8, 2012, 58,857,343 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 2012 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, 2011 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to "Kilroy Realty Corporation" or the "Company," "we," "our," and "us" mean Kilroy Realty Corporation, a Maryland corporation, and its controlled and consolidated subsidiaries, and references to "Kilroy Realty, L.P." or the "Operating Partnership" mean Kilroy Realty, L.P., a Delaware limited partnership, and its controlled and consolidated subsidiaries.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of December 31, 2011, the Company owned an approximate 97.2% common general partnership interest in the Operating Partnership. The remaining approximate 2.8% 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 which 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 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 guarantees some 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 is required to contribute to the Operating Partnership in exchange for partnership units, 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 partnership units.

Noncontrolling interests and 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 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. This noncontrolling interest represents the Company's 1% indirect general partnership interest in Kilroy Realty Finance Partnership, L.P., 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 Company's noncontrolling interest in Kilroy Realty Finance Partnership, L.P.

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

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

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

- consolidated financial statements;
- the following notes to the consolidated financial statements:

Note 6, Secured and Unsecured Debt of the Company;
Note 7, Secured and Unsecured Debt of the Operating Partnership;
Note 9, Noncontrolling Interests on the Company's Consolidated Financial Statements;

Note 10, Stockholders' Equity of the Company;
Note 11, Preferred and Common Units in the Operating Partnership's Consolidated Financial Statements;
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 23, Quarterly Financial Information of the Company (Unaudited);
Note 24, Quarterly Financial Information of the Operating Partnership (Unaudited);
Note 26, Pro Forma Results of the Company (Unaudited); and
Note 27, Pro Forma Results of the Operating Partnership (Unaudited);

- "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of the Company"; and
- "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of the Operating Partnership".

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 forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, including information concerning projected future occupancy and rental rates, lease expirations, debt maturity, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, dispositions, future executive incentive compensation 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 outcomes. All forward-looking statements are based on currently available information and speak only as of the date on this report was filed with the Securities and Exchange Commission (the “SEC”).

ITEM 1. BUSINESS
The Company

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

As of December 31, 2011, our stabilized portfolio was comprised of the following office buildings (the "Office Properties") and industrial buildings (the "Industrial Properties"). As of December 31, 2011, all of our properties and all of our business was currently conducted in the state of California with the exception of the ownership and operation of six office properties located in the state of Washington:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	
Office Properties (1)	104	11,421,112	419	90.1	%
Industrial Properties	39	3,413,354	63	100.0	%
Total Stabilized Portfolio(2)	143	14,834,466	482	92.4	%

(1) Includes 20 office buildings acquired in 2011 and 2010 (see Note 3 to our consolidated financial statements included in this report for additional information).

(2) Excludes five office buildings and one industrial building sold in 2011 and 2010 and two office buildings classified as held for sale at December 31, 2011 (see Note 19 to our consolidated financial statements included in this report for additional information).

Our stabilized portfolio excludes undeveloped land, four office redevelopment properties that are currently under construction and two properties held-for-sale.

We own our interests in all of our Office Properties and Industrial Properties through the Operating Partnership and Kilroy Realty Finance Partnership, L.P. (the “Finance Partnership”), a Delaware limited partnership. We conduct substantially all of our operations through the Operating Partnership of which as of December 31, 2011, we owned a 97.2% general partnership interest. The remaining 2.8% common limited partnership interest in the Operating Partnership as of December 31, 2011 was owned by non-affiliated investors and certain of our directors and officers. 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% general partnership interest. The Operating Partnership owns the remaining 99.0% limited partnership interest. We conduct substantially all of our development activities through Kilroy Services, LLC ("KSLLC"), which is a wholly-owned subsidiary of the Operating Partnership. With the exception of the Operating Partnership, all of the Company's subsidiaries, which include, Kilroy Realty TRS, Inc., Kilroy Realty Management, L.P., Kilroy RB, LLC, Kilroy RB II, LLC, Kilroy Realty Northside Drive, LLC and Kilroy Realty 303, LLC, are wholly-owned.

The following diagram illustrates our organizational structure as of December 31, 2011:

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 located at 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 will be 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 “Investor Relations—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
- 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, CA 90064

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 and location 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, construction management, redevelopment, and new development;
- 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 or development;
- our strong financial position that has and will continue to allow us to pursue attractive acquisition and redevelopment opportunities;
- 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 60-year presence in the West Coast markets;
- our capital recycling program (see “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity Sources” for additional information pertaining to the Company's capital recycling program and related 2011 property dispositions); and
- our existing pipeline of undeveloped land holdings.

“Net Operating Income” is defined as operating revenues (rental income, tenant reimbursements, and other property income) less property and related expenses (property expenses, real estate taxes, provision for bad debts, and ground leases) before depreciation. “FFO” is funds from operations as defined by 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 for 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;

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- structuring leases to maximize returns and internal growth;
- 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 management, leasing, marketing, financing, accounting, legal, and construction management functions;
- maintaining and developing long-term relationships with a diverse tenant base;
- managing our properties to offer the maximum degree of utility and operational efficiency to tenants;
- building substantially all of our recent development projects to Leadership in Energy and Environmental Design (LEED) specifications, achieving gold or silver certification levels for several of our buildings, and actively pursuing LEED certification for much of our existing portfolio;
- continuing to effectively manage capital improvements to enhance our properties' competitive advantages in their respective markets and improve the efficiency of building systems;
- enhancing our management team with individuals who have extensive local experience and are highly knowledgeable in their respective markets; and
- attracting and retaining motivated employees by providing financial and other incentives to meet our operating and financial goals.

Acquisition Strategies. We believe we are well positioned to acquire properties as the result of our extensive experience, strong financial position, and ability to access capital. We continue to actively monitor our target markets and focus on acquiring additional high quality office and industrial properties 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.

Development and Redevelopment Strategies. We and our predecessors have developed office and industrial properties primarily located in California since 1947. As of December 31, 2011, our development pipeline included 110.2 gross acres of undeveloped land, with which we believe we will have the potential to develop over two million rentable square feet of office space in the future, depending upon economic conditions. Our strategy with respect to development is to:

- maintain a disciplined approach by emphasizing pre-leasing, commencing development in stages, or phasing, and cost control;
- continue to execute our build-to-suit philosophy in which we develop properties to be leased by specific committed tenants providing for lower-risk development;
- be the premier provider of two- to six-story campus style office buildings on the West Coast;
- reinvest capital from dispositions of nonstrategic assets into new state-of-the-market development and acquisition assets with higher cash flow and rates of return; and
- evaluate redevelopment opportunities in supply-constrained markets since such efforts generally achieve similar returns to new development with reduced entitlement risk and shorter construction periods.

Redevelopment opportunities are those projects in which we spend significant development and construction costs on existing buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We may engage in the additional development or redevelopment of office and/or industrial 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 opportunities. We cannot assure you 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.

