

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2000

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
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)
2250 East Imperial Highway, Suite 1200
El Segundo, California
(Address of principal executive offices)

95-4598246
(I.R.S. Employer
Identification Number)
90245
(Zip Code)

Registrant's telephone number, including area code: (310) 563-5500

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

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ☐

The aggregate market value of the shares of common stock held by non-

affiliates of the registrant was approximately \$721,831,122 based on the closing price on the New York Stock Exchange for such shares on March 26, 2001.

As of March 26, 2001, 26,893,857 shares of common stock, par value \$.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement with respect to its 2001 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 hereof.

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PART I

ITEM 1. BUSINESS

The Company

Kilroy Realty Corporation (the "Company") owns, operates, develops, and acquires Class A suburban office and industrial real estate in key suburban submarkets, primarily in Southern California, that the Company believes have strategic advantages and strong barriers to entry. The Company, which operates, qualifies, and intends to continue to qualify as a self-administered and self-managed real estate investment trust ("REIT") for federal and state income tax purposes, was incorporated in September 1996 and commenced operations upon the completion of its initial public offering in January 1997. The Company is the successor to the real estate business of Kilroy Industries, a California corporation ("KI"), and certain of its affiliated corporations, partnerships and trusts (collectively, the "Kilroy Group").

As of December 31, 2000, the Company's portfolio of stabilized operating properties was comprised of 83 office buildings (the "Office Properties") and 78 industrial buildings (the "Industrial Properties," and together with the Office Properties, the "Properties") which encompassed an aggregate of approximately 6.6 million and 5.8 million rentable square feet, respectively. The Properties include 21 properties that the Company developed and then stabilized during 2000 and 1999 encompassing an aggregate of approximately 809,000 and 1.2 million rentable square feet, respectively. As of December 31, 2000, the Office Properties were approximately 96.2% leased to 302 tenants and the Industrial Properties were 97.8% leased to 220 tenants. All but ten of the Properties are located in Southern California.

The Company's stabilized portfolio excludes projects currently under construction or in pre-development and "lease-up" properties. The Company

defines "lease-up" properties as properties recently developed by the Company that have not yet reached 95% occupancy. The Company had one lease-up property at December 31, 2000, encompassing an aggregate of approximately 197,300 rentable square feet, which stabilized on January 15, 2001. As of December 31, 2000, the Company had 11 office properties under construction or committed for construction which when completed are expected to encompass an aggregate of approximately 964,400 rentable square feet at a total estimated investment of approximately \$232 million. In addition, as of December 31, 2000, the Company owned approximately 67 acres of undeveloped land upon which the Company currently expects to develop an aggregate of approximately 1.3 million rentable square feet of office space within the next three to four years. All of the Company's development projects and undeveloped land parcels are located in Southern California.

The Company owns its interests in all of the Properties through Kilroy Realty, L.P. (the "Operating Partnership") and Kilroy Realty Finance Partnership, L.P., a Delaware limited partnership (the "Finance Partnership"). The Company conducts substantially all of its activities through the Operating Partnership in which, as of December 31, 2000, it owned an approximate 87.6% general partnership interest. The remaining 12.4% limited partnership interest in the Operating Partnership was owned by certain of the Company's executive officers and directors, certain of their affiliates, and other outside investors. As the sole general partner of the Operating Partnership, the Company has control over the management of the Operating Partnership, which owns 137 of the Company's 161 Properties. The remaining properties, other than six buildings which are owned by the Operating Partnership through KR-Carmel Partners and KR-Gateway Partners, (together, the "Development LLCs"), in which the Operating Partnership owned a 50% managing interest at December 31, 2000, are owned by the Finance Partnership. Kilroy Realty Finance, Inc., a wholly-owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1% general partnership interest. The Operating Partnership owns the remaining 99% limited partnership interest of the Finance Partnership. Unless otherwise indicated, all references to the Company include the Operating Partnership, the Finance Partnership, the Development LLCs and all wholly-owned subsidiaries and controlled entities.

As of December 31, 2000 the Operating Partnership owned 100% of the non-voting preferred stock and a 95% economic interest in Kilroy Services, Inc. ("KSI"), an unconsolidated subsidiary of the Company. All of

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the voting interest was held by John B. Kilroy, Sr., the Chairman of the Company's Board of Directors, and John B. Kilroy, Jr., the Company's President and Chief Executive Officer. Prior to December 31, 2000, the operating results of the development services business conducted by KSI were accounted for under the equity method of accounting. On January 1, 2001, KSI was merged into a newly formed entity, Kilroy Services, LLC ("KSLLC"). In connection with the merger, the interests held by Messrs Kilroy were liquidated and KSLLC became a wholly owned subsidiary of the Company. KSLLC will be consolidated for financial reporting purposes beginning January 1, 2001.

Current Year Highlights

The Company continued to successfully attain its primary business objective of maximizing growth in Funds From Operations, as defined by the National Association of Real Estate Investment Trusts, ("NAREIT") through accomplishing the following during the year ended December 31, 2000:

- . Execution of lease agreements on approximately 2.0 million rentable square feet of office and industrial space, including both renewals and turnovers, at average rental rates 23.7% above 1999 average rental rates on a basis consistent with generally accepted accounting principles ("GAAP").
- . Achievement of 96.9% average occupancy for the Company's stabilized portfolio for the year ended December 31, 2000. Occupancy was 97.0% at

December 31, 2000.

- . Completion of nine office buildings encompassing approximately 1.0 million rentable square feet at a total estimated investment of \$203 million. These properties were approximately 98% occupied at December 31, 2000.
- . Continued improvement of the quality of the Company's portfolio through reinvesting approximately \$114 million of capital obtained from the sale of mature, non-strategic assets, into brand new, state-of-the-market assets that the Company is developing in attractive coastal submarkets in Southern California.
- . Acquisition of approximately 20 acres of undeveloped land and the initiation of actions to acquire an office complex containing approximately 366,000 rentable square feet. In January 2001, the Company completed the acquisition of this office complex and began the redevelopment of one of the buildings.
- . Execution of seven new secured and unsecured debt financings that provided the Company with approximately \$239 million of additional future borrowing capacity. The Company's total debt as a percentage of total market capitalization was approximately 41.9% at December 31, 2000.
- . Execution of interest rate swap and interest rate cap agreements that resulted in approximately 82.1% of the Company's total debt being fixed or capped at December 31, 2000.

Business and Growth Strategies

Growth Strategies. The Company believes that a number of factors will enable it to continue to achieve its objectives of long-term sustainable growth in net operating income, defined as operating revenues less property and related expenses (property expenses, real estate taxes and ground leases) before depreciation, and Funds From Operations, as defined by NAREIT, as well as maximization of long-term stockholder value including: (i) the opportunity to lease available space at attractive rental rates because of high demand and frictional vacancy levels in the Southern California submarkets in which most of the properties are located; (ii) the quality and location of the Company's properties; (iii) the Company's existing substantial development pipeline as established over the past several years; (iv) the Company's access to development and leasing opportunities as a result of its extensive experience and significant working relationships with major Southern California corporate tenants, municipalities and landowners given the Company's over 50-year presence in the Southern California market; and (v) the Company's ability to efficiently manage its assets as a low cost provider of commercial real estate due to its core capabilities in all aspects of real estate ownership including property management, leasing, marketing, financing, accounting, legal, construction management and new development. Management believes that the Company is well positioned to capitalize on existing opportunities because of its extensive experience in its submarkets, its seasoned management team and its proven ability to develop, lease, acquire and efficiently manage office and industrial properties.

Operating Strategies. The Company focuses on enhancing growth in net operating income and Funds From Operations from its properties by: (i) maintaining higher than average occupancy rates; (ii) maximizing cash flow from the properties through active leasing, early renewals, increasing contractual base rent to current market levels as leases expire and effective property management; (iii) structuring leases to maximize returns and internal growth and underwriting leases to manage portfolio credit risk; (iv) managing operating expenses through the efficient use of internal management, leasing, marketing, financing, accounting and construction management functions; (v)

maintaining and developing long-term relationships with a diverse tenant group; (vi) managing the buildings in a way that offers the maximum degree of utility and operational efficiency to tenants; (vii) continuing to emphasize capital improvements to enhance the properties' competitive advantages in their respective markets and improve the efficiency of building systems; and (viii) attracting and retaining motivated employees by providing financial and other incentives to meet the Company's operating and financial goals.

Development Strategies. The Company and its predecessors have developed office and industrial properties, including high technology facilities, primarily located in Southern California, for its own portfolio and for third parties, since 1947. Over the past several years, the Company has established a substantial development pipeline in its two target market regions, Los Angeles and San Diego Counties. The Company's, in-process, committed and future development pipeline (including projects held through joint venture arrangements) can support future development of approximately an aggregate of 2.3 million rentable square feet of office space at a total budgeted cost of approximately \$486 million within the next three to four years. The Company's strategy with respect to development is as follows: (i) reinvest capital from strategic dispositions of mature, non-strategic assets into new, state-of-the-market development assets with higher cash flows and rates of return; (ii) maintain a disciplined approach to development by focusing on pre-leasing, phasing and cost control; (iii) continue to expand the Company's build-to-suit program where it develops properties committed to be leased by specific tenants since such strategy provides for lower risk development; (iv) pursue redevelopment opportunities in land constrained markets since such efforts achieve similar returns to new development with reduced entitlement risk and shorter construction periods; and (v) to be the premier low-cost provider of two four-story campus style office buildings in Southern California.

During 2000 and 1999, the Company completed an aggregate of 19 buildings encompassing an aggregate of approximately 1.9 million rentable square feet at an aggregate cost of approximately \$305 million. As of December 31, 2000, the Company had 11 office buildings under construction or committed for construction which when completed are expected to encompass an aggregate of approximately 964,400 rentable square feet at a total estimated investment of approximately \$232 million. The Company may engage in the additional development of office and/or industrial properties, primarily in Southern California, when market conditions support a favorable risk-adjusted return on such development. The Company's activities with third-party owners in Southern California are expected to give the Company further access to development opportunities. There can be no assurance, however, that the Company will be able to successfully develop any of the properties or that it will have access to additional development opportunities.

Financing Strategies. The Company's financing policies and objectives are determined by the Company's Board of Directors. The Company's goal is to limit its dependence on leverage and maintain a conservative ratio of debt to total market capitalization (total debt of the Company as a percentage of the market value of issued and outstanding shares of common stock, including interests exchangeable therefor, plus total debt). This ratio may be increased or decreased without the consent of the Company's stockholders and the Company's organizational documents do not limit the amount of indebtedness that the Company may incur. At December 31, 2000, total debt constituted approximately 41.9% of the total market capitalization of the Company. The Company's funding strategies are as follows: (i) maintain financial flexibility and the ability to access a variety of capital sources; (ii) maintain a staggered debt maturity schedule to limit risk exposure to any particular point in the capital and credit market cycles; (iii) complete financing deals in advance of the need for capital; and (iv) manage interest rate exposure.

The Company intends to utilize one or more sources of capital for future growth, which may include undistributed cash flow, borrowings under the Company's unsecured credit facility (the "Credit Facility"), the issuance of debt or equity securities and other bank and/or institutional borrowings.

There can be no assurance, however, that the Company will be able to obtain capital on terms favorable to the Company.

Significant Tenants

As of March 22, 2001, the Company's ten largest office tenants represented approximately 28.9% of total annual base rental revenues, defined as annualized monthly contractual rents from existing tenants at December 31, 2000 determined on a straight-line basis over the term of the related lease in accordance with GAAP, and its ten largest industrial tenants represented approximately 9.3% of total annual base rental revenues. Of this amount, its largest tenant, The Boeing Company, currently leases an aggregate of approximately 776,900 rentable square feet of office space under twelve separate leases, representing approximately 9.2% of the Company's total annual base rental revenues at December 31, 2000. The base periods for 14.9% of The Boeing Company leases expire over the next 18 months. The base periods for the remaining leases for The Boeing Company expire during the period from January 2004 through August 2005.

The Company's five largest office tenants, based on annualized base rental revenues, include: The Boeing Company; Peregrine Systems, Inc.; Epson America, Inc.; Epicor Software Corporation; and Intuit, Inc. The Company's five largest industrial tenants, based on annualized base rental revenues, include: Celestica California, Inc.; Qwest Communications Corporation; Mattel, Inc.; Abovenet Communications, Inc.; and OmniPak (d.b.a. Raven Industries); (See Item 2: Properties--Tenant Information for further discussion on the Company's tenant base.)

Employees

As of March 22, 2001, the Company, through the Operating Partnership and KSI employed 143 persons. The Company, the Operating Partnership and KSI believe that relations with their employees are good.

Government Regulations

Many laws and governmental regulations are applicable to the Company's properties and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently.

Costs of Compliance with the Americans with Disabilities Act. Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations must meet federal requirements related to access and use by disabled persons. Although management believes that its properties substantially comply with present requirements of the ADA, none of its properties have been audited and investigations of all of its properties have not been conducted to determine compliance. The Company may incur additional costs of complying with the ADA. Additional federal, state and local laws also may require modifications to the Company's properties, or restrict its ability to renovate the properties. Management cannot predict the ultimate amount of the cost of compliance with the ADA or other legislation. If the Company incurs substantial costs to comply with the ADA and any other legislation, its financial condition, results of operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to stockholders could be adversely affected.

Environmental Matters

Costs related to government regulation and private litigation. Environmental laws and regulations hold the Company liable for the costs of removal or remediation of certain hazardous or toxic substances released on its properties. These laws could impose liability without regard to whether the Company is 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 of hazardous substances on a property could result in personal injury or similar claims by private plaintiffs. For instance, if asbestos-containing materials and other

hazardous or toxic substances were found on the Company's properties, third parties might seek recovery from the Company for personal injuries associated with the existence of those substances. As of December 31, 2000, 30 of the Company's properties contained asbestos-containing materials. Various laws also impose liability on persons who arrange for the disposal or treatment of hazardous or toxic substances for the cost of removal or remediation of hazardous substances at the disposal or treatment facility. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the disposal facility. As the owner and operator of its properties, the Company may be considered to have arranged for the disposal or treatment of hazardous or toxic substances.

Use of hazardous materials by some of our tenants. Some of the Company's tenants routinely handle hazardous substances and wastes on its properties as part of their routine operations. Environmental laws and regulations subject these tenants, and potentially the Company, to liability resulting from such activities. The Company requires its tenants, in their leases, to comply with these environmental laws and regulations and to indemnify the Company for any related liabilities. As of December 31, 2000, less than 5% of the Company's tenants routinely handled hazardous substances and/or wastes on the Company's properties as part of their routine operations. These tenants were primarily involved in the light industrial and warehouse business and more specifically the light electronics assembly business. Management does not believe that these activities by its tenants will have any material adverse effect on the Company's operations. Furthermore, management is unaware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of the Company's properties.

Existing conditions at some of our properties. Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of the Company's properties. The Company generally obtains 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 tenants. Site assessments generally include a historical review, a public records review, an investigation of the surveyed site and surrounding properties, and the issuance of a written report. These assessments do not generally include soil samplings or subsurface investigations. The Company's site assessments revealed that 30 of its properties contain asbestos-containing materials and that historical operations at or near some of its properties, including the operation of underground storage tanks, may have caused soil or groundwater contamination. Prior owners of the affected properties conducted clean-up of contamination in the soils on the properties and management does not believe that further clean-up of the soils is required. None of the Company's site assessments revealed any other environmental liability that management believes would have a material adverse effect on the Company's business, assets, or results of operations. Management is 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 current environmental conditions at the Company's properties may be affected in the future by tenants, third parties, or the condition of land or operations near its properties (such as the presence of underground storage tanks). The Company cannot give assurance that the costs of future environmental compliance will not affect its ability to make distributions to stockholders.

Environmental insurance coverage limits. The Company carries what management believes to be sufficient environmental insurance to cover any potential liability for soil and groundwater contamination at the affected sites identified in the environmental site assessments. However, management cannot provide any assurance that the Company's insurance coverage will be sufficient or that its liability, if any, will not have a material adverse

effect on the Company's financial condition, results of its operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to stockholders.

Other federal, state and local regulations. The Company's properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If the Company failed to comply with these various requirements, it might incur governmental fines or private damage awards.

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Management believes that the Company's properties are currently in material compliance with all of these regulatory requirements. However, management does not know whether existing requirements will change or whether future requirements will require the Company to make significant unanticipated expenditures that will adversely affect its ability to make distributions to its stockholders. The City of Los Angeles adopted regulations relating to the repair of welded steel moment frames located in certain areas damaged as a result of the January 17, 1994 Northridge earthquake in Southern California. Currently, these regulations apply to only one of the Company's properties representing approximately 78,000 rentable square feet. Management believes that this property complies with these regulations. Management does not know, however, whether other regulatory agencies will adopt similar regulations or whether the Company will acquire additional properties which may be subject to these or similar regulations. Management believes, based in part on engineering reports which are generally obtained at the time the properties are acquired, that all of its properties comply in all material respects with the current regulations. However, if the Company were required to make significant expenditures under applicable regulations, its financial condition, results of operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to stockholders could be adversely affected.

Business Risks

This document contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended (the "1933 Act"), and Section 21E of the Exchange Act of 1934, as amended (the "1934 Act")) pertaining to, among other things, the Company's future results of operations, cash available for distribution, property acquisitions, lease renewals, increases in base rent, development activities, sources of growth, planned development and expansion of owned or leased property, capital requirements, compliance with contractual obligations and federal, state and local regulations, conditions of properties, environmental findings and general business, industry and economic conditions applicable to the Company. These statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Factors that can cause actual results to differ materially include, but are not limited to, those discussed below. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The following factors should be considered in addition to the other information contained herein in evaluating the Company and its business:

Most of the Company's properties depend upon the Southern California economy. As of December 31, 2000, 89.7% of the aggregate square footage of the Company's stabilized portfolio and 92.2% of the Company's annualized base rent, excluding expense reimbursements and rental abatements, came from properties located in Southern California. The Company's ability to make expected distributions to stockholders depends on its ability to generate Funds From Operations in excess of scheduled principal payments on debt, payments on the preferred limited partnership units issued by the Operating Partnership, and capital expenditure requirements. Events and conditions applicable to owners and operators of real property that are beyond the Company's control may decrease funds available for distribution and the value of the Company's properties. These events include: local oversupply or

reduction in demand of office, industrial or other commercial space; inability to collect rent from tenants; vacancies or inability to rent spaces on favorable terms; inability to finance property development and acquisitions on favorable terms; 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. The geographical concentration of the Company's properties may expose it to greater economic risks than if it owned properties in several geographic regions. Any adverse economic or real estate developments in the Southern California region could adversely impact the Company's financial condition, results from operations and cash flows.

Increasing utility costs and power outages in California may have an adverse effect on the Company's operating results. Uncertainties and problems associated with the deregulation of the electric industry in California have resulted in higher utility costs and intermittent service interruptions in some areas of the state.

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However, approximately 75% (based on net rentable square footage) of the Company's current leases require tenants to pay utility costs directly; therefore, eliminating the Company's exposure. The remaining 25% of the Company's leases provide that the tenants reimburse the Company for utility costs in excess of a base year amount.

Although the Company has not experienced any material trends or effects arising from this regional issue, it is possible that some of its tenants may not fulfill their lease obligations or reimburse the Company for their share of any significant utility increases. In addition it is possible that the Company may not be able to retain or replace its tenants if energy problems in California continue or worsen. As a result the Company's financial condition, results of operations, and cash flows may be adversely affected.

The Company's debt level reduces cash available for distribution and may expose the Company to the risk of default under its debt obligations. Payments of principal and interest on borrowings may leave the Company with insufficient cash resources to operate its properties or to pay distributions necessary to maintain its REIT qualification. The Company's level of debt and the limitations imposed by its debt agreements may have important consequences on the Company, including the following: cash flow may be insufficient to meet required principal and interest payments; the Company may be unable to refinance its indebtedness at maturity or the refinancing terms may be less favorable than the terms of its original indebtedness; the Company may be forced to dispose of one or more of its properties, possibly on disadvantageous terms; the Company may default on its obligations and the lenders or mortgagees may foreclose on the properties that secure the loans and receive an assignment of rents and leases; the Company's default under one mortgage loan with cross default provisions could result in a default on other indebtedness; and the Company may be unable to complete its development plans or pursue other development opportunities. If one or more of these events were to occur, the Company's financial position, results of operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to stockholders could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, a circumstance which could hinder the Company's ability to meet the strict REIT distribution requirements imposed by the Internal Revenue Code of 1986, as amended. As of December 31, 2000, the Company had approximately \$724 million aggregate principal amount of indebtedness, \$5.7 million of which is due prior to December 31, 2001. The Company's total debt represented 41.9% of its total market capitalization at December 31, 2000.

The Company faces significant competition which may decrease the occupancy and rental rates of its properties. The Company competes with several developers, owners and operators of office, industrial and other commercial real estate, many of which have higher vacancy rates. Substantially all of the

Company's properties are located in areas with similar properties as its competitors. For instance, the occupancy rate for the Company's Long Beach Airport office property portfolio at December 31, 2000 was 94.1%, in comparison to 90.9%, for the Long Beach Airport office submarket in total. The Company believes that its lower vacancy rates means that, on average, its competitors have more space currently available for lease than the Company. As a result, the Company's competitors have an incentive to decrease rental rates until their available space is leased. If the Company's competitors offer space at rental rates below current market rates, the Company may be pressured to reduce its rental rates below those currently charged in order to retain tenants when its tenant leases expire. As a result, the Company's financial condition, results of operations and cash flows may be adversely affected.

Potential losses may not be covered by insurance. The Company carries comprehensive liability, fire, extended coverage and rental loss insurance covering all of its 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. The Company does not carry insurance for generally uninsurable losses such as loss from riots or acts of God. Some of the Company's policies, like those covering losses due to floods, are subject to limitations involving large deductibles or co-payments and policy limits. In addition, the Company carries earthquake insurance on properties located in areas known to be subject to earthquakes in an amount and with

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deductions which management believes are commercially reasonable. As of December 31, 2000, 80 of the Office Properties aggregating 6.1 million square feet (representing approximately 49.0% of the Company's stabilized portfolio based on aggregate square footage and approximately 70.4% based on annualized base rent) were located in areas known to be subject to earthquakes. As of December 31, 2000, 74 of the Company's Industrial Properties aggregating 5.4 million square feet (representing approximately 43.4% of the Company's stabilized portfolio based on aggregate square footage and approximately 23.5% based on annualized base rent) were located in areas known to be subject to earthquakes. While the Company presently carries earthquake insurance on these properties, the amount of its earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the Company may discontinue earthquake insurance on some or all of its 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 the Company experiences a loss which is uninsured or which exceeds policy limits, it could lose the capital invested in the damaged properties as well as the anticipated future revenue from those properties. In addition, if the damaged properties are subject to recourse indebtedness, the Company would continue to be liable for the indebtedness, even if the properties were unrepairable.

The Company may be unable to successfully complete and operate developed properties. There are several risks associated with property development. The Company may be unable to obtain construction financing on favorable terms or may be unable to obtain permanent financing at all or on advantageous terms if development projects are financed through construction loans. In addition, the Company may not complete development projects on schedule or within budgeted amounts; the Company may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy, and other required governmental permits and authorizations; the Company may expend funds on and devote management's time to projects which the Company may not complete. Also, the Company may lease the developed properties at below expected rental rates. For example, during the fourth quarter of 1998, the Company withdrew its participation from a master planned commercial development prior to the commencement of construction. Also, during the third quarter of 2000, the Company delayed commencement of construction on one of its projects by four months. The project was an assemblage in an urban infill location that required the relocation of some existing businesses. The Company encountered delays when one of the existing tenants experienced difficulty in relocating as a result of the high leasing demand and tight supply constraints in that sub-market.

If one or more of these events were to occur in connection with projects currently under development, the Company's financial position, results of operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to stockholders could be adversely affected. While the Company primarily develops office and industrial properties in Southern California markets, it may in the future develop properties for retail or other use and expand its business to other geographic regions where it expects the development of property to result in favorable risk-adjusted returns on its investment. Presently, the Company does not possess the same level of familiarity with development of other property types or outside markets which could adversely affect its ability to develop properties or to achieve expected performance.

The Company may be unable to complete acquisitions and successfully operate acquired properties. The Company may acquire office and industrial properties when strategic opportunities exist. The Company's ability to acquire properties on favorable terms and successfully operate them is subject to the following risks: the potential inability 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; even if the Company enters into agreements for the acquisition of office and industrial properties, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to management's satisfaction; the Company may be unable to finance the acquisition on favorable terms; the Company may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties; and the Company may lease the acquired properties at below expected rental rates. If the Company cannot finance property acquisitions on favorable terms or operate acquired properties to meet financial expectations, its financial position, results of operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to stockholders could be adversely affected.

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The Company could default on leases for land on which some of its properties are located. The Company owns ten office buildings located on various parcels, each of which the Company leases on a long-term basis. If the Company defaults under the terms of any particular lease, it may lose the property subject to the lease. The Company may not be able to renegotiate a new lease on favorable terms, if at all, upon expiration of the lease and all of its options. The loss of these properties or an increase of rental expense would have an adverse effect on the Company's financial position, results of operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to stockholders. The Company has approximately 1.3 million aggregate rentable square feet of rental space located on these leased parcels at December 31, 2000. The leases for the land under the SeaTac Office Center, including renewal options, expire in 2062. The lease for the land under 9455 Towne Center in San Diego expires in October 2043. The primary lease for the land under 12312 West Olympic Boulevard in Santa Monica expires in January 2065 with a smaller secondary lease expiring in September 2011. The leases for the land under the Kilroy Airport Center, Long Beach expire in 2035. Subsequent to December 31, 2000, the Company acquired the fee interest in the land at 9455 Towne Center Drive in San Diego, California and the ground lease was terminated.

The Company depends on significant tenants. As of March 22, 2001, the Company's ten largest office tenants represented approximately 28.9% of total annualized base rent at December 31, 2000 and its ten largest industrial tenants represented approximately 9.3% of total annualized base rent at December 31, 2000. Of this amount, its largest tenant, The Boeing Company, currently leases approximately 776,900 rentable square feet of office space, representing approximately 9.2% of the Company's total annual base rental revenues. See further discussion on the composition of the Company's tenants by industry at "Item 2--Properties." The Company's revenue and cash available for distribution to stockholders would be disproportionately and materially

adversely affected if any of its significant tenants were to become bankrupt or insolvent, or suffer a downturn in their business, or fail to renew their leases at all or on terms less favorable to the Company than their current terms.

Downturns in tenants' businesses may reduce the Company's cash flow. As of December 31, 2000, the Company derived approximately 96.6% of its revenues from rental income and tenant reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments. In the event of default by a tenant, the Company may experience delays in enforcing its rights as landlord and may incur substantial costs in protecting its investment. The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by the Company's properties. If any tenant becomes a debtor in a case under the Bankruptcy Code, the Company cannot evict the tenant solely because of the bankruptcy. On the other hand, the bankruptcy court might authorize the tenant to reject and terminate its lease. The Company's claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. Even so, the Company's claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect the Company's cash flow and its ability to make distributions to stockholders. Although the Company has not experienced material losses from tenant bankruptcies, the Company may experience losses as a result of tenants filing for bankruptcy protection in the future.

Subsequent to December 31, 2000, one of the Company's tenants, eToys, Inc. ("eToys"), defaulted under its lease with the Company covering 151,000 rentable square feet of office space. In connection with the execution of the lease, eToys had provided the Company with \$15.0 million in letters of credit, which were established pursuant to the lease to provide credit support to eToys lease obligations. In January 2001, the Company exercised its rights under the lease and the letters of credit and drew down \$15.0 million. Subsequent to the Company drawing the \$15.0 million, eToys filed for protection under Chapter 11 of the federal bankruptcy laws. As discussed in the preceding paragraph, the Company may experience losses in connection with the bankruptcy of eToys, including losses resulting from costs, delays and rental rate decreases the Company may experience in its ability to release the space, and any losses resulting from the bankruptcy could be material to the Company's consolidated results from operations.

The Company may be unable to renew leases or re-let space as leases expire. As of December 31, 2000, leases representing approximately 14.2% and 6.1% of the square footage of the Company's properties will expire

in 2001 and 2002, respectively. Above market rental rates on some of the Company's properties may force it to renew or re-lease some expiring leases at lower rates. While the Company believes that the average rental rates for most of its properties are below currently quoted market rates in each of its submarkets, the Company cannot give any assurance that leases will be renewed or that its properties will be re-leased at rental rates equal to or above the current rental rates. If the rental rates for the Company's properties decrease, existing tenants do not renew their leases, or the Company does not re-lease a significant portion of its available space, its financial position, results of operations, cash flow, quoted per share trading price of its common stock and ability to pay distributions to its stockholders would be adversely affected.

Real estate assets are illiquid and the Company may not be able to sell its properties when it desires. The Company's investments in its properties are relatively illiquid which limits the Company's ability to sell its properties quickly in response to changes in economic or other conditions. In addition, the Internal Revenue Code of 1986, as amended, generally imposes a 100% prohibited transaction tax on profits the Company derives from sales of properties held primarily for sale to customers in the ordinary course of business, which could effect the Company's ability to sell properties. These

restrictions on the Company' ability to sell its properties could have an adverse effect on its financial position, results from operations, cash flow, quoted per share trading price of its common stock and ability to repay indebtedness and to pay distributions to stockholders.

Common limited partners of the Operating Partnership have limited approval rights which may prevent the Company from completing a change of control transaction which may be in the best interests of stockholders. The Company may not withdraw from the Operating Partnership or transfer its general partnership interest or admit another general partner without the approval of a majority of the common limited partnership unitholders except in the case of a "termination transaction" which requires the approval of 60% of the common limited partnership unitholders, which include the Company because of its percentage holding of the common limited partnership units it holds in its capacity as general partner. The right of common limited partners to vote on these transactions could limit the Company's ability to complete a change of control transaction that might otherwise be in the best interest of its stockholders.

Limited partners of the Operating Partnership must approve the dissolution of the Operating Partnership and the disposition of properties they contributed. For as long as limited partners own at least 5% of all of the common units of the Operating Partnership, the Company must obtain the approval of limited partners holding a majority of the common units before it may dissolve the partnership or sell the property located at 2260 East Imperial Highway at Kilroy Airport Center in El Segundo prior to January 31, 2004. As of December 31, 2000, limited partners owned approximately 12.4% of the outstanding interests in the Operating Partnership. In addition, the Company may not sell 11 of its properties prior to October 31, 2002 without the consent of the limited partners that contributed the properties to the Operating Partnership, except in connection with the sale or transfer of all or substantially all of its assets or those of the Operating Partnership or in connection with a transaction which does not cause the limited partners that contributed the property to recognize taxable income. In addition, the Operating Partnership 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 its other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent the Company from completing a transaction which may be in the best interest of its stockholders.

The Company's Chairman of the Board of Directors and its President and Chief Executive Officer each have potential conflicts of interest with the Company.

The Company's Chairman of the Board of Directors and its President and Chief Executive Officer each have substantial influence over the Company's affairs. John B. Kilroy, Sr. and John B. Kilroy, Jr., the Company's Chairman of the Board of Directors and President and Chief Executive Officer, respectively, together hold two of the six seats on the Company's Board of Directors. They also beneficially own common limited partnership units exchangeable for an aggregate of 1,795,572 shares of the Company's common stock and currently vested options to purchase an aggregate of 433,334 shares of common stock, representing a total of approximately 8.4%

of the total outstanding shares of common stock as of December 31, 2000. Pursuant to the Company's charter no other stockholder may own, actually or constructively, more than 7.0% of the Company's common stock. 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 affiliated entities. Consequently, Messrs. Kilroy have substantial influence on the Company and could exercise their influence in a manner that is not in the best interest of the Company's stockholders. Also, they may, in the future, have a substantial influence on the outcome of any matters submitted to the Company's stockholders for approval.

There are limits on the ownership of the Company's capital stock which limit the opportunities for a change of control at a premium to existing stockholders. Provisions of the Maryland General Corporation Law, the Company's charter, the Company's bylaws, and the Operating Partnership's partnership agreement may delay, defer, or prevent a change in control over the Company or the removal of existing management. Any of these actions might prevent the stockholders from receiving a premium for their shares of stock over the then prevailing market prices.

The Internal Revenue Code sets forth stringent ownership limits on the Company 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; subject to exceptions, the Company's common stock shares 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 Company, or any entity which owns 10% or more of its capital stock, actually or constructively owns 10% or more of one of the Company's tenants, or a tenant of any partnership in which the Company is a partner, then any rents that the Company receives from that tenant in question will not be qualifying income for purposes of the Internal Revenue Code's REIT gross income tests regardless of whether the Company receives the rents directly or through a partnership.

The Company's charter establishes clear ownership limits to protect its REIT status. No single stockholder may own, either actually or constructively, more than 7.0% of the Company's common stock outstanding. Similarly, no single holder of the Company's Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock may actually or constructively own any class or series of its preferred stock, so that their total capital stock ownership would exceed 7.0% by value of the Company's total capital stock, and no single holder of Series B Preferred Stock, if issued, may actually or constructively own more than 7.0% of the Company's Series B 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 the Company's best interests. 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 affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 21% of the outstanding common stock.

If anyone acquires shares in excess of any ownership limits, the transfer to the transferee will be void with respect to these 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 these excess shares.

The Company's charter contains provisions that may delay, defer, or prevent a change of control transaction.

The Company's Board of Directors is divided into classes that serve staggered terms. The Company's Board of Directors is divided into three classes with staggered terms. The staggered terms for directors may reduce the possibility of a tender offer or an attempt to complete a change of control transaction even if a tender offer or a change in control was in the Company's stockholders' interest.

The Company could issue preferred stock without stockholder approval. The Company's charter authorizes its Board of Directors to issue up to 30,000,000 shares of 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 the Company's stockholders' interest. The Operating Partnership has issued 1,500,000 Series A Cumulative Redeemable Preferred units which in the future may be exchanged one-for-one into shares of 8.075% Series A Cumulative Redeemable Preferred stock, 700,000 Series C Cumulative Redeemable Preferred units which in the future may be exchanged one for one into shares of 9.375% Series C Cumulative Redeemable Preferred stock, and 900,000 Series D Cumulative Redeemable Preferred units which in the future may be exchanged one for one into shares of 9.250% Series D Cumulative Redeemable Preferred stock. In addition, the Company has designated and authorized the issuance of up to 400,000 shares of Series B Junior Participating Preferred stock. However, no shares of preferred stock of any series are currently issued or outstanding.

The Company has a stockholders' rights plan. In October 1998, the Company's Board of Directors adopted a stockholders' rights plan and declared a distribution of one preferred share purchase right for each outstanding share of common stock. The rights have anti-takeover effects and would cause substantial dilution to a person or group that attempts to acquire the Company on terms that the Company's Board of Directors does not approve. The Company may redeem the shares for \$.01 per right, prior to the time that a person or group has acquired beneficial ownership of 15% or more of its common stock. Therefore, the rights should not interfere with any merger or business combination approved by the Company's Board of Directors.

The staggered terms for directors, the future issuance of additional common or preferred stock and the Company's stockholders rights plan may: delay or prevent a change of control, even if a change of control might be beneficial to the Company's stockholders; deter tender offers that may be beneficial to the Company's stockholders; or limit stockholders' opportunity to receive a potential premium for their shares if an investor attempted to gain shares beyond the Company's ownership limits or otherwise to effect a change of control.

Loss of the Company's REIT status would have significant adverse consequences to it and the value of the Company's stock. The Company currently operates and has operated since 1997 in a manner that is intended to allow it to qualify as a REIT for federal income tax purposes under the Internal Revenue Code. If the Company were to lose its REIT status, it would face serious tax consequences that would substantially reduce the funds available for distribution to stockholders for each of the years involved because: the Company would not be allowed a deduction for distributions to stockholders in computing its 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 subject to tax as a REIT for four taxable years following the year during which it was disqualified. In addition, if the Company fails to qualify as a REIT, it will not be required to make distributions to stockholders and all distributions to stockholders will be subject to tax as ordinary income to the extent of the Company's 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 its ability to expand its business and raise capital, and would adversely affect the value of the Company's common stock.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue 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 Internal Revenue Code is greater in the case of a REIT that holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within the Company's control may affect its ability to qualify as a REIT. For example, in order 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 95% of its net taxable income (90% beginning January 1, 2001), excluding capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect the

Company's investors or the Company's ability to qualify as a REIT for tax purposes. Although management believes that the Company is organized and operates in a manner so as to qualify as a REIT, no assurance can be given that the Company has been or will continue to be organized or be able to operate in a manner so as to qualify or remain qualified as a REIT for tax purposes.

To maintain its REIT status, the Company 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 its stockholders at least 95% (90% beginning January 1, 2001) of its net taxable income each year, excluding capital gains, and the Company is subject to regular corporate income taxes to the extent that it distributes less than 100% of its net taxable income each year. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid in any calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years. In order to maintain its REIT status, the Company may need to borrow funds on a short term basis to 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 non-deductible capital expenditures, the creation of reserves or required debt or amortization payments.

The Company's growth depends on external sources of capital which are outside of the Company's control. The Company is required under the Internal Revenue Code to distribute at least 95% of its taxable income (90% beginning January 1, 2001), determined without regard to the dividends-paid deduction and excluding any net capital gain. Because of this distribution requirement, it may not be able to fund future capital needs, including any necessary development financing, from operating cash flow. Consequently, management relies on third-party sources of capital to fund the Company's capital needs. The Company may not be able to obtain the financing on favorable terms or at all. Any additional debt the Company incurs will increase its leverage. Access to third-party sources of capital depends, in part, on: general market conditions; the market's perception of the Company's growth potential; the Company's current and expected future earnings; the Company's cash distributions; and the market price per share of the Company's common stock. If the Company cannot obtain capital from third-party sources, it may not be able to acquire properties when strategic opportunities exist or make the cash distributions to stockholders necessary to maintain its qualification as a REIT.

The Company's Board of Directors may change investment and financing policies without stockholder approval and become more highly leveraged which may increase the Company's risk of default under its debt obligations.

The Company is not limited in its ability to incur debt. The Company's Board of Directors adopted a policy of limiting indebtedness to approximately 50% of the Company's total market capitalization. Total market capitalization is the market value of the Company's capital stock, including interests and units exchangeable for shares of capital stock, plus total debt. However, the Company's organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that it may incur. The Company's Board of Directors may alter or eliminate management's current policy on borrowing at any time without stockholder approval. If this policy changed, the Company could become more highly leveraged which would result in an increase in its debt service and which could adversely affect cash flow and the ability to make expected distributions to stockholders. Higher leverage also increases

the risk of default on the Company's obligations.

The Company may issue additional shares of capital stock without stockholder approval that may dilute shareholder investment. The Company may issue shares of its common stock, preferred stock or other equity or debt securities without stockholder approval. Similarly, the Company may cause the Operating Partnership to offer its common or preferred units for contributions of cash or property without approval by the limited partners of the Operating Partnership or the Company's stockholders. Existing stockholders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a stockholder's investment.

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The Company may invest in securities related to real estate which could adversely affect its ability to make distributions to stockholders. The Company may purchase securities issued by entities which own real estate and may, in the future, also invest in mortgages. In general, investments in mortgages include 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 the Company's cost for the funds used to acquire these mortgages. Owning these securities may not entitle the Company to control the ownership, operation and management of the underlying real estate. In addition, the Company may have no control over the distributions with respect to these securities, which could adversely affect its ability to make distributions to stockholders.

Sales of a substantial number of shares of common stock, or the perception that this could occur, could result in decreasing the market price per share for the Company's common stock. 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 its common stock.

As of December 31, 2000, 26,475,470 shares of the Company's common stock were issued and outstanding and the Company had reserved for future issuance the following shares of common stock: 3,748,545 shares issuable upon the exchange, at the Company's option, of common units issued in connection with the formation of the Operating Partnership and in connection with property acquisitions; 2,704,930 shares issuable under the Company's 1997 Stock Option and Incentive Plan; and 1,000,000 shares issuable under the Company's Dividend Reinvestment and Direct Stock Purchase Plan. Of the 26,475,470 shares of common stock presently outstanding, all but 195,000 shares may be freely traded in the public market by persons other than the Company's affiliates. In addition, the Company has filed or has agreed to file registration statements covering all of the shares of common stock reserved for future issuance. Consequently, if and when the shares are issued, they may be freely traded in the public markets.

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ITEM 2. PROPERTIES

General

As of December 31, 2000, the Company's portfolio of stabilized operating properties was comprised of 83 Office Properties and 78 Industrial Properties which encompassed an aggregate of approximately 6.6 million and 5.8 million rentable square feet, respectively. The Properties include 21 properties that the Company developed and then stabilized during 2000 and 1999 encompassing an aggregate of approximately 809,000 and 1.2 million rentable square feet, respectively. As of December 31, 2000, the Office Properties were approximately 96.2% leased to 302 tenants and the Industrial Properties were 97.8% leased to 220 tenants. All but ten of the Properties are located in

Southern California.

The Company's stabilized portfolio excludes projects currently under construction or in pre-development and "lease-up" properties. The Company defines "lease-up" properties as properties recently developed by the Company that have not yet reached 95% occupancy. The Company had one lease-up property at December 31, 2000, encompassing an aggregate of 197,300 rentable square feet, which stabilized on January 15, 2001. As of December 31, 2000, the Company had 11 office properties under construction or committed for construction which when completed are expected to encompass an aggregate of approximately 964,400 rentable square feet at a total estimated investment of approximately \$232 million. All of the Company's development projects are located in Southern California.

In general, the Office Properties are leased to tenants on a full service 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 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. Under a triple net lease, tenants pay their proportionate share of real estate taxes, operating costs and utility costs.

The Company believes that all of its properties are well maintained and, based on engineering reports obtained within the last five years, do not require significant capital improvements. As of December 31, 2000, the Company managed all of its 83 Office Properties and 76 of its 78 Industrial Properties through internal property managers.

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The Office and Industrial Properties

The following table sets forth certain information relating to each of the Office and Industrial Properties owned as of December 31, 2000. The Company (through the Operating Partnership and the Finance Partnership) owns a 100% interest in all of the Office and Industrial Properties, except for the six office buildings located at 3579 Valley Center Drive, 5005/5010 Wateridge Vista Drive and 4955 Directors Place in which the Company owns a 50% interest through the Development LLCs, and the six office buildings located at Kilroy Airport Center, Long Beach, three office buildings located at the SeaTac Office Center, and one office building located at 9455 Towne Center Drive in San Diego, California, each of which are held subject to leases for the land on which the properties are located expiring in 2035, 2062, and 2043 (assuming the exercise of the Company's options to extend such leases), respectively. Subsequent to December 31, 2000, the Company acquired the fee interest in the land at 9455 Towne Center Drive in San Diego, California and the ground lease was terminated.

Property Location	No. of Buildings	Year Built/ Renovated	Net Rentable Square Feet	Percentage Leased at 12/31/00 (1)	Annual Base Rent (\$000's) (2)	Average Base Rent Per Sq. Ft. (\$) (3)
Office Properties:						
Los Angeles County						
26541 Agoura Road Calabasas, California(7)	1	1988	90,878	100.0%	\$ 1,955	\$21.51
5151-5155 Camino Ruiz Camarillo, California(7) (4)	4	1982	276,216	100.0%	2,705	9.79
4880 Santa Rosa Road Camarillo, California(7)	1	1998	41,131	100.0%	720	17.51

Kilroy Airport Center, El Segundo						
2250 E. Imperial Highway(5).....	1	1983	291,187	96.0%	5,163	17.73
2260 E. Imperial Highway(6).....						
2240 E. Imperial Highway(8).....	1	1983	291,187	100.0%	7,448	25.58
El Segundo, California						
185 S. Douglas Street						
El Segundo, California(7).....						
525 N. Brand Blvd.	1	1978	60,000	100.0%	1,523	25.38
Glendale, California...	1	1990	43,647	100.0%	1,255	28.74
Kilroy Airport Center, Long Beach						
3900 Kilroy Airport Way.....	1	1987	126,840	97.3%	2,805	22.12
3880 Kilroy Airport Way.....	1	1987	98,243	100.0%	1,326	13.49
3760 Kilroy Airport Way.....	1	1989	165,279	80.0%	3,231	19.55
3780 Kilroy Airport Way.....	1	1989	219,743	96.4%	5,691	25.90
3750 Kilroy Airport Way.....	1	1989	10,592	100.0%	147	13.85
3840 Kilroy Airport Way.....	1	1999	136,026	100.0%	3,520	25.87
Long Beach, California						
12312 W. Olympic Blvd.						
Los Angeles, California(7).....	1	1950/1998	78,000	100.0%	1,613	20.68
2100 Colorado Avenue						
Santa Monica, California(7).....	3	1992	94,844	100.0%	2,891	30.48
1633 26th Street						
Santa Monica, California(7).....	1	1972/1997	43,800	100.0%	845	19.30
3130 Wilshire Blvd.						
Santa Monica, California.....	1	1969/1998	88,338	97.9%	2,200	24.91
501 Santa Monica Blvd.						
Santa Monica, California.....	1	1974	70,089	96.3%	1,774	25.30
2829 Townsgate Road						
Thousand Oaks, California.....	1	1990	81,158	100.0%	2,029	25.01
23600-23610 Telo Avenue						
Torrance, California(9).....	2	1984	79,967	87.2%	887	11.09
24025 Park Sorrento						
Calabasas, California..	1	2000	102,264	96.8%	2,920	28.55
12200 W. Olympic Blvd.						
Los Angeles, California(7).....	1	2000	151,000	100.0%	5,033	33.33
Subtotal/Weighted			-----			
Average--						
Los Angeles County.....	29		2,759,362	97.3%	59,558	21.58

Property Location	No. of Buildings	Year Built/ Renovated	Net Rentable Square Feet	Percentage Leased at 12/31/00 (1)	Annual Base Rent (\$000's) (2)	Average Base Rent Per Sq. Ft. (\$) (3)

Orange County						
La Palma Business Center						
4175 E. La Palma Avenue						
Anaheim, California....	1	1985	42,790	96.6%	\$ 782	\$18.28
8101 Kaiser Blvd.						
Anaheim, California....	1	1988	60,177	100.0%	1,313	21.81
Anaheim Corporate Center						
Anaheim,						
California(10).....	4	1985	158,785	97.1%	2,071	13.04
1240 & 1250 Lakeview						

Avenue						
Anaheim, California....	2	1987	78,903	96.0%	987	12.51
601 Valencia Avenue,						
Brea, California(7)....	1	1982	60,891	100.0%	801	13.15
111 Pacifica						
Irvine, California.....	1	1991	67,381	61.0%	1,070	15.88
9451 Toledo Way						
Irvine, California(7)...	1	1984	27,200	100.0%	442	16.25
2501 Pullman/1700 E.						
Carnegie						
Santa Ana, California..	2	1969/1988	129,766	--	--	--
	---		-----		-----	
Subtotal/Weighted						
Average--						
Orange County.....	13		625,893	73.6%	7,466	11.93
	---		-----		-----	
San Diego County						
5770 Armada Drive						
Carlsbad,						
California(7).....	1	1998	81,712	100.0%	1,077	13.17
2231 Rutherford						
Carlsbad, California...	1	1998	39,000	100.0%	598	15.32
6215/6220 Greenwich						
Drive						
San Diego,						
California(11).....	2	1996	212,214	100.0%	3,353	15.80
6055 Lusk Avenue						
San Diego,						
California(7).....	1	1997	93,000	100.0%	1,149	12.35
6260 Sequence Drive						
San Diego,						
California(7).....	1	1997	130,000	100.0%	1,199	9.22
6290 Sequence Drive						
San Diego,						
California(7).....	2	1997	152,415	100.0%	2,084	13.68
6340 & 6350 Sequence						
Drive						
San Diego,						
California(7).....	2	1998	199,000	100.0%	2,952	14.83
15378 Avenue of Science						
San Diego,						
California(7).....	1	1984	68,910	100.0%	625	9.06
Pacific Corporate Center						
San Diego,						
California(12).....	7	1995	411,339	100.0%	5,407	13.14
3990 Ruffin Road						
San Diego, California..	1	1998	45,634	100.0%	665	14.57
9455 Towne Center Drive						
San Diego,						
California(7).....	1	1998	45,195	100.0%	610	13.50
12225-12235 El Camino						
Real						
San Diego,						
California(13).....	2	1998	115,513	100.0%	2,251	19.49
4690 Executive Drive						
San Diego,						
California(7).....	1	1999	50,929	100.0%	957	18.80
12348 High Bluff Drive						
San Diego,						
California(14).....	1	1999	40,274	100.0%	1,175	29.19
9785/9791 Towne Center						
Drive						
San Diego,						
California(7).....	2	1999	126,000	100.0%	2,250	17.86
5005/5010 Wateridge						
Vista Drive						
San Diego,						
California(7).....	2	1999	172,778	100.0%	3,351	19.40
3579 Valley Center Drive						
San Diego,						
California(14).....	3	1999	294,122	100.0%	9,240	31.42
Carmel Mountain						
Technology Center						
San Diego, California..	2	2000	103,000	100.0%	2,782	27.01
4955 Directors Place						
San Diego,						
California(7).....	1	2000	76,246	100.0%	2,652	34.78
12390 El Camino Real						
San Diego,						
California(7).....	1	2000	72,332	100.0%	1,596	22.07
	---		-----		-----	
Subtotal/Weighted						
Average--						
San Diego County.....	35		2,529,613	100.0%	45,973	18.17
	---		-----		-----	

Property Location	No. of Buildings	Year Built/ Renovated	Net Rentable Square Feet	Percentage Leased at 12/31/00 (1)	Annual Base Rent (\$000's) (2)	Average Base Rent Per Sq. Ft. (\$) (3)
Other						
4351 Latham Avenue Riverside, California..	1	1990	21,357	100.0%	\$ 369	\$17.30
4361 Latham Avenue Riverside, California(15).....	1	1992	30,581	92.9%	540	17.67
3750 University Avenue Riverside, California..	1	1982	124,986	91.3%	2,603	20.83
SeaTac Office Center 18000 Pacific Highway..	1	1974	209,978	100.0%	3,359	16.00
17930 Pacific Highway..	1	1980/1997	211,213	100.0%	2,172	10.28
17900 Pacific Highway..	1	1980	111,460	100.0%	2,088	18.73
---	---	---	-----	-----	-----	-----
Seattle, Washington						
Subtotal/Weighted Average--	6		709,575	98.2%	11,131	15.69
Other.....	---	---	-----	-----	-----	-----
TOTAL/WEIGHTED AVERAGE						
OFFICE PROPERTIES.....	83		6,624,443	96.2%	\$124,128	\$18.74
---	---	---	-----	-----	-----	-----
Industrial Properties:						
Los Angeles County						
Walnut Park Business Center						
Diamond Bar, California.....	3	1987	165,420	99.5%	1,318	7.97
2031 E. Mariposa Avenue El Segundo, California.....	1	1954	192,053	100.0%	2,023	10.53
2260 E. El Segundo Blvd. El Segundo, California.....	1	1979	113,820	100.0%	1,467	12.89
2265 E. El Segundo Blvd. El Segundo, California.....	1	1978	76,570	100.0%	556	7.27
2270 E. El Segundo Blvd. El Segundo, California.....	1	1975	6,362	100.0%	88	13.80
---	---	---	-----	-----	-----	-----
Subtotal/Weighted Average--	7		554,225	99.8%	5,452	9.84
Los Angeles County.....	---	---	-----	-----	-----	-----
Orange County						
3340 E. La Palma Avenue Anaheim, California....	1	1966	153,320	40.8%	410	2.68
1000 E. Ball Road Anaheim, California....	1	1956	100,000	100.0%	639	6.39
1230 S. Lewis Road Anaheim, California....	1	1982	57,730	100.0%	313	5.43
4155 E. La Palma Avenue Anaheim, California(16).....	1	1985	74,618	100.0%	764	10.24
4123 E. La Palma Avenue Anaheim, California(16).....	1	1985	69,472	100.0%	518	7.46
5325 East Hunter Avenue Anaheim, California....	1	1983	109,449	100.0%	609	5.57
3130-3150 Miraloma Anaheim, California....	1	1970	144,000	100.0%	687	4.77
3125 E. Coronado Street Anaheim, California....	1	1970	144,000	100.0%	879	6.10
5115 E. La Palma Avenue Anaheim, California....	1	1967/1998	286,139	100.0%	1,453	5.08
1250 N. Tustin Avenue Anaheim, California....	1	1984	84,185	100.0%	754	8.95
Anaheim Tech Center Anaheim, California....	5	1999	593,992	100.0%	3,844	6.47
3250 East Carpenter						

Anaheim, California....	1	1998	41,225	100.0%	271	6.57
Brea Industrial Complex						
Brea, California(17)...	7	1981	276,278	97.8%	1,762	6.38
Brea Industrial--Lambert Road						
Brea, California(16)...	2	1999	178,811	100.0%	1,264	7.07
1675 MacArthur						
Costa Mesa, California.....	1	1986	50,842	100.0%	515	10.13

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Property Location	No. of Buildings	Year Built/ Renovated	Net Rentable Square Feet	Percentage Leased at 12/31/00(1)	Annual Base Rent (\$000's) (2)	Average Base Rent Per Sq. Ft. (\$) (3)
892/909 Towne Center Drive						
Foothill Ranch, California.....	1	1998	303,533	100.0%	\$ 2,499	\$ 8.23
12681/12691 Pala Drive						
Garden Grove, California.....	1	1970	84,700	100.0%	582	6.87
Garden Grove Industrial Complex						
Garden Grove, California(18).....	6	1971	275,971	100.0%	1,706	6.18
12752-12822 Monarch Street						
Garden Grove, California.....	1	1970	277,037	100.0%	1,068	3.85
7421 Orangewood Avenue						
Garden Grove, California.....	1	1981	82,602	100.0%	575	6.96
12400 Industry Street						
Garden Grove, California.....	1	1972	64,200	100.0%	370	5.76
17150 Von Karman						
Irvine, California.....	1	1977	157,458	100.0%	1,087	6.90
184-220 Technology Drive						
Irvine, California.....	10	1990	157,499	92.4%	1,864	11.84
9401 Toledo Way						
Irvine, California.....	1	1984	244,800	100.0%	2,417	9.87
2055 S.E. Main Street						
Irvine, California(19).....	1	1973	47,583	100.0%	373	7.83
13645-13885 Alton Parkway						
Irvine, California(20).....	9	1989	143,117	88.2%	1,139	7.95
1951 E. Carnegie						
Santa Ana, California..	1	1981	100,000	100.0%	802	8.02
14831 Franklin Avenue						
Tustin, California(19).....	1	1978	36,256	100.0%	250	6.91
2911 Dow Avenue						
Tustin, California.....	1	1998	54,720	100.0%	361	6.60
Subtotal/Weighted Average--	---		-----		-----	
Orange County.....	62		4,393,537	97.1%	29,775	6.78
San Diego County						
6828 Nancy Ridge Drive						
San Diego, California..	1	1982	39,669	100.0%	385	9.70
Subtotal/Weighted Average--	---		-----		-----	
San Diego County.....	1		39,669	100.0%	385	9.70
Other						
41093 County Center Drive						
Temecula, California...	1	1997	77,582	100.0%	546	7.04
1840 Aerojet Way						

Las Vegas, Nevada.....	1	1993	102,948	100.0%	505	4.91
1900 Aerojet Way						
Las Vegas, Nevada.....	1	1995	106,717	100.0%	514	4.82
795 Trademark Drive						
Reno, Nevada.....	1	1998	75,257	100.0%	809	10.75
5115 N. 27th Avenue						
Phoenix, Arizona(21)...	1	1962	130,877	100.0%	649	4.96
199/201 North Sunrise						
Avenue						
Roseville,						
California(22)(23).....	2	1981	162,203	100.0%	1,618	9.97
3735 Imperial Highway						
Stockton, California...	1	1996	164,540	100.0%	1,180	7.17
	---		-----		-----	
Subtotal/Weighted						
Average--						
Other.....	8		820,124	100.0%	5,821	7.10
	---		-----		-----	
TOTAL/WEIGHTED AVERAGE						
INDUSTRIAL PROPERTIES..	78		5,807,555	97.8%	\$ 41,433	\$ 7.13
	---		-----	-----	-----	
TOTAL/WEIGHTED AVERAGE						
ALL PROPERTIES.....	161		12,431,998	97.0%	\$165,561	\$13.32
	===		=====	=====	=====	

(footnotes on next page)

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- (1) Based on all leases at the respective properties in effect as of December 31, 2000.
 - (2) Calculated as base rent for the year ended December 31, 2000, determined in accordance with generally accepted accounting principles ("GAAP"), and annualized to reflect a twelve-month period. Unless otherwise indicated, leases at the Industrial Properties are written on a triple net basis and leases at the Office Properties are written on a full service gross basis, with the landlord obligated to pay the tenant's proportionate share of 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"). Each tenant pays its pro rata share of increases in expenses above the Base Year of Expense Stop.
 - (3) Calculated as Annual Base Rent divided by net rentable square feet leased at December 31, 2000.
 - (4) The four properties at 5151-5155 Camino Ruiz were built between 1982 and 1985.
 - (5) For this property, leases with The Boeing Company for approximately 96,000 rentable square feet and SDRC Software Products Marketing Division, Inc. for approximately 6,800 rentable square feet are written on a full service gross basis, except that there is no Expense Stop.
 - (6) For this property, the lease with The Boeing Company is written on a modified full service gross basis under which The Boeing Company pays for all utilities and other internal maintenance costs with respect to the leased space and, in addition, pays its pro rata share of real estate taxes, insurance, and certain other expenses including common area expenses.
 - (7) For this property, the lease is written on a triple net basis.
 - (8) For this property, leases with The Boeing Company for approximately 103,000 rentable square feet are written on a full service gross basis, except that there is no Expense Stop.
 - (9) For this property, a lease for approximately 41,000 rentable square feet is written on a modified gross basis, with the tenant paying its share of

taxes and insurance above base year amounts. The leases for the remaining 23,000 rentable square feet are written on a full service gross basis.

- (10) For this property, leases for approximately 70,500 rentable square feet are written on a full service gross basis, with the tenants paying no expense reimbursement, leases for approximately 48,500 rentable square feet are written on a modified full service gross basis, and leases for approximately 21,000 rentable square feet are written on a triple net basis.
- (11) This property includes an expansion building with 71,000 rentable square feet developed by the Company in 2000.
- (12) The leases for this property are written on a modified net basis, with the tenants responsible for their pro-rata share of common area expenses and real estate taxes.
- (13) For this property, a lease for 60,840 rentable square feet is written on a triple net basis.
- (14) For this property, the leases are written on a modified full service gross basis, with the tenants responsible for paying utilities directly.
- (15) For this property, a lease for 15,728 rentable square feet is written on a triple net basis, and leases for 15,114 rentable square feet are written on a modified full service gross basis.
- (16) The leases for these industrial properties are written on a modified triple net basis, with the tenants responsible for estimated allocated common area expenses.
- (17) The seven properties at the Brea Industrial Complex were built between 1981 and 1988.
- (18) The six properties at the Garden Grove Industrial Complex were built between 1971 and 1985.
- (19) For this property, the lease is written on a full service gross basis.
- (20) For this property, leases for approximately 53,000 rentable square feet are written on a full service gross basis, with the tenants paying no expense reimbursement, leases for approximately 53,000 rentable square feet are written on a modified triple net basis with the tenants responsible for estimated allocated common area expenses.
- (21) This industrial property was originally designed for multi-tenant use and currently is leased to a single tenant and utilized as an indoor multi-vendor retail marketplace.
- (22) For this property, leases for approximately 115,500 rentable square feet are written on a triple net basis and, leases for approximately 46,500 rentable square feet are written on a full service basis, with the tenants paying no expense reimbursement.
- (23) This two-building property was managed by third-party property managers at December 31, 2000.

Development Projects

The following table sets forth certain information relating to each of the development projects that the Company had under construction at December 31, 2000. The table also sets forth projects committed for future development at December 31, 2000. The Company owns a 100% interest in all of the development projects other than Peregrine Systems Corporate Center--Building 3 and Sorrento Gateway--Lot 4 in which the Company owns a 50% managing interest

through one of the Development LLCs. The Company had one lease-up property at December 31, 2000, encompassing an aggregate of approximately 197,300 rentable square feet, which stabilized on January 15, 2001. The remaining eight development properties completed by the Company during 2000, encompassing an aggregate of approximately 809,000 rentable square feet, were stabilized at December 31, 2000. All of the development projects under construction and committed for development at December 31, 2000 were office projects.

Project Name/Submarket	Estimated Stabilization Date(1)	Total Estimated Investment(2)	Projected Square Feet upon Completion	Percentage Leased or under LOI at December 31, 2000(3)
(in thousands)				
Development Projects				
Under Construction:				
Calabasas Park Centre-- Phase II/Calabasas, CA.....	1st Quarter 2002	\$ 19,656	98,706	67%
Calabasas Park Centre-- Phase III/Calabasas, CA.....	1st Quarter 2002	2,381	11,744	0%
Innovation Corporate Center--Lot 8/San Diego, CA.....	2nd Quarter 2002	8,358	48,833	50%
Innovation Corporate Center--Lot 12/San Diego, CA.....	2nd Quarter 2002	11,510	70,617	0%
Pacific Technology Center/San Diego, CA...	2nd Quarter 2001	12,001	67,995	100%
Peregrine Systems Corporate Ctr--Bldg. 3(4)/ Del Mar, CA.....	2nd Quarter 2002	27,209	129,752	100%
Sorrento Rim Business Park II/San Diego, CA..	2nd Quarter 2001	25,055	102,875	100%
Westside Media Center-- Phase III/West LA, CA..	1st Quarter 2003	53,457	151,000	0%
Total Development Projects Under Construction.....		159,627	681,522	57%
Committed Development:				
Brobeck, Phleger & Harrison Expansion/Del Mar, CA.....	2nd Quarter 2002	22,880	89,168	100%
Imperial & Sepulveda(5)/El Segundo, CA.....	4th Quarter 2002	34,397	133,678	0%
Sorrento Gateway--Lot 4(4)/San Diego, CA.....	1st Quarter 2002	15,485	60,060	100%
Total Committed Development.....		72,762	282,906	53%
Total In-Process and Committed Development Projects.....		\$232,389	964,428	56%

- (1) Based on management's estimation of the earlier of stabilized occupancy (95.0%) or one year from the date of substantial completion.
- (2) Represents total projected development costs at December 31, 2000.
- (3) Represents executed leases and signed letters of intent to lease calculated on a square footage basis at December 31, 2000.
- (4) Project is being developed by a Development LLC in which the Company holds a 50% managing interest. The estimated investment figure includes the capital required to purchase the remaining 50% interest in the project.
- (5) The Company owned a 25% tenancy-in-common interest in this project at December 31, 2000 and acquired the remaining 75% tenancy-in-common interest on January 9, 2001.

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Tenant Information

The following table sets forth information as to the Company's ten largest office and industrial tenants as of March 22, 2001 based upon annualized rental revenues for the year ended December 31, 2000.

Tenant Name -----	Annual Base Rental Revenues (1) ----- (in thousands)	Percentage of Total Base Rental Revenues -----	Initial Lease Date (2) -----	Lease Expiration Date -----
Office Properties(3):				
The Boeing Company.....	\$15,693	9.2%	August 1984	Various(4)
Peregrine Systems, Inc.	9,193	5.4	October 1999	Various(5)
Epson America, Inc.....	4,239	2.5	October 1999	Various(6)
Epicor Software Corporation.....	3,351	2.0	September 1999	August 2009
Intuit, Inc.	3,128	1.8	November 1997	April 2007
Unisys Corporation.....	2,797	1.6	March 1997	April 2001
Sony Music Entertainment, Inc. ...	2,796	1.6	June 1997	December 2008
SCAN Health Plan.....	3,186	1.9	February 1996	February 2009
Diversa Corporation.....	2,652	1.6	November 2000	November 2015
Northwest Airlines, Inc.	2,289	1.3	Various(7)	Various(7)
	-----	----		
Total Office Properties.....	\$49,324 =====	28.9% =====		
Industrial Properties:				
Celestica California, Inc.	\$ 2,576	1.5%	May 1998	May 2008
Qwest Communications Corporation.....	2,416	1.4	November 2000	October 2015
Mattel, Inc.	2,023	1.2	May 1990	October 2005
AboveNet Communications, Inc.	1,494	0.9	March 2000	August 2015
OmniPak.....	1,453	0.9	August 1998	July 2008
Targus, Inc.	1,451	0.9	December 1998	Various(8)
Kraft Foods, Inc.	1,173	0.7	February 1996	February 2006
Packard Hughes Interconnect.....	1,087	0.6	January 1996	January 2001
Southern Plastic Mold, Inc.	1,057	0.6	September 1997	Various(9)
Extron Electronics.....	953	0.6	February 1995	Various(10)
	-----	----		
Total Industrial Properties.....	\$15,683 =====	9.3% =====		

- (1) Determined on a straight-line basis over the term of the related lease in accordance with GAAP.
- (2) Represents date of first relationship between tenant and the Company or the Company's predecessor, the Kilroy Group.
- (3) Subsequent to December 31, 2000, one of the Company's tenants, eToys, Inc. ("eToys"), defaulted on its lease and declared bankruptcy. In January 2001, the Company drew \$15.0 million under letters of credit that the Company held as credit support under the terms of the lease. The eToys lease for 151,000 rentable square feet would have represented approximately \$5.6 million or 3.3% of the Company's annual base rental revenues at December 31, 2000 had eToys not defaulted on their lease subsequent to year end.
- (4) Boeing Commercial Airplane Group lease at Sea Tac Office Center expires in December 2004. The Boeing Company leases at Kilroy Airport Center Long Beach of 49,988, 43,636, 6,814, 26,620, 24,536, 11,100, 8,404 and 15,547 net rentable square feet expire January 2002, August 2005, January 2001, December 2001 (26,620 and 24,536), June 2005, August 2005, and September 2005, respectively. Boeing Satellite Systems, Inc. leases of 286,151 and 100,978 net rentable square feet expire July 2004 and January 2004, respectively; and a lease of 7,515 expires November 2001, respectively.
- (5) Peregrine Systems, Inc. leases of 52,375, 129,680 and 112,067 net rentable square feet expire September 2010, April 2012 and July 2011, respectively.
- (6) Epson America, Inc. leases of 162,858 and 3,717 net rentable square feet expire October 2009 and October 2002, respectively.
- (7) Northwest Airlines, Inc. leases of 60,000 and 27,861 net rentable square feet began on initial lease dates of August 1978 and May 1980 and expire February 2001 and April 2005, respectively.
- (8) Targus, Inc. leases of 200,646 and 65,447 net rentable square feet expire March 2009 and October 2005, respectively.
- (9) Southern Plastic Mold, Inc. leases of 144,000 and 44,000 rentable square feet expire September 2003 and February 2005, respectively.
- (10) Extron Electronics leases of 100,000 and 57,730 net rentable square feet expire April 2005 and January 2005, respectively.