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, 2011, our total debt as a percentage of total market capitalization was 42.4%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 47.0%, both of which were calculated based on the quoted closing price per share of the Company's common stock of $38.07 on December 31, 2011 (see "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of the Company - Capitalization" for additional information). Our financing strategies include:

- maintaining financial flexibility, including a low secured to unsecured debt ratio, to maximize 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 l

imit risk exposure at any particular point in the capital and credit market cycles;

- completing financing in advance of the need for capital; and
- managing interest rate exposure by generally maintaining a greater amount of fixed-rate debt as compared to variable-rate debt.

We utilize multiple sources of capital, including borrowings under our unsecured line of credit, proceeds from the issuance of public or private debt or equity securities and other bank and/or institutional borrowings, and dispositions of nonstrategic assets. 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”.

Significant Tenants

As of December 31, 2011, our fifteen largest tenants in terms of annualized base rental revenues represented approximately 34.9% of our total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2011 determined on a straight-line basis over the term of the related lease in accordance with GAAP.

For further information on our fifteen 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, industrial, and other commercial 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

For the year ended December 31, 2011, our only reportable segment is our Office Properties segment. During the year ended December 31, 2011, the amount of revenues and Net Operating Income generated by our Industrial Properties, in relation to our total consolidated operating portfolio revenues and Net Operating Income fell below the required 10% quantitative reporting thresholds for the Industrial Properties to be considered a reportable segment under GAAP. For information about our Office Properties and Industrial Properties revenues and long-lived assets and other financial information, see Note 18 to our consolidated financial statements included in this report and “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations —Results of Operations.”

All of our properties are located and all of our business is currently conducted in the state of California with the exception of the ownership and operation of six office properties located in the state of Washington.

Employees

As of December 31, 2011, we employed 169 people through the Operating Partnership, KSLLC, and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

Government Regulations 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 or as requested by a tenant. Site assessments are generally performed 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. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials. 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, 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 do not believe that further clean-up of the soils is requ ired. We are not aware of any such condition, liability, or concern by any other means that would give rise to material environmental liability. However, the 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. 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, 2011, other than routine cleaning materials, approximately 6% of our tenants handled hazardous substances and/or wastes on less than 5% of the aggregate square footage of our properties as part of their routine operations. These tenants are primarily involved in the life sciences and the light industrial and warehouse 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 and light manufacturing 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. We carry what we believe to be commercially reasonable environmental insurance to cover potential liability for soil and groundwater contamination and the presence of asbestos-containing materials at the affected sites identified in the environmental site assessments. Our environmental insurance policies are subject to various terms, conditions, qualifications, and limitations of coverage. Therefore, we cannot provide any assurance that our insurance coverage 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.

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 and economic conditions may adversely affect our liquidity and financial condition and those of our tenants. In the U.S., market and economic conditions continue to be challenging with tight credit conditions and modest growth. While recent economic data reflects moderate economic growth in the United States, the cost and availability of credit may continue to be adversely affected by governmental budget and global economic factors. Concern about continued stability of the economy and credit markets generally, and the strength of counterparties specifically, has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Volatility in the U.S. and international capital markets and concern over a return to recessionary conditions in global economies, and in the California economy in particular, may adversely affect our liquidity and financial condition and the liquidity and financial condition of our tenants. If these market conditions continue, they may limit our ability and the ability of our tenants to timely refinance maturing liabilities and access the capital markets to meet liquidity needs.

Our operations and those of our tenants may be adversely affected by the impact of California economic conditions and California's budget deficit. As of December 31, 2011, all but six of our properties and one parcel of undeveloped land are located in California. The continuing economic crisis has particularly affected the economy of California. The State of California began its fiscal year on July 1, 2011 with a significant reported deficit, which continues to impact and aggravate current weak economic conditions within the State. In addition, because of continuing California budget deficits, there is also the possibility that the

California State Legislature could enact new tax legislation, increasing tax rates in California. New legislation also could cut funding for government programs that are relied upon by our tenants. The economic and legislative environment within the State could have an adverse impact on businesses operating in California, including us and our tenants.

These factors 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 the Company's common stock and of the Operating Partnership's publicly-traded notes, 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, industrial, 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;
- changing submarket demographics; 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, revenues and results of operations. As of December 31, 2011, our fifteen largest tenants represented approximately 34.9% of total annualized base rental revenues. See further discussion on the composition of our tenants by industry and our largest tenants under “Item 1: Business —Significant Tenants” and “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 cash flows. For the year ended December 31, 2011, we derived approximately 98.2% of our revenues from continuing operations 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, revenues and results of operations. As of December 31, 2011, 33% of our tenants operated in the technology and media industry, 17% in the finance, insurance and real estate industry, and 17% in the education and health services industry. 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 and result of operations.

We may be unable to renew leases or re-lease available space. We had office and industrial space representing approximately 7.6%, of the total square footage of our properties that was not occupied as of December 31, 2011. In addition, leases representing approximately 8.2% and 13.4% of the leased rentable square footage of our properties are scheduled to expire in 2012 and 2013, 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. As of December 31, 2011, we believe that the weighted average cash rental rates for our overall portfolio, including recently acquired properties, are approximately 5% to 10% above the current average quoted market rental rates, and weighted average cash rental rates for leases scheduled to expire during 2012 are approximately 10% to 15% above the current average quoted market rental rates, although individual properties within any particular submarket presently may be leased at, above, or below the current market rental rates within that submarket. We cannot provide any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current rental rates. If the average rental rates for our properties decrease or existing tenants do not renew their leases, 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.

We are subject to governmental regulations that may affect the development, redevelopment, and use of our properties. We are subject to governmental regulations that may have a material 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.

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 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. Restrictions on our ability to develop, redevelop, or use our properties resulting from changes in the existing land use rules and regulations could have an adverse effect on our financial position, results of operations, cash flows, quoted trading price of our securities, our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our debt level reduces cash available for distribution and may expose us to the risk of default under our debt obligations. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay in cash the distributions necessary to maintain the Company's REIT qualification. See "—Risks Related to 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." Our level of debt and the limitations imposed by our debt agreements may have substantial consequences to us, including the following:

- we may be unable to refinance our indebtedness at maturity, or the refinancing terms may be less favorable than the terms of our original indebtedness;

- cash flows may be insufficient to meet required principal and interest payments;

- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

- we may default on our obligations, and the lenders or mortgagees may foreclose on our properties that secure the loans and receive an assignment of rents and leases; and

- our default under one mortgage loan could result in a default on other indebtedness with cross default provisions.

If one or more of these events were to occur, 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 could be adversely affected. 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. As of December 31, 2011, we had approximately $1.8 billion aggregate principal amount of indebtedness, $253.3 million of which is contractually due prior to December 31, 2012. Our total debt and preferred equity at December 31, 2011 represented 47.0% of our total market capitalization (which we define as the aggregate of our long-term debt, liquidation value of our preferred equity, and the market value of the Company's common stock and the Operating Partnership's common units). For 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.”