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At December 31, 2000, the Company's tenant base was comprised of the following industries, broken down by percentage of total portfolio base rent: manufacturing, 34.1%; services, 32.3%; transportation, communications and public utilities, 11.5%; finance, insurance and real estate, 10.7%; wholesale trade, 4.6%; retail trade, 3.5%; government, 2.1%; construction, 1.0%; and agriculture, forestry and fishing, 0.2%. Following is a list comprised of a representative sample of 25 of the Company's tenants whose annual base rental revenues were less than 1.0% of the Company's total annual base revenue at December 31, 2000:

Capital Products, Inc.	Matrix Rehabilitation, Inc.	Pleasant Holidays LLC
Critchfield Mechanical, Inc.	Motion City Films	Principia Financial Services
Cybermann, Inc.	Netsol International, Inc.	QTC Management Inc.
EVA Airways Corporation	New Zealand Tourism Board	Studio Acoustics Inc.
Facilities Protection Systems	North Star Network Solutions	Systems Technology Associates
Fiberlink Communications, Inc.	Nucleus Electronics Corp.	Wescom Credit Union
Hemlock Printers (USA), Inc.	Pacific Food Services, Inc.	Western Global Telecomm

Lease Expirations

The following table sets forth a summary of the Company's lease expirations for the Office and Industrial Properties for each of the ten years beginning with 2001, assuming that none of the tenants exercise renewal options or termination rights.

Year of Lease Expiration	Number of Expiring Leases (1)	Net Rentable Area Subject to Expiring Leases (Sq. Ft.)	Percentage of Total Leased Square Feet Represented by Expiring Leases (2)	Annual Base Rent Under Expiring Leases (000's) (3)	Average Annual Rent Per Net Rentable Square Foot Represented by Expiring Leases
Office Properties:					
2001.....	68	879,677	14.1%	\$ 14,734	\$16.75
2002.....	57	407,110	6.5	6,974	17.13
2003.....	51	271,549	4.4	5,323	19.60
2004.....	50	772,479	12.4	17,364	22.48
2005.....	50	915,230	14.7	16,722	18.27
2006.....	24	530,948	8.5	12,112	22.81
2007.....	15	630,304	10.1	12,097	19.19
2008.....	6	313,092	5.0	6,225	19.88
2009.....	10	772,982	12.4	18,260	23.62
2010 and beyond.....	12	745,127	11.9	26,255	35.24
	343	6,238,498	100.0%	\$136,066	\$21.81
Industrial Properties:					
2001.....	74	799,932	14.2%	\$ 5,674	\$ 7.09
2002.....	50	316,658	5.6	2,929	9.25
2003.....	40	735,605	13.1	5,158	7.01
2004.....	15	535,472	9.5	3,825	7.14
2005.....	15	746,635	13.3	5,586	7.48
2006.....	6	457,336	8.1	3,249	7.10
2007.....	3	164,595	2.9	1,397	8.49
2008.....	5	839,712	14.9	6,268	7.46
2009.....	9	530,066	9.4	3,996	7.54
2010 and beyond.....	5	503,978	9.0	6,489	12.88
	222	5,629,989	100.0%	\$ 44,571	\$ 7.92
Total Portfolio.....	565	11,868,487	100.0%	\$180,637	\$15.22

(footnotes on next page)

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- (1) Includes tenants only. Excludes leases for amenity, retail, parking and month-to-month tenants. Some tenants have multiple leases.
 - (2) Based on total leased square footage for the respective portfolios as of December 31, 2000 unless a lease for a replacement tenant had been executed on or before January 1, 2001.
 - (3) Determined based upon aggregate base rent to be received over the term divided by the term in months multiplied by 12, including all leases executed on or before January 1, 2001.

Secured Debt

At December 31, 2000, the Operating Partnership had 14 secured mortgage and construction loans outstanding, representing aggregate indebtedness of

approximately \$433 million, which were secured by certain of the Properties and development projects (the "Secured Obligations"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and Note 6 to the Company's consolidated financial statements included herewith. Management believes that as of December 31, 2000, the value of the properties securing the respective Secured Obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor any of the Company's properties are presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against any of them which if determined unfavorably to the Company would have a material adverse effect on the Company's cash flows, financial condition or results of operations. The Company is party to litigation arising in the ordinary course of business, none of which if determined unfavorably to the Company is expected to have a material adverse effect on the Company's cash flows, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of the year ended December 31, 2000.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock began trading on the New York Stock Exchange ("NYSE") on January 28, 1997, under the symbol "KRC." The following table illustrates the high, low and closing prices by quarter during 2000 and 1999 as reported on the NYSE. On March 20, 2001, there were approximately 235 registered holders of the Company's common stock.

2000	High	Low	Close	Common Stock Dividends Declared
----	-----	-----	-----	-----
First quarter.....	\$21.56	\$19.44	\$21.06	\$0.4500
Second quarter.....	26.50	21.19	25.95	0.4500
Third quarter.....	26.94	24.81	26.69	0.4500
Fourth quarter.....	29.13	25.56	28.06	0.4500

1999	High	Low	Close	Common Stock Dividends Declared
----	-----	-----	-----	-----
First quarter.....	\$23.38	\$19.94	\$20.50	\$0.4200
Second quarter.....	26.19	19.69	24.38	0.4200
Third quarter.....	24.31	20.31	21.13	0.4200
Fourth quarter.....	22.38	18.00	22.38	0.4200

The Company pays distributions to common stockholders on or about the 17th day of each January, April, July and October at the discretion of the Board of Directors. Distribution amounts depend on the Company's Funds From Operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and such other factors as the Board of Directors deems relevant.

During 2000, the Company issued 481,290 shares of common stock upon the conversion of 481,290 common limited partnership units of the Operating Partnership by limited partners. The issuances of the common shares on a one-for-one basis were made pursuant to the terms set forth in the partnership agreement of the Operating Partnership. The shares of common stock were issued in transactions, not requiring registration under federal securities laws pursuant to Section 4(2) of the Securities Act of 1933.

On October 13, 2000, the Operating Partnership issued 1,133 common limited partnership units of the Operating Partnership, valued by the Company at approximately \$30,000 based upon the closing share price of the Company's common stock as reported on the NYSE at the time of the respective transactions, to Kilroy Airport Imperial Co. ("KAICO"), a partnership owned by John B. Kilroy, Sr., the Company's Chairman of the Board of Directors, John B. Kilroy, Jr. the Company's President and Chief Executive Officer, and certain other Kilroy family members, in connection with the acquisition of the 25% tenancy-in-common interest in the KAICO complex (see Note 13 to the Company's consolidated financial statements). The common limited partnership units were issued in reliance upon an exemption from registration provided by Regulation D under the Securities Act as a transaction by an issuer not involving a public offering. These units may be redeemed at the option of the Company for cash or shares of the Company's common stock.

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ITEM 6. SELECTED FINANCIAL DATA

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

	Kilroy Realty Corporation Consolidated				Kilroy Group Combined	
	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	February 1, 1997 to December 31, 1997	January 1, 1997 to January 31, 1997	Year Ended December 31, 1996
Statements of Operations Data:						
Rental income.....	\$161,236	\$140,182	\$117,338	\$56,069	\$2,760	\$35,022
Tenant reimbursements.....	19,441	16,316	14,956	6,751	306	3,752
Development services...					14	698
Interest income.....	4,602	1,175	1,698	3,571		
Other income.....	1,834	2,027	3,096	889	4	76
Total revenues.....	187,113	159,700	137,088	67,280	3,084	39,548
Property expenses.....	23,347	20,669	19,281	8,770	579	6,788
Real estate taxes.....	14,591	12,369	10,383	4,199	137	1,673
General and administrative expenses.....	11,114	9,091	7,739	4,949	78	2,383
Ground leases.....	1,643	1,397	1,223	938	64	768
Provision for potentially unrecoverable pre-development costs....			1,700			
Development expenses...					46	650
Option buy-out cost ...						3,150
Interest expense.....	39,109	26,309	20,568	9,738	1,895	21,853
Depreciation and						

amortization.....	41,125	33,794	26,200	13,236	787	9,111
Total expenses.....	130,929	103,629	87,094	41,830	3,586	46,376
Income (loss) before net gains on dispositions of operating properties, equity in income of unconsolidated subsidiary, minority interests and extraordinary gains...	56,184	56,071	49,994	25,450	(502)	(6,828)
Net gains on dispositions of operating properties.....	11,256	46				
Equity in income of unconsolidated subsidiary.....	10	17	5	23		
Income (loss) before minority interests and extraordinary gains.....	67,450	56,134	49,999	25,473	(502)	(6,828)
Minority interests: Distributions on Cumulative Redeemable Preferred units.....	(13,500)	(9,560)	(5,556)			
Minority interest in earnings of Operating Partnership.....	(6,683)	(6,480)	(5,621)	(3,413)		
Minority interest in earnings of Development LLCs....	(421)	(199)				
Total minority interests.....	(20,604)	(16,239)	(11,177)	(3,413)		
Income (loss) before extraordinary gains...	46,846	39,895	38,822	22,060	(502)	(6,828)
Extraordinary gains-- extinguishment of debt.....					3,204	20,095
Net income.....	\$ 46,846	\$ 39,895	\$ 38,822	\$22,060	\$2,702	\$13,267
Share Data: Weighted average shares outstanding-- basic.....	26,599	27,701	26,989	18,445		
Weighted average shares outstanding-- diluted.....	26,755	27,727	27,060	18,539		
Net income per common share--basic.....	\$ 1.76	\$ 1.44	\$ 1.44	\$ 1.20		
Net income per common share--diluted.....	\$ 1.75	\$ 1.44	\$ 1.43	\$ 1.19		
Distributions per common share.....	\$ 1.80	\$ 1.68	\$ 1.62	\$ 1.42		

December 31,					
Kilroy Realty Corporation Consolidated				Kilroy Group Combined	
2000	1999	1998	1997	1996	

Balance Sheet Data:

Investment in real estate, before accumulated depreciation and amortization.....	\$1,496,477	\$1,410,238	\$1,194,284	\$ 834,690	\$ 227,337
Total assets.....	1,457,169	1,320,501	1,109,217	757,654	128,339
Total debt.....	723,688	553,516	405,383	273,363	223,297
Total liabilities.....	789,010	613,519	452,818	305,319	242,116
Total minority interests.....	226,734	234,053	180,500	55,185	
Total stockholders' equity/(accumulated deficit).....	441,425	472,929	475,899	397,150	(113,777)

Other Data:

Funds From Operations(1) (2).....	\$ 83,471	\$ 80,631	\$ 71,174	\$ 39,142	\$ 5,433
Cash flows from(3):					
Operating activities.....	74,009	84,635	73,429	28,928	5,520
Investing activities.....	(117,731)	(192,795)	(343,717)	(551,956)	(2,354)
Financing activities.....	35,206	127,833	267,802	531,957	(3,166)

Office Properties:

Rentable square footage.....	6,624,423	6,147,985	5,600,459	4,200,734	1,688,383
Occupancy.....	96.2%	96.4%	95.7%	94.3%	76.0%

Industrial Properties:

Rentable square footage.....	5,807,555	6,477,132	6,157,107	5,027,716	916,570
Occupancy.....	97.8%	96.9%	96.0%	91.9%	97.6%

- (1) As defined by the National Association of Real Estate Investment Trusts ("NAREIT"), "Funds From Operations" represents net income (loss) before minority interest of common unitholders (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships and joint ventures. Non-cash adjustments to arrive at Funds From Operations were as follows: in all periods, depreciation and amortization; in 1996, gains on extinguishment of debt; and in 2000, 1999, 1998 and 1997 non-cash amortization of restricted stock grants. Further, in 1996, non-recurring items (option buy-out cost) were excluded. Management considers Funds From Operations an appropriate measure of performance of an equity REIT because it is predicated on cash flow analyses. The Company computes Funds From Operations in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper as clarified by the November 1999 NAREIT National policy bulletin which became effective on January 1, 2000, which may differ from the methodology for calculating Funds From Operations utilized by other equity REITs and, accordingly, may not be comparable to Funds From Operations reported by such other REITs. Further, Funds From Operations does not represent amounts available for management's discretionary use because of needed capital reinvestment or expansion, debt service obligations, or other commitments and uncertainties. See the notes to the financial statements of the Company. Funds From Operations should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of the properties' financial performance or to cash flow from operating activities (computed in accordance with GAAP) as a measure or indicator of the properties' liquidity, nor is it indicative

of funds available to fund the properties' cash needs, including the Company's ability to pay dividends or make distributions.

- (2) Funds From Operations for 1997 is derived from the results of operations of Kilroy Realty Corporation for the period February 1, 1997 to December 31, 1997.
- (3) Cash flow for 1997 represents the cash flow of the Kilroy Group for the period January 1, 1997 to January 31, 1997 and Kilroy Realty Corporation for the period February 1, 1997 to December 31, 1997.

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

The following discussion relates to the consolidated financial statements of the Company and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Some of the enclosed information presented is forward-looking in nature, including information concerning development timing and investment amounts. Although the information is based on the Company's current expectations, actual results could vary from expectations stated here. Numerous factors will affect the Company's actual results, some of which are beyond its control. These include the timing and strength of regional economic growth, the strength of commercial and industrial real estate markets, competitive market conditions, future interest rate levels and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. The Company assumes no obligation to update publicly any forward-looking information, whether as a result of new information, future events or otherwise. For a discussion of important risks related to the Company's business, and an investment in its securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information, see the discussion under the caption "business risks" in Item 1-Business. In light of these risks, uncertainties and assumptions, the forward-looking events contained herein might not occur.

Overview and Background

The Company, which owns, develops, operates, and acquires office and industrial real estate, primarily in Southern California, commenced operations upon the completion of its initial public offering in January 1997 and operates as a self-administered REIT. The Company owns its interests in all of its properties through the Operating Partnership and the Finance Partnership and conducts substantially all of its operations through the Operating Partnership. The Company owned an 87.6% and 86.8% general partnership interest in the Operating Partnership as of December 31, 2000 and 1999, respectively. The Finance Partnership is a wholly-owned subsidiary of the Company.

The Company's revenue is derived primarily from rental income, including tenant reimbursements. The Company's revenue growth in 2000 was due primarily to operating results from \$327 million of development projects completed and added to the Company's portfolio of stabilized properties in 1999 and 2000 and was also due to a 7.1% increase in net operating income from the Company's "Core Portfolio". The Company defines its "Core Portfolio" as stabilized properties owned at January 1, 1999 and still owned at December 31, 2000. Management believes that the most significant part of the Company's revenue growth within the next two to three years will come from its substantial development pipeline of approximately 1.3 million rentable square feet of office space to be developed over the next three to four years. Management also believes that continued success of the real estate market in the Company's principal markets will result in strong demand for office and

industrial space. Consequently, management currently expects that the Company's revenue in the next one to two years will also grow as a result of re-leasing, at generally higher lease rates, approximately 1.3 million square feet of office space and 1.1 million square feet of industrial space currently subject to leases expiring during the next two years.

Factors Which May Affect Future Results of Operations

As 89.7% of the total net rentable square footage of the Company's stabilized portfolio is located in California, the Company's operating results are and will continue to be affected by uncertainties and problems associated with the deregulation of the electric industry in California. Such deregulation has resulted in higher utility costs in some areas of the state and intermittent service interruptions. As of the date of this report, the Company has not experienced any material trends or effects arising from this regional issue. Approximately 75% (based on net rentable square footage) of the Company's current leases require tenants to pay utility costs

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directly; therefore, eliminating the Company's exposure. The remaining 25% of the Company's leases provide that the tenants reimburse the Company for utility costs in excess of a base year amount. See "Risk factors--Increasing utility costs and power outages in California may have an adverse effect on the Company's operating results."

Results of Operations

During the year ended December 31, 2000, the Company completed the development of nine office buildings encompassing an aggregate of approximately \$1.0 million rentable square feet. During the year ended December 31, 1999, the Company completed the development of six office and four industrial buildings encompassing an aggregate of approximately 472,200 and 390,200 rentable square feet, respectively. All of the aforementioned development projects completed by the Company during 2000 and 1999 were included in the Company's portfolio of stabilized operating properties at December 31, 2000 with the exception of one property which became stabilized on January 15, 2001. The Company's stabilized portfolio consists of all of the Company's Office and Industrial Properties, excluding projects currently under construction or in pre-development and properties developed by the Company that have not reached 95.0% occupancy ("lease-up" properties). At December 31, 2000, the Company had eleven office buildings under construction or committed for construction which when completed are expected to encompass an aggregate of approximately 964,400 rentable square feet.

During the year ended December 31, 2000, the Company disposed of nine office and nine industrial buildings encompassing 286,700 and 669,800 aggregate rentable square feet, respectively, for an aggregate sales price of \$113.6 million at a net gain of approximately \$11.3 million. During the year ended December 31, 1999, the Company acquired three office buildings encompassing an aggregate of approximately 176,900 rentable square feet, for an aggregate acquisition cost of \$30.6 million, and disposed of five office and five industrial building encompassing 113,700 and 335,800 aggregate rentable square feet, respectively for an aggregate sales price of \$22.6 million. Operating results for acquired properties are included in the consolidated financial statements of the Company subsequent to their respective acquisition dates.

As a result of the properties developed by the Company subsequent to December 31, 1999, net of the effect of properties disposed of during 2000, rentable square footage in the Company's portfolio of stabilized operating properties decreased approximately 0.2 million rentable square feet, or 1.6%, to 12.4 million rentable square feet at December 31, 2000 compared to 12.6 million rentable square feet at December 31, 1999. As of December 31, 2000, the Company's portfolio of stabilized operating properties was comprised of 83 Office Properties encompassing 6.6 million rentable square feet and 78 Industrial Properties encompassing 5.8 million rentable square feet. The stabilized portfolio occupancy rate at December 31, 2000 was 97.0%, with the

Office and Industrial Properties 96.2% and 97.8% occupied, respectively, as of such date.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

	Year ended December 31,		Dollar	Percentage
	2000	1999	Change	Change
	(dollars in thousands)			
Revenues:				
Rental income.....	\$161,236	\$140,182	\$21,054	15.0%
Tenant reimbursements.....	19,441	16,316	3,125	19.2
Interest income.....	4,602	1,175	3,427	291.7
Other income.....	1,834	2,027	(193)	(9.5)
	-----	-----	-----	
Total revenues.....	187,113	159,700	27,413	17.2
	=====	=====	=====	
Expenses:				
Property expenses.....	23,347	20,669	2,678	13.0
Real estate taxes.....	14,591	12,369	2,222	18.0
General and administrative expenses...	11,114	9,091	2,023	22.3
Ground leases.....	1,643	1,397	246	17.7
Interest expense.....	39,109	26,309	12,800	48.7
Depreciation and amortization.....	41,125	33,794	7,331	21.7
	-----	-----	-----	
Total expenses.....	130,929	103,629	27,300	26.3
	=====	=====	=====	
Income from operations before net gains on dispositions of operating properties, equity in income of unconsolidated subsidiary, and minority interests.....	\$ 56,184	\$ 56,071	\$ 113	0.2%
	=====	=====	=====	

Rental Operations

Management evaluates the operations of its portfolio based on operating property segment type. The following tables compare the net operating income, defined as operating revenues less property and related expenses (property expenses, real estate taxes and ground leases) before depreciation, for the Office and Industrial Properties for the years ended December 31, 2000 and 1999.

Office Properties

	Total Office Portfolio				Core Office Portfolio(1)			
	2000	1999	Dollar Change	Percentage Change	2000	1999	Dollar Change	Percentage Change
	(dollars in thousands)							
Operating revenues:								
Rental income.....	\$117,309	\$96,527	\$20,782	21.5%	\$90,056	\$86,804	\$3,252	3.7%
Tenant reimbursements.....	14,077	10,966	3,111	28.4	12,109	10,340	1,769	17.1
Other income.....	786	1,779	(993)	(55.8)	523	1,206	(683)	(56.6)
	-----	-----	-----		-----	-----	-----	
Total.....	132,172	109,272	22,900	21.0	102,688	98,350	4,338	4.4

Property and related expenses:								
Property expenses.....	19,596	17,553	2,043	11.6	16,684	16,539	145	0.9
Real estate taxes.....	10,527	7,589	2,938	38.7	8,055	6,716	1,339	19.9
Ground leases.....	1,643	1,397	246	17.6	1,390	1,336	54	4.0
Total.....	31,766	26,539	5,227	19.7	26,129	24,591	1,538	6.3
Net operating income, as defined.....	\$100,406	\$82,733	\$17,673	21.4%	\$76,559	\$73,759	\$2,800	3.8%

(1) Stabilized office properties owned at January 1, 1999 and still owned at December 31, 2000.

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Total revenues from Office Properties increased \$22.9 million, or 21.0% to \$132.2 million for the year ended December 31, 2000 compared to \$109.3 million for the year ended December 31, 1999. Rental income from Office Properties increased \$20.8 million, or 21.5% to \$117.3 million for the year ended December 31, 2000 compared to \$96.5 million for the year ended December 31, 1999. Of this increase, \$19.1 million was generated by the office buildings developed by the Company in 1999 and 2000 (the "Office Development Properties") which was offset by a decrease of \$1.5 million generated by office buildings acquired during 1999, net of the effect of office properties disposed of during 1999 and 2000 (the "Net Office Dispositions"). The remaining \$3.2 million increase was generated by the Core Office Portfolio and represented a 3.7% increase in rental income for the Core Office Properties. This increase was attributable to both an increase in rental rates and an increase in average occupancy. Average occupancy for the Core Office Properties increased 1.6%, to 95.4% at December 31, 2000 from 93.8% at December 31, 1999.

Tenant reimbursements from Office Properties increased \$3.1 million, or 28.4% to \$14.1 million for the year ended December 31, 2000 compared to \$11.0 million for the year ended December 31, 1999. An increase of \$1.3 million in tenant reimbursements was generated by the Office Development Properties net of Net Office Dispositions. The remaining increase of \$1.8 million in tenant reimbursements was generated by the Core Office Properties which was primarily due to the collection of amounts identified in common area maintenance reconciliations. In addition, \$0.8 million relates to an amount recorded for estimated tenant reimbursement of supplemental real estate taxes accrued in 2000. Other income from Office Properties decreased \$1.0 million, or 55.8% to \$0.8 million for the year ended December 31, 2000 compared to \$1.8 million for the same period in 1999. For the year ended December 31, 1999, other income from Office Properties included \$0.5 million in gains from the sale of 13 acres of undeveloped land in Calabasas and San Diego, California. In addition, in 1999 the Company earned a \$0.5 million consulting fee for assisting an existing tenant with potential expansion plans. The remaining amounts in other income from Office Properties for both periods consisted primarily of lease termination fees, management fees and tenant late charges.

Total expenses from Office Properties increased \$5.2 million, or 19.7% to \$31.8 million for the year ended December 31, 2000 compared to \$26.6 million for the year ended December 31, 1999. Property expenses increased \$2.0 million, or 11.6% to \$19.6 million for the year ended December 31, 2000 compared to \$17.6 million for the year ended December 31, 1999. An increase of \$1.9 million in property expenses was attributable to the Office Development Properties net of Net Office Dispositions. The remaining increase of \$0.1 million in property expenses was attributable to the Core Office Properties and was due primarily to increased salaries and benefits for property management personnel. Real estate taxes increased \$2.9 million, or 38.7% to \$10.5 million for the year ended December 31, 2000 compared to \$7.6 million for the year ended December 31, 1999. An increase of \$1.6 million was attributable to the Office Development Properties net of Net Office Dispositions. The remaining increase of \$1.3 million was attributable to the Core Office Properties. This increase at the Core Office Properties was due

primarily to a one-time \$1.1 million adjustment for potential supplemental real estate taxes. As noted above, the Company recorded \$0.8 million in estimated tenant reimbursements related to this one-time adjustment. Ground lease expense increased \$0.2 million for the year ended December 31, 2000 compared to the same period in 1999 primarily due to ground lease expense at two of the Office Development Properties.

Net operating income, as defined, from Office Properties increased \$17.7 million, or 21.4% to \$100.4 million for the year ended December 31, 2000 compared to \$82.7 million for the year ended December 31, 1999. Of this increase, \$14.9 million was generated by the Office Development Properties net of Net Office Dispositions. The remaining increase of \$2.8 million was generated by the Core Office Properties and represented a 3.8% increase in net operating income for the Core Office Properties.

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Industrial Properties

	Total Industrial Portfolio				Core Industrial Portfolio(1)			
	2000	1999	Dollar Change	Percentage Change	2000	1999	Dollar Change	Percentage Change
(dollars in thousands)								
Operating revenues:								
Rental income.....	\$43,927	\$43,655	\$ 272	0.6%	\$38,447	\$34,981	\$3,466	9.9%
Tenant reimbursements.....	5,364	5,350	14	0.3	4,468	4,118	350	8.5
Other income.....	1,048	248	800	322.6	1,048	123	925	752.0
Total.....	50,339	49,253	1,086	2.2	43,963	39,222	4,741	12.1
Property and related expenses:								
Property expenses.....	3,751	3,116	635	20.4	2,954	2,555	399	15.6
Real estate taxes.....	4,064	4,780	(716)	(15.0)	3,514	3,910	(396)	(10.1)
Total.....	7,815	7,896	(81)	(1.0)	6,468	6,465	3	0.0
Net operating income, as defined.....	\$42,524	\$41,357	\$1,167	2.8%	\$37,495	\$32,757	\$4,738	14.5%
	=====	=====	=====		=====	=====	=====	

(1) Stabilized industrial properties owned at January 1, 1999 and still owned at December 31, 2000.

Total revenues from Industrial Properties increased \$1.1 million, or 2.2% to \$50.3 million for the year ended December 31, 2000 compared to \$49.2 million for the year ended December 31, 1999. Rental income from Industrial Properties increased \$0.3 million, or 0.6% to \$43.9 million for the year ended December 31, 2000 compared to \$43.6 million for the year ended December 31, 1999. Of this increase, \$1.7 million was generated by the industrial buildings developed by the Company in 1999 and 2000 (the "Industrial Development Properties") offset by a decrease of \$4.9 million generated by the industrial buildings disposed of during 1999 and 2000 (the "Industrial Dispositions"). The remaining \$3.5 million increase was generated by the Core Industrial Portfolio which represented a 9.9% increase in rental income for the Core Industrial Properties. This increase was attributable to both an increase in average occupancy of 0.7% and an increase in rental rates for the Core Industrial Properties.

Tenant reimbursements from Industrial Properties remained consistent for the years ended December 31, 2000 and 1999. A decrease of \$0.3 million was attributable to the Industrial Dispositions and the Industrial Development Properties, which was offset by an increase of \$0.3 million attributable to the Core Industrial Portfolio. Other income from Industrial Properties increased \$0.8 million, or 322.6% to \$1.1 million for the year ended December

31, 2000 compared to \$0.3 million for the comparable period in 1999. Other income for the years ended December 31, 2000 and 1999 consisted primarily of lease termination fees.

Total expenses from Industrial Properties decreased \$0.1 million, or 1.0% to \$7.8 million for the year ended December 31, 2000 compared to \$7.9 million for the year ended December 31, 1999. Property expenses increased \$0.6 million, or 20.4% to \$3.7 million for the year ended December 31, 2000 compared to \$3.1 million for the year ended December 31, 1999. An increase of \$0.2 million in property expenses was attributable to the Industrial Dispositions and the Industrial Development Properties. The remaining increase of \$0.4 million in property expenses was attributable to the Core Industrial Portfolio. This increase was due to increased salaries and benefits for property management personnel, and increases in variable costs due to higher occupancy. Real estate taxes decreased \$0.7 million, or 15.0% to \$4.1 million for the year ended December 31, 2000 compared to \$4.8 million for the year ended December 31, 1999. Of this decrease, \$0.3 million was attributable to the Net Industrial Dispositions and Industrial Development Properties. The remaining \$0.4 million decrease was attributable to the Core Industrial Portfolio and was primarily due to the effect of prior year real estate taxes which were successfully appealed and refunded to the Company in 2000.

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Net operating income, as defined, from Industrial Properties increased \$1.2 million, or 2.8% to \$42.5 million for the year ended December 31, 2000 compared to \$41.3 million for the year ended December 31, 1999. An increase of \$4.8 million generated by the Core Industrial Portfolio, which represented a 14.5% increase in net operating income for the Core Industrial Portfolio, was offset by a \$3.6 million decrease generated by the Industrial Dispositions and the Industrial Development Properties.

Non-Property Related Income and Expenses

Interest income increased \$3.4 million, or 291.7% to \$4.6 million for the year ended December 31, 2000 compared to \$1.2 million for the year ended December 31, 1999. This increase was due primarily to the receipt of interest income on a note receivable acquired in May 2000.

General and administrative expenses increased \$2.0 million, or 22.3% to \$11.1 million for the year ended December 31, 2000 compared to \$9.1 million for the year ended December 31, 1999. This increase was due primarily to annual increases for salaries and benefits and a \$0.8 million increase in non-cash amortization of restricted stock grants.

Interest expense increased \$12.8 million, or 48.7% to \$39.1 million for the year ended December 31, 2000 compared to \$26.3 million for the same period in 1999, primarily due to a net increase in the Company's aggregate indebtedness during 2000 and a general increase in market LIBOR rates during 2000. The Company's weighted average interest rate increased approximately 0.5% to 8.2% at December 31, 2000 compared to 7.7% at December 31, 1999.

Depreciation and amortization expense increased \$7.3 million, or 21.7% to \$41.1 million for the year ended December 31, 2000 compared to \$33.8 million for the same period in 1999. The increase was primarily due to depreciation on the Office and Industrial Development Properties developed by the Company in 1999 and 2000.

Income

Net income before net gains on dispositions of operating properties, equity in income of unconsolidated subsidiary, and minority interests increased \$0.1 million or 0.2% to \$56.2 million for the year ended December 31, 2000 from \$56.1 million for the year ended December 31, 1999. The increase was due to the increase in net operating income from the Office and Industrial Properties of \$17.7 million and \$1.2 million, respectively, offset primarily by an increase in interest expense of \$12.8 million and an increase in depreciation

and amortization of \$7.3 million.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

	Year ended December 31,		Dollar	Percentage
	1999	1998	Change	Change
	(dollars in thousands)			
Revenues:				
Rental income.....	\$140,182	\$117,338	\$22,844	19.5%
Tenant reimbursements.....	16,316	14,956	1,360	9.1
Interest income.....	1,175	1,698	(523)	(30.8)
Other income.....	2,027	3,096	(1,069)	(34.5)
	-----	-----	-----	
Total revenues.....	159,700	137,088	22,612	16.5
	-----	-----	-----	
Expenses:				
Property expenses.....	20,669	19,281	1,388	7.2
Real estate taxes.....	12,369	10,383	1,986	19.1
General and administrative expenses...	9,091	7,739	1,352	17.5
Ground leases.....	1,397	1,223	174	14.2
Provision for potentially unrecoverable pre-development costs..		1,700	(1,700)	(100.0)
Interest expense.....	26,309	20,568	5,741	27.9
Depreciation and amortization.....	33,794	26,200	7,594	29.0
	-----	-----	-----	
Total expenses.....	103,629	87,094	16,535	19.0
	-----	-----	-----	
Income from operations before net gains on dispositions of operating properties, equity in income of unconsolidated subsidiary, and minority interests.....	\$ 56,071	\$ 49,994	\$ 6,077	12.2%
	=====	=====	=====	

Rental Operations

Management evaluates the operations of its portfolio based on operating property segment type. The following tables compare the net operating income, defined as operating revenues less property and related expenses (property expenses, real estate taxes and ground leases) before depreciation, for the Office and Industrial Properties for the years ended December 31, 1999 and 1998.