Our credit facility, and if entered into, the Term Loan (as defined herein) includes financial covenants relating to our operations, which could limit our ability to make distributions to our stockholders. The Operating Partnership's unsecured revolving credit facility (the “Credit Facility”) contains financial covenants that could limit the amount of distributions payable by us on our common stock and preferred stock. We rely on cash distributions we receive from the Operating Partnership to pay distributions on our common stock and preferred stock and to satisfy our other cash needs, and the Credit Facility provides that the Operating Partnership may not, in any year, make partnership distributions to us or other holders of its partnership interests in an aggregate amount in excess of the greater of:

- 95% of the Operating Partnership's consolidated funds from operations (as defined in the Credit Facility) for such year; and
- an amount which results in distributions to us (excluding any preferred partnership distributions to the extent the same have been deducted from consolidated funds from operations for such year) in an amount sufficient to permit us to pay dividends to our stockholders which 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.

In addition, the Credit Facility provides that, if the Operating Partnership fails to pay when due any principal of or interest on any borrowings under the Credit Facility, then the Operating Partnership may make only those partnership distributions to us and other holders of its partnership interests necessary to enable us to make distributions to our stockholders which we reasonably believe are necessary to maintain our status as a REIT for federal and state income tax purposes. We expect that the proposed term loan discussed under “Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity

and Capital Resources of the Operating Partnership-Liquidity Sources-New Term Loan" will contain covenants substantially similar to those in the Credit Facility. Any limitation on our ability to make distributions to our stockholders, whether as a result of these provisions in the Credit Facility or the Term Loan (if entered into) or otherwise, could have a material adverse effect on the market value of our common stock and preferred stock.
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, industrial, and other commercial 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. As previously mentioned, as of December 31, 2011 we believe that the weighted average cash rental rates for our overall portfolio are 5% to 10% above the current average quoted market rental rates. 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.
Potential casualty losses, such as earthquake losses, may not be covered by insurance and payment of such losses may adversely affect our financial condition and results of operations. 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. Some of our policies, like those covering losses resulting from floods, are subject to limitations involving large deductibles or co-payments. If our properties suffer uninsured losses or if losses are not fully covered by our insurance policies, the payment for such losses could adversely affect our financial condition and results of operations.
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, 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 the properties, there are asbestos-containing materials, or tenants routinely handle hazardous substances as part of their operations. In addition, historical operations, including the presence of underground storage tanks, have caused soil or groundwater contamination at or near some of the properties. Although we believe that the prior owners of the affected properties conducted remediation of known

soil contamination at these properties, we cannot assure you that all such contamination has been remediated. The discovery of previously unknown contamination or the 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 — Government Regulations Relating to the Environment" for a description of environmental regulations to which we are subject.

Earthquake damage to our properties could have an adverse effect on our financial condition and operating results. 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. In addition, we may 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. In addition, 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 be unable to complete acquisitions and successfully operate acquired properties. We continually evaluate the market of available properties and may continue to acquire office and industrial properties and undeveloped land when strategic opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them is subject to the following risks:

- 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 REITs and institutional investment funds;
- the possibility that, even if we enter into agreements for the acquisition of office and industrial properties, we may be unable to complete such acquisitions since 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.

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

- we may be unable to lease acquired, developed, or redeveloped properties at projected economic lease terms or within budgeted timeframes;
- we may not complete development or redevelopment properties on schedule or within budgeted amounts;
- we may expend funds on and devote management's time to acquisition, development, or redevelopment properties that we may not complete;
- 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, we acquired six properties in the state of Washington since January 1, 2010 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 development of property types other than mixed-use, office and industrial, or with certain outside markets, which could adversely affect our ability to acquire, develop or redevelop properties or to achieve expected performance.

We could default on leases for land on which some of our properties are located. As of December 31, 2011, we owned seven office buildings, located on various land parcels and regions, which we lease individually on a long-term basis. As of December 31, 2011, we had approximately 1.3 million aggregate rentable square feet, or 9.0% of our total stabilized portfolio, of rental space located on these leased parcels. In addition, we had ground lease obligations for the land securing two redevelopment properties encompassing approximately 508,000 rentable square feet. We have an option to purchase the land securing the redevelopment property encompassing 410,000 rentable square feet. 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 which 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.
Future terrorist activity or engagement in war by the U.S. may have an adverse effect on our financial condition and operating results. Terrorist attacks in the U.S. 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 U.S. 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 and industrial 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.

Risks Related to our Organizational Structure

Loss of our key personnel could harm our operations and adversely affect the quoted trading price of our securities
The leadership and performance of our executive and senior officers, particularly John B. Kilroy, Jr., President and Chief Executive Officer, Jeffrey C. Hawken, Executive Vice President and Chief Operating Officer, Eli Khouri, Executive Vice President and Chief Investment Officer, and Tyler H. Rose, Executive Vice President and Chief Financial Officer, 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 future performance will be substantially dependent on our ability to retain and motivate these individuals. The loss or limited availability of the services of our key personnel could materially and adversely affect our business, results of operations and financial condition and could be negatively perceived in the capital markets.

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 Partner'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, 2011, limited partners owned approximately 2.8% of the Operating Partner's partnership interests, of which 2.2% was owned by John B. Kilroy, Sr. and John B. Kilroy, Jr. In addition, we agreed to use commercially reasonable efforts to minimize the tax consequences to 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 each have substantial influence over our affairs. John B. Kilroy, Sr. is the Chairman of our board of directors and the father of John B. Kilroy, Jr., our President and Chief Executive Officer. Each is a member of our board of directors, and together, as of December 31, 2011, they beneficially owned approximately 3.4% of the total outstanding shares of the Company's common stock. The percentage of outstanding shares of common stock beneficially owned includes 282,304 shares of common stock, 401,291 restricted stock units that were vested and held by John B. Kilroy, Jr. at December 31, 2011, and assumes the exchange into shares of the Company's common stock of the 1,335,135 common units of the Operating Partnership held by Messrs. Kilroy (which are redeemable in exchange for, at the option of the Company, an equal number of shares of the Company's common stock).
Pursuant to the Company's charter, no other stockholder may own, actually or constructively, more than 7.0% (by value or by number of shares, whichever is more restrictive) of the outstanding Company common stock without obtaining a waiver from the board of directors. The board of directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families, 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 the Company's outstanding common stock, excluding Operating Partnership units that are exchangeable into shares of Company common stock. Consequently, Messrs. Kilroy have substantial influence on the Company, and because the Company is the manager of the Operating Partnership, on the Operating Partnership, and could exercise their influence in a manner that is not in the best interest of our stockholders, noteholders or unitholders. Also, they may, in the future, have a substantial influence on the outcome of any matters submitted to our stockholders or unitholders for approval.

There are restrictions on the ownership of the capital stock of the Company, which 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 over us, or the removal of existing management. Any of these actions might prevent our security holders from receiving a premium for their common shares or common units over the then-prevailing market price of the shares of the Company's common stock.
The Code contains stringent ownership limits on the Company's capital stock as a result of its decision to be taxed as a REIT, including:

- no more than 50% in value of the Company's capital stock may be owned, actually or constructively, by five or fewer individuals, including some entities, during the last half of a taxable year;
- beneficial ownership of the Company's common stock must be held by a minimum of 100 persons for at least 335 days of a 12-month taxable year, or a proportionate part of a short taxable year; and
- if the Operating Partnership, the Company or any entity which owns 10% or more of the Company's capital stock, actually or constructively own 10% or more of one of the Operating Partnership's tenants, a tenant of the Company or any partnership in which the Operating Partnership or the Company is a partner, then any rents received from that tenant will not be qualifying income for purposes of the Code's REIT gross income tests, regardless of whether the rent is received directly or through a partnership.