Office Properties

	Total Office Portfolio				Core Office Portfolio(1)			
	1999	1998	Dollar Change	Percentage Change	1999	1998	Dollar Change	Percentage Change
	(dollars in thousands)							
Operating revenues:								
Rental income.....	\$ 96,527	\$82,164	\$14,363	17.5%	\$67,937	\$66,233	\$1,704	2.6%
Tenant reimbursements.....	10,966	10,957	9	0.1	8,931	9,623	(692)	(7.2)
Other income.....	1,779	2,956	(1,177)	(39.8)	1,027	319	708	221.9
	-----	-----	-----		-----	-----	-----	

Total.....	109,272	96,077	13,195	13.7	77,895	76,175	1,720	2.3
Property and related expenses:								
Property expenses.....	17,553	16,373	1,180	7.2	12,819	13,214	(395)	(3.0)
Real estate taxes.....	7,589	6,567	1,022	15.6	4,925	5,028	(103)	(2.0)
Ground leases.....	1,397	1,223	174	14.2	1,171	1,127	44	3.9
Total.....	26,539	24,163	2,376	9.8	18,915	19,369	(454)	(2.3)
Net operating income, as defined.....	\$ 82,733	\$71,914	\$10,819	15.0%	\$58,980	\$56,806	\$2,174	3.8%

(1) Stabilized office properties owned at January 1, 1998 and still owned at December 31, 1999.

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Total revenues from Office Properties increased \$13.2 million, or 13.7% to \$109.3 million for the year ended December 31, 1999 compared to \$96.1 million for the year ended December 31, 1998. Rental income from Office Properties increased \$14.4 million, or 17.5% to \$96.5 million for the year ended December 31, 1999 compared to \$82.1 million for the year ended December 31, 1998. Of this increase, \$7.2 million was generated by office buildings acquired during 1998 and 1999, net of the effect of office properties disposed of during 1999, (the "Net Office Acquisitions") and \$5.5 million was generated by the office buildings developed by the Company in 1998 and 1999 (the "Office Development Properties"). The remaining \$1.7 million of the increase was generated by the stabilized office properties owned at January 1, 1998 and still owned at December 31, 1999 (the "Core Office Properties"), and represented a 2.6% increase in rental income for the Core Office Properties. This increase was primarily attributable to increases in rental rates. Average occupancy for the Core Office Properties decreased 0.8%, to 93.4% at December 31, 1999 from 94.2% at December 31, 1998.

Tenant reimbursements from Office Properties remained consistent for the years ended December 31, 1999 and 1998. An increase of \$0.7 million in tenant reimbursements generated by the Net Office Acquisitions and Office Development Properties was offset by a decrease of \$0.7 million in tenant reimbursements generated by the Core Office Properties. This decrease in tenant reimbursements for the Core Office Properties is due in part to the decrease in average occupancy in this portfolio, and also to the decrease in property expenses for this portfolio of properties as discussed below. Other income from Office Properties decreased \$1.2 million, or 39.8% to \$1.8 million for the year ended December 31, 1999 compared to \$3.0 million for the same period in 1998. For the year ended December 31, 1999, other income from Office Properties included \$0.5 million in gains from the sale of 13 acres of undeveloped land in Calabasas and San Diego, California and \$0.8 million in lease termination fees from Core Office Portfolio properties. Other income from Office Properties for the year ended December 31, 1998 included a \$1.9 million net lease termination fee from an office property in San Diego, California and \$0.5 million in lease termination fees at various properties. In addition, in 1998 the Company earned a \$0.5 million consulting fee for assisting an existing tenant with potential expansion plans. The remaining amounts in other income from Office Properties for both periods consisted primarily of management fees and tenant late charges.

Total expenses from Office Properties increased \$2.4 million, or 9.8% to \$26.5 million for the year ended December 31, 1999 compared to \$24.1 million for the year ended December 31, 1998. Property expenses increased \$1.2 million, or 7.2% to \$17.6 million for the year ended December 31, 1999 compared to \$16.4 million for the year ended December 31, 1998. An increase of \$1.6 million in property expenses attributable to the Net Office Acquisitions and the Office Development Properties was offset by a \$0.4 million decrease in property expenses at the Core Office Properties. This decrease was primarily attributable to renegotiated property insurance premiums and a decrease in electricity expense resulting from the implementation of energy management systems in several of the buildings. Real estate taxes increased \$1.0 million,

or 15.6% to \$7.6 million for the year ended December 31, 1999 compared to \$6.6 million for the year ended December 31, 1998. An increase of \$1.1 million attributable to the Net Office Acquisitions and the Office Development Properties was offset by a decrease of \$0.1 million for the Core Office Properties. This decrease at the Core Office Properties was due primarily to the effects of prior year property taxes which were successfully appealed and refunded to the Company in 1999. Ground lease expense increased \$0.2 million for the year ended December 31, 1999 compared to the same period in 1998 primarily due to a full year of ground lease expense at one of the 1998 office acquisition properties.

Net operating income, as defined, from Office Properties increased \$10.8 million, or 15.0% to \$82.7 million for the year ended December 31, 1999 compared to \$71.9 million for the year ended December 31, 1998. Of this increase, \$8.8 million was generated by the Net Office Acquisitions and the Office Development Properties. The remaining increase of \$2.0 million was generated by the Core Office Properties and represented a 3.8% increase in net operating income for the Core Office Properties.

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Industrial Properties

	Total Industrial Portfolio				Core Industrial Portfolio(1)			
	1999	1998	Dollar Change	Percentage Change	1999	1998	Dollar Change	Percentage Change
	(dollars in thousands)							
Operating revenues:								
Rental income.....	\$43,655	\$35,174	\$8,481	24.1%	\$29,869	\$29,290	\$ 579	2.0%
Tenant reimbursement..	5,350	3,999	1,351	33.8	3,669	3,435	234	6.8
Other income.....	248	140	108	77.1	167	111	56	50.5
Total.....	49,253	39,313	9,940	25.3	33,705	32,836	869	2.6
Property and related expenses:								
Property expenses.....	3,116	2,908	208	7.2	1,733	2,097	(364)	(17.4)
Real estate taxes.....	4,780	3,816	964	25.3	3,293	3,083	210	6.8
Total.....	7,896	6,724	1,172	17.4	5,026	5,180	(154)	(3.0)
Net operating income, as defined.....	\$41,357	\$32,589	\$8,768	26.9%	\$28,679	\$27,656	\$1,023	3.7%

(1) Stabilized industrial properties owned at January 1, 1998 and still owned at December 31, 1999.

Total revenues from Industrial Properties increased \$9.9 million, or 25.3% to \$49.2 million for the year ended December 31, 1999 compared to \$39.3 million for the year ended December 31, 1998. Rental income from Industrial Properties increased \$8.5 million, or 24.1% to \$43.7 million for the year ended December 31, 1999 compared to \$35.2 million for the year ended December 31, 1998. Of this increase, \$3.3 million was generated by the industrial buildings acquired during 1998 and 1999, net of the effect of the industrial buildings disposed of during 1999 (the "Net Industrial Acquisitions") and \$4.6 million was generated by the industrial buildings developed by the Company in 1998 and 1999 (the "Industrial Development Properties"). The remaining \$0.6 million of the increase was generated by the stabilized industrial buildings owned at January 1, 1998 and still owned at December 31, 1999 (the "Core Industrial Properties"), and represented a 2.0% increase in rental income for the Core Industrial Properties. This increase was attributable to both an increase in average occupancy of 0.6% and an increase in rental rates for this portfolio.

Tenant reimbursements from Industrial Properties increased \$1.4 million, or 33.8% to \$5.4 million for the year ended December 31, 1999 compared to \$4.0 million for year ended December 31, 1998. Of this increase, \$1.2 million was attributable to the Net Industrial Acquisitions and the Industrial Development Properties. The remaining \$0.2 million was attributable to the Core Industrial Properties and was primarily due to an increase in real estate taxes reimbursable by tenants. Other income from Industrial Properties increased \$0.1 million, or 77.1% to \$0.2 million for the year ended December 31, 1999 compared to \$0.1 million for the comparable period in 1998. Other income for the years ended December 31, 1999 and 1998 consisted primarily of lease termination fees.

Total expenses from Industrial Properties increased \$1.2 million, or 17.4% to \$7.9 million for the year ended December 31, 1999 compared to \$6.7 million for the year ended December 31, 1998. Property expenses increased \$0.2 million, or 7.2% to \$3.1 million for the year ended December 31, 1999 compared to \$2.9 million for the year ended December 31, 1998. An increase of \$0.6 million in property expenses attributable to the Net Industrial Acquisitions and the Industrial Development Properties was offset by a decrease of \$0.4 million in property expenses at the Core Industrial Properties. This decrease was primarily due to renegotiated property insurance premiums and a decrease in electricity expense resulting from the implementation of energy management systems at several of the buildings. Real estate taxes increased \$1.0 million, or 25.3% to \$4.8 million for the year ended December 31, 1999 compared to \$3.8 million for the year ended December 31, 1998. Of this increase, \$0.8 million was attributable to the Net Industrial Acquisitions and Industrial

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Development Properties. The remaining \$0.2 million increase was generated by the Core Industrial Properties and was primarily due to acquisition related assessments on industrial buildings acquired by the Company in 1997.

Net operating income, as defined, from Industrial Properties increased \$8.8 million, or 26.9% to \$41.4 million for the year ended December 31, 1999 compared to \$32.6 million for the year ended December 31, 1998. Of this increase, \$7.8 million was generated by the Net Industrial Acquisitions and the Industrial Development Properties. The remaining increase of \$1.0 million was generated by the Core Industrial Properties and represented a 3.7% increase in net operating income for the Core Industrial Properties.

Non-Property Related Income and Expenses

Interest income decreased \$0.5 million, or 30.8% to \$1.2 million for the year ended December 31, 1999 compared to \$1.7 million for the year ended December 31, 1998. This decrease was due primarily to the receipt of interest income on notes receivable from related parties for three months during the year ended December 31, 1999 versus seven months for the year ended December 31, 1998.

General and administrative expenses increased \$1.4 million, or 17.5% to \$9.1 million for the year ended December 31, 1999 compared to \$7.7 million for the year ended December 31, 1998. This increase was due primarily to annual increases for salaries and benefits and increased depreciation related to the Company's increased investment in its information systems.

Interest expense increased \$5.7 million, or 27.9% to \$26.3 million for the year ended December 31, 1999 compared to \$20.6 million for the same period in 1998, primarily due to a net increase in the Company's aggregate indebtedness during 1999 and a general increase in market LIBOR rates during 1999. The Company's weighted average interest rate increased 0.4% to 7.7% at December 31, 1999 compared to 7.3% at December 31, 1998.

Depreciation and amortization expense increased \$7.6 million, or 29.0% to \$33.8 million for the year ended December 31, 1999 compared to \$26.2 million for the same period in 1998. The increase was primarily due to depreciation on

the Net Office and Industrial Acquisitions and the Office and Industrial Development Properties.

Income

Net income before gains on dispositions of operating properties, equity in income of unconsolidated subsidiary, and minority interests increased \$6.1 million, or 12.2% to \$56.1 million for the year ended December 31, 1999 from \$50.0 million for the year ended December 31, 1998. The increase was primarily due to the increase in net operating income from the Office and Industrial Properties of \$10.8 million and \$8.8 million, respectively, offset primarily by an increase in interest expense of \$5.7 million and an increase in depreciation and amortization of \$7.6 million.

Liquidity and Capital Resources

The Company has a \$400 million unsecured revolving credit facility (the "Credit Facility") which bears interest at an annual rate between LIBOR plus 1.13% and LIBOR plus 1.75% (8.26% at December 31, 2000), depending upon the Company's leverage ratio at the time of borrowing, and matures in November 2002. As of December 31, 2000, the Company had borrowings of \$191 million outstanding under the Credit Facility and availability of approximately \$75.0 million. The Company uses the Credit Facility to finance development expenditures, to fund potential undeveloped land acquisitions and for general corporate purposes.

In September 2000, the Company borrowed \$100.0 million under an unsecured debt facility from a bank group led by The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. The \$100.0 million facility, which matures in September 2002 with two one-year extension options, requires monthly interest-only

payments based upon an annual interest rate which ranges between LIBOR plus 1.13% and LIBOR plus 1.75% (8.19% at December 31, 2000), depending upon the Company's leverage ratio at the time of borrowing.

In April 2000, one of the Development LLCs obtained a non-recourse construction loan with a total commitment of \$57.0 million. The construction loan, which had an outstanding balance of approximately \$50.1 million and an annual interest rate between LIBOR plus 2.00% and LIBOR plus 2.70% at December 31, 2000, matures in April 2002, with the option to extend for up to two six-month periods. The proceeds from the construction loan are being used to finance the development of part of a multi-phased office project that the Company is developing in San Diego, California, with The Allen Group, a group of affiliated real estate development and investment companies based in San Diego, California. In October 2000, the construction loan agreement was modified to increase the total commitment to \$61.0 million, and to decrease the interest rate on \$37.2 million of the loan from LIBOR plus 2.70% to LIBOR plus 2.00%. The project is expected to encompass approximately 550,000 rentable square feet of office space upon completion of all phases. The construction loan is secured by the land for the entire project, the three phases of the project that the Company had completed as of December 31, 2000, and all improvements on one of the two remaining buildings to be constructed.

In June 2000, one of the Development LLCs borrowed \$22.0 million under a mortgage loan that requires monthly principal and interest payments based on a floating annual interest rate of LIBOR plus 1.75%, amortizes over 25 years, and matures in June 2004. The mortgage loan is secured by two buildings that the Company developed with The Allen Group and completed in the fourth quarter of 1999. The Development LLC used the proceeds from the mortgage loan to repay cash received from the Operating Partnership. The Operating Partnership used the proceeds to repay borrowings under the Company's Credit Facility.

In October 2000, the Company obtained a construction loan with a total commitment of \$18.5 million. The construction loan, which had an outstanding

balance at December 31, 2000 of approximately \$9.4 million, bears interest at an annual rate of LIBOR plus 1.75% and matures in October 2002, with the option to extend for twelve months. The proceeds from the construction loan are being used to finance the development of an office project in San Diego, California that is expected to encompass an aggregate of approximately 102,900 rentable square feet upon completion. The construction loan is secured by the improvements to be constructed.

In October 2000, the Company obtained a construction loan with a total commitment of \$13.3 million. The construction loan, which had an outstanding balance at December 31, 2000 of approximately \$4.7 million, bears interest at an annual rate of LIBOR plus 1.75% and matures in April 2002, with the option to extend for up to two six-month periods. The proceeds from the construction loan are being used to finance the development of two office buildings in San Diego, California that are expected to encompass an aggregate of approximately 119,000 rentable square feet upon completion. The construction loan is secured by a first deed of trust on the project.

In November 2000, one of the Development LLCs obtained a construction loan with a total commitment of \$11.8 million. The construction loan, which had an outstanding balance at December 31, 2000 of approximately \$11.4 million, bears interest at an annual rate of LIBOR plus 3.00% and matures in November 2002, with the option to extend for up to two six-month periods. The proceeds from the construction loan are being used to finance the development costs of an office building in San Diego, California that encompasses an aggregate of approximately 76,200 rentable square feet. The construction loan is secured by a first deed of trust on the project.

In December 2000, the Company borrowed \$12.8 million under a mortgage loan that is secured by one Office Property requires monthly principal and interest payments based on an annual interest rate of 8.13% and matures in November 2014. The property securing this loan also secures the Company's \$10.6 million mortgage loan. The Company used the proceeds from the mortgage loan to repay borrowings under the Credit Facility and to finance development expenditures.

The following table sets forth the composition and contractual terms of the Company's secured debt at December 31, 2000 and December 31, 1999:

	2000	1999
	-----	-----
	(in thousands)	
Mortgage note payable, due April 2009, fixed interest at 7.20%, monthly principal and interest payments.....	\$ 92,465	\$ 93,953
Mortgage note payable, due October 2003, interest at LIBOR plus 1.75%, (8.32% and 7.94% at December 31, 2000 and 1999, respectively), monthly interest-only payments(a) (b).....	83,213	90,000
Mortgage note payable, due February 2022, fixed interest at 8.35%, monthly principal and interest payments(c)....	79,495	80,812
Construction loan payable, due April 2002, interest between LIBOR plus 2.00% and LIBOR plus 2.70%, (8.86% at December 31, 2000) (b) (d) (e).....	50,068	
Mortgage note payable, due May 2017, fixed interest at 7.15%, monthly principal and interest payments.....	28,549	29,440
Mortgage note payable, due June 2004, interest at LIBOR plus 1.75%, (8.49% at December 31, 2000), monthly principal and interest payments(b).....	21,890	
Mortgage loan payable, due November 2014, fixed interest at 8.13%, monthly principle and interest payments.....	12,844	
Mortgage note payable, due December 2005, fixed interest at 8.45%, monthly principal and interest payments.....	12,523	12,973

Construction loan payable, due November 2002, interest at LIBOR plus 3.00% (9.73% at December 31, 2000) (b) (e).....	11,367	
Mortgage note payable, due November 2014, fixed interest at 8.43%, monthly principal and interest payments.....	10,578	10,966
Construction loan payable, due October 2002, interest at LIBOR plus 1.75% (8.37% at December 31, 2000) (b) (f).....	9,399	
Mortgage note payable, due December 2003, fixed interest at 10.00%, monthly interest accrued through December 31, 2000, no interest accrues thereafter.....	8,500	
Mortgage note payable, due October 2013, fixed interest at 8.21%, monthly principal and interest payments.....	7,070	7,372
Construction loan payable, due April 2002, interest at LIBOR plus 1.75% (9.10% at December 31, 2000) (b) (e).....	4,727	
	-----	-----
	\$432,688	\$325,516
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- (a) During the year ended December 31, 2000, the Company partially paid down \$6.8 million of the original \$90.0 million principal balance in connection with the disposition of an industrial property in Carlsbad, California.
- (b) The variable interest rates stated as of December 31, 2000 and 1999 are based on the last repricing date during the respective year. The repricing rates may not be equal to LIBOR at December 31, 2000 and 1999.
- (c) Beginning February 2005, the mortgage note is subject to increases in the effective annual interest rate to the greater of 13.35% or the sum of the interest rate for U.S. Treasury Securities maturing 15 years from the reset date plus 2.00%.
- (d) In May 2000, the Company, through one of the Development LLCs, entered into an interest rate cap agreement with a LIBOR based cap rate of 8.50% to effectively limit interest expense on the this variable rate construction loan during periods of increasing interest rates. The agreement has an initial notional amount of \$21.1 million that increases to \$57.0 million during the period from May 2000 through August 2001, and then remains at \$57.0 million until expiration in April 2002. The notional amount of the interest rate cap agreement was approximately \$42.0 million at December 31, 2000.
- (e) This loan contains options to extend the maturity for up to two six-month periods.
- (f) This loan contains an option to extend the maturity twelve months.

The following table sets forth certain information with respect to the maturities and scheduled principal repayments of the Company's secured debt at December 31, 2000, assuming the exercise of all available debt extension options:

Year Ending -----	(in thousands)
2001.....	\$ 5,675
2002.....	6,148
2003.....	173,919
2004.....	27,719
2005.....	16,965
Thereafter.....	202,262

Total.....	\$432,688

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The following table sets forth certain information with respect to the Company's aggregate debt composition at December 31, 2000 and 1999:

	Percentage of Total Debt		Weighted Average Interest Rate	
	December 31, 2000	December 31, 1999	December 31, 2000	December 31, 1999
Secured vs. unsecured:				
Secured.....	59.8%	58.8%	8.2%	7.8%
Unsecured.....	40.2%	41.2%	8.3%	7.6%
Fixed rate vs. variable rate:				
Fixed rate(1) (5).....	55.6%	42.5%	8.1%	7.8%
Variable rate(2) (3) (4).....	44.4%	57.5%	8.4%	7.7%

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- (1) At December 31, 2000, the Company had an interest rate swap agreement to fix LIBOR on \$150 million of its floating rate debt at 6.95% that expires in February 2002.
 - (2) At December 31, 2000, the Company had an interest rate cap agreement to cap LIBOR on \$150 million of its floating rate debt at 6.50%. The Company terminated this interest rate cap agreement in January 2001.
 - (3) In January 2001, the Company entered into an interest rate swap agreement to fix LIBOR on \$150 million of its floating rate debt starting in January 2001 and expiring in November 2002.
 - (4) At December 31, 2000, the Company, through one of the Development LLCs, had an interest-rate cap agreement to cap LIBOR on its floating rate construction debt at 8.50% that expires in April 2002. The notional amount of the cap increases over the life of the agreement as the balance of the related construction loan increases. At December 31, 2000, the notional amount of the interest rate cap was approximately \$42.0 million.
 - (5) The percentage of fixed rate debt to total debt at December 31, 2000 does not take into consideration the portion of floating rate debt capped by the Company's interest-rate cap agreements. Including the effects of the interest-rate cap agreements, the Company had fixed or capped approximately 82.1% of its total outstanding debt at December 31, 2000.

In December 1999, the Company announced the approval of its share repurchase program, pursuant to which the Company is authorized to repurchase up to an aggregate of 3.0 million shares of its outstanding common stock, representing up to approximately 11% of the Company's outstanding shares at the time the program was announced. During December 1999, the Company repurchased 265,000 shares in open market transactions for an aggregate repurchase price of \$5.4 million or \$20.19 per share. During the first quarter of 2000, the Company repurchased 1,999,300 shares of its common stock in open market transactions for an aggregate repurchase price of \$41.2 million or \$20.58 per share. The Company did not repurchase any shares during the remainder of 2000. Repurchases to date total 2,264,300 shares for an aggregate repurchase price of \$46.5 million or \$20.54 per share. Repurchases were funded primarily through working capital, borrowings on the Company's unsecured revolving credit facility, and proceeds received from the Company's disposition program. Depending on market conditions, the Company will evaluate the opportunity to repurchase additional shares in the future.

In February 1998, the SEC declared effective the Company's "shelf" registration statement on Form S-3 with respect to \$400 million of the Company's equity securities. As of March 22, 2001, an aggregate of \$313 million of equity securities were available for issuance under the registration statement.

Capital Expenditures

As of December 31, 2000, the Company had an aggregate of approximately 964,400 rentable square feet of office space that was either under construction or committed for construction at a total budgeted cost of approximately \$232 million. The Company has spent an aggregate of approximately \$111 million on these projects as of December 31, 2000. The Company intends to finance \$18 million of the remaining \$121 million of presently budgeted development costs with proceeds from construction loans obtained in 2000. The Company intends to finance the remaining \$103 million of budgeted development costs with additional construction loan financing, proceeds from the Company's dispositions program of non-strategic assets, borrowings under the Credit Facility and from working capital.

In connection with an agreement signed with The Allen Group in October 1997, the Company agreed to purchase one office property encompassing approximately 128,000 rentable square feet, subject to the property meeting certain occupancy thresholds and other tenancy requirements. The purchase price for this property will be determined at the time of acquisition based on the net operating income at the time of acquisition. The Company expects that in the event that this acquisition does occur, it would be financed with borrowings under the Credit Facility and the issuance of common limited partnership units of the Operating Partnership.

The Company believes that it will have sufficient capital resources to satisfy its obligations and planned capital expenditures for the next twelve months. The Company expects to meet its long-term liquidity requirements including possible future development and undeveloped land acquisitions, through retained cash flow, borrowings under the Credit Facility, proceeds from the Company's dispositions program, long-term secured and unsecured borrowings, or the issuance of common or preferred units of the Operating Partnership.

Historical Recurring Capital Expenditures, Tenant Improvements and Leasing Costs

The following tables set forth the non-incremental revenue generating recurring capital expenditures, excluding expenditures that are recoverable from tenants, tenant improvements and leasing commissions for renewed and re-tenanted space incurred for the three years ended December 31, 2000, 1999, and 1998 on a per square foot basis.

Year Ended December 31,		
2000	1999	1998

Office Properties:

Capital Expenditures:

Capital expenditures per square foot.....	\$ 0.14	\$ 0.08	\$ 0.20
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Tenant Improvement and Leasing Costs(1):

Replacement tenant square feet.....	297,578	196,615	276,992
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Tenant improvements per square foot leased.....	\$	5.03	\$	5.61	\$	1.21
Leasing commissions per square foot leased.....	\$	4.26	\$	4.18	\$	2.12
Total per square foot.....	\$	9.29	\$	9.79	\$	3.33
Renewal tenant square feet.....	244,221	421,685	265,154			
Tenant improvements per square foot leased.....	\$	3.28	\$	2.85	\$	1.00
Leasing commissions per square foot leased.....	\$	1.69	\$	0.84	\$	0.89
Total per square foot.....	\$	4.97	\$	3.69	\$	1.89
Total per square foot per year.....	\$	3.66	\$	2.32	\$	0.84
Average lease term (in years).....		3.9		5.8		6.2

Industrial Properties:

Capital Expenditures:

Capital expenditures per square foot.....	\$	0.05	\$	0.02	\$	0.05
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Tenant Improvement and Leasing Costs(1):

Replacement tenant square feet.....	279,866	323,432	420,194			
Tenant improvements per square foot leased.....	\$	1.24	\$	2.41	\$	0.61
Leasing commissions per square foot leased.....	\$	1.15	\$	1.76	\$	0.44
Total per square foot.....	\$	2.39	\$	4.17	\$	1.05
Renewal tenant square feet.....	604,492	398,184	549,158			
Tenant improvements per square foot leased.....	\$	0.50	\$	0.20	\$	0.06
Leasing commissions per square foot leased.....	\$	0.41	\$	0.07	\$	0.16
Total per square foot.....	\$	0.91	\$	0.27	\$	0.22
Total per square foot per year.....	\$	0.66	\$	0.94	\$	0.22
Average lease term (in years).....		5.0		4.7		5.8

(1) Includes only tenants with lease terms of 12 months or longer. Excludes leases for amenity, parking, retail and month-to-month tenants.

Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to be made to the properties. The Company believes that all of its Office and Industrial Properties are well maintained and, based on engineering reports obtained within the last five years, do not require significant capital improvements. Tenant improvements and leasing costs may also fluctuate in any given year depending upon factors such as the property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Building and Lease Information

The following tables set forth certain information regarding the Company's Office and Industrial Properties at December 31, 2000:

Occupancy by Segment Type

Region	Number of Buildings	Square Feet			Occupancy
		Total	Leased	Available	
Office Properties:					
Los Angeles.....	29	2,759,362	2,685,349	74,013	97.3%
Orange County.....	13	625,893	460,590	165,303	73.6
San Diego.....	35	2,529,613	2,529,613		100.0
Other.....	6	709,575	696,550	13,025	98.2
	83	6,624,443	6,372,102	252,341	96.2%
Industrial Properties:					
Los Angeles.....	7	554,225	553,370	855	99.8%
Orange County.....	62	4,393,537	4,268,033	125,504	97.1
San Diego.....	1	39,669	39,669		100.0

Other.....	8	820,124	820,124		100.0
	---	-----	-----	-----	-----
	78	5,807,555	5,681,196	126,359	97.8%
	---	-----	-----	-----	-----
Total Portfolio.....	161	12,431,998	12,053,298	378,700	97.0%
	===	=====	=====	=====	=====

Leasing Activity by Segment Type
For the year ended December 31, 2000

	Number of Leases (1)		Square Feet (1)		Changes in Rents (2)	Changes in Cash Rents (3)	Retention Rates (4)	Weighted Average Lease Term (in months)
	New	Renewal	New (5)	Renewal				
Office Properties.....	54	49	393,461	244,221	21.6%	15.9%	52.0%	47
Industrial Properties...	42	35	729,533	604,492	27.4%	13.1%	50.4%	60
	---	---	-----	-----	---	---	---	---
Total Portfolio.....	96	84	1,122,994	848,713	23.7%	14.9%	50.9%	55
	===	===	=====	=====	=====	=====		

(1) Includes first and second generation space, net of month-to-month leases. Excludes leasing on new construction. First generation space is defined as the space first leased by the Company.

(2) Calculated as the change between GAAP rents for new/renewed leases and the expiring GAAP rents for the same space.

(3) Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same space.

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

(5) The lease-up of 1,122,994 square feet to new tenants includes re-leasing of 577,444 square feet and first generation leasing of 545,550 square feet.

Distribution Policy

The Company makes quarterly distributions to common stockholders from cash available for distribution and, if necessary to meet REIT distribution requirements and maintain its REIT status, may use borrowings under the Credit Facility. All such distributions are at the discretion of the Board of Directors. Amounts accumulated for distribution are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with the Company's intention to maintain its qualification as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other governmental agency securities, certificates of deposit and interest-bearing bank deposits.

Historical Cash Flows

The principal sources of funding for development, acquisitions, and capital expenditures are the Credit Facility, cash flow from operating activities, secured and unsecured debt financing and proceeds from the Company's dispositions program. The Company's net cash provided by operating activities decreased \$10.6 million, or 12.5% to \$74.0 million for the year ended December 31, 2000 compared to \$84.6 million for the year ended December 31, 1999. This decrease was primarily attributable to timing differences in payments of accounts payable and other receivable balances at the end of each comparable

period.

Net cash used in investing activities decreased \$75.1 million, or 39.0% to \$117.7 million for the year ended December 31, 2000 compared to \$192.8 million for the year ended December 31, 1999. Cash used in investing activities for the year ended December 31, 2000 consisted primarily of the purchase of 20 acres of undeveloped land for \$15.5 million less \$8.5 million for a mortgage note payable issued in connection with the acquisition, expenditures for construction in progress of \$159.4 million, \$15.9 million in additional tenant improvements and capital expenditures, and \$45.3 million paid to acquire a note receivable, net of the effect of net proceeds received from the sale of nine office and nine industrial buildings of approximately \$110.6 million. Cash used in investing activities for the year ended December 31, 1999 consisted primarily of the purchase of three office properties for \$30.6 million less \$3.6 million of contributed value in exchange for which the Company issued common limited partnership units of the Operating Partnership and the repayment of an existing \$2.3 million note receivable, the purchase of the minority interest in one office complex for \$1.2 million, the purchase of 86 acres of undeveloped land for \$38.7 million less \$6.3 million of contributed value in exchange for which the Company issued common limited partnership units of the Operating Partnership, expenditures for construction in progress of \$144.0 million, and \$17.0 million in additional tenant improvements and capital expenditures, net of the effect of net proceeds received from the sale of five office and five industrial properties of approximately \$22.6 million and the sale of 13 acres of undeveloped land of approximately \$5.1 million.

Net cash provided by financing activities decreased \$92.6 million, or 72.5% to \$35.2 million for the year ended December 31, 2000 as compared to \$127.8 million for the year ended December 31, 1999. Cash provided by financing activities for the year ended December 31, 2000 consisted primarily of \$194.6 million in net proceeds from the issuance of secured and unsecured debt partially offset by \$37.0 million in repayments to the Credit Facility, \$54.2 million in distributions paid to common stockholders and common unitholders, \$41.3 million paid for securities purchased in the Company's stock repurchase program and a \$28.4 million increase in restricted cash representing cash received from property dispositions that are held at Qualified Intermediaries for future use in tax deferred exchanges. Cash provided by financing activities for the year ended December 31, 1999 consisted primarily of the issuance of \$45.0 million of 9.250% Series D Preferred units (net of \$1.2 million aggregate transaction costs) and \$186.7 million in net proceeds from the issuance of secured debt partially offset by \$54.0 million in distributions paid to common stockholders and common unitholders, \$44.0 million in repayments to the Credit Facility and \$5.4 million paid for securities purchased in the Company's stock repurchase program.

Funds From Operations

Industry analysts generally consider Funds From Operations, as defined by NAREIT, an alternative measure of performance for an equity REIT. Funds From Operations is defined by NAREIT to mean net income (loss) before minority interests of common unitholders (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures. The Company considers Funds From Operations an appropriate measure of performance of an equity REIT because it is predicated on cash flow analyses. The Company believes that in order to facilitate a clear understanding of the historical operating results of the Company, Funds From Operations should be examined in conjunction with net income as presented in the financial statements included elsewhere in this report. The Company computes Funds From Operations in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper as

clarified by the November 1999 NAREIT National Policy Bulletin which became effective on January 1, 2000, which may differ from the methodologies used by other equity REITs and, accordingly, may not be comparable to Funds From Operations published by such other REITs. Funds From Operations should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of the properties' financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of the properties' liquidity, nor is it indicative of funds available to fund the properties' cash needs, including the Company's ability to pay dividends or make distributions.