The Company's charter also establishes ownership limits to protect the Company's REIT status. 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 common stock outstanding. Similarly, absent a waiver from the board of directors, no single holder of the Company's 7.45% Series A Cumulative Redeemable Preferred stock (the "Series A Preferred Stock"), if issued, may actually or constructively own any class or series of the Company's preferred stock, so that their total capital stock ownership would exceed 7.0% (by value) of the Company's total outstanding shares of capital stock; no single holder of the Company's 7.8% Series E Cumulative Redeemable Preferred stock (the "Series E Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series E Preferred Stock; and no single holder of the Company's 7.5% Series F Cumulative Redeemable Preferred stock (the "Series F Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series F Preferred Stock.
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 B. Kilroy, Sr., John B. Kilroy, Jr., members of their families, 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 the Company's outstanding common stock, excluding units that are exchangeable into shares of common stock. The board of directors has also waived the ownership limits with respect to the initial purchasers of each of our 3.25% Exchangeable Senior Notes due 2012 (the "3.25% Exchangeable Notes") and the 4.25% Exchangeable Senior Notes due 2014 (the "4.25% Exchangeable Notes" and, together with the 3.25% Exchangeable Notes, the "Exchangeable Notes") and certain of their affiliated entities to beneficially own up to 9.8%, in the aggregate, of the Company's common stock in connection with hedging the capped call transactions.
If anyone acquires shares in excess of any ownership limits, the transfer to the transferee will be void with respect to the excess shares, the excess shares will be automatically transferred from the transferee or owner to a trust for the benefit of a qualified charitable organization, the purported transferee or owner will have no right to vote those excess shares, and the purported transferee or owner will have no right to receive dividends or other distributions from 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 holder's interest. As of December 31, 2011, 5,060,000 shares of the Company's preferred stock were issued and outstanding, consisting of 1,610,000 shares of the Company's Series E Preferred Stock and 3,450,000 shares of the Company's Series F Preferred Stock, and an additional 1,500,000 shares of preferred stock were designated as Series A Preferred Stock, which was reserved for possible issuance in exchange for the Operating Partnership's outstanding Series A Cumulative Redeemable Preferred Units (the "Series A Preferred Units"); 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 unitholder or stockholder approval, causing us to become more highly leveraged, which may increase our risk of default under our debt obligations.

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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, 2011, we had approximately $1.8 billion aggregate principal amount of indebtedness outstanding, which represented 42.4% of our total market capitalization. Our total debt and the liquidation value of our preferred equity as a percentage of total market capitalization was approximately 47.0% as of December 31, 2011. 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 its unitholders. Further, under certain circumstances, the Company may issue shares of our common stock in exchange for the Operating Partnership's outstanding Exchangeable Notes. 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.

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, 2011, 58,819,717 shares of the Company's common stock and 5,060,000 shares of the Company's preferred stock, consisting of 1,610,000 shares of Series E Preferred Stock and 3,450,000 shares of Series F Preferred Stock, were issued and outstanding, and an additional 1,500,000 shares of preferred stock were designated as Series A Preferred Stock, which was reserved for possible issuance in exchange for the Operating Partnership's outstanding Series A Preferred Units.

As of December 31, 2011, the Company had reserved for future issuance the following shares of common stock: 1,718,131 shares issuable upon the exchange, at the Company's option, of the Operating Partnership's common units; 3,773,622 shares remained available for grant under our 2006 Incentive Award Plan (see Note 12 to our consolidated financial statements); 842,675 shares issuable upon settlement of restricted stock units ("RSUs"); and 5,000 shares issuable upon exercise of outstanding options, as well as 1,681,813 and 4,800,796 shares potentially issuable under certain circumstances, in exchange for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes, respectively. The Company has a currently effective registration statement registering 1,718,131 shares of our common stock for possible issuance to the holders of the Operating Partnership's common units. That registration statement also registers 306,808 shares of common stock held by certain stockholders for possible resale. The Company also has currently effective registration statements registering the 1,681,813 shares of our common stock that may potentially be issued in exchange for the Operating Partnership's presently outstanding 3.25% Exchangeable Notes, and 4,800,796 shares of our common stock that may potentially be issued in exchange for the Operating Partnership's presently outstanding 4.25% Exchangeable Notes. Consequently, if and when the shares are issued, they may be freely traded in the public markets.

Risks Related to 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 the Company 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 our stockholders for each of the years involved because:

- the Company would not be allowed a deduction for distributions to our 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 the federal alternative minimum tax and possibly 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, the Company will not be required to make distributions to our stockholders, and all distributions to our stockholders will be subject to tax as regular corporate dividends to the extent of its current and accumulated earnings and profits. 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 us, 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 stockholders aggregating annually at least 90% of the Company's net taxable income (subject to certain adjustments and excluding any net capital gains). For distributions with respect to our 2008 through 2011 taxable years, IRS guidance allows the Company to satisfy up to 90% of this requirement through the distribution of shares of its common stock, if certain conditions are met. 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 we have 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 IRS regarding our qualification as a REIT.

To maintain the Company's REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions. To qualify as a REIT, the Company generally must distribute to our stockholders at least 90% of the Company's net taxable income each year (subject to certain adjustments and excluding any net capital gains) and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our 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 paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our net capital gains, and 100% of our undistributed income from prior years. For distributions with respect to our 2008 through 2011 taxable years, IRS guidance allows the Company to satisfy up to 90% of this requirement through the distribution of shares of its common stock, if certain conditions are met. 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 on a short-term basis and loan the proceeds to the Company so we can meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2.
ITEM 2. PROPERTIES
General
As of December 31, 2011, our stabilized portfolio of operating properties was comprised of the following office and industrial properties.

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied at December 31, 2011	
Office Properties	104	11,421,112	419	90.1	%
Industrial Properties	39	3,413,354	63	100.0	%
Total Stabilized Portfolio	143	14,834,466	482	92.4	%

All of our properties are located and all of our business is currently conducted in the state of California with the exception of the ownership and operation of six office properties located in the state of Washington.
Our stabilized portfolio excludes undeveloped land, four office redevelopment properties that are currently under construction and two properties held-for-sale (see "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Influence Future Results of Operations — Development and Redevelopment Programs). We own all of our properties through the Operating Partnership and the Finance Partnership. All our properties are held in fee except for the nine office buildings which are held subject to long-term ground leases for the land (See Note 15 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 or modified gross basis, and the Industrial Properties are leased to tenants on a triple net basis. Under a full service lease, the landlord is 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. Under a triple net lease and a modified net lease, 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, 2011, we managed all of our properties through internal property managers.

Office and Industrial Properties
The following table sets forth certain information relating to each of the stabilized Office Properties and Industrial Properties owned as of December 31, 2011.

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11[(1)]		Annualized Base Rent($000's)[(2)]	Annualized Rent Per Square Foot[(2)]
Office Properties:							
Los Angeles and Ventura Counties							
23925 Park Sorrento, Calabasas, California	1	2001	11,789	100.0	%	$ 421	$35.71
23975 Park Sorrento, Calabasas, California	1	2002	100,592	93.1	%	3,252	35.73
24025 Park Sorrento, Calabasas, California	1	2000	102,264	64.6	%	2,483	37.56
26541 Agoura Road Calabasas, California	1	1988	90,156	100.0	%	1,628	18.06
5151 Camino Ruiz, Camarillo, California	2	1982	187,861	—	%	—	—
5153 Camino Ruiz, Camarillo, California	1	1982	38,655	51.7	%	407	20.38
5155 Camino Ruiz, Camarillo, California	1	1982	38,856	51.4	%	—	—
2240 E. Imperial Highway, El Segundo, California	1	1983/2008	122,870	100.0	%	4,027	32.77
2250 E. Imperial Highway, El Segundo, California	1	1983	298,728	99.6	%	9,578	32.53

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11[(1)]		Annualized Base Rent($000's)[(2)]	Annualized Rent Per Square Foot[(2)]
909 Sepulveda Blvd., El Segundo, California	1	1972/2005	241,607	88.6	%	5,515	25.63
999 Sepulveda Blvd., El Segundo, California	1	1962/2003	128,504	87.4	%	2,528	24.48
3750 Kilroy Airport Way, Long Beach, California[(4)]	1	1989	10,457	86.1	%	100	18.36
3760 Kilroy Airport Way, Long Beach, California	1	1989	165,278	90.6	%	4,316	29.22
3780 Kilroy Airport Way, Long Beach, California	1	1989	219,745	86.7	%	5,224	28.04
3800 Kilroy Airport Way, Long Beach, California	1	2000	192,476	93.6	%	5,123	29.33
3840 Kilroy Airport Way, Long Beach, California	1	1999	136,026	100.0	%	4,915	36.13
3900 Kilroy Airport Way, Long Beach, California	1	1987	126,840	91.8	%	2,874	24.73
12100 W. Olympic Blvd., Los Angeles, California	1	2003	150,167	72.0	%	4,246	39.28
12200 W. Olympic Blvd., Los Angeles, California	1	2000	150,302	99.0	%	4,413	38.92

12312 W. Olympic Blvd, Los Angeles, California[(3)]	1	1950/1997	78,000	100.0	%	2,108	27.03
1633 26th Street, Santa Monica, California	1	1972/1997	44,915	100.0	%	1,271	28.30
2100 Colorado Avenue, Santa Monica, California	3	1992/2009	102,864	54.3	%	2,413	43.17
3130 Wilshire Blvd., Santa Monica, California	1	1969/1998	88,339	91.2	%	2,564	32.51
501 Santa Monica Blvd., Santa Monica, California	1	1974	73,115	96.0	%	2,667	38.87
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,067	90.6	%	2,013	27.40
Subtotal/Weighted Average— Los Angeles and Ventura Counties	28		2,981,473	83.5	%	74,086	30.85
San Diego County							
12225 El Camino Real, Del Mar, California[(5)]	1	1998	60,148	97.8	%	1,960	33.31
12235 El Camino Real, Del Mar, California[(5)]	1	1998	54,673	90.4	%	1,795	36.32
12340 El Camino Real, Del Mar, California[(5)]	1	2002	87,405	86.9	%	3,276	43.14
12390 El Camino Real, Del Mar, California[(5)]	1	2000	72,332	100.0	%	3,069	42.43
12348 High Bluff Drive, Del Mar, California[(5)]	1	1999	38,710	100.0	%	1,332	34.41
12400 High Bluff Drive, Del Mar, California[(5)]	1	2004	208,464	100.0	%	9,897	47.48
3579 Valley Centre Drive, Del Mar, California[(12)]	1	1999	52,375	79.0	%	1,572	37.99
3611 Valley Centre Drive, Del Mar, California[(5)]	1	2000	130,178	95.6	%	4,349	36.87
3661 Valley Centre Drive, Del Mar, California[(5)]	1	2001	129,752	99.4	%	3,870	32.55
3721 Valley Centre Drive, Del Mar, California[(5)]	1	2003	114,780	100.0	%	3,767	32.82
3811 Valley Centre Drive, Del Mar, California[(6)]	1	2000	112,067	100.0	%	5,199	46.39
6200 Greenwich Drive, Governor Park, California[(6)]	1	1999	71,000	100.0	%	1,637	23.06
6220 Greenwich Drive, Governor Park , California[(5)]	1	1996	141,214	100.0	%	4,286	30.35

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11[1]		Annualized Base Rent($000's)[2]	Annualized Rent Per Square Foot[2]
15051 Avenue of Science, I-15 Corridor, California[6]	1	2002	70,617	100.0	%	2,035	28.82
15073 Avenue of Science, I-15 Corridor, California[6]	1	2002	46,759	100.0	%	1,233	26.37
15231 Avenue of Science, I-15 Corridor, California[13]	1	2005	65,638	100.0	%	1,331	20.28
15253 Avenue of Science, I-15 Corridor, California[6]	1	2005	37,437	100.0	%	610	16.29
15333 Avenue of Science, I-15 Corridor, California[5]	1	2006	78,880	46.4	%	765	20.89
15378 Avenue of Science, I-15 Corridor, California[6]	1	1990	68,910	100.0	%	978	14.19
15435 Innovation Drive, I-15 Corridor, California[5]	1	2000	51,500	63.5	%	732	22.39
15445 Innovation Drive, I-15 Corridor, California[5]	1	2000	51,500	100.0	%	1,214	23.57
13280 Evening Creek Drive South, I-15 Corridor, California[7]	1	2008	42,971	49.5	%	454	21.35
13290 Evening Creek Drive South, I-15 Corridor, California	1	2008	61,176	—	%	—	—
13480 Evening Creek Drive North, I-15 Corridor, California[5]	1	2008	149,817	100.0	%	7,779	51.92
13500 Evening Creek Drive North, I-15 Corridor, California[5]	1	2004	147,533	100.0	%	6,471	43.86
13520 Evening Creek Drive North, I-15 Corridor, California[5]	1	2004	141,368	89.9	%	4,500	36.25
7525 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	103,979	100.0	%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	130,243	100.0	%	3,693	28.35
7545 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	130,354	100.0	%	3,609	27.69
7555 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	101,236	100.0	%	3,175	31.36
2355 Northside Drive, Mission Valley, California[5]	1	1990	50,425	84.5	%	1,208	28.34
2365 Northside Drive, Mission Valley, California[5]	1	1990	91,260	82.4	%	2,189	29.09
2375 Northside Drive, Mission Valley, California[5]	1	1990	48,949	83.0	%	1,135	31.57