The following table presents the Company's Funds from Operations, by quarter, for the years ended December 31, 2000, 1999 and 1998:

2000 Quarter Ended				
	December 31,	September 30,	June 30,	March 31,
	(in thousands)			
Net income.....	\$ 8,786	\$15,679	\$12,804	\$ 9,578
Adjustments:				
Minority interest in earnings of Operating Partnership.....	1,241	2,227	1,843	1,372
Depreciation and amortization..	11,037	9,941	9,645	9,323
(Gains) losses on dispositions of operating properties.....		(7,288)	(4,273)	305
Non-cash amortization of restricted stock grants.....	508	508	134	102
Funds From Operations.....	\$21,572	\$21,067	\$20,153	\$20,680
	=====	=====	=====	=====

1999 Quarter Ended				
	December 31,	September 30,	June 30,	March 31,
	(in thousands)			
Net income.....	\$ 8,278	\$10,911	\$10,796	\$ 9,910
Adjustments:				
Minority interest in earnings of Operating Partnership.....	1,294	1,830	1,820	1,536
Depreciation and amortization..	11,217	7,900	7,460	7,217
(Gains) losses on dispositions of operating properties.....	29	(75)		
Non-cash amortization of restricted stock grants.....	127	127	127	127
Funds From Operations.....	\$20,945	\$20,693	\$20,203	\$18,790
	=====	=====	=====	=====

1998 Quarter Ended				
	December 31,	September 30,	June 30,	March 31,
	(in thousands)			
Net income.....	\$10,173	\$ 9,985	\$ 9,785	\$ 8,879
Adjustments:				
Minority interest in earnings of Operating Partnership.....	1,528	1,451	1,432	1,210
Depreciation and amortization..	7,041	6,740	6,565	5,854

Non-cash amortization of restricted stock grants.....	126	175	112	118
	-----	-----	-----	-----
Funds From Operations.....	\$18,868	\$18,351	\$17,894	\$16,061
	=====	=====	=====	=====

Inflation

The majority of the Company's leases require tenants to pay most operating expenses, including real estate taxes and insurance, and increases in common area maintenance expenses. The effect of such provisions is to reduce the Company's exposure to increases in costs and operating expenses resulting from inflation.

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New Accounting Pronouncements

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133" ("SFAS 138") in June 1998 and June 2000, respectively. SFAS 133 and SFAS 138 are effective for fiscal years beginning after June 15, 2000 and require all derivatives to be recorded on the balance sheet at fair value. If the derivative instrument qualifies as a hedge, depending on the nature of the hedge, changes in fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company adopted SFAS 133 and 138 on January 1, 2001 and recorded a \$2.0 million non-cash charge to other comprehensive income and a \$1.4 million non-cash charge to the income statement as the cumulative effect of a change in accounting principle.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about the Company's changes in primary risk exposures from December 31, 1999 to December 31, 2000 and changes subsequent to December 31, 2000, is incorporated herein by reference from "Item 2: Management Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Tabular Presentation of Market Risk

The tabular presentations below provide information about the Company's interest rate sensitive financial and derivative instruments as of December 31, 2000 and 1999. All of the Company's interest rate sensitive financial and derivative instruments are designated as held for purposes other than trading.

Presentation at December 31, 2000

For the Credit Facility, the table presents the assumption that the outstanding principal balance at December 31, 2000 will be paid upon the Credit Facility's maturity in November 2002. The table also presents the expected maximum contractual weighted average interest rate index for outstanding Credit Facility borrowings from 2001 through 2002.

For variable rate secured debt and unsecured term debt, the table presents the assumption that all available debt extension options will either be exercised or extended and that the outstanding principal balance at December 31, 2000 will be paid upon the extended debt maturities. The table also

presents the contractual weighted average interest rate index for outstanding variable rate mortgage debt borrowings from 2001 through 2004.

For fixed rate secured debt, the table presents the assumption that the outstanding principal balance at December 31, 2000 will be paid according to scheduled principal payments and that the Company will not prepay any of the outstanding principal balance. The table also presents the related contractual weighted-average interest rate at December 31, 2000 for outstanding fixed rate secured debt borrowings from 2001 through 2005 and thereafter.

For the Series A and Series C Cumulative Redeemable Preferred units (collectively, the "Series A and Series C Preferred units") the table reflects the assumption that the Company is not contractually obligated to repay the outstanding balance of the Series A and Series C Preferred units since the Series A and Series C Preferred units will either remain outstanding or be converted into shares of the Company's 8.075% Series A and 9.375% Series C Cumulative Redeemable Preferred stock, respectively, in 2008 when the Series A and Series C Preferred units become exchangeable at the option of the majority of the holders. For the Series D Cumulative Redeemable Preferred units (the "Series D Preferred units"), the table reflects the assumption that the Company is not contractually obligated to repay the outstanding balance of the Series D Preferred units since the Series D Preferred units will either remain outstanding or be converted into shares of the 9.250% Series D Cumulative Redeemable Preferred stock in 2009 when the Series D Preferred units become exchangeable at the option of the majority of the holders. The table also presents the related weighted-average interest rate at December 31, 2000 for outstanding collectively, Series A, C and D Preferred units from 2001 through the exchange date. The same interest rates will apply when the collectively, Series A, C or D Preferred units are exchanged into the respective Series A, C or D Cumulative Redeemable Preferred stock.

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For the interest rate cap agreement, the table presents the notional amount, cap rate and the related interest rate index upon which the cap rate is based, by contractual maturity date. For the interest rate swap agreement, the table presents the notional amount, maximum contractual fixed pay rate, and related interest rate index upon which the floating receive rate is based, by contractual maturity date. Notional amounts are used solely to calculate the contractual cash flow to be received under the contract and do not reflect outstanding principal balances at December 31, 2000.

Interest Rate Risk Analysis--Tabular Presentation
Financial Assets and Liabilities
Outstanding Principal by Expected Maturity Date
(dollars in millions)

	Maturity Date						Fair Value at December 31, 2000
	2001	2002	2003	2004	2005	Thereafter	Total
Liabilities:							
Unsecured line of credit:							
Variable rate.....		\$191.0					\$191.0
Average interest rate index.....	LIBOR	LIBOR					
	+1.50%	+1.50%					
Secured debt & unsecured term debt:							
Variable rate.....	\$ 0.3	\$ 0.3	\$159.1	\$121.0			\$280.7
Average interest rate index.....	LIBOR	LIBOR	LIBOR	LIBOR			
	+1.78%	+1.78%	+1.78%	+1.78%			

Fixed rate.....	\$ 5.4	\$ 5.8	\$ 14.8	\$ 6.8	\$17.0	\$202.2	\$252.0	\$256.7
Average interest rate.....	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%		

Series A, C and D
Preferred units:
Fixed rate..... \$142.1
Average interest rate..... 8.71% 8.71% 8.71% 8.71% 8.71% 8.71%

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Interest Rate Risk Analysis--Tabular Presentation
Financial Derivative Instruments
Notional Amounts by Contractual Maturity
(dollars in millions)

	Maturity Date						Fair Value at December 31, 2000
	2001	2002	2003	2004	2005	Thereafter	Total

Interest Rate
Derivatives Used to
Hedge Variable Rate
Debt:

Interest rate cap
agreements:

Notional amount.....	\$207.0						\$207.0	\$ 0.1
Cap rate.....	7.05%	7.05%						
Forward rate index....	LIBOR	LIBOR						

Interest rate swap
agreement:

Notional amount.....	\$150.0						\$150.0	\$ (2.0)
Fixed pay interest rate.....	6.95%	6.95%						
Floating receive interest rate index..	LIBOR	LIBOR						

Presentation at December 31, 1999

For the Credit Facility, the table presents the assumption that the outstanding principal balance at December 31, 1999 will be paid upon the Credit Facility's maturity in November 2002. The table also presents the expected maximum contractual weighted average interest rate index for outstanding Credit Facility borrowings from 2000 through 2002.

For variable rate secured debt, the table presents the assumption that the outstanding principal balance at December 31, 1999 will be paid according to scheduled principal payments. The table also presents the contractual weighted average interest rate index for outstanding variable rate mortgage debt borrowings from 2000 through 2003.

For fixed rate secured debt, the table presents the assumption that the outstanding principal balance at December 31, 1999 will be paid according to scheduled principal payments and that the Company will not prepay any of the outstanding principal balance. The table also presents the related weighted-average interest rate at December 31, 1999 for outstanding fixed rate mortgage debt borrowings from 2000 through 2004 and thereafter.

For the Series A, C and D Preferred units the table presents the same assumptions as discussed for the presentation at December 31, 2000.

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For interest rate caps, the table presents notional amounts, average cap rates and the related interest rate index upon which cap rates are based, by contractual maturity date. Notional amounts are used solely to calculate the contractual cash flow to be received under the contract and do not reflect outstanding principal balances at December 31, 1999.

Interest Rate Risk Analysis--Tabular Presentation
Financial Assets and Liabilities
Outstanding Principal by Expected Maturity Date
(dollars in millions)

	Maturity Date							Fair Value at
	2000	2001	2002	2003	2004	Thereafter	Total	December 31, 1999
Liabilities:								
Unsecured line of credit:								
Variable rate.....			\$228.0				\$228.0	\$228.0
Average interest rate index.....		LIBOR +1.50%	LIBOR +1.50%	LIBOR +1.50%				
Secured debt:								
Variable rate.....				\$ 90.0			\$ 90.0	\$ 90.0
Average interest rate index.....		LIBOR +1.75%	LIBOR +1.75%	LIBOR +1.75%	LIBOR +1.75%	LIBOR +1.75%		
Fixed rate.....	\$ 4.8	\$ 5.2	\$ 5.6	\$ 6.1	\$ 6.6	\$207.2	\$235.5	\$225.4
Average interest rate.....	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%		
Series A, C and D Preferred units:								
Fixed rate.....								\$145.9
Average interest rate.....	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%		

Interest Rate Risk Analysis--Tabular Presentation
Financial Derivative Instruments
Notional Amounts by Contractual Maturity
(dollars in millions)

	Maturity Date							Fair Value at
	2000	2001	2002	2003	2004	Thereafter	Total	December 31, 1999
Interest Rate Derivatives Used to Hedge the Line of Credit:								
Interest rate cap agreements:								
Notional amount.....	\$150.0						\$150.0	\$ --
Cap rate.....	6.50%							
Forward rate index....	LIBOR							

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See the index included at "Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K."

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting presently scheduled to be held on May 22, 2001.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting presently scheduled to be held on May 22, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting presently scheduled to be held on May 22, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting presently scheduled to be held on May 22, 2001.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

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

Independent Auditors' Report.....	F-2
Consolidated Balance Sheets as of December 31, 2000 and 1999.....	F-3
Consolidated Statements of Operations for the Years ended December 31, 2000, 1999 and 1998.....	F-4
Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2000, 1999 and 1998.....	F-5
Consolidated Statements of Cash Flows for the Years ended December 31, 2000, 1999 and 1998.....	F-6
Notes to Consolidated Financial Statements.....	F-7
Schedule of Valuation and Qualifying Accounts.....	F-38

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

thereto.

(3) Exhibits

Exhibit Number -----	Description -----
3.1	Articles of Amendment and Restatement of the Registrant(1)
3.2	Amended and Restated Bylaws of the Registrant(1)
3.3	Form of Certificate for Common Stock of the Registrant(1)
3.4	Articles Supplementary of the Registrant designating 8.075% Series A Cumulative Redeemable Preferred Stock(10)
3.5	Articles Supplementary of the Registrant, designating 8.075% Series A Cumulative Redeemable Preferred Stock(13)
3.6	Articles Supplementary of the Registrant designating its Series B Junior Participating Preferred Stock(23)
3.7	Articles Supplementary of the Registrant designating its 9.375% Series C Cumulative Redeemable Preferred Stock(15)
3.8	Articles Supplementary of the Registrant designating its 9.250% Series D Cumulative Redeemable Preferred Stock(20)
4.1	Registration Rights Agreement, dated January 31, 1998(1)
4.2	Registration Rights Agreement, dated February 6, 1999(10)
4.3	Registration Rights Agreement, dated April 20, 1999(13)
4.4	Registration Rights Agreement, dated November 24, 1999(15)
4.5	Registration Rights Agreement, dated as of October 31, 1998(7)

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Exhibit Number -----	Description -----
4.6	Rights Agreement, dated as of October 2, 1999 between Kilroy Realty Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes the form of Articles Supplementary of the Series B Junior Participating Preferred Stock of Kilroy Realty Corporation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C(16)
4.7	Registration Rights Agreement, dated as of December 9, 1999(20)
*4.8	Registration Rights Agreement, dated as of October 6, 2000
4.9	The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the

total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request

- 10.1 Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated November 24, 1999(15)
- 10.2 Omnibus Agreement, dated as of October 30, 1996, by and among Kilroy Realty, L.P. and the parties named therein(1)
- 10.3 Supplemental Representations, Warranties and Indemnity Agreement by and among Kilroy Realty, L.P. and the parties named therein(1)
- 10.4 Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries(1)
- 10.5 1998 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P.(1)
- 10.6 Form of Indemnity Agreement of the Registrant and Kilroy Realty, L.P. with certain officers and directors(1)
- 10.7 Lease Agreement, dated January 24, 1989, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I(1)
- 10.8 First Amendment to Lease Agreement, dated December 28, 1990, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I(1)
- 10.9 Lease Agreement, dated July 17, 1985, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III(1)
- 10.10 Lease Agreement, dated April 21, 1988, by and between Kilroy Long Beach Associates and the Board of Water Commissioners of the City of Long Beach, acting for and on behalf of the City of Long Beach, for Long Beach Phase IV(1)
- 10.11 Lease Agreement, dated December 30, 1988, by and between Kilroy Long Beach Associates and City of Long Beach for Kilroy Long Beach Phase II(1)
- 10.12 First Amendment to Lease, dated January 24, 1989, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III(1)
- 10.13 Second Amendment to Lease Agreement, dated December 28, 1990, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III(1)
- 10.14 First Amendment to Lease Agreement, dated December 28, 1990, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II(1)
- 10.15 Third Amendment to Lease Agreement, dated October 10, 1994, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III(1)
- 10.16 Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach(1)
- 10.17 Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach(1)

Exhibit Number -----	Description -----
10.18	Ground Lease by and between Frederick Boysen and Ted Boysen and Kilroy Industries, dated May 15, 1969, for SeaTac Office Center(1)
10.19	Amendment No. 1 to Ground Lease and Grant of Easement, dated April 27, 1973, among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties(1)
10.20	Amendment No. 2 to Ground Lease and Grant of Easement, dated May 17, 1977, among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties(1)
10.21	Airspace Lease, dated July 10, 1980, by and among the Washington State Department of Transportation, as lessor, and Sea Tac Properties, Ltd. and Kilroy Industries, as lessee(1)
10.22	Lease, dated April 1, 1980, by and among Bow Lake, Inc., as lessor, and Kilroy Industries and SeaTac Properties, Ltd., as lessees for Sea/Tac Office Center(1)
10.23	Amendment No. 1 to Ground Lease, dated September 17, 1990, between Bow Lake, Inc., as lessor, and Kilroy Industries and Sea/Tac Properties, Ltd., as lessee(1)
10.24	Amendment No. 2 to Ground Lease, dated March 21, 1991, between Bow Lake, Inc., as lessor, and Kilroy Industries and Sea/Tac Properties, Ltd., as lessee(1)
10.25	Property Management Agreement between Kilroy Realty Finance Partnership, L.P. and Kilroy Realty, L.P.(1)
10.26	Environmental Indemnity Agreement(1)
10.27	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Airport Imperial Co.(1)
10.28	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Calabasas Associates(1)
10.29	Employment Agreement between the Registrant and John B. Kilroy, Jr.(1)
10.30	Employment Agreement between the Registrant and Richard E. Moran Jr.(1)
10.31	Employment Agreement between the Registrant and Jeffrey C. Hawken(1)
10.32	Employment Agreement between the Registrant and C. Hugh Greenup(1)
10.33	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr.(1)
10.34	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Jr.(1)
10.35	License Agreement by and among the Registrant and the other persons named therein(1)
10.36	Form of Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases, Rents and Security Deposits(1)

- 10.37 Mortgage Note(1)
- 10.38 Indemnity Agreement(1)
- 10.39 Assignment of Leases, Rents and Security Deposits(1)
- 10.40 Variable Interest Rate Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases and Rents(1)
- 10.41 Environmental Indemnity Agreement(1)
- 10.42 Assignment, Rents and Security Deposits(1)
- 10.43 Form of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases and Rents(1)
- 10.44 Assignment of Leases, Rents and Security Deposits(1)
- 10.45 Purchase and Sale Agreement and Joint Escrow Instructions, dated April 30, 1998, by and between Mission Land Company, Mission-Vacaville, L.P. and Kilroy Realty, L.P.(2)

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Exhibit Number -----	Description -----
10.46	Agreement of Purchase and Sale and Joint Escrow Instructions, dated April 30, 1998, by and between Camarillo Partners and Kilroy Realty, L.P.(2)
10.47	Purchase and Sale Agreement and Escrow Instructions, dated May 5, 1998, by and between Kilroy Realty, L.P. and Pullman Carnegie Associates(4)
10.48	Amendment to Purchase and Sale Agreement and Escrow Instructions, dated June 27, 1998, by and between Pullman Carnegie Associates and Kilroy Realty, L.P.(4)
10.49	Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions, dated May 12, 1998, by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P.(3)
10.50	First Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions, dated June 6, 1998, between Kilroy Realty, L.P. and Shidler West Acquisition Company, L.L.C. and Kilroy Realty, L.P.(3)
10.51	Second Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions, dated June 12, 1998, by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P.(3)
10.52	Agreement of Purchase and Sale and Joint Escrow Instructions, dated June 12, 1998, by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P.(4)
10.53	Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions, dated June 30, 1998, by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P.(4)

- 10.54 Agreement for Purchase and Sale of 2100 Colorado Avenue, Santa Monica, California, dated June 16, 1998, by and between Santa Monica Number Seven Associates L.P. and Kilroy Realty L.P.(4)
- 10.55 Second Amendment to Credit Agreement and First Amendment to Variable Interest Rate Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases and Rent dated August 13, 1998(5)
- 10.56 Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners(6)
- 10.57 First Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated August 22, 1998(6)
- 10.58 Second Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 5, 1998(6)
- 10.59 Third Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 19, 1998(6)
- 10.60 Fourth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 22, 1998(6)
- 10.61 Fifth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 23, 1998(6)
- 10.62 Sixth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 25, 1998(6)
- 10.63 Seventh Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 29, 1998(6)

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Exhibit Number -----	Description -----
10.64	Eighth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated October 2, 1998(6)
10.65	Ninth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated October 24, 1998(6)
10.66	Contribution Agreement, dated October 21, 1998, by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens(8)
10.67	Purchase and Sale Agreement and Escrow Instructions, dated December 11, 1998, by and between Kilroy Realty, L.P. and Swede-Cal Properties, Inc., Viking Investors of Southern California, L.P. and

Viking Investors of Southern California II, L.P.(9)

- 10.68 Amendment to the Contribution Agreement, dated October 14, 1999, by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens, dated October 21, 1998(15)
- 10.69 Amended and Restated Revolving Credit Agreement, dated as of October 8, 1999 among Kilroy Realty, L.P., Morgan Guaranty Trust Company of New York, as Bank and as Lead Agent for the Banks, and the Banks listed therein.(14)
- 10.70 Amended and Restated Guaranty of Payment, dated as of October 8, 1999, between Kilroy Realty Corporation and Morgan Guaranty Trust Company of New York.(14)
- 10.71 Promissory Notes Aggregating \$95.0 Million Payable to Teachers Insurance and Annuity Association of America(18)
- 10.72 Form of Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement Securing Promissory Notes Payable to Teachers Insurance and Annuity Association of America(18)
- 10.73 Second Amended and Restated Revolving Credit Agreement and Form of Notes Aggregating \$400 million(19)
- 10.74 Second Amended and Restated Guaranty of Payment(19)
- 10.75 Credit Agreement and Form of Promissory Notes Aggregating \$90.0 million(19)
- 10.76 Variable Interest Rate Deed of Trust, Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing(19)
- 10.77 Guaranty of Recourse Obligations of Borrowing(19)
- 10.78 First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated December 9, 1999(21)
- *10.79 Second Amendment to Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated December 30, 1999
- *10.80 Admission of New Partner and Amendment to New Partnership Agreement dated October 6, 2000
- 10.81 Credit Agreement and Form of Promissory Notes Aggregating \$100.0 million(22)
- 21.1 List of Subsidiaries of the Registrant(17)
- *23.1 Consent of Deloitte & Touche LLP
- *24.1 Power of Attorney (included in the signature page of this Form 10-K)

* Filed herewith

** Previously filed

- (1) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-15553) as declared effective in January 28, 1998 and incorporated herein by reference.

- (2) Previously filed as exhibit 10.11 and 10.12, respectively, to the Current Report on Form 8-K, dated May 22, 1998, and incorporated herein by reference.

- (3) Previously filed as exhibit 10.57, 10.58 and 10.59, respectively, to the Current Report on Form 8-K, dated June 30, 1998, and incorporated herein by reference.
- (4) Previously filed as exhibit 10.54, 10.59, 10.60, 10.61 and 10.62, respectively, to the Current Report on Form 8-K, dated June 30, 1998, and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-32261), and incorporated herein by reference.
- (6) Previously filed as an exhibit on Form 10-Q, for the quarterly period ended September 30, 1998, and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Current Report on Form 8-K/A, dated October 29, 1998, and incorporated herein by reference.
- (8) Previously filed as exhibit 10.70 and 10.71, respectively, to the Current Report on Form 8-K, dated November 7, 1998, and incorporated herein by reference.
- (9) Previously filed as exhibit 10.70 to the Current Report on Form 8-K, dated December 17, 1998, and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K dated February 6, 1999 and incorporated herein by reference.
- (11) Previously filed as an exhibits to the Current Report on Form 8-K (No. 1-12675) dated October 2, 1999 and incorporated herein by reference.
- (12) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated October 29, 1998 and incorporated herein by reference.
- (13) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated April 20, 1999 and incorporated herein by reference.
- (14) Previously filed as an exhibit on Form 10-Q (No. 1-12675) for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- (15) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated November 24, 1999 and incorporated herein by reference.
- (16) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated October 2, 1999 and incorporated herein by reference.
- (17) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-15553) and incorporated herein by reference.
- (18) Previously filed as an exhibit on Form 10-Q, for the quarterly period ended March 31, 1999, and incorporated herein by reference.
- (19) Previously filed as an exhibit on Form 10-Q, for the quarterly period ended September 30, 1999, and incorporated herein by reference.
- (20) Previously filed as exhibit 3.8 to the annual report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.
- (21) Previously filed as exhibit 4.18 to the Registration Statement on Form S-3 (No. 333-34638) and incorporated herein by reference.
- (22) Previously filed as an exhibit on Form 10-Q for the quarterly period ended September 30, 2000, and incorporated herein by reference.
- (23) Previously filed as an exhibit on the Registration Statement on Form S-3 (No. 333-72229) as declared effective on September 15, 1999, and incorporated herein by reference.

(b) Reports on Form 8K

The Company filed two Current Reports on Form 8-K (No. 1-12675) dated May 8, 2000 and November 2, 2000 in connection with its quarterly earnings releases.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 26, 2001.

Kilroy Realty Corporation

/s/ John B. Kilroy, Jr.

By: _____
John B. Kilroy, Jr.
President and Chief Executive
Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors of Kilroy Realty Corporation, hereby severally constitute John B. Kilroy, Sr., John B. Kilroy, Jr., Jeffrey C. Hawken, Richard E. Moran Jr. and Ann Marie Whitney, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Form 10-K filed herewith and any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable Kilroy Realty Corporation to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Form 10-K and any and all amendments thereto.

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

Name ----	Title -----	Date ----
/s/ John B. Kilroy, Sr. _____ John B. Kilroy, Sr.	Chairman of the Board	March 26, 2001
/s/ John B. Kilroy, Jr. _____ John B. Kilroy, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 2001
/s/ Richard E. Moran Jr. _____ Richard E. Moran Jr.	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 26, 2001
/s/ Ann Marie Whitney _____ Ann Marie Whitney	Senior Vice President and Controller (Principal Accounting	March 26, 2001

Officer)

/s/ John R. D'Eathe

Director

March 26, 2001

John R. D'Eathe

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Name

Title

Date

/s/ William P. Dickey

Director

March 26, 2001

William P. Dickey

/s/ Matthew J. Hart

Director

March 26, 2001

Matthew J. Hart

/s/ Dale F. Kinsella

Director

March 26, 2001

Dale F. Kinsella

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KILROY REALTY CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2000 AND 1999
AND FOR THE THREE YEARS THEN ENDED

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Kilroy Realty Corporation:

We have audited the accompanying consolidated balance sheets of Kilroy Realty Corporation (the "Company") as of December 31, 2000 and 1999 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the index at Item 8. These financial statements and the financial statement schedule are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

Deloitte & Touche LLP

Los Angeles, California
March 9, 2001

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

	December 31,	
	2000	1999
ASSETS		
INVESTMENT IN REAL ESTATE (Notes 2, 3, 6, 13, 15, 19, and 20):		
Land and improvements.....	\$ 266,444	\$ 274,463
Buildings and improvements.....	1,054,995	946,130
Undeveloped land and construction in progress, net...	162,633	189,645
Investment in unconsolidated real estate.....	12,405	
	-----	-----
Total investment in real estate.....	1,496,477	1,410,238
Accumulated depreciation and amortization.....	(205,332)	(174,427)
	-----	-----
Investment in real estate, net.....	1,291,145	1,235,811
CASH AND CASH EQUIVALENTS.....	17,600	26,116

RESTRICTED CASH (Note 2).....	35,014	6,636
TENANT RECEIVABLES, NET (Note 4).....	32,521	22,078
NOTE RECEIVABLE FROM RELATED PARTY (Note 13).....	33,274	
DEFERRED FINANCING AND LEASING COSTS, NET (Note 5).....	39,674	27,840
PREPAID EXPENSES AND OTHER ASSETS.....	7,941	2,020
	-----	-----
TOTAL ASSETS.....	\$1,457,169	\$1,320,501
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Secured debt (Note 6).....	\$ 432,688	\$ 325,516
Unsecured line of credit (Note 7).....	191,000	228,000
Unsecured term facility (Note 7).....	100,000	
Accounts payable and accrued expenses.....	33,911	26,260
Accrued distributions (Note 9).....	13,601	13,456
Rents received in advance and tenant security deposits.....	17,810	20,287
	-----	-----
Total liabilities.....	\$ 789,010	\$ 613,519
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 12 and 13)		
MINORITY INTERESTS (Note 8):		
8.075% Series A Cumulative Redeemable Preferred unitholders.....	73,716	73,716
9.375% Series C Cumulative Redeemable Preferred unitholders.....	34,464	34,464
9.250% Series D Cumulative Redeemable Preferred unitholders.....	44,321	44,022
Common unitholders of the Operating Partnership.....	62,485	71,920
Minority interest in Development LLCs.....	11,748	9,931
	-----	-----
Total minority interests.....	226,734	234,053
	-----	-----
STOCKHOLDERS' EQUITY (Note 9):		
Preferred stock, \$.01 par value, 26,200,000 shares authorized, none issued and outstanding.....		
8.075% Series A Cumulative Redeemable Preferred stock, \$.01 par value, 1,700,000 shares authorized, none issued and outstanding.....		
Series B Junior Participating Preferred stock, \$.01 par value, 400,000 shares authorized, none issued and outstanding.....		
9.375% Series C Cumulative Redeemable Preferred stock, \$.01 par value, 700,000 shares authorized, none issued and outstanding.....		
9.250% Series D Cumulative Redeemable Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued and outstanding.....		
Common stock, \$.01 par value, 150,000,000 shares authorized, 26,475,470 and 27,808,410 shares issued and outstanding, respectively.....	265	278
Additional paid-in capital.....	460,390	491,204
Distributions in excess of earnings.....	(19,230)	(18,553)
	-----	-----
Total stockholders' equity.....	441,425	472,929
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$1,457,169	\$1,320,501
	=====	=====

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION

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

	Year Ended December 31,		
	2000	1999	1998
<hr/>			
REVENUES (Note 15):			
Rental income.....	\$ 161,236	\$ 140,182	\$ 117,338
Tenant reimbursements.....	19,441	16,316	14,956
Interest income.....	4,602	1,175	1,698
Other income (Note 2).....	1,834	2,027	3,096
	<hr/>	<hr/>	<hr/>
Total revenues.....	187,113	159,700	137,088
	<hr/>	<hr/>	<hr/>
EXPENSES:			
Property expenses.....	23,347	20,669	19,281
Real estate taxes.....	14,591	12,369	10,383
General and administrative expenses.....	11,114	9,091	7,739
Ground leases.....	1,643	1,397	1,223
Provision for potentially unrecoverable pre-development costs.....			1,700
Interest expense.....	39,109	26,309	20,568
Depreciation and amortization.....	41,125	33,794	26,200
	<hr/>	<hr/>	<hr/>
Total expenses.....	130,929	103,629	87,094
	<hr/>	<hr/>	<hr/>
INCOME FROM OPERATIONS BEFORE NET GAINS ON DISPOSITIONS OF OPERATING PROPERTIES, EQUITY IN INCOME OF UNCONSOLIDATED SUBSIDIARY, AND MINORITY INTERESTS.....	56,184	56,071	49,994
NET GAINS ON DISPOSITIONS OF OPERATING PROPERTIES.....	11,256	46	
EQUITY IN INCOME OF UNCONSOLIDATED SUBSIDIARY.....	10	17	5
	<hr/>	<hr/>	<hr/>
INCOME BEFORE MINORITY INTERESTS.....	67,450	56,134	49,999
MINORITY INTERESTS:			
Distributions on Cumulative Redeemable Preferred units.....	(13,500)	(9,560)	(5,556)
Minority interest in earnings of Operating Partnership.....	(6,683)	(6,480)	(5,621)
Minority interest in earnings of Development LLCs.....	(421)	(199)	
	<hr/>	<hr/>	<hr/>
Total minority interests.....	(20,604)	(16,239)	(11,177)
	<hr/>	<hr/>	<hr/>
NET INCOME.....	\$ 46,846	\$ 39,895	\$ 38,822
	<hr/>	<hr/>	<hr/>
Net income per common share--basic (Note 16).....	\$ 1.76	\$ 1.44	\$ 1.44
	<hr/>	<hr/>	<hr/>
Net income per common share--diluted (Note 16).....	\$ 1.75	\$ 1.44	\$ 1.43
	<hr/>	<hr/>	<hr/>
Weighted average shares outstanding--basic (Note 16).....	26,598,926	27,701,495	26,989,422
	<hr/>	<hr/>	<hr/>

Weighted average shares outstanding--

diluted (Note 16)	26,754,984	27,727,303	27,059,988
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share data)

	Number of Shares	Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings	Total
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1997.....	24,475,000	\$245	\$403,163	\$ (6,258)	\$397,150
Issuance of common stock.....	3,174,210	31	81,782		81,813
Non-cash amortization of restricted stock grants (Note 11).....			531		531
Repurchase of common stock.....	(10,000)		(285)		(285)
Adjustment for minority interest.....			2,276		2,276
Dividends declared (\$1.62 per share).....				(44,408)	(44,408)
Net income.....				38,822	38,822
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1998.....	27,639,210	276	487,467	(11,844)	475,899
Conversion of common units of the Operating Partnership (Note 9)...	444,200	4	(15,644)		(15,640)
Non-cash amortization of restricted stock grants (Note 11).....			508		508
Repurchase of common stock (Note 9).....	(275,000)	(2)	(5,564)		(5,566)
Adjustment for minority interest.....			24,437		24,437
Dividends declared (\$1.68 per share).....				(46,604)	(46,604)
Net income.....				39,895	39,895
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1999.....	27,808,410	278	491,204	(18,553)	472,929
Repurchase of common stock (Note 9).....	(2,009,300)	(20)	(41,440)		(41,460)
Conversion of common units of the Operating Partnership (Note 9)...	481,290	5	(10,714)		(10,709)
Issuance of restricted stock (Note 11).....	175,000	2			2
Non-cash amortization of restricted stock grants (Note 11).....			1,252		1,252
Exercise of stock options (Note 11).....	20,070		192		192

Adjustment for minority interest.....			19,896		19,896
Dividends declared (\$1.80 per share).....				(47,523)	(47,523)
Net income.....				46,846	46,846
	-----	----	-----	-----	-----
BALANCE AT DECEMBER 31, 2000.....	26,475,470	\$265	\$460,390	\$ (19,230)	\$441,425
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 46,846	\$ 39,895	\$ 38,822
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	41,125	33,794	26,200
Provision for uncollectible tenant receivables and unbilled deferred rent....	3,650	2,158	1,107
Provision for potentially unrecoverable pre-development costs.....			1,700
Minority interests in earnings of Operating Partnership and Development LLCs.....	7,104	6,679	5,621
Non-cash amortization of restricted stock grants.....	1,252	508	531
Net gains on dispositions of operating properties and undeveloped land.....	(11,256)	(585)	
Other.....	523	(216)	(281)
Changes in assets and liabilities:			
Tenant receivables.....	(15,963)	(5,317)	(9,370)
Deferred leasing costs.....	(3,814)	(4,808)	(2,652)
Prepaid expenses and other assets.....	(2,371)	(698)	1,483
Accounts payable and accrued expenses....	7,143	10,392	7,455
Rents received in advance and tenant security deposits.....	(529)	2,538	1,719
Accrued distributions to Cumulative Redeemable Preferred unitholders.....	299	295	1,094
	-----	-----	-----
Net cash provided by operating activities.....	74,009	84,635	73,429
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for operating properties.....	(15,899)	(43,159)	(242,287)
Expenditures for undeveloped land and construction in progress.....	(166,391)	(178,244)	(98,438)
Net proceeds received from dispositions of operating properties.....	110,639	22,612	
Net proceeds received from dispositions of undeveloped land.....		5,051	
Cash paid to acquire note receivable from related party.....	(45,278)		(8,798)

(Increase) decrease in escrow deposits.....	(1,106)	350	4,764
Net investment in unconsolidated subsidiary..	304	595	1,042
	-----	-----	-----
Net cash used in investing activities...	(117,731)	(192,795)	(343,717)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock...			81,813
Repurchases of common stock.....	(41,266)	(5,350)	
Proceeds from issuance of secured and unsecured debt.....	210,405	215,000	5,000
Net (repayments) borrowings on unsecured line of credit.....	(37,000)	(44,000)	130,000
Net proceeds from issuance of Cumulative Redeemable Preferred units.....		43,779	107,034
Principal payments on secured debt.....	(11,733)	(22,867)	(2,979)
Financing costs.....	(4,068)	(5,392)	(3,007)
(Increase) decrease in restricted cash.....	(28,378)	260	(1,216)
Distributions paid to common stockholders and common unitholders.....	(54,150)	(53,597)	(48,843)
Net contributions from minority interests in Development LLCs.....	1,396		
	-----	-----	-----
Net cash provided by financing activities.....	35,206	127,833	267,802
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents.....	(8,516)	19,673	(2,486)
Cash and cash equivalents, beginning of year..	26,116	6,443	8,929
	-----	-----	-----
Cash and cash equivalents, end of year.....	\$ 17,600	\$ 26,116	\$ 6,443
	=====	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest, net of capitalized interest.....	\$ 37,289	\$ 25,035	\$ 18,442
	=====	=====	=====
Distributions paid to Cumulative Redeemable Preferred unitholders.....	\$ 13,202	\$ 9,265	\$ 4,462
	=====	=====	=====
NON-CASH TRANSACTIONS:			
Accrual of distributions payable (Note 9)....	\$ 13,601	\$ 13,456	\$ 12,895
	=====	=====	=====
Issuance of secured note payable in connection with undeveloped land acquisition (Note 3).....	\$ 8,500		
	=====		
Note receivable from related party satisfied in connection with investment in unconsolidated real estate (Note 13).....	\$ 11,319		
	=====		
Issuance of common limited partnership units of the Operating Partnership to acquire operating properties and undeveloped land (Notes 3 and 13).....		\$ 9,915	\$ 20,569
		=====	=====
Minority interest recorded in connection with Development LLCs undeveloped land acquisitions (Notes 3, 8 and 13).....		\$ 9,732	
		=====	
Note receivable from related parties repaid in connection with operating property acquisition (Note 13).....		\$ 2,267	
		=====	
Note receivable from related parties satisfied in connection with Development LLCs undeveloped land acquisitions (Note 13).....		\$ 6,531	
		=====	

KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Years Ended December 31, 2000

1. Organization and Ownership

Kilroy Realty Corporation (the "Company") develops, owns, and operates office and industrial real estate located in California, Washington, Nevada and Arizona. The Company, which qualifies and operates as a self-administered real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, commenced operations upon the completion of its initial public offering in January 1997. The Company is the successor to the real estate business of the Kilroy Group, which consisted of the combination of Kilroy Industries ("KI") and various entities, the properties of which were under the common control of KI and/or its stockholders, including the Company's Chairman of the Board of Directors, John B. Kilroy, Sr., and the Company's President and Chief Executive Officer, John B. Kilroy, Jr.

As of December 31, 2000, the Company's portfolio of stabilized operating properties was comprised of 83 office buildings (the "Office Properties") and 78 industrial buildings (the "Industrial Properties," and together with the Office Properties, the "Properties") which encompassed approximately 6.6 million and 5.8 million rentable square feet, respectively, and was 97.0% occupied. The Properties include 21 properties developed by the Company and stabilized during 2000 and 1999 which encompass an aggregate of approximately 809,000 and 1.2 million rentable square feet, respectively. All but ten of the Properties are included in Southern California.

The Company's stabilized portfolio excludes projects currently under construction or in pre-development and "lease-up" properties. The Company defines "lease-up" properties as properties recently developed by the Company that have not yet reached 95% occupancy. The Company had one lease-up property at December 31, 2000, encompassing an aggregate of 197,300 rentable square feet, which stabilized on January 15, 2001. As of December 31, 2000, the Company had eleven office properties under construction or committed for construction which when completed are expected to encompass an aggregate of approximately 964,400 rentable square feet. All of the Company's development projects are located in Southern California.

The Company owns its interests in all of the Properties through Kilroy Realty, L.P. (the "Operating Partnership") and Kilroy Realty Finance Partnership, L.P. (the "Finance Partnership"). The Company conducts substantially all of its activities through the Operating Partnership in which, as of December 31, 2000 and 1999, it owned an 87.6% and 86.8% general partnership interest, respectively. The remaining 12.4% and 13.2% limited partnership interest in the Operating Partnership as of December 31, 2000 and 1999, respectively, was owned by certain of the Company's executive officers and directors, certain of their affiliates, and other outside investors (see Note 8). Kilroy Realty Finance, Inc. ("Finance Inc."), a wholly-owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1% general partnership interest. The Operating Partnership owns the remaining 99% limited partnership interest.

During the first of quarter 1999, the Company, through the Operating Partnership, became a 50% managing partner in two limited liability companies, Kilroy Gateway Partners, L.L.C. and Kilroy Carmel Partners, L.L.C. (collectively, the "Development LLCs") as a result of the acquisitions of certain undeveloped land and the simultaneous contribution of such land to the Development LLCs (see Notes 3 and 13). The Development LLCs were formed to develop two multi-phased office projects in San Diego, California. The Allen Group, a group of affiliated real estate development and investment companies

based in San Diego, California, is the other 50% joint venture partner. Unless otherwise indicated, all references to the Company include the Operating Partnership, the Finance Partnership, the Development LLCs, and all wholly-owned subsidiaries and controlled entities.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2000, the Operating Partnership owned 100% of the non-voting preferred stock and a 95% economic interest in Kilroy Services, Inc. ("KSI"). 100% of the voting interest was held by John B. Kilroy, Sr., the Chairman of the Company's Board of Directors, and John B. Kilroy, Jr., the Company's President and Chief Executive Officer. Prior to December 31, 2000, the operating results of the development services business conducted by KSI were accounted for under the equity method of accounting. On January 1, 2001, KSI was merged into a newly formed entity, Kilroy Services, LLC ("KSLLC"). In connection with the merger, the interests held by Messers Kilroy were liquidated resulting in Messers Kilroy receiving \$8,000 in cash and KSLLC became a wholly-owned subsidiary of the Company. As a result, KSLLC will be consolidated for financial reporting purposes beginning January 1, 2001.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation:

The consolidated financial statements of the Company include the consolidated financial position and results of operations of the Company, the Operating Partnership, the Finance Partnership and all wholly-owned subsidiaries and controlled entities. The consolidated financial statements as of and for the years ended December 31, 2000 and 1999 also include the consolidated financial position and results of operations of the Development LLCs. The Development LLCs are consolidated for financial reporting purposes since the Company holds significant control over the entities through a 50% managing partner ownership interest, combined with the ability to control all significant development and operating decisions. The operating results of the development services business conducted by Kilroy Services, Inc. ("KSI") are accounted for under the equity method of accounting. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Significant Accounting Policies:

Operating properties--Operating properties are carried at the lower of historical cost less accumulated depreciation or estimated fair value. The cost of operating properties includes the purchase price or development costs of the properties. Costs incurred for the acquisition, renovation and betterment of the operating properties are capitalized to the Company's investment in that property. Maintenance and repairs are charged to expense as incurred. The Company's stabilized portfolio of operating properties consists of all of the Company's Office and Industrial Properties, excluding projects currently under construction or in pre-development and lease-up properties. Lease-up properties are included in land and improvements and building and improvements on the consolidated balance sheets.

The Company evaluates fair value for financial reporting purposes on a property by property basis using future undiscounted cash flows, excluding interest charges. In the event that periodic assessments or other factors reveal a potential impairment condition, the Company would recognize an impairment loss to the extent the carrying amount exceeded the fair value of the property. The Company had not recorded any such impairment losses at December 31, 2000, 1999 and 1998.

Depreciation and amortization--The cost of buildings and improvements are

depreciated on the straight-line method over estimated useful lives of 25 to 40 years for buildings and the shorter of the lease term or useful life, ranging from one to 20 years, for tenant improvements. Depreciation expense for buildings and improvements for the three years ended December 31, 2000, 1999 and 1998, was \$35.6 million, \$29.0 million, and \$23.7 million, respectively.

Construction in progress--Project costs clearly associated with the development and construction of a real estate project are capitalized as construction in progress. In addition, interest, real estate taxes and other costs are

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

capitalized during the period in which activities necessary to get the property ready for its intended use are in progress. Once the development and construction of the building shell of a real estate project is completed, the costs capitalized to construction in progress are transferred to land and improvements and buildings and improvements on the consolidated balance sheets as the historical cost of the property.

Cash and cash equivalents--The Company considers all money market funds with an original maturity of three months or less at the date of purchase to be cash equivalents.

Restricted cash--Restricted cash consists of cash held as collateral to provide credit enhancement for the Company's mortgage debt, cash reserves for property taxes, capital expenditures and tenant improvements, and at December 31, 2000, \$28.4 million in proceeds received from property dispositions that are held at Qualified Intermediaries for future use in tax-deferred exchanges.

Tenant receivables and related revenue recognition--Leases with tenants are accounted for as operating leases. Minimum annual rentals are recognized on a straight-line basis over the term of the related lease. Unbilled deferred rent receivables represent the amount that straight-line rental income exceeds rents currently due under the lease agreement. Included in tenant receivables are tenant reimbursements which are comprised of additional amounts receivable from tenants based on common area maintenance expenses and certain other expenses that are accrued in the period in which the related expenses are incurred.

Tenant receivables and unbilled deferred rent receivables are carried net of an allowance for uncollectible tenant receivables and unbilled deferred rent. Management's determination of the adequacy of the allowance is based upon evaluations of individual receivables, past loss experience, current economic conditions, and other relevant factors. The allowance is increased by provisions charged against income.

Deferred financing and leasing costs--Costs incurred in connection with debt financing and property leasing are capitalized as deferred financing and leasing costs. Deferred financing costs include loan fees which are amortized using the effective interest method over the terms of the respective loans. Deferred leasing costs include leasing commissions which are amortized on the straight-line method over the initial lives of the leases which range from one to 15 years.

Minority interests--Minority interests represent the preferred and common limited partnership interests in the Operating Partnership and interests held by The Allen Group in the Development LLCs.

Other income--Other income includes revenue earned from lease termination fees and management fees. For the year ended December 31, 2000, other income also included the equity in earnings from unconsolidated real estate (see Note

13) and for the year ended December 31, 1999, other income includes gains on dispositions of undeveloped land.

Income taxes--The Company believes it qualifies and intends to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), beginning with the

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

taxable year ended December 31, 1997. As a REIT, the Company is generally not subject to corporate Federal income taxes so long as it distributes at least 95% of its taxable income to its stockholders and satisfies certain quarterly requirements of the Code relating to the composition of its income and assets. Pursuant to recently enacted legislation the 95% distribution requirement will be reduced to 90% effective for taxable years beginning after December 31, 2000. The Company had met all of its REIT distribution and technical requirements at December 31, 2000, 1999 and 1998. State income tax requirements are essentially the same as Federal tax requirements.

Fair value of financial instruments--The Company calculates the fair value of financial instruments using available market information and appropriate present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and in many cases, could not be realized in immediate settlement of the instrument. Fair values for certain financial instruments and all non-financial instruments are not required to be disclosed. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company at December 31, 2000 and 1999.

Derivative financial instruments--The Company periodically enters into derivative financial instruments such as interest rate caps and interest rate swaps to effectively limit interest expense on the Company's floating rate debt during periods of rising interest rates. These derivative financial instruments are designated as hedges and deferral accounting has been applied. Net amounts paid or received under these agreements are recognized as adjustments to interest expense. The initial premiums on cap agreements are amortized over the life of the agreement using the straight-line method.

Use of estimates--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Reclassifications--Certain prior year amounts have been reclassified to conform to the current year's presentation.

Concentration of credit risk--151 of the Company's total 161 properties are located in Southern California. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the communities in which the tenants operate.

For the year ended December 31, 2000, the Company's largest tenant as defined by the percentage of the Company's total base rental revenues, The Boeing Company, accounted for approximately 9.2% of the Company's total base revenues. During the years ended December 31, 1999 and 1998, Hughes Space and Communications was the Company's largest tenant and accounted for 6.4% and 7.4% of the Company's base rental revenues. During the year ended December 31, 2000, The Boeing Company acquired Hughes Space & Communications' business and

related operations. Had this merger occurred prior to the year 2000, The Boeing Company and Hughes Space and Communications together accounted for approximately 10.2% and 11.6% of the Company's total base revenues, for the years ended December 31, 1999 and 1998, respectively. At December 31, 2000, the Company had no outstanding tenant receivables from this tenant.

The Company has cash in financial institutions which is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$0.1 million per institution. At December 31, 2000 and 1999, the Company had cash accounts in excess of FDIC insured limits.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Recent accounting pronouncements--The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133." ("SFAS 138") in June 1998 and June 2000, respectively. SFAS 133 and SFAS 138 are effective for fiscal years beginning after June 15, 2000 and require all derivatives to be recorded on the balance sheet at fair value. If the derivative instrument qualifies as a hedge, depending on the nature of the hedge, changes in fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company adopted SFAS 133 and 138 on January 1, 2001 and recorded a \$2.0 million non-cash charge to other comprehensive income and a \$1.4 million non-cash charge to the income statement as the cumulative effect of change in accounting principle.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). In June 2000, the SEC issued SAB 101B to defer the effective date for implementation of SAB 101 until the fourth quarter of fiscal 2000. SAB 101 summarizes certain of the SEC's views in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. The adoption of SAB 101 did not have a material impact on the Company's financial position or results of operations.

3. Acquisitions, Dispositions, and Completed Development Projects

Acquisitions of Undeveloped Land

During the year ended December 31, 2000, the Company acquired 20 acres of undeveloped land through two separate transactions from two unaffiliated third parties for \$15.5 million, consisting of \$7.0 million in cash and the issuance of an \$8.5 million mortgage note payable due to one of the sellers. The \$8.5 million mortgage note is payable upon the earlier of the successful completion of infrastructure improvements to the undeveloped land that the seller is obligated to perform, or December 31, 2003, the note's stated maturity. Through December 31, 2000 the note accrued interest at 10.00% per annum. If the infrastructure improvements are not completed by December 31, 2000, the note will not accrue any additional interest and the principal balance of the note will be reduced at the rate of \$1,000 per day. As of December 31, 2000, the infrastructure improvements were not completed. The Company currently expects that the infrastructure improvements will be completed in the fourth quarter of 2001.

During the year ended December 31, 1999, the Company consummated a series

of transactions to acquire 31 acres of undeveloped land for an aggregate purchase price of approximately \$16.3 million in cash and 119,460 common limited partnership units of the Operating Partnership valued at approximately \$2.5 million based upon the closing share price of the Company's common stock as reported on the New York Stock Exchange ("NYSE") at the time of acquisition. The common limited partnership units were issued in connection with the acquisition of three acres of undeveloped land located in San Diego, California from The Allen Group (see Note 13).

During the first quarter of 1999, the Company acquired a 50% interest in 55 acres of undeveloped land in San Diego, California for \$16.1 million and 184,172 common limited partnership units of the Operating Partnership valued at \$3.8 million based upon the closing share price of the Company's common stock as reported on the NYSE at the time of acquisition. The undeveloped land was acquired pursuant to an existing agreement executed by the Company and The Allen Group in October 1997 that provided for the joint development of two multi-phased office projects with approximately 1.1 million aggregate rentable square feet over the next three years (see Note 13).

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Acquisitions of Operating Properties

In October 2000, the Company acquired a 25% tenancy-in-common interest in office complex located in El Segundo, California from Kilroy Airport Imperial Co. The complex encompasses approximately 366,000 aggregate rentable square feet and is comprised of two office buildings and one parking structure. The remaining 75% tenancy-in-common interest was acquired in January 2001 (see Notes 13 & 19).

During the year ended December 31, 1999, the Company consummated a series of transactions to acquire three office buildings and the 12.5% minority interest in a three-building complex the Company owns in Diamond Bar, California for an aggregate purchase price of approximately \$28.2 million in cash and 168,402 common limited partnership units of the Operating Partnership valued at approximately \$3.6 million based upon the closing share price of the Company's common stock as reported on the NYSE at the time of acquisition. The three office buildings contain approximately 176,900 aggregate rentable square feet. The common limited partnership units were issued in connection with the acquisition of two office buildings located in San Diego, California from entities controlled by a senior executive officer of The Allen Group (see Note 13).

The cash portions of the 2000 and 1999 operating property and undeveloped land acquisitions were all funded primarily with existing working capital and borrowings on the Company's revolving unsecured credit facility and unsecured term facility.

Dispositions of Undeveloped Land

During the year ended December 31, 1999, the Company consummated a series of transactions to sell 13 acres of undeveloped land for an aggregate sales price of \$5.1 million. As a result of the sale of eight acres in Calabasas, a portion of the public facility bonds related to this land parcel was defeased. The total gain on sale of \$0.5 million from these dispositions is included in other income in the consolidated statements of operations.

Dispositions of Operating Properties

During the year ended December 31, 2000, the Company sold the following properties:

Property Type	Location	Month of Disposition	# of Buildings	Rentable Square Feet	Sales Price (\$ in millions)
Industrial..	Lake Forest, CA	January	2	45,300	\$ 3.3
Industrial..	Garden Grove, CA	April	1	110,200	6.3
Industrial..	Carlsbad, CA	June	1	82,900	12.6 (1)
Office.....	Aliso Viejo, CA	June	5	134,700	18.0
Industrial..	San Jose, CA	July	5	431,400	62.4
Office.....	Fullerton, CA	August	4	152,000	11.0
			---	-----	-----
Total.....			18	956,500	\$113.6
			===	=====	=====

(1) In connection with the disposition of the industrial property in Carlsbad, California, the Company repaid \$6.8 million on the principal balance of an existing \$90.0 million variable rate mortgage note payable (see Note 6).

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During the year ended December 31, 1999, the Company sold the following properties:

Property Type	Location	Month of Disposition	No. of Buildings	Rentable Square Feet	Sales Price (\$ in millions)
Industrial..	Ventura CA	August	1	125,500	\$ 5.4
Industrial..	Ontario, CA	August	1	153,600	5.6
Office.....	Anaheim, CA	December	5	113,700	8.0
Industrial..	Huntington Beach, CA	December	3	56,700	3.6
			---	-----	-----
Total.....			10	449,500	\$22.6
			===	=====	=====

The Company used the proceeds from its 2000 and 1999 dispositions to fund development expenditures and to fund the Company's share repurchase program (see Note 9).

Completed Development Projects

During the year ended December 31, 2000, the Company completed and stabilized the following development projects:

Property Type	Location	Stabilization Date	No. of Buildings	Rentable Square Feet	Stabilized Occupancy
Office..	Del Mar, CA	Q1 2000	1	72,300	100%
Office..	Del Mar, CA	Q2 2000	1	129,700	100%
Office..	Del Mar, CA	Q2 2000	1	112,100	100%
Office..	San Diego, CA	Q3 2000	1	103,000	100%
Office..	San Diego, CA	Q3 2000	1	62,400	100%
Office..	West LA, CA	Q3 2000	1	151,000	100%
Office..	Calabasas, CA	Q4 2000	1	102,300	97%
Office..	Long Beach, CA	Q4 2000	1	197,300	99% (1)

Office..	San Diego, CA	Q4 2000	1	76,200	100%
			---	-----	
Total.....			9	1,006,300	
			===	=====	

(1) This project reached 99% occupancy at January 15, 2001 and was 89% occupied at December 31, 2000.

During the year ended December 31, 1999, the Company stabilized the following development projects:

Property Type	Location	Stabilization Date	No. of Buildings	Rentable Square Feet	Stabilized Occupancy
-----	-----	-----	-----	-----	-----
Office.....	San Diego, CA	Q2 1999	1	71,000	100%
Industrial..	Anaheim, CA	Q3 1999	2	211,400	100%
Office.....	Long Beach, CA	Q3 1999	1	136,000	100%
Office.....	Del Mar, CA	Q3 1999	1	40,000	100%
Office.....	San Diego, CA	Q3 1999	2	172,800	100%
Industrial..	Anaheim, CA	Q4 1999	3	382,500	100% (1)
Industrial..	Brea, CA	Q4 1999	2	178,800	100%
Office.....	Del Mar, CA	Q4 1999	1	52,400	100%
			---	-----	
Total.....			13	1,244,900	
			===	=====	

(1) This project was completed during the year ended December 31, 1998 and reached stabilized occupancy of at least 95% during the year ended December 31, 1999.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

4. Tenant Receivables

Tenant receivables consisted of the following at December 31:

	2000	1999
	-----	-----
	(in thousands)	
Tenant rent, reimbursements, and other receivables.....	\$13,689	\$ 9,305
Unbilled deferred rent.....	22,449	15,466
Allowance for uncollectible tenant receivables and unbilled deferred rent.....	(3,617)	(2,693)
	-----	-----
Tenant receivables, net.....	\$32,521	\$22,078
	=====	=====

5. Deferred Financing and Leasing Costs

Deferred financing and leasing costs are summarized as follows at December 31:

	2000	1999
	-----	-----
	(in thousands)	
Deferred financing costs.....	\$ 10,868	\$ 6,892
Deferred leasing costs.....	47,425	32,872
	-----	-----
Total deferred financing and leasing costs.....	58,293	39,764
Accumulated amortization.....	(18,619)	(11,924)
	-----	-----
Deferred financing and leasing costs, net.....	\$ 39,674	\$ 27,840
	=====	=====

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

6. Secured Debt

Secured debt consisted of the following at December 31:

	2000	1999
	-----	-----
	(in thousands)	
Mortgage note payable, due April 2009, fixed interest at 7.20%, monthly principal and interest payments.....	\$ 92,465	\$ 93,953
Mortgage note payable, due October 2003, interest at LIBOR plus 1.75%, (8.32% and 7.94% at December 31, 2000 and 1999, respectively), monthly interest-only payments(a) (b).....	83,213	90,000
Mortgage note payable, due February 2022, fixed interest at 8.35%, monthly principal and interest payments(c)...	79,495	80,812
Construction loan payable, due April 2002, interest between LIBOR plus 2.00% and LIBOR plus 2.70%, (8.86% at December 31, 2000) (b) (d) (e).....	50,068	
Mortgage note payable, due May 2017, fixed interest at 7.15%, monthly principal and interest payments.....	28,549	29,440
Mortgage note payable, due June 2004, interest at LIBOR plus 1.75%, (8.49% at December 31, 2000), monthly principal and interest payments(b).....	21,890	
Mortgage loan payable, due November 2014, fixed interest at 8.13%, monthly principle and interest payments.....	12,844	
Mortgage note payable, due December 2005, fixed interest at 8.45%, monthly principal and interest payments.....	12,523	12,973
Construction loan payable, due November 2002, interest at LIBOR plus 3.00% (9.73% at December 31, 2000) (b) (e).....	11,367	
Mortgage note payable, due November 2014, fixed interest at 8.43%, monthly principal and interest payments.....	10,578	10,966
Construction loan payable, due October 2002, interest at LIBOR plus 1.75% (8.37% at December 31, 2000) (b) (f)....	9,399	
Mortgage note payable, due December 2003, fixed interest at 10.00%, monthly interest accrued through December 31, 2000, No interest accrues thereafter (see Note 3)..	8,500	
Mortgage note payable, due October 2013, fixed interest		

at 8.21%, monthly principal and interest payments.....	7,070	7,372
Construction loan payable, due April 2002, interest at		
LIBOR plus 1.75% (9.10% at December 31, 2000) (b) (e)....	4,727	
	-----	-----
	\$432,688	\$325,516
	=====	=====

-
- (a) During the year ended December 31, 2000, the Company repaid \$6.8 million of the original \$90.0 million principal balance in connection with the disposition of an industrial property in Carlsbad, California (see Note 3).
- (b) The variable interest rates stated as of December 31, 2000 and 1999 are based on the last repricing date during the respective year. The repricing rates may not be equal to LIBOR at December 31, 2000 and 1999.
- (c) Beginning February 2005, the mortgage note is subject to increases in the effective annual interest rate equal to the greater of 13.35% or the sum of the interest rate for U.S. Treasury Securities maturing 15 years from the reset date plus 2.00%.
- (d) In May 2000, the Company, through one of the Development LLCs, entered into an interest rate cap agreement with a LIBOR based cap rate of 8.50% to effectively limit interest expense on the this variable rate construction loan during periods of increasing interest rates. The agreement has an initial notional amount of \$21.1 million that increases to \$57.0 million during the period from May 2000 through August 2001, and then remains at \$57.0 million until expiration in April 2002. The notional amount of the interest rate cap agreement was approximately \$42.0 million at December 31, 2000.
- (e) This loan contains options to extend the maturity for up to two six-month periods.
- (f) This loan contains an option to extend the maturity for twelve months.

The Company's secured debt was secured by 60 operating properties and five development projects under construction at December 31, 2000 with a combined net book value of \$581 million and 55 operating properties at December 31, 1999 with a combined net book value of \$459 million. As of December 31, 2000 and 1999, the Company's secured debt had a weighted average interest rate of 8.16% and 7.80%, respectively.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

At December 31, 2000, seven of the Company's secured loans contained restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt. The secured notes payable are secured by deeds of trust on certain of the Company's properties and the assignment of certain rents and leases associated with those properties.

Scheduled principal payments for the above secured debt at December 31, 2000 were as follows:

Year Ending	
-----	(in thousands)
2001.....	\$ 5,675

2002.....	81,709
2003.....	98,358
2004.....	27,719
2005.....	16,965
Thereafter.....	202,262

Total.....	\$432,688
	=====

7. Unsecured Line of Credit and Unsecured Term Facility

In November 1999, the Company increased its borrowing capacity and obtained a new \$400 million unsecured revolving credit facility (the "Credit Facility") with a bank group lead by Morgan Guaranty Trust Company of New York and The Chase Manhattan Bank, to replace its previous \$350 million Credit Facility which was scheduled to mature in February 2000. The Credit Facility bears interest at a rate between LIBOR plus 1.13% and LIBOR plus 1.75% (8.26% and 7.56% at December 31, 2000 and 1999, respectively), depending upon the Company's leverage ratio at the time of borrowing, and matures in November 2002. At December 31, 2000 and 1999, the Company had borrowings of \$191 million and \$228 million, respectively, outstanding under the Credit Facility. Availability under the Credit Facility, was approximately \$75.0 million at December 31, 2000. The fee for unused funds ranges from 0.20% to 0.35% depending on the Company's leverage ratios. The Company expects to use the available borrowing capacity under the Credit Facility to finance development expenditures and for general corporate uses.

In September 2000, the Company borrowed \$100.0 million under an unsecured debt facility from a bank group led by The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. The \$100.0 million facility, which matures in September 2002 with two one-year extension options, requires monthly interest-only payments based upon an annual interest rate between LIBOR plus 1.13% and LIBOR plus 1.75% (8.19% at December 31, 2000), depending upon the Company's leverage ratio at the time of borrowing.

In January 2001, the Company entered into an interest rate swap agreement with a total notional amount of \$150 million to effectively limit interest expense on the Company's floating rate debt during periods of increasing interest rates. The agreement expires in November 2002, requires the Company to pay fixed rate interest payments based on an interest rate of 5.48% and receive floating rate interest payments based on one-month LIBOR.

In February 2000, the Company entered into an interest rate swap agreement with a total notional amount of \$150 million to effectively limit interest expense on the Company's floating rate debt during periods of increasing interest rates. The agreement, which expires in February 2002, requires the Company to pay fixed rate interest payments based on an interest rate of 6.95% and receive floating rate interest payments based on one-month LIBOR.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In February 2000, the Company entered into an interest rate cap agreement with a total notional amount of \$150 million to effectively limit interest expense on the Company's floating rate debt during periods of increasing interest rates. The agreement cost \$1.9 million, began in July 2000, had a LIBOR based cap rate of 6.50%, and a contractual expiration date of January 2002. The Company terminated this cap agreement on January 2, 2001.

As of December 31, 1999, the Company was party to two interest rate cap agreements with a total notional amount of \$150 million to effectively limit interest expense on the Company's floating rate debt during periods of

increasing interest rates. The agreements had LIBOR based cap rates of 6.50% and expired in July 2000.

The Credit Facility and the \$100.0 million facility contain covenants requiring the Company to meet certain financial ratios and reporting requirements. Some of the more restrictive covenants include a minimum debt service coverage ratio, a maximum total liabilities to total assets ratio, a maximum total secured debt to total assets ratio, a minimum cash flow to debt service and fixed charges ratio, a minimum consolidated tangible net worth and a limit of development activities as compared to total assets. The Company was in compliance with all of the Credit Facility and the \$100.0 million facility covenants at December 31, 2000 and 1999.

Interest capitalized for the years ended December 31, 2000 and 1999 and 1998 was \$18.0 million, \$11.3 million, and \$8.2 million, respectively.

8. Minority Interests

Common Limited Partnership Unitholders

The Company owned an 87.6% and 86.8% general partnership interest in the Operating Partnership as of December 31, 2000 and 1999, respectively. The remaining 12.4% and 13.2% common limited partnership interest as of December 31, 2000 and 1999, respectively, was owned by certain of the Company's executive officers and directors, certain of their affiliates, and other outside investors in the form of common limited partnership units.

During the years ended December 31, 2000 and 1999, the Operating Partnership issued 1,133 and 472,034 common limited partnership units in the Operating Partnership, respectively, in connection with certain operating property and undeveloped land acquisitions (see Notes 3 and 13).

During the year ended December 31, 2000, 481,290 common limited partnership units of the Operating Partnership were exchanged into shares of the Company's common stock on a one-for-one basis. Of these 481,290 common limited partnership units, 364,200 common limited partnership units were owned by Kilroy Industries, an entity owned by John B. Kilroy, Sr., the Chairman of the Company's Board of Directors, and John B. Kilroy, Jr., the Company's President and Chief Executive Officer. In addition, 1,739 of the 481,290 common limited partnership units were owned by a Vice President of the Company (see notes 9 and 13). During the year ended December 31, 1999, 444,200 common limited partnership units of the Operating Partnership, of which 440,000 common limited partnership units were owned by John B. Kilroy, Sr., John B. Kilroy, Jr., and Kilroy Industries were exchanged into shares of the Company's common stock on a one-for-one basis (see Notes 9 and 13). Neither the Company nor the Operating Partnership received any proceeds from the issuance of the common stock to the identified common limited partnership unitholders.

Preferred Unitholders

In December 1999, the Company issued 900,000 9.250% Series D Cumulative Redeemable Preferred units, representing preferred limited partnership interests in the Operating Partnership (the "Series D Preferred units"), with a liquidation value of \$50.00 per unit, in exchange for a gross contribution to the Operating Partnership of \$45.0 million. The Company used the contribution proceeds, less applicable transaction costs and expenses of

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

\$1.2 million, for the repayment of borrowings outstanding under the Credit Facility. The Series D Preferred units, which may be called by the Operating Partnership at a price equal to the liquidation value on or after December 9, 2004, have no stated maturity or mandatory redemption and are not convertible

into any other securities of the Operating Partnership. The Series D Preferred units are exchangeable at the option of the majority of the holders for shares of the Company's 9.250% Series D Cumulative Redeemable Preferred stock beginning December 9, 2009, or earlier under certain circumstances.