2385 Northside Drive, Mission Valley, California(5)	1	2008	88,795	76.3 %	2,135	31.52
2305 Historic Decatur Road, Point Loma, California(16)	1	2009	103,900	95.3 %	3,796	38.32
10020 Pacific Mesa Blvd, Sorrento Mesa, California(3)	1	2007	318,000	100.0 %	7,683	24.16
4910 Directors Place, Sorrento Mesa, California(6)	1	2009	50,925	44.2 %	855	38.01
4921 Directors Place, Sorrento Mesa, California(5)	1	2008	56,136	100.0 %	1,347	24.00
4939 Directors Place, Sorrento Mesa, California(6)	1	2002	60,662	100.0 %	2,276	37.52
4955 Directors Place, Sorrento Mesa, California(6)	1	2008	76,246	100.0 %	2,881	37.79
5005 Wateridge Vista Drive, Sorrento Mesa, California	1	1999	61,460	— %	—	—
10770 Wateridge Circle, Sorrento Mesa, California(18)	1	1989	174,310	97.5 %	3,073	18.08
6055 Lusk Avenue, Sorrento Mesa, California(3)	1	1997	93,000	100.0 %	1,554	16.71
6260 Sequence Drive, Sorrento Mesa, California(6)	1	1997	130,536	100.0 %	1,717	13.15

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11[1]		Annualized Base Rent($000's)[2]	Annualized Rent Per Square Foot[2]
6290 Sequence Drive, Sorrento Mesa, California[6]	1	1997	90,000	100.0	%	2,098	23.31
6310 Sequence Drive, Sorrento Mesa, California[6]	1	2000	62,415	100.0	%	1,133	18.15
6340 Sequence Drive, Sorrento Mesa, California[6]	1	1998	66,400	100.0	%	1,341	20.20
6350 Sequence Drive, Sorrento Mesa, California	1	1998	132,600	100.0	%	2,507	18.91
10390 Pacific Center Court, Sorrento Mesa, California[6]	1	2002	68,400	100.0	%	2,771	40.51
10394 Pacific Center Court, Sorrento Mesa, California[6]	1	1995	59,630	100.0	%	1,077	18.06
10398 Pacific Center Court, Sorrento Mesa, California[6]	1	1995	43,645	100.0	%	698	15.99
10421 Pacific Center Court, Sorrento Mesa, California[17]	1	1995/2002	75,899	100.0	%	1,076	14.18
10445 Pacific Center Court, Sorrento Mesa, California[6]	1	1995	48,709	100.0	%	831	17.06
10455 Pacific Center Court, Sorrento Mesa, California	1	1995	90,000	100.0	%	1,112	12.36
5717 Pacific Center Blvd, Sorrento Mesa, California[3]	1	2001/2005	67,995	100.0	%	1,503	22.10
4690 Executive Drive, UTC, California[8]	1	1999	47,212	100.0	%	1,067	22.60
9455 Towne Center Drive, UTC, California	1	1998	45,195	—	%	—	—
9785 Towne Center Drive, UTC, California[3]	1	1999	75,534	100.0	%	1,374	18.19
9791 Towne Center Drive, UTC, California[3]	1	1999	50,466	100.0	%	916	18.15
Subtotal/Weighted Average— San Diego County	59		5,181,720	92.5	%	138,953	29.15
Orange County							
4175 E. La Palma Avenue, Anaheim, California	1	1985	43,263	75.8	%	596	18.17
8101 Kaiser Blvd. Anaheim, California	1	1988	59,790	96.5	%	1,135	19.67
2211 Michelson, Irvine, California[19]	1	2007	271,556	92.3	%	9,416	38.07
111 Pacifica, Irvine Spectrum, California	1	1991	67,496	97.1	%	1,366	22.29
999 Town & Country, Orange, California	1	1977/2009	98,551	100.0	%	2,919	29.62
Subtotal/Weighted Average— Orange County	5		540,656	93.4	%	15,432	31.00

San Francisco							
303 Second Street, San Francisco, California	1	1988	734,035	96.9	%	26,114	36.84
100 First Street, San Francisco, California	1	1988	466,490	94.3	%	17,915	41.85
250 Brannan Street, San Francisco, California[5]	1	1907/2001	92,948	100.0	%	3,983	42.85
201 Third Street, San Francisco, California	1	1983	332,076	88.5	%	9,073	31.73
301 Brannan Street, San Francisco, California[5]	1	1909/1989	74,430	66.1	%	1,850	37.60
4040 Civic Center, San Rafael, California	1	1979/1994	126,787	93.1	%	2,580	22.17
Subtotal/Weighted Average— San Francisco	6		1,826,766	93.3	%	61,515	36.59
Greater Seattle							

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11[1]		Annualized Base Rent($000's)[2]	Annualized Rent Per Square Foot[2]
601 108th Avenue NE, Bellevue, Washington[3]	1	2000	488,470	88.1	%	11,634	27.64
10220 NE Points Drive, Kirkland, Washington[3]	1	1987	49,851	89.5	%	1,148	25.98
10230 NE Points Drive, Kirkland, Washington[3]	1	1988	98,982	83.4	%	2,220	27.38
10210 NE Points Drive, Kirkland, Washington[3]	1	1990	84,641	87.5	%	1,719	23.20
3933 Lake Washington Blvd NE, Kirkland, Washington[3]	1	1993	46,450	100.0	%	1,209	26.03
15050 N.E. 36th Street, Redmond, Washington[3]	1	1998	122,103	100.0	%	3,130	25.63
Subtotal/Weighted Average—Greater Seattle	6		890,497	89.9	%	21,060	26.70
TOTAL/WEIGHTED AVERAGE OFFICE PROPERTIES	104		11,421,112	90.1	%	311,046	30.69
Industrial Properties:							
Orange County							
1000 E. Ball Road, Anaheim, California	1	1956	100,000	100.0	%	757	7.57
1230 S. Lewis Road, Anaheim, California	1	1982	57,730	100.0	%	388	6.72
1250 N. Tustin Avenue, Anaheim, California	1	1984	84,185	100.0	%	593	7.04
3125 E. Coronado Street, Anaheim, California	1	1970	144,000	100.0	%	598	4.15
3130/3150 Miraloma, Anaheim, California	1	1970	144,000	100.0	%	838	5.82
3250 E. Carpenter, Anaheim, California	1	1998	41,225	100.0	%	314	7.62
3340 E. La Palma Avenue, Anaheim, California	1	1966	153,320	100.0	%	661	4.31
3355 E. La Palma Avenue, Anaheim, California	1	1999	98,200	100.0	%	923	9.40
4123 E. La Palma Avenue, Anaheim, California[10]	1	1985	70,863	100.0	%	645	9.11
4155 E. La Palma Avenue, Anaheim, California[9]	1	1985	74,618	100.0	%	766	10.28
5115 E. La Palma Avenue, Anaheim, California	1	1967/1998	286,139	100.0	%	2,078	7.26
5325 E. Hunter Avenue, Anaheim, California	1	1983	110,487	100.0	%	475	4.30
1145 N. Ocean Boulevard,	1	1999	67,500	100.0	%	358	5.30