As of December 31, 2000 and 1999, the Company had issued and outstanding 700,000 9.375% Series C Cumulative Redeemable Preferred units (the "Series C Preferred units") and 1,500,000 8.075% Series A Cumulative Redeemable Preferred units (the "Series A Preferred units"), representing preferred limited partnership interests in the Operating Partnership with a liquidation value of \$50.00 per unit. The Series A and Series C Preferred units, which may be called by the Operating Partnership at a price equal to the liquidation value on or after November 24, 2003 and February 6, 2003, respectively, have no stated maturity or mandatory redemption and are not convertible into any other securities of the Operating Partnership. The Series A and Series C Preferred Units are exchangeable at the option of the majority of the holders for shares of the Company's 9.375% Series C Cumulative Redeemable Preferred stock beginning November 24, 2008, and the Company's 8.075% Series A Cumulative Redeemable Preferred stock beginning February 6, 2008, respectively, or earlier under certain circumstances.

The Company makes quarterly distributions to the Series A, Series C and Series D Preferred unitholders on the 15th day of each February, May, August and November. Included in the Series A, Series C and Series D Preferred unit balances on the balance sheet at December 31, 2000 were \$0.8 million, \$0.4 million and \$0.5 million of accrued distributions payable to the Series A, Series C and Series D Preferred unitholders, respectively. Included in the Series A, Series C and Series D Preferred unit balances on the balance sheet at December 31, 1999 were \$0.8 million and \$0.4 million and \$0.2 million of accrued distributions payable to the Series A, Series C and Series D Preferred unitholders, respectively.

Development LLCs

The Company became a 50% managing member in each of the Development LLCs in March 1999 as a result of the acquisition of certain undeveloped land and the simultaneous contribution of such land to the Development LLCs (see Notes 3 and 13). The Development LLCs are consolidated for financial reporting purposes because the Company holds a 50% ownership interest combined with the ability to control all significant development decisions.

9. Stockholders' Equity

The Company announced the approval of its share repurchase program in December 1999, pursuant to which the Company is authorized to repurchase up to an aggregate of 3.0 million shares of its outstanding common stock. During the first quarter of 2000, the Company repurchased 1,999,300 shares of its common stock in open market transactions for an aggregate repurchase price of \$41.2 million, or \$20.58 per share. The Company did not repurchase any shares of common stock in the second, third and fourth quarters of 2000. During December 1999, the Company repurchased 265,000 shares in open market transactions for an aggregate repurchase price of \$5.4 million or \$20.19 per share. Repurchases during 2000 and 1999 were funded primarily through proceeds received from the Company's dispositions, working capital and borrowings on the Company's Credit Facility.

In June 2000, the Company's Compensation Committee, comprised of two independent directors, granted 175,000 shares of restricted stock to certain key employees, the grantees. All of the shares of restricted stock

granted, which were sold for \$0.01 per share, contain cliff-vesting provisions

such that the shares vest 100% on March 1, 2003. Compensation expense for the restricted shares is calculated based upon the Company's closing share price of \$24.94 on the June 23, 2000 grant date, and is amortized on a straight-line basis over the vesting period and included in general and administrative expenses in the consolidated statements of operations. The restricted shares have the same dividend and voting rights as common stock. The restricted shares are included in the Company's calculation of weighted average outstanding shares at December 31, 2000.

During 2000, 481,290 common limited partnership units of the Operating Partnership were exchanged into shares of the Company's common stock. Of these 481,290 common limited partnership units, 364,200 common limited partnership units were owned by Kilroy Industries, an entity owned by John B. Kilroy, Sr., the Chairman of the Company's Board of Directors and John B. Kilroy, Jr., the Company's President and Chief Executive Officer. In addition, 1,739 of the 481,290 common limited partnership units, were owned by a Vice President of the Company (see notes 8). During 1999, 444,200 common limited partnership units of the Operating Partnership, of which 440,000 common limited partnership units were owned by John B. Kilroy, Sr., John B. Kilroy, Jr., and Kilroy Industries were exchanged into shares of the Company's common stock (see Notes 8).

During 2000 and 1999, the SEC declared effective four registration statements filed by the Company on Form S-3 which registered the potential issuance and resale of up to a total of 4,672,902 shares of the Company's common stock in exchange for 4,672,902 common limited partnership units of the Operating Partnership previously issued in connection with certain 1997, 1998 and 1999 property acquisitions and the formation of the Operating Partnership. The common limited partnership units may be exchanged at the Company's option into shares of the Company's common stock on a one-for-one basis. Neither the Company nor the Operating Partnership will receive any proceeds from the issuance of the common stock resulting from any such exchange.

In September 1999, the SEC declared effective the Company's registration statement on Form S-3 with respect to 1,000,000 shares of the Company's common stock to be issued under the Company's Dividend Reinvestment and Direct Purchase Plan (the "Plan"). The Plan, which is designed to provide the Company's stockholders and other investors with a convenient and economical method to purchase shares of the Company's common stock, consists of three programs: the Dividend Reinvestment Program (the "DRIP"), the Cash Option Purchase Plan (the "COPP"), and the Waiver Discount Plan (the "WDP"). The DRIP provides existing common stockholders with the opportunity to purchase additional shares of the Company's common stock by automatically reinvesting all or a portion of their cash dividends. The COPP provides existing common stockholders and other investors with the opportunity to purchase additional shares of the Company's common stock by making optional cash purchases, at no discount to market, between \$100 to \$5,000 and \$750 to \$5,000, respectively, in any calendar month. The WDP provides existing common stockholders and other investors with the opportunity to purchase additional shares of the Company's common stock by making optional cash purchases, at a discount to market of up to 2% of the average per share price reported on the NYSE, of greater than \$5,000 in any calendar month. The Plan acquires shares of the Company's common stock from either new issuances directly from the Company, from the open market or from privately negotiated transactions, except for shares acquired under the WDP which are purchased only from previously unissued shares of common stock. Participation in the Plan is entirely voluntary, and can be terminated at any time. The Company intends to use the proceeds received from the Plan, less transaction costs, for development and investment activities, repayment of outstanding indebtedness and general corporate uses. As of December 31, 2000, there have been no previously unissued shares acquired under the Plan.

In May 1999, the Company filed a registration statement on Form S-8 with the SEC that registered the potential issuance and resale of up to 1,500,000 shares of the Company's common stock issuable to the Company's employees and directors under the 1997 Stock Option and Incentive Plan (see Note 11).

KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company has an effective "shelf" registration statement for the issuance of \$313 million of the Company's equity securities at March 9, 2001.

Accrued distributions at December 31, 2000 and 1999, consisted of the following amounts payable to registered common stockholders of record holding 26,475,470 and 27,808,410 shares of common stock, respectively, and common unitholders holding 3,748,545 and 4,228,702 common limited partnership units of the Operating Partnership, respectively:

	December 31,	
	2000	1999
	(in thousands)	
Distributions payable to:		
Common stockholders.....	\$11,914	\$11,680
Common unitholders of the Operating Partnership.....	1,687	1,776
	-----	-----
Total accrued distributions.....	\$13,601	\$13,456
	=====	=====

10. Future Minimum Rent

The Company has operating leases with tenants that expire at various dates through 2015 and are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future minimum rent under operating leases, excluding tenant reimbursements of certain costs, as of December 31, 2000, are summarized as follows:

Year Ending	
-----	(in thousands)
2001.....	\$154,709
2002.....	141,026
2003.....	132,951
2004.....	118,940
2005.....	100,452
Thereafter.....	347,649

Total.....	\$995,727
	=====

11. Employee Retirement and Stock Option and Incentive Plans

Retirement Savings Plan

Effective November 1, 1997, the Company adopted a retirement savings plan designed to qualify under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan allows participants to defer up to twenty percent of their eligible compensation on a pre-tax basis, subject to certain maximum amounts allowed by the Internal Revenue Code. The 401(k) Plan provides

for a matching contribution by the Company in an amount equal to fifty-cents for each one dollar of participant contributions up to a maximum of five percent of the participant's annual salary. Participants vest immediately in the amounts contributed by the Company. Employees of the Company are eligible to participate in the 401(k) Plan when they meet certain requirements concerning minimum period of credited service. For the years ended December 31, 2000, 1999, and 1998, the Company contributed \$0.2 million, \$0.1 million, and \$0.1 million respectively to the 401(k) Plan.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Stock Option and Incentive Plan

The Company has established a stock option and incentive plan (the "Stock Plan") for the purpose of attracting and retaining officers and key employees, under which restricted shares or stock options may be granted. The Stock Plan authorizes the issuance of 3,000,000 shares of common stock of the Company. At December 31, 2000 and 1999, an aggregate of 1,608,140 and 1,003,000 options were exercisable for shares of the Company's common stock at a weighted average exercise price of \$23.20 and \$23.24, respectively. The weighted average exercise price of the options outstanding at December 31, 2000 and 1999 was \$23.13 and \$23.07, respectively, with a weighted average remaining contractual life of 7.1 years and 8.0 years, respectively. Stock options vest at 33 1/3% per year over three years beginning on the first anniversary date of the grant and are exercisable at the market value on the date of the grant. The term of each option is ten years from the date of the grant.

Restricted stock is subject to restrictions determined by the Company's Compensation Committee. The Compensation Committee, comprised of two Directors who are not officers of the Company, determines compensation, including awards under the Stock Plan, for the Company's executive officers. Restricted stock has the same dividend and voting rights as common stock and is issued and outstanding. In connection with the Company's initial public offering in January 1997, 100,000 shares of restricted stock were issued to an executive officer of the Company for a price of \$1,000 and vest 20% per year over a five-year period. Compensation expense is determined by reference to the market value of the Company's common shares and is being amortized on a monthly basis over the five-year vesting period. Compensation expense relating to these shares was approximately \$0.4 million for the year ended December 31, 2000, and approximately \$0.5 million for the years ended December 31, 1999 and 1998. On June 23, 2000, the Company granted 175,000 shares of restricted stock to certain key employees, the grantees. The shares of restricted stock contain stock-vesting provisions such that the shares vest 100% on March 1, 2003. Compensation expense for the restricted shares is calculated based on the closing per share price of \$24.94 on the June 23, 2000 grant date and is amortized on a straight-line basis over the vesting period. The compensation expense related to this restricted stock grant was approximately \$0.8 million for the year ended December 31, 2000. In the event all of the grantees remain with the Company until the March 1, 2003 stock-vesting date, non-cash compensation expense related to this grant will be recorded at a rate of approximately \$1.6 million per year. Restricted shares are included in the Company's outstanding shares at December 31, 2000.

The Company's stock option activity is summarized as follows:

Number of Options	Weighted Average Exercise Price
-----	-----

Outstanding at December 31, 1997.....	1,185,000	\$23.80
Granted.....	1,339,000	23.28
Cancelled.....	(180,000)	26.30

Outstanding at December 31, 1998.....	2,344,000	23.37
Granted.....	25,000	20.38
Cancelled.....	(375,000)	24.43

Outstanding at December 31, 1999.....	1,994,000	23.07
Granted.....	95,000	23.93
Exercised.....	(59,535)	22.42
Cancelled.....	(16,666)	27.69

Outstanding at December 31, 2000.....	2,012,799	\$23.13
	=====	

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and will continue to use the intrinsic value based method of accounting prescribed by Account Practice Bulletin opinion No. 25, "Accounting for Stock Issued to Employees" and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." Accordingly, no compensation cost has been recognized for the options granted under the Stock Plan. Had compensation cost for the Company's Stock Plan been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company's net income and net income on a per share basis would have been adjusted to the pro forma amounts indicated below:

	Year Ended December 31,		
	2000	1999	1998

	(in thousands, except per share amounts)		
Net income:			
As reported.....	\$46,846	\$39,895	\$38,822
Pro forma.....	44,638	37,264	37,265
Net income per common share--basic:			
As reported.....	1.76	1.44	1.44
Pro forma.....	1.68	1.35	1.38
Net income per common share--diluted:			
As reported.....	1.75	1.44	1.43
Pro forma.....	\$ 1.67	\$ 1.34	\$ 1.38

The fair value of each option grant issued in 2000, 1999, and 1998 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions (amounts shown as 2000, 1999, and 1998, respectively): (a) dividend yield of 6.90%, 6.73%, and 6.31%, (b) expected volatility of the Company's stock of 26.2%, 27.0%, and 26.2%, (c) risk free interest rate of 5.18%, 6.64%, and 4.73%, and (d) expected option life of seven years. The effects of applying SFAS No. 123 may not be representative of the effects on disclosed pro forma net income for future years because options vest over several years and additional awards can be made each year.

12. Commitments and Contingencies

Operating leases--The Company has noncancelable ground lease obligations on the SeaTac Office Center in Seattle, Washington expiring December 2032, with an option to extend the lease for an additional 30 years; 12312 W. Olympic Boulevard in Santa Monica, California with the primary lease expiring in January 2065 and a smaller secondary lease expiring in September 2011; Kilroy Airport Center, Long Beach, California with an initial lease period expiring July 2035; and 9455 Towne Center in San Diego, California expiring in October 2043. On the Kilroy Airport Center and the SeaTac Office Center ground leases, rentals are subject to adjustments every five years based on the Consumer Price Index. On the 12312 W. Olympic Boulevard ground lease, rentals are subject to adjustments every year based on the Consumer Price Index. Subsequent to December 31, 2000, the Company acquired the fee interest in the land at 9455 Towne Center in San Diego, California and the ground lease was terminated.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The minimum commitment under these leases at December 31, 2000 was as follows:

Year Ending -----	(in thousands)
2001.....	\$ 1,946
2002.....	1,957
2003.....	1,967
2004.....	1,957
2005.....	1,954
Thereafter.....	46,638

Total.....	\$56,419
	=====

Purchase agreement--In connection with an agreement signed with The Allen Group in October 1997, the Company has agreed to purchase one office property encompassing 128,000 rentable square feet, subject to the property meeting certain occupancy thresholds and other tenancy requirements. The purchase price for this property will be determined at the time of acquisition based on the net operating income at that time. The Company expects that in the event that this acquisition does occur, it would be financed with borrowings under the Credit Facility and the issuance of common limited partnership units of the Operating Partnership.

Litigation--Neither the Company nor any of the Company's properties are presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against any of them which if determined unfavorably to the Company would have a material adverse effect on the Company's cash flows, financial condition or results of operations. The Company is party to litigation arising in the ordinary course of business, none of which if determined unfavorably to the Company, individually or in the aggregate, is expected to have a material adverse effect on the Company's cash flows, financial condition or results of operations.

Environmental Matters--The Company follows the policy of monitoring its properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, the

Company is not currently aware of any environmental liability with respect to the properties that would have a material effect on the Company's financial condition, results of operations and cash flows. Further, the Company is not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that the Company believes would require additional disclosure or the recording of a loss contingency.

13. Related-Party Transactions

Note Receivable from Related Party

In May 2000, the Company initiated actions that put it in a position to potentially acquire the fee interest in a three building office complex located in El Segundo, California from Kilroy Airport Imperial Co. ("KAICO"), a partnership owned by John B. Kilroy, Sr., the Company's Chairman of the Board of Directors, John B. Kilroy, Jr. the Company's President and Chief Executive Officer, and certain other Kilroy family members. The complex, which encompasses approximately 366,000 aggregate rentable square feet, is comprised of two office buildings and a parking structure. One of the office buildings is occupied by Hughes Space & Communications Company ("Hughes") and the other office building is vacant.

On May 1, 2000, the Company purchased a non-recourse note receivable secured by the aforementioned office complex with an outstanding principal balance of \$60.8 million, accrued interest of \$10.2 million, an annual interest rate of 9.63%, and a maturity date of February 1, 2005 from an institutional lender for \$45.3 million. At the time of the acquisition, KAICO was in payment default under the terms of the note. The

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Company recorded its investment in the impaired note at the \$45.3 million purchase price and recorded no additional impairment allowance since the Company believes that the purchase price of the note is less than the fair market value of the complex securing it as supported by independent, third-party appraisals. The Company and KAICO also entered into agreements whereby the Company agreed to pay KAICO approximately \$3.3 million for the reimbursement of expenditures incurred by KAICO on the complex since 1997 and for the modification of an existing option that the Company holds to purchase the complex. The acquisition of the note was funded with borrowings under the Company's revolving credit facility.

As a result of the acquisition of the note, the Company received approximately \$2.7 million which was recorded as interest income. In October 2000, the Company and KAICO agreed to modify the terms of the note to write down the principal value and accrued interest to \$45.3 million. In connection with the modification of the note in October 2000, a wholly-owned subsidiary of the Company acquired a 25% tenancy-in-common interest in the complex from KAICO subject to 25% or \$11.3 million of the \$45.3 million note in exchange for 1,133 common units of the Operating Partnership valued at approximately \$30,000 based upon the closing share price of the Company's common stock as reported on the New York Stock Exchange. During the fourth quarter of 2000 the Company recorded approximately \$0.2 million as other income related to its equity in earnings from its 25% tenancy-in-common interest. The tenancy-in-common interest is included as an investment in unconsolidated real estate in the consolidated balance sheet as of December 31, 2000.

On January 9, 2001, the Operating Partnership acquired the remaining 75% tenancy-in-common interest in the complex from KAICO for \$33.4 million in cash. KAICO concurrently used the proceeds to pay off the outstanding note receivable balance and related accrued interest to the Company.

Acquisitions

In March 1999, the Company acquired three office buildings in San Diego, California from entities controlled by a senior executive officer of The Allen Group in exchange for \$17.5 million in cash and 168,402 common units of the Operating Partnership valued at approximately \$3.6 million based upon the closing share price of the Company's common stock as reported on the NYSE at the time the property was acquired (see Note 3). The office property, which contains approximately 126,000 aggregate rentable square feet and is 100% leased through February 2014, was acquired pursuant to an existing agreement executed by the Company and The Allen Group in October 1997, prior to The Allen Group becoming a related party of the Company. In connection with this anticipated transaction, the Company entered into an agreement in May 1998 to loan \$2.3 million to a limited liability company controlled by a senior executive officer of The Allen Group to finance tenant improvements to this property. The \$2.3 million balance of the note, which was secured by the pledge of membership interests in the limited liability company, and the related interest, which accrued at a rate of Prime plus 1.00%, was repaid to the Company in connection with the acquisition. A former Executive Vice President of the Company received 98,476 of the total 168,402 common limited partnership units issued in connection with the acquisition. The acquisition was based upon terms that the Company believes were comparable to terms obtainable from third-parties based on arm's-length negotiations.

In February 1999, the Company acquired three acres of undeveloped land in San Diego, California from entities controlled by a senior executive officer of the Allen Group in exchange for \$0.4 million in cash and 119,460 common limited partnership units of the Operating Partnership valued at approximately \$2.5 million based upon the closing share price of the Company's common stock as reported on the NYSE at the time the undeveloped land was acquired (see Note 3). A former Executive Vice President of the Company received 76,896 of the total 119,460 common limited partnership units issued in connection with the acquisition. The acquisition was based upon terms that the Company believes were comparable to terms obtainable from third-parties based on arm's-length negotiations.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During the first quarter of 1999, the Company acquired a 50% interest in 55 acres of undeveloped land in San Diego, California in exchange for \$16.1 million and 184,172 common limited partnership units of the Operating Partnership valued at approximately \$3.8 million based upon the closing share price of the Company's common stock as reported on the NYSE at the time the undeveloped land was acquired (see Note 3). The interest in the undeveloped land was acquired pursuant to an existing agreement executed by the Company and The Allen Group in October 1997 that provided for the joint development of two office projects with approximately 1.1 million aggregate rentable square feet over the next three years. Both the Company and The Allen Group contributed their respective 50% interests in the undeveloped land to the two Development LLCs. In connection with this anticipated transaction, the Company entered into an agreement in May 1998 to loan up to \$8.5 million to a limited partnership controlled by a senior executive officer of The Allen Group to finance infrastructure improvements on the undeveloped land. The \$8.5 million balance of the note, which was secured by the undeveloped land, was assumed by one of the Development LLCs. The related interest, which accrued at a rate of LIBOR plus 1.85%, was paid to the Company by the limited partnership. A former Executive Vice President of the Company received 69,694 of the total 184,172 common limited partnership units issued in connection with the acquisition. The acquisition was based upon terms that the Company believes were comparable to terms obtainable from third-parties based on arm's-length negotiations.

In March 1999, the Company acquired construction materials for its Kilroy Airport Center, Long Beach development project from a partnership controlled

by John B. Kilroy Sr. and John B. Kilroy, Jr. for approximately \$4.3 million. The acquisition of the construction materials was based upon terms that the Company believes were comparable to terms obtainable from third-parties based on arm's-length negotiations.

Other Transactions

Pursuant to management agreements, the Operating Partnership provided management and leasing services during 2000, 1999 and 1998, and KSI provided development services during 1998, with respect to two properties, each of which is beneficially owned by John B. Kilroy, Sr. and John B. Kilroy, Jr. The Operating Partnership recorded fees of \$0.1 million, \$0.1 million and \$0.2 million for the years ended December 31, 2000, 1999, and 1998, respectively, relating to the management and leasing services. KSI recorded fees of \$0.1 million for the year ended December 31, 1998 related to the development services.

In October 1997, KSI entered into a management agreement to manage the development of certain properties owned by entities under the common control of a senior executive officer of The Allen Group. At December 31, 2000 and 1999, KSI had a receivable balance of \$.2 million and \$0.3 million for management fees earned, respectively.

At December 31, 2000, other assets include a note receivable and accrued interest totaling \$0.3 million due from a Senior Vice President of the Company. The note bears interest at 8%, matures in July 2005 and is secured by real property owned by the officer.

14. Fair Value of Financial Instruments

The carrying amounts of the Company's cash and cash equivalents, restricted cash and accounts payable approximate fair value due to their short-term maturities. The carrying amounts of the Company's variable rate secured debt and unsecured term facility, outstanding borrowings on the Credit Facility, and note receivable from related party approximate fair value since the interest rates on these instruments are equivalent to rates currently offered to the Company.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For fixed rate secured debt, the Company estimates fair value by using discounted cash flow analyses based on borrowing rates for similar types of borrowing arrangements. The fair value of the Company's fixed rate secured debt was \$257 million and \$225 million at December 31, 2000 and 1999, respectively.

For the Series A, Series C, and Series D Preferred units, the Company estimates fair value by using discounted cash flow analyses based on borrowing rates for similar types of fixed rate financial instruments. The fair value of the Series A, Series C and Series D Preferred units was \$142 million and \$146 million at December 31, 2000 and 1999, respectively.

For interest rate cap agreements and interest rate swap agreements, the Company estimates fair value by using available market information and appropriate valuation techniques. At December 31, 2000 and 1999, the Company's derivative instruments had a negative fair value of \$1.9 million and zero, respectively.

15. Segment Disclosure

The Company's reportable segments consist of the two types of commercial real estate properties for which management internally evaluates operating

performance and financial results: Office Properties and Industrial Properties. The Company also has certain corporate level activities including legal, accounting, finance, and management information systems which are not considered separate operating segments.

The Company evaluates the performance of its segments based upon net operating income. 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, and ground leases) and excludes interest income and expense, depreciation and amortization, and corporate general and administrative expenses. The accounting policies of the reportable segments are the same as those described in the Company's summary of significant accounting policies (see Note 2). There is no intersegment activity.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following tables reconcile the Company's segment activity to its consolidated results of operations and financial position as of and for the years ended December 31, 2000, 1999 and 1998.

	Year Ended December 31,		
	2000	1999	1998
	(in thousands)		
Revenues and Expenses			
Office Properties:			
Operating revenues(1).....	\$132,172	\$109,272	\$ 96,077
Property and related expenses.....	31,766	26,539	24,163
	-----	-----	-----
Net operating income, as defined.....	100,406	82,733	71,914
	-----	-----	-----
Industrial Properties:			
Operating revenues(1).....	50,339	49,253	39,313
Property and related expenses.....	7,815	7,896	6,724
	-----	-----	-----
Net operating income, as defined.....	42,524	41,357	32,589
	-----	-----	-----
Total Reportable Segments:			
Operating revenues(1).....	182,511	158,525	135,390
Property and related expenses.....	39,581	34,435	30,887
	-----	-----	-----
Net operating income, as defined.....	142,930	124,090	104,503
	-----	-----	-----
Reconciliation to Consolidated Net Income:			
Total net operating income, as defined, for reportable segments.....	142,930	124,090	104,503
Other unallocated revenues:			
Interest income.....	4,602	1,175	1,698
Other unallocated expenses:			
General and administrative expenses.....	11,114	9,091	7,739
Provision for potentially unrecoverable pre-development costs.....			1,700
Interest expense.....	39,109	26,309	20,568
Depreciation and amortization.....	41,125	33,794	26,200

Income from operations before net gains on dispositions of operating properties, equity in income of unconsolidated subsidiary, and minority interests.....	56,184	56,071	49,994
Net gains on dispositions of operating properties.....	11,256	46	
Equity in income of unconsolidated subsidiary....	10	17	5
Minority interests.....	(20,604)	(16,239)	(11,177)
	-----	-----	-----
Net income.....	\$ 46,846	\$ 39,895	\$ 38,822
	=====	=====	=====

(1) All operating revenues are comprised of amounts received from external tenants.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

	December 31,	
	2000	1999

	(in thousands)	
Assets:		
Office Properties:		
Land, buildings and improvements, net.....	\$ 828,449	\$ 684,629
Undeveloped land and construction in progress, net.....	162,633	189,645
Investment in unconsolidated real estate.....	12,405	
Total assets.....	1,053,109	902,015
Industrial Properties:		
Land, buildings and improvements, net.....	287,657	361,536
Total assets.....	302,524	377,179
Total Reportable Segments:		
Land, buildings and improvements, net.....	1,116,106	1,046,165
Undeveloped land and construction in progress, net.....	162,633	189,645
Investment in unconsolidated real estate.....	12,405	
Total assets.....	1,355,633	1,279,194
Reconciliation to Consolidated Assets:		
Total assets for reportable segments.....	1,355,633	1,279,194
Other unallocated assets:		
Cash and cash equivalents.....	17,600	26,116
Restricted cash.....	35,014	6,636
Note receivable from related party.....	33,274	
Deferred financing costs, net.....	7,707	6,535
Prepaid expenses and other assets.....	7,941	2,020
	-----	-----
Total consolidated assets.....	\$1,457,169	\$1,320,501
	=====	=====

December 31,

2000 1999

(in thousands)

Capital Expenditures:(1)

Office Properties:

Expenditures for operating properties, undeveloped land and construction in progress.....	\$155,411	\$97,139
Recurring capital expenditures and tenant improvements.....	10,448	15,662
Investment in unconsolidated real estate.....	12,405	

Industrial Properties:

Expenditures for operating properties, undeveloped land and construction in progress.....		47,107
Recurring capital expenditures and tenant improvements.....	4,934	4,298

Total Reportable Segments:

Expenditures for operating properties, undeveloped land and construction in progress.....	155,411	144,246
Recurring capital expenditures and tenant improvements.....	15,382	19,960
Investment in unconsolidated real estate.....	12,405	

(1) Total consolidated capital expenditures are equal to the same amounts disclosed for total reportable segments.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

16. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding for the period plus the assumed exercise of all dilutive securities. The Company does not consider common limited partnership units of the Operating Partnership to be dilutive securities since the exchange of common limited partnership units into common stock is on a one for one basis and would not have any effect on diluted earnings per share. The following table reconciles the numerator and denominator of the basic and diluted per-share computations for net income for the three years ended December 31, 2000, 1999 and 1998:

	Year Ended December 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except share and per share amounts)		
Basic.....	\$ 46,846	26,598,926	\$ 1.76
Effect of dilutive securities:			
Stock options granted.....		156,058	(0.1)
Diluted.....	\$ 46,846	26,754,984	\$ 1.75
	=====	=====	=====

	Year Ended December 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	-----	-----	-----

(in thousands, except share and per share amounts)

Basic.....	\$	39,895	27,701,495	\$	1.44
Effect of dilutive securities:					
Stock options granted.....			25,808		
Diluted.....	\$	39,895	27,727,303	\$	1.44
		=====	=====		=====

Year Ended December 31, 1998

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except share and per share amounts)		
Basic.....	\$ 38,822	26,989,422	\$ 1.44
Effect of dilutive securities:			
Stock options granted.....		70,566	(.01)
Diluted.....	\$ 38,822	27,059,988	\$ 1.43
	=====	=====	=====

17. Tax Treatment of Distributions

The income tax reporting for distributions paid to registered common stockholders and common limited partnership unitholders during the years ended December 31, 2000 and 1999 was as follows:

	2000	1999
	(in thousands)	
Distributions for record dates March 31, June 30, and September 30 reportable in the current year.....	\$1.350	\$1.260
Distributions for record date December 31 reportable in following year.....	0.450	0.420
Total distributions per share.....	\$1.800	\$1.680
	=====	=====

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The income tax treatment for distributions reportable in 2000 and 1999, as identified in the table above, was as follows:

	2000	1999
Percent of distributions taxable as ordinary income.....	62.71%	90.48%
Percent of distributions taxable as unrecaptured section 1250 capital gains.....	3.56	0.71

Percent of distributions taxable as twenty percent rate gain.....	8.42	
Percent of distributions not taxable as current year return of capital.....	25.31	8.81
	-----	-----
	100.00%	100.00%
	=====	=====

18. Quarterly Financial Information (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2000 and 1999 was as follows:

	2000 Quarter Ended			

	March 31,	June 30,	September 30,	December 31,

	(in thousands, except per share amounts)			
Total revenues.....	\$43,764	\$45,360	\$47,221	\$50,769
Income before minority interests.....	14,449	17,939	21,519	13,544
Net income.....	9,578	12,804	15,679	8,786
Net income per common share diluted.....	\$ 0.35	\$ 0.49	\$ 0.59	\$ 0.33

	1999 Quarter Ended			

	March 31,	June 30,	September 30,	December 31,

	(in thousands, except per share amounts)			
Total revenues.....	\$37,550	\$39,301	\$40,202	\$42,647
Income before minority interests.....	13,780	14,951	15,109	12,294
Net income.....	9,910	10,796	10,911	8,278
Net income per common share diluted.....	\$ 0.36	\$ 0.39	\$ 0.39	\$ 0.30

19. Subsequent Events

On January 16, 2001, aggregate distributions of \$13.6 million were paid to common stockholders and common unitholders of record on December 31, 2000.

On January 3, 2001, the Company entered into an interest rate swap agreement with a total notional amount of \$150 million that begins in January 2001 (see Note 7).

On January 12, 2001 the Company acquired the fee interest from the City of San Diego for 9455 Town Center Drive, San Diego. The Company previously leased this property from the City of San Diego (see Note 12).

On January 1, 2001, KSI merged into KSLLC and became a wholly owned subsidiary of the Company (See Note 1).

On January 9, 2001, the Company acquired the remaining 75% tenancy-in-common interest in the KAICO complex (see Note 13).