Anaheim, California						
1201 N. Miller Street, Anaheim, California	1	1999	119,612	100.0	% 863	7.21
1211 N. Miller Street, Anaheim, California	1	1999	200,646	100.0	% 1,349	6.72
1231 N. Miller Street, Anaheim, California	1	1999	113,700	100.0	% 541	4.76
950 W. Central Avenue, Brea, California	1	1983	24,000	100.0	% 214	8.92
1050 W. Central Avenue, Brea, California(14)	1	1984	30,000	100.0	% 266	8.87
1150 W. Central Avenue, Brea, California	1	1984	30,000	100.0	% 278	9.27
895 Beacon Street, Brea, California	1	1987	54,795	100.0	% 304	5.55
955 Beacon Street, Brea, California	1	1987	37,916	100.0	% 212	5.59

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11(1)		Annualized Base Rent($000's)(2)	Annualized Rent Per Square Foot(2)
Office Properties:							
Los Angeles and Ventura Counties							
23925 Park Sorrento, Calabasas, California	1	2001	11,789	100.0	%	$ 421	$35.71
23975 Park Sorrento, Calabasas, California	1	2002	100,592	93.1	%	3,252	35.73
24025 Park Sorrento, Calabasas, California	1	2000	102,264	64.6	%	2,483	37.56
26541 Agoura Road Calabasas, California	1	1988	90,156	100.0	%	1,628	18.06
5151 Camino Ruiz, Camarillo, California	2	1982	187,861	—	%	—	—
5153 Camino Ruiz, Camarillo, California	1	1982	38,655	51.7	%	407	20.38
5155 Camino Ruiz, Camarillo, California	1	1982	38,856	51.4	%	—	—
2240 E. Imperial Highway, El Segundo, California	1	1983/2008	122,870	100.0	%	4,027	32.77
2250 E. Imperial Highway, El Segundo, California	1	1983	298,728	99.6	%	9,578	32.53
909 Sepulveda Blvd., El Segundo, California	1	1972/2005	241,607	88.6	%	5,515	25.63
999 Sepulveda Blvd., El Segundo, California	1	1962/2003	128,504	87.4	%	2,528	24.48
3750 Kilroy Airport Way, Long Beach, California(4)	1	1989	10,457	86.1	%	100	18.36
3760 Kilroy Airport Way, Long Beach, California	1	1989	165,278	90.6	%	4,316	29.22
3780 Kilroy Airport Way, Long Beach, California	1	1989	219,745	86.7	%	5,224	28.04
3800 Kilroy Airport Way, Long Beach, California	1	2000	192,476	93.6	%	5,123	29.33
3840 Kilroy Airport Way, Long Beach, California	1	1999	136,026	100.0	%	4,915	36.13
3900 Kilroy Airport Way, Long Beach, California	1	1987	126,840	91.8	%	2,874	24.73
12100 W. Olympic Blvd., Los Angeles, California	1	2003	150,167	72.0	%	4,246	39.28
12200 W. Olympic Blvd., Los Angeles, California	1	2000	150,302	99.0	%	4,413	38.92

12312 W. Olympic Blvd, Los Angeles, California(3)	1	1950/1997	78,000	100.0	%	2,108	27.03
1633 26th Street, Santa Monica, California	1	1972/1997	44,915	100.0	%	1,271	28.30
2100 Colorado Avenue, Santa Monica, California	3	1992/2009	102,864	54.3	%	2,413	43.17
3130 Wilshire Blvd., Santa Monica, California	1	1969/1998	88,339	91.2	%	2,564	32.51
501 Santa Monica Blvd., Santa Monica, California	1	1974	73,115	96.0	%	2,667	38.87
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,067	90.6	%	2,013	27.40
Subtotal/Weighted Average— Los Angeles and Ventura Counties	28		2,981,473	83.5	%	74,086	30.85
San Diego County							
12225 El Camino Real, Del Mar, California(5)	1	1998	60,148	97.8	%	1,960	33.31
12235 El Camino Real, Del Mar, California(5)	1	1998	54,673	90.4	%	1,795	36.32
12340 El Camino Real, Del Mar, California(5)	1	2002	87,405	86.9	%	3,276	43.14
12390 El Camino Real, Del Mar, California(5)	1	2000	72,332	100.0	%	3,069	42.43
12348 High Bluff Drive, Del Mar, California(5)	1	1999	38,710	100.0	%	1,332	34.41
12400 High Bluff Drive, Del Mar, California(5)	1	2004	208,464	100.0	%	9,897	47.48
3579 Valley Centre Drive, Del Mar, California(12)	1	1999	52,375	79.0	%	1,572	37.99
3611 Valley Centre Drive, Del Mar, California(5)	1	2000	130,178	95.6	%	4,349	36.87
3661 Valley Centre Drive, Del Mar, California(5)	1	2001	129,752	99.4	%	3,870	32.55
3721 Valley Centre Drive, Del Mar, California(5)	1	2003	114,780	100.0	%	3,767	32.82
3811 Valley Centre Drive, Del Mar, California(6)	1	2000	112,067	100.0	%	5,199	46.39
6200 Greenwich Drive, Governor Park, California(6)	1	1999	71,000	100.0	%	1,637	23.06
6220 Greenwich Drive, Governor Park , California(5)	1	1996	141,214	100.0	%	4,286	30.35
Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11(1)		Annualized Base Rent($000's)(2)	Annualized Rent Per Square Foot(2)
15051 Avenue of Science, I-15 Corridor, California(6)	1	2002	70,617	100.0	%	2,035	28.82
15073 Avenue of Science, I-15 Corridor, California(6)	1	2002	46,759	100.0	%	1,233	26.37

15231 Avenue of Science, I-15 Corridor, California[13]	1	2005	65,638	100.0	%	1,331	20.28
15253 Avenue of Science, I-15 Corridor, California[6]	1	2005	37,437	100.0	%	610	16.29
15333 Avenue of Science, I-15 Corridor, California[5]	1	2006	78,880	46.4	%	765	20.89
15378 Avenue of Science, I-15 Corridor, California[6]	1	1990	68,910	100.0	%	978	14.19
15435 Innovation Drive, I-15 Corridor, California[5]	1	2000	51,500	63.5	%	732	22.39
15445 Innovation Drive, I-15 Corridor, California[5]	1	2000	51,500	100.0	%	1,214	23.57
13280 Evening Creek Drive South, I-15 Corridor, California[7]	1	2008	42,971	49.5	%	454	21.35
13290 Evening Creek Drive South, I-15 Corridor, California	1	2008	61,176	—	%	—	—
13480 Evening Creek Drive North, I-15 Corridor, California[5]	1	2008	149,817	100.0	%	7,779	51.92
13500 Evening Creek Drive North, I-15 Corridor, California[5]	1	2004	147,533	100.0	%	6,471	43.86
13520 Evening Creek Drive North, I-15 Corridor, California[5]	1	2004	141,368	89.9	%	4,500	36.25
7525 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	103,979	100.0	%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	130,243	100.0	%	3,693	28.35
7545 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	130,354	100.0	%	3,609	27.69
7555 Torrey Santa Fe, 56 Corridor, California[6]	1	2007	101,236	100.0	%	3,175	31.36
2355 Northside Drive, Mission Valley, California[5]	1	1990	50,425	84.5	%	1,208	28.34
2365 Northside Drive, Mission Valley, California[5]	1	1990	91,260	82.4	%	2,189	29.09
2375 Northside Drive, Mission Valley, California[5]	1	1990	48,949	83.0	%	1,135	31.57
2385 Northside Drive, Mission Valley, California[5]	1	2008	88,795	76.3	%	2,135	31.52
2305 Historic Decatur Road, Point Loma, California[16]	1	2009	103,900	95.3	%	3,796	38.32
10020 Pacific Mesa Blvd, Sorrento Mesa, California[3]	1	2007	318,000	100.0	%	7,683	24.16
4910 Directors Place, Sorrento Mesa, California[6]	1	2009	50,925	44.2	%	855	38.01
4921 Directors Place, Sorrento Mesa, California[5]	1	2008	56,136	100.0	%	1,347	24.00

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11[1]	Annualized Base Rent($000's)[2]	Annualized Rent Per Square Foot[2]
4939 Directors Place, Sorrento Mesa, California[6]	1	2002	60,662	100.0 %	2,276	37.52
4955 Directors Place, Sorrento Mesa, California[6]	1	2008	76,246	100.0 %	2,881	37.79
5005 Wateridge Vista Drive, Sorrento Mesa, California	1	1999	61,460	— %	—	—
10770 Wateridge Circle, Sorrento Mesa, California[18]	1	1989	174,310	97.5 %	3,073	18.08
6055 Lusk Avenue, Sorrento Mesa, California[3]	1	1997	93,000	100.0 %	1,554	16.71
6260 Sequence Drive, Sorrento Mesa, California[6]	1	1997	130,536	100.0 %	1,717	13.15
6290 Sequence Drive, Sorrento Mesa, California[6]	1	1997	90,000	100.0 %	2,098	23.31
6310 Sequence Drive, Sorrento Mesa, California[6]	1	2000	62,415	100.0 %	1,133	18.15
6340 Sequence Drive, Sorrento Mesa, California[6]	1	1998	66,400	100.0 %	1,341	20.20
6350 Sequence Drive, Sorrento Mesa, California	1	1998	132,600	100.0 %	2,507	18.91
10390 Pacific Center Court, Sorrento Mesa, California[6]	1	2002	68,400	100.0 %	2,771	40.51
10394 Pacific Center Court, Sorrento Mesa, California[6]	1	1995	59,630	100.0 %	1,077	18.06
10398 Pacific Center Court, Sorrento Mesa, California[6]	1	1995	43,645	100.0 %	698	15.99
10421 Pacific Center Court, Sorrento Mesa, California[17]	1	1995/2002	75,899	100.0 %	1,076	14.18
10445 Pacific Center Court, Sorrento Mesa, California[6]	1	1995	48,709	100.0 %	831	17.06
10455 Pacific Center Court, Sorrento Mesa, California	1	1995	90,000	100.0 %	1,112	12.36
5717 Pacific Center Blvd, Sorrento Mesa, California[3]	1	2001/2005	67,995	100.0 %	1,503	22.10
4690 Executive Drive, UTC, California[8]	1	1999	47,212	100.0 %	1,067	22.60
9455 Towne Center Drive, UTC, California	1	1998	45,195	— %	—	—
9785 Towne Center Drive, UTC, California[3]	1	1999	75,534	100.0 %	1,374	18.19
9791 Towne Center Drive, UTC, California[3]	1	1999	50,466	100.0 %	916	18.15
Subtotal/Weighted Average— San Diego County	59		5,181,720	92.5 %	138,953	29.15
Orange County						
4175 E. La Palma Avenue, Anaheim, California	1	1985	43,263	75.8 %	596	18.17

8101 Kaiser Blvd. Anaheim, California	1	1988	59,790	96.5 %	1,135	19.67
2211 Michelson, Irvine, California[19]	1	2007	271,556	92.3 %	9,416	38.07
111 Pacifica, Irvine Spectrum, California	1	1991	67,496	97.1 %	1,366	22.29
999 Town & Country, Orange, California	1	1977/2009	98,551	100.0 %	2,919	29.62
Subtotal/Weighted Average— Orange County	5		540,656	93.4 %	15,432	31.00
San Francisco						
303 Second Street, San Francisco, California	1	1988	734,035	96.9 %	26,114	36.84
100 First Street, San Francisco, California	1	1988	466,490	94.3 %	17,915	41.85
250 Brannan Street, San Francisco, California[5]	1	1907/2001	92,948	100.0 %	3,983	42.85
201 Third Street, San Francisco, California	1	1983	332,076	88.5 %	9,073	31.73
301 Brannan Street, San Francisco, California[5]	1	1909/1989	74,430	66.1 %	1,850	37.60
4040 Civic Center, San Rafael, California	1	1979/1994	126,787	93.1 %	2,580	22.17
Subtotal/Weighted Average— San Francisco	6		1,826,766	93.3 %	61,515	36.59
Greater Seattle						

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/11[1]	Annualized Base Rent($000's)[2]	Annualized Rent Per Square Foot[2]
601 108th Avenue NE, Bellevue, Washington[3]	1	2000	488,470	88.1 %	11,634	27.64
10220 NE Points Drive, Kirkland, Washington[3]	1	1987	49,851	89.5 %	1,148	25.98
10230 NE Points Drive, Kirkland, Washington[3]	1	1988	98,982	83.4 %	2,220	27.38
10210 NE Points Drive, Kirkland, Washington[3]	1	1990	84,641	87.5 %	1,719	23.20
3933 Lake Washington Blvd NE, Kirkland, Washington[3]	1	1993	46,450	100.0 %	1,209	26.03
15050 N.E. 36th Street, Redmond, Washington[3]	1	1998	122,103	100.0 %	3,130	25.63
Subtotal/Weighted Average— Greater Seattle	6		890,497	89.9 %	21,060	26.70
TOTAL/WEIGHTED AVERAGE OFFICE PROPERTIES	104		11,421,112	90.1 %	311,046	30.69
Industrial Properties:						
Orange County						
1000 E. Ball Road,	1	1956	100,000	100.0 %	757	7.57

Anaheim, California							
1230 S. Lewis Road, Anaheim, California	1	1982	57,730	100.0	%	388	6.72
1250 N. Tustin Avenue, Anaheim, California	1	1984	84,185	100.0	%	593	7.04
3125 E. Coronado Street, Anaheim, California	1	1970	144,000	100.0	%	598	4.15
3130/3150 Miraloma, Anaheim, California	1	1970	144,000	100.0	%	838	5.82
3250 E. Carpenter, Anaheim, California	1	1998	41,225	100.0	%	314	7.62
3340 E. La Palma Avenue, Anaheim, California	1	1966	153,320	100.0	%	661	4.31
3355 E. La Palma Avenue, Anaheim, California	1	1999	98,200	100.0	%	923	9.40
4123 E. La Palma Avenue, Anaheim, California(10)	1	1985	70,863	100.0	%	645	9.11
4155 E. La Palma Avenue, Anaheim, California(9)	1	1985	74,618	100.0	%	766	10.28
5115 E. La Palma Avenue, Anaheim, California	1	1967/1998	286,139	100.0	%	2,078	7.26
5325 E. Hunter Avenue, Anaheim, California	1	1983	110,487	100.0	%		