Santa Ana, California..... 26541 Agoura Road Calabasas, California..... 9451 Toledo Way Irvine, California..... 1633 26th Street Santa Monica, California..... 4351 Latham Avenue Riverside, California..... 4361 Latham Avenue Riverside, California..... 601 Valencia Avenue Brea, California..... 3750 University Avenue Riverside, California..... 6220/6215 Greenwich Drive San Diego, California..... 6055 Lusk Avenue San Diego, California..... 6260 Sequence Drive San Diego, California..... 6290 Sequence Drive San Diego, California.....	6,588	9,050	(501)	6,588	8,549	15,137	906	1997 (A)	129,766
	1,979	9,630	2,460	1,979	12,090	14,069	1,231	1997 (A)	90,878
		869	1,135		2,004	2,004	249	1997 (A)	27,200
	2,080	6,672	329	2,040	7,041	9,081	813	1997 (A)	43,800
	307	1,555	170	307	1,725	2,032	188	1997 (A)	21,357
	764	3,577	118	765	3,694	4,459	355	1997 (A)	30,581
	3,518	2,900	99	3,519	2,998	6,517	319	1997 (A)	60,891
	2,909	19,372	486	2,912	19,855	22,767	1,867	1997 (A)	124,986
	4,796	15,863	8,242	5,148	23,753	28,901	2,269	1997 (A)	212,214
	3,935	8,008	21	3,942	8,022	11,964	726	1997 (A)	93,000
	3,206	9,803	23	3,212	9,820	13,032	888	1997 (A)	130,000
	2,403	7,349	17	2,407	7,362	9,769	666	1997 (A)	90,000

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

December 31, 2000										
Property Location	Initial Cost		Costs Capitalized Subsequent to Acquisition/Improvement	Gross Amounts at which Carried at Close of Period			Accumulated Depreciation	Date of Acquisition (A) / Construction (C) (1)	Net Rentable Square Feet	
	Land	Buildings and Improvements		Land	Building	Total				
	(dollars in thousands)									
8101 Kaiser Blvd. Anaheim, California.....	\$ 2,369	\$ 6,180	\$ 236	\$ 2,377	\$ 6,408	\$ 8,785	\$ 583	1997 (A)	60,177	
3130 Wilshire Blvd. Santa Monica, California.....	8,921	6,579	3,384	9,188	9,696	18,884	1,350	1997 (A)	88,338	
12312 W. Olympic Blvd. Los Angeles, California.....	3,325	12,202	581	3,399	12,709	16,108	1,017	1997 (A)	78,000	
Anaheim Corporate Center Anaheim, California.....	5,305	10,149	1,612	5,311	11,755	17,066	1,145	1997 (A)	158,785	
525 N. Brand Blvd. Glendale, California.....	1,360	8,771	114	1,373	8,872	10,245	760	1997 (A)	43,647	
Kilroy Airport Long Beach--Phase IV (2) Long Beach, California			2,088		2,088	2,088	1,274			
501 Santa Monica Blvd. Santa Monica, California.....	4,547	12,044	723	4,551	12,763	17,314	1,178	1998 (A)	70,089	
1240-1250 Lakeview Blvd. Anaheim, California.....	2,851	4,295	318	2,851	4,613	7,464	430	1998 (A)	78,903	
5770 Armada Drive Carlsbad, California.....	2,626	7,880		2,626	7,880	10,506	619	1998 (A)	81,712	
6340-6350										

Sequence Drive San Diego, California.....	7,375	22,126	2,403	7,386	24,518	31,904	2,210	1998 (A)	199,000
4880 Santa Rosa Road Camarillo, California.....	2,389	2,641	21	2,389	2,662	5,051	215	1998 (A)	41,131
15378 Avenue of Science San Diego, California.....	3,565	3,796		3,565	3,796	7,361	289	1998 (A)	68,910
10398-10421 Pacific Center Court San Diego, California.....	14,979	39,634	3,063	14,978	42,698	57,676	3,415	1998 (A)	411,339
3990 Ruffin Road San Diego, California.....	2,467	3,700	1	2,467	3,701	6,168	273	1998 (A)	45,634
2231 Rutherford Road Carlsbad, California.....	1,006	4,155	1	1,007	4,155	5,162	307	1998 (A)	39,000
9455 Town Center Drive San Diego, California.....		3,936	25		3,961	3,961	370	1998 (A)	45,195
Carmel Valley Corporate Center San Diego, California	3,207	18,176	42	3,213	18,212	21,425	1,173	1998 (A)	115,513
12348 High Bluff Drive San Diego, California.....	1,629	3,096	1,222	1,629	4,318	5,947	590	1999 (C)	40,274
4690 Executive Drive San Diego, California.....	1,623	7,926	449	1,623	8,375	9,998	415	1999 (A)	50,929
LPL Financial Complex San Diego, California.....	4,536	16,554	46	4,546	16,590	21,136	829	1999 (A)	126,000
Sorrento Gateway San Diego, California.....	7,106	15,816	129	7,106	15,945	23,051	1,041	1999 (C)	172,778
Kilroy Carmel Center Building 1 San Diego, California.....	2,167	6,897	1	2,167	6,898	9,065	357	1999 (C)	52,375
Kilroy Airport Center--Phase III Long Beach, California.....		49,654	3,010		52,664	52,664	3,562	1999 (C)	136,026
12390 El Camino Real San Diego, California.....	3,453	11,981	52	3,453	12,033	15,486	442	2000 (C)	72,332

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Property Location	December 31, 2000							Date of Acquisition (A)/ Construction (C) (1)
	Initial Cost		Costs Capitalized Subsequent to Acquisition/ Improvement	Gross Amounts at which Carried at Close of Period			Accumulated Depreciation	
	Land	Buildings and Improvements		Land	Building	Total		
(dollars in thousands)								
6310 Sequence Drive San Diego, California....	\$ 2,941	\$ 4,946		\$ 2,941	\$ 4,946	\$ 7,887	\$ 82	2000 (C)
Carmel Mountain Tech Center San Diego, California....	4,286	12,622		4,286	12,622	16,908	446	2000 (C)
24025 Park Sorrento Calabasas, California....	845	15,896		845	15,896	16,741	346	2000 (C)
Westside Media Center-- Phase II Los Angeles, California....	4,329	43,116	\$ (7,584)	4,329	35,532	39,861	430	2000 (C)
Kilroy Carmel Center Building 2 San Diego, California....	4,184	19,352		4,184	19,352	23,536	490	2000 (C)
Kilroy Carmel Center Building 5 San Diego,								

California....	3,452	16,152	1	3,452	16,153	19,605	306	2000 (C)
4955 Directors Place San Diego, California....	2,521	14,122	19	2,521	14,141	16,662	125	2000 (C)
TOTAL OFFICE PROPERTIES.....	\$173,057	\$711,342	\$105,750	\$173,896	\$816,253	\$990,149	\$161,700	

Property Location -----	Net Rentable Square Feet -----
-------------------------------	--

6310 Sequence Drive San Diego, California....	62,415
Carmel Mountain Tech Center San Diego, California....	103,000
24025 Park Sorrento Calabasas, California....	102,264
Westside Media Center-- Phase II Los Angeles, California....	151,000
Kilroy Carmel Center Building 2 San Diego, California....	129,680
Kilroy Carmel Center Building 5 San Diego, California....	112,067
4955 Directors Place San Diego, California....	76,246
TOTAL OFFICE PROPERTIES.....	6,624,443

Industrial Properties: 2031 E. Mariposa Avenue El Segundo, California....	\$ 132	\$ 867	\$ 2,698	\$ 132	\$ 3,565	\$ 3,697	\$ 3,539	1954 (C)
3340 E. La Palma Avenue Anaheim, California....	67	1,521	2,996	67	4,517	4,584	4,255	1966 (C)
2260 E. El Segundo Blvd. El Segundo, California....	1,423	4,194	1,692	1,703	5,606	7,309	3,615	1979 (C)
2265 E. El Segundo Blvd. El Segundo, California....	1,352	2,028	651	1,571	2,460	4,031	1,797	1978 (C)
1000 E. Ball Road Anaheim, California....	838	1,984	921	838	2,905	3,743	2,269	1956 (C) / 1974 (A)
1230 S. Lewis Road Anaheim, California....	395	1,489	2,058	395	3,547	3,942	2,796	1982 (C)
12681/12691 Pala Drive Garden Grove, California....	471	2,115	2,683	471	4,798	5,269	3,699	1980 (A)
2270 E. El Segundo Blvd. El Segundo, California....	361	100	156	419	198	617	97	1977 (C)
5115 N. 27th Avenue Phoenix, Arizona.....	125	1,206	182	125	1,388	1,513	1,168	1962 (C)
12752-12822 Monarch Street Garden Grove, California....	3,975	5,238	587	3,975	5,825	9,800	668	1997 (A)
4155 E. La Palma Avenue Anaheim, California....	1,148	2,681	163	1,148	2,844	3,992	368	1997 (A)
4125 E. La Palma Avenue Anaheim, California....	1,690	2,604	14	1,690	2,618	4,308	314	1997 (A)
Brea Industrial Properties Brea, California....	1,263	13,927	206	1,263	14,133	15,396	1,469	1997 (A)
Garden Grove Industrial Properties Garden Grove, California.....	1,868	11,894	357	1,868	12,251	14,119	1,324	1997 (A)
Industrial Properties: 2031 E. Mariposa Avenue El Segundo, California....	192,053							
3340 E. La Palma Avenue Anaheim, California....	153,320							
2260 E. El Segundo Blvd.								

Tustin, California.....	1,112	1,065	271	1,113	1,335	2,448	145	1997 (A)	36,256
6828 Nancy Ridge Drive San Diego, California.....	1,914	1,110	1	1,914	1,111	3,025	106	1997 (A)	39,669
1675 MacArthur Costa Mesa, California.....	2,076	2,114		2,076	2,114	4,190	201	1997 (A)	50,842
3130-3150 Miraloma Anaheim, California.....	3,335	3,727	(27)	3,335	3,700	7,035	348	1997 (A)	144,000
3125 E. Coronado Street Anaheim, California.....	3,669	4,341		3,669	4,341	8,010	403	1997 (A)	144,000
1951 E. Carnegie Santa Ana, California.....	1,830	3,630	1,541	1,844	5,157	7,001	409	1997 (A)	100,000
5115 E. La Palma Avenue Anaheim, California.....	2,462	6,675	4,515	2,464	11,188	13,652	947	1997 (A)	286,139
3735 Imperial Highway Stockton, California.....	764	10,747	18	764	10,765	11,529	974	1997 (A)	164,540
41093 County Center Drive Temecula, California.....	1,709	2,841	7	1,712	2,845	4,557	257	1997 (A)	77,582
1840 Aerojet Way Las Vegas, Nevada.....	727	3,792	8	728	3,799	4,527	344	1997 (A)	102,948
1900 Aerojet Way Las Vegas, Nevada.....	644	4,093	8	645	4,100	4,745	372	1997 (A)	106,717
Alton Business Center Irvine, California.....	5,130	7,465	262	5,130	7,727	12,857	806	1998 (A)	143,117
795 Trademark Drive Reno, Nevada.....	1,731	5,193	11	1,734	5,201	6,935	433	1998 (A)	75,257
1250 N. Tustin Avenue Anaheim, California.....	2,098	4,158		2,098	4,158	6,256	317	1998 (A)	84,185
2911 Dow Avenue Tustin, California.....	1,124	2,408	2	1,124	2,410	3,534	178	1998 (A)	54,720
892/909 Towne Center Drive Foothill Ranch, California.....	3,334	8,243	4,718	4,949	11,346	16,295	1,339	1998 (C)	303,533

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

	December 31, 2000								
	Initial Cost		Costs Capitalized Subsequent to Acquisition/Improvement	Gross Amounts at which Carried at Close of Period			Accumulated Depreciation	Date of Acquisition (A) / Construction (C) (1)	Net Rentable Square Feet
Property Location	Land	Buildings and Improvements		Land	Building	Total			
	(dollars in thousands)								
3250 E. Carpenter Avenue, Anaheim, California.....			\$ 2,298	\$	2,298	\$ 2,298	\$ 210	1998 (C)	41,225
925 & 1075 Lambert Road, Brea, California.....	\$ 3,326	\$ 7,020	1,717	\$ 3,326	8,737	12,063	694	1999 (C)	178,811
Anaheim Technology Center, Anaheim, California.....	10,648	20,221	4,575	10,649	24,795	35,444	1,830	1999 (C)	593,992
TOTAL INDUSTRIAL PROPERTIES.....	\$ 92,890	\$203,278	\$ 35,122	\$ 92,548	\$ 238,742	\$ 331,290	\$ 43,633		5,807,555
TOTAL ALL PROPERTIES.....	\$265,947	\$914,620	\$140,872	\$266,444	\$1,054,995	\$1,321,439	\$205,332		12,431,998

(1) Represents date of construction or acquisition by the Company, or the Company's Predecessor, the Kilroy Group.

(2) These costs represent infrastructure costs incurred in 1989.

The aggregate gross cost of property included above for federal income tax purposes, approximated \$1.1 billion as of December 31, 2000.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following table reconciles the historical cost of the total investment in real estate, net from January 1, 1998 to December 31, 2000:

	Year Ended December 31,		
	2000	1999	1998
	(in thousands)		
Land, building and improvements, beginning of year.....	\$1,220,593	\$1,081,925	\$ 800,019
Net additions during period--Acquisition, improvements, etc. (net of dispositions)...	100,846	138,668	281,906
Land, building and improvements, end of year.....	1,321,439	1,220,593	1,081,925
Undeveloped land and construction in progress, net, beginning of year.....	189,645	112,359	34,671
Change in undeveloped land and construction in progress, net.....	(27,012)	77,286	77,688
Undeveloped land and construction in progress, net, end of year.....	162,633	189,645	112,359
Investment in unconsolidated real estate.....	12,405		
Total investment in real estate, net, end of year.....	\$1,496,477	\$1,410,238	\$1,194,284
	=====	=====	=====

The following table reconciles the accumulated depreciation from January 1, 1998 to December 31, 2000:

	Year Ended December 31,		
	2000	1999	1998
	(in thousands)		
Beginning of year.....	\$174,427	\$145,347	\$121,780
Net additions during period--Depreciation and amortization for the year.....	30,905	29,080	23,657
End of year.....	\$205,332	\$174,427	\$145,437
	=====	=====	=====

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KILROY REALTY CORPORATION CONSOLIDATED AND KILROY GROUP COMBINED

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 2000, 1999 and 1998
(in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses or Rental Revenue	Deductions	Balance at End of Period
	-----	-----	-----	-----
Year Ended December 31, 2000--				
Allowance for uncollectible tenant receivables and unbilled deferred rent.....	\$2,693	\$1,554	\$ (638)	\$3,617
	=====	=====	=====	=====
Year Ended December 31, 1999--				
Allowance for uncollectible tenant receivables and unbilled deferred rent.....	\$1,456	\$2,158	\$ (921)	\$2,693
	=====	=====	=====	=====
Year Ended December 31, 1998--				
Allowance for uncollectible tenant receivables and unbilled deferred rent.....	\$1,136	\$1,107	\$ (787)	\$1,456
	=====	=====	=====	=====
Year Ended December 31, 2000--				
Allowance for potentially unrecoverable pre-development costs.....	\$ 703		\$ (197)	\$ 506
	=====		=====	=====
Year Ended December 31, 1999--				
Allowance for potentially unrecoverable pre-development costs.....	\$1,700		\$ (997)	\$ 703
	=====		=====	=====
Year Ended December 31, 1998--				
Allowance for potential unrecoverable pre-development costs.....		\$1,700		\$1,700
		=====		=====

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Exhibit Number	Description
-----	-----
3.1	Articles of Amendment and Restatement of the Registrant(1)
3.2	Amended and Restated Bylaws of the Registrant(1)
3.3	Form of Certificate for Common Stock of the Registrant(1)
3.4	Articles Supplementary of the Registrant designating 8.075% Series A Cumulative Redeemable Preferred Stock(10)

- 3.5 Articles Supplementary of the Registrant, designating 8.075% Series A Cumulative Redeemable Preferred Stock(13)
- 3.6 Articles Supplementary of the Registrant designating its Series B Junior Participating Preferred Stock(23)
- 3.7 Articles Supplementary of the Registrant designating its 9.375% Series C Cumulative Redeemable Preferred Stock(15)
- 3.8 Articles Supplementary of the Registrant designating its 9.250% Series D Cumulative Redeemable Preferred Stock(20)
- 4.1 Registration Rights Agreement, dated January 31, 1998(1)
- 4.2 Registration Rights Agreement, dated February 6, 1999(10)
- 4.3 Registration Rights Agreement, dated April 20, 1999(13)
- 4.4 Registration Rights Agreement, dated November 24, 1999(15)
- 4.5 Registration Rights Agreement, dated as of October 31, 1998(7)
- 4.6 Rights Agreement, dated as of October 2, 1999 between Kilroy Realty Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes the form of Articles Supplementary of the Series B Junior Participating Preferred Stock of Kilroy Realty Corporation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C(16)
- 4.7 Registration Rights Agreement, dated as of December 9, 1999(20)
- *4.8 Registration Rights Agreement, dated as of October 6, 2000
- 4.9 The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request.
- 10.1 Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated November 24, 1999(15)
- 10.2 Omnibus Agreement, dated as of October 30, 1996, by and among Kilroy Realty, L.P. and the parties named therein(1)
- 10.3 Supplemental Representations, Warranties and Indemnity Agreement by and among Kilroy Realty, L.P. and the parties named therein(1)
- 10.4 Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries(1)
- 10.5 1998 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P.(1)
- 10.6 Form of Indemnity Agreement of the Registrant and Kilroy Realty, L.P. with certain officers and directors(1)
- 10.7 Lease Agreement, dated January 24, 1989, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I(1)
- 10.8 First Amendment to Lease Agreement, dated December 28, 1990, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I(1)
- 10.9 Lease Agreement, dated July 17, 1985, by and between Kilroy Long Beach

Associates and the City of Long Beach for Kilroy Long Beach Phase
III(1)

Exhibit Number -----	Description -----
10.10	Lease Agreement, dated April 21, 1988, by and between Kilroy Long Beach Associates and the Board of Water Commissioners of the City of Long Beach, acting for and on behalf of the City of Long Beach, for Long Beach Phase IV(1)
10.11	Lease Agreement, dated December 30, 1988, by and between Kilroy Long Beach Associates and City of Long Beach for Kilroy Long Beach Phase II(1)
10.12	First Amendment to Lease, dated January 24, 1989, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III(1)
10.13	Second Amendment to Lease Agreement, dated December 28, 1990, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III(1)
10.14	First Amendment to Lease Agreement, dated December 28, 1990, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II(1)
10.15	Third Amendment to Lease Agreement, dated October 10, 1994, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III(1)
10.16	Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach(1)
10.17	Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach(1)
10.18	Ground Lease by and between Frederick Boysen and Ted Boysen and Kilroy Industries, dated May 15, 1969, for SeaTac Office Center(1)
10.19	Amendment No. 1 to Ground Lease and Grant of Easement, dated April 27, 1973, among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties(1)
10.20	Amendment No. 2 to Ground Lease and Grant of Easement, dated May 17, 1977, among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties(1)
10.21	Airspace Lease, dated July 10, 1980, by and among the Washington State Department of Transportation, as lessor, and Sea Tac Properties, Ltd. and Kilroy Industries, as lessee(1)
10.22	Lease, dated April 1, 1980, by and among Bow Lake, Inc., as lessor, and Kilroy Industries and SeaTac Properties, Ltd., as lessees for Sea/Tac Office Center(1)
10.23	Amendment No. 1 to Ground Lease, dated September 17, 1990, between Bow Lake, Inc., as lessor, and Kilroy Industries and Sea/Tac Properties, Ltd., as lessee(1)
10.24	Amendment No. 2 to Ground Lease, dated March 21, 1991, between Bow

Lake, Inc., as lessor, and Kilroy Industries and Sea/Tac Properties, Ltd., as lessee(1)

- 10.25 Property Management Agreement between Kilroy Realty Finance Partnership, L.P. and Kilroy Realty, L.P.(1)
- 10.26 Environmental Indemnity Agreement(1)
- 10.27 Option Agreement by and between Kilroy Realty, L.P. and Kilroy Airport Imperial Co.(1)
- 10.28 Option Agreement by and between Kilroy Realty, L.P. and Kilroy Calabasas Associates(1)
- 10.29 Employment Agreement between the Registrant and John B. Kilroy, Jr.(1)
- 10.30 Employment Agreement between the Registrant and Richard E. Moran Jr.(1)
- 10.31 Employment Agreement between the Registrant and Jeffrey C. Hawken(1)
- 10.32 Employment Agreement between the Registrant and C. Hugh Greenup(1)
- 10.33 Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr.(1)
- 10.34 Noncompetition Agreement by and between the Registrant and John B. Kilroy, Jr.(1)

Exhibit
Number

Description

- 10.35 License Agreement by and among the Registrant and the other persons named therein(1)
- 10.36 Form of Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases, Rents and Security Deposits(1)
- 10.37 Mortgage Note(1)
- 10.38 Indemnity Agreement(1)
- 10.39 Assignment of Leases, Rents and Security Deposits(1)
- 10.40 Variable Interest Rate Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases and Rents(1)
- 10.41 Environmental Indemnity Agreement(1)
- 10.42 Assignment, Rents and Security Deposits(1)
- 10.43 Form of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases and Rents(1)
- 10.44 Assignment of Leases, Rents and Security Deposits(1)
- 10.45 Purchase and Sale Agreement and Joint Escrow Instructions, dated April 30, 1998, by and between Mission Land Company, Mission-Vacaville, L.P. and Kilroy Realty, L.P.(2)

- 10.46 Agreement of Purchase and Sale and Joint Escrow Instructions, dated April 30, 1998, by and between Camarillo Partners and Kilroy Realty, L.P.(2)
- 10.47 Purchase and Sale Agreement and Escrow Instructions, dated May 5, 1998, by and between Kilroy Realty, L.P. and Pullman Carnegie Associates(4)
- 10.48 Amendment to Purchase and Sale Agreement and Escrow Instructions, dated June 27, 1998, by and between Pullman Carnegie Associates and Kilroy Realty, L.P.(4)
- 10.49 Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions, dated May 12, 1998, by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P.(3)
- 10.50 First Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions, dated June 6, 1998, between Kilroy Realty, L.P. and Shidler West Acquisition Company, L.L.C. and Kilroy Realty, L.P.(3)
- 10.51 Second Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions, dated June 12, 1998, by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P.(3)
- 10.52 Agreement of Purchase and Sale and Joint Escrow Instructions, dated June 12, 1998, by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P.(4)
- 10.53 Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions, dated June 30, 1998, by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P.(4)
- 10.54 Agreement for Purchase and Sale of 2100 Colorado Avenue, Santa Monica, California, dated June 16, 1998, by and between Santa Monica Number Seven Associates L.P. and Kilroy Realty L.P.(4)
- 10.55 Second Amendment to Credit Agreement and First Amendment to Variable Interest Rate Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases and Rent dated August 13, 1998(5)
- 10.56 Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners(6)
- 10.57 First Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated August 22, 1998(6)
- 10.58 Second Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 5, 1998(6)

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- 10.59 Third Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P.

and Mission Square Partners, dated September 19, 1998(6)

- 10.60 Fourth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 22, 1998(6)
- 10.61 Fifth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 23, 1998(6)
- 10.62 Sixth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 25, 1998(6)
- 10.63 Seventh Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated September 29, 1998(6)
- 10.64 Eighth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated October 2, 1998(6)
- 10.65 Ninth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions, dated July 10, 1998, by and between Kilroy Realty, L.P. and Mission Square Partners, dated October 24, 1998(6)
- 10.66 Contribution Agreement, dated October 21, 1998, by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens(8)
- 10.67 Purchase and Sale Agreement and Escrow Instructions, dated December 11, 1998, by and between Kilroy Realty, L.P. and Swede-Cal Properties, Inc., Viking Investors of Southern California, L.P. and Viking Investors of Southern California II, L.P.(9)
- 10.68 Amendment to the Contribution Agreement, dated October 14, 1999, by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens, dated October 21, 1998(15)
- 10.69 Amended and Restated Revolving Credit Agreement, dated as of October 8, 1999 among Kilroy Realty, L.P., Morgan Guaranty Trust Company of New York, as Bank and as Lead Agent for the Banks, and the Banks listed therein.(14)
- 10.70 Amended and Restated Guaranty of Payment, dated as of October 8, 1999, between Kilroy Realty Corporation and Morgan Guaranty Trust Company of New York.(14)
- 10.71 Promissory Notes Aggregating \$95.0 Million Payable to Teachers Insurance and Annuity Association of America(18)
- 10.72 Form of Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement Securing Promissory Notes Payable to Teachers Insurance and Annuity Association of America(18)
- 10.73 Second Amended and Restated Revolving Credit Agreement and Form of Notes Aggregating \$400 million(19)
- 10.74 Second Amended and Restated Guaranty of Payment(19)
- 10.75 Credit Agreement and Form of Promissory Notes Aggregating \$90.0 million(19)
- 10.76 Variable Interest Rate Deed of Trust, Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing(19)
- 10.77 Guaranty of Recourse Obligations of Borrowing(19)

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| 10.78 | First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated December 9, 1999(21) |
| *10.79 | Second Amendment to Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated December 30, 1999 |
| *10.80 | Admission of New Partner and Amendment to New Partnership Agreement dated October 6, 2000 |
| 10.81 | Credit Agreement and Form of Promissory Notes Aggregating \$100.0 million(22) |
| 21.1 | List of Subsidiaries of the Registrant(17) |
| *23.1 | Consent of Deloitte & Touche LLP |
| *24.1 | Power of Attorney (included in the signature page of this Form 10-K) |
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* Filed herewith

** Previously filed

- (1) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-15553) as declared effective in January 28, 1998 and incorporated herein by reference.
- (2) Previously filed as exhibit 10.11 and 10.12, respectively, to the Current Report on Form 8-K, dated May 22, 1998, and incorporated herein by reference.
- (3) Previously filed as exhibit 10.57, 10.58 and 10.59, respectively, to the Current Report on Form 8-K, dated June 30, 1998, and incorporated herein by reference.
- (4) Previously filed as exhibit 10.54, 10.59, 10.60, 10.61 and 10.62, respectively, to the Current Report on Form 8-K, dated June 30, 1998, and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-32261), and incorporated herein by reference.
- (6) Previously filed as an exhibit on Form 10-Q, for the quarterly period ended September 30, 1998, and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Current Report on Form 8-K/A, dated October 29, 1998, and incorporated herein by reference.
- (8) Previously filed as exhibit 10.70 and 10.71, respectively, to the Current Report on Form 8-K, dated November 7, 1998, and incorporated herein by reference.
- (9) Previously filed as exhibit 10.70 to the Current Report on Form 8-K, dated December 17, 1998, and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K dated February 6, 1999 and incorporated herein by reference.

- (11) Previously filed as an exhibits to the Current Report on Form 8-K (No. 1-12675) dated October 2, 1999 and incorporated herein by reference.
- (12) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated October 29, 1998 and incorporated herein by reference.
- (13) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated April 20, 1999 and incorporated herein by reference.
- (14) Previously filed as an exhibit on Form 10-Q (No. 1-12675) for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- (15) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated November 24, 1999 and incorporated herein by reference.
- (16) Previously filed as an exhibit to the Current Report on Form 8-K (No. 1-12675) dated October 2, 1999 and incorporated herein by reference.
- (17) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-15553) and incorporated herein by reference.
- (18) Previously filed as an exhibit on Form 10-Q, for the quarterly period ended March 31, 1999, and incorporated herein by reference.
- (19) Previously filed as an exhibit on Form 10-Q, for the quarterly period ended September 30, 1999, and incorporated herein by reference.
- (20) Previously filed as exhibit 3.8 to the annual report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.
- (21) Previously filed as exhibit 4.18 to the Registration Statement on Form S-3 (No. 333-34638) and incorporated herein by reference.
- (22) Previously filed as an exhibit on Form 10Q for the quarterly period ended September 30, 2000 and incorporated herein by reference.
- (23) Previously filed as an exhibit on the Registration Statement on Form S-3 (No. 333-72229) as declared effective on September 15, 1999, and incorporated herein by reference.

(b) Reports on Form 8K

The Company filed two Current Reports on Form 8-K (No. 1-12675) dated May 8, 2000 and November 2, 2000 in connection with its quarterly earnings releases.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT, dated as of October 6, 2000, is entered into by and among Kilroy Realty Corporation, a Maryland corporation (the "Company" or the "REIT"), Kilroy Realty, L.P., a Delaware limited partnership (the "Operating Partnership"), and the unit holder whose name is set forth on the signature pages hereto (the "Unit Holder").

RECITALS

WHEREAS, the Company, the Operating Partnership and the Unit Holder as the party which owns a ninety-nine percent(99%) limited partnership interest in Imperial Partners 25, L.P., a Delaware limited partnership, (the "Property") will engage in certain transactions whereby the Unit Holder will contribute to the Property to the Operating Partnership;

WHEREAS, the Unit Holders will receive units of limited partnership interests ("OP Units") in the Operating Partnership in exchange for the Property;

WHEREAS, pursuant to the Partnership Agreement (as defined below), OP Units owned by the Unit Holders will be redeemable for cash or exchangeable for shares of common stock of the Company, par value \$.01 per share (the "Common Stock"), upon the terms and subject to the conditions contained therein; and

WHEREAS, the Unit Holder is willing to contribute the Property in consideration of receiving the OP Units and the registration rights provided for in this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Definitions. In addition to the definitions set forth

above, the following terms, as used herein, have the following meanings:

"Affiliate" of any Person means any other Person directly or indirectly controlling or controlled by or under common control with such Person. For the purposes of this definition, "control" when used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" means this Registration Rights Agreement, as it may be amended, supplemented or restated from time to time.

"Articles of Incorporation" means the Articles of Amendment and Restatement of the Company as filed with the Secretary of State of the State of Maryland, as amended, modified or restated from time to time.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York or Los Angeles, California are authorized by law to close.

"Code" means the Internal Revenue Code of 1986, as amended from time to time or any successor statute thereto, as interpreted by the applicable regulations thereunder.

"Commission" means the Securities and Exchange Commission.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchangeable OP Units" means OP Units which may be redeemable for cash or exchangeable for Common Stock pursuant to Section 8.6 of the Partnership Agreement (without regard to any limitations on the exercise of such exchange right as a result of the Ownership Limit Provisions, as defined below).

"General Partner" means the Company or its successors as general partner of the Operating Partnership.

"Holder" means any Unit Holder who is the record or beneficial owner of any Registrable Security or any assignee or transferee of such Registrable Security (including assignments or transfers of Registrable Securities to such assignees or transferees as a result of the foreclosure on any loans secured by such Registrable Securities) unless such Registrable Security is acquired in a public distribution pursuant to a registration statement under the Securities Act or pursuant to transactions exempt from registration under the Securities Act, in each such case where securities sold in such transaction may be resold without subsequent registration under the Securities Act.

"Incapacitated" shall have the meaning set forth in the Partnership Agreement.

"Ownership Limit Provisions" mean the various provisions of the Articles of Incorporation set forth in Article IV thereof restricting the ownership of Common Stock by certain Persons to specified percentages of the outstanding Common Stock.

"Partnership Agreement" means the Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated as of November 24, 1998, as the same may be amended, modified or restated from time to time.

"Person" means an individual or a corporation, partnership, limited liability company, association, trust, or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Piggy-Back Registration" means a Piggy-Back Registration as defined in Section 2.2 hereof.

"REIT" means a real estate investment trust under Section 856 through Section 860 of the Code.

"Registrable Securities" means shares of Common Stock of the Company at any time owned, either of record or beneficially, by any Holder and no matter how acquired (including, without limitation, shares of Common Stock issuable upon exchange of Exchangeable OP Units) until (i) a registration statement covering such securities has been declared effective by the Commission and such shares have been sold or transferred pursuant to such effective registration statement, (ii) such shares are sold under circumstances in which all of the applicable conditions of Rule 144 under the Securities Act (or any similar provisions then in force) under the Securities Act are met or under which such shares may be sold pursuant to Rule 144(k) under the Securities Act or (iii) such shares have been otherwise transferred in a transaction that would constitute a sale thereof under the Securities Act, the Company has delivered a

new certificate or other evidence of ownership for such shares not bearing the Securities Act restricted stock legend and such shares may be resold without subsequent registration under the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended.

"Selling Holder" means a Holder who is selling Registrable Securities pursuant to a registration statement under the Securities Act pursuant to this Agreement.

"Underwriter" means a securities dealer who purchases any Registrable Securities as principal and not as part of such dealer's market-making activities.

ARTICLE II

REGISTRATION RIGHTS

SECTION 2.1. Shelf Registration. Commencing on or after October 31,

2001, the Company shall prepare and file a "shelf" registration statement with respect to shares of Common Stock issuable upon the exchange of Exchangeable OP Units covering the issuance by the Company and the resale thereof by the Holders on an appropriate form for an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act (the "Shelf Registration Statement") and shall use its best efforts to cause the Shelf Registration Statement to be declared effective on or as soon as practicable after such date, and to keep such Shelf Registration Statement continuously effective for a period ending when all shares of Common Stock covered by the Shelf Registration Statement have been issued and resold.

SECTION 2.2. Piggy-Back Registration. (a) If the Company proposes to

file a registration statement under the Securities Act with respect to an offering by the Company for its own account (a "Primary Registration") or for the account of any of its respective securityholders of Common Stock (other than (i) any registration statement filed by the Company under the Securities Act relating to an offering of Common stock for its own account as a result of the

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exercise of the exchange rights set forth in Section 8.6 of the Partnership Agreement, and covering the resale by the Holders of the shares of common stock received in such exchange, or (ii) a registration statement on Form S-4 or S-8 (or any substitute form that may be adopted by the Commission) or filed in connection with an exchange offer or offering of securities solely to the Company's existing securityholders) (a "Secondary Registration"), then the Company shall give written notice of such proposed filing to the Holders of Registrable Securities as soon as practicable (but in no event less than ten (10) days before the anticipated filing date), and such notice shall offer such Holders the opportunity to register such number of shares of Registrable Securities as each such Holder may request (a "Piggy-Back Registration"). The Company shall use its commercially reasonable efforts to cause the managing Underwriter or Underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggy-Back Registration to be included on the same terms and conditions as any similar securities of the Company included therein.

(b) Withdrawal from Registration. Any Holder requesting inclusion of

Registrable Securities pursuant to this Section 2.2 may, at any time prior to the effective date of the registration statement relating to such registration, revoke such request by delivering written notice of such revocation to the Company; provided, however, that if the Company, in consultation with its

financial and legal advisors, determines that such revocation would materially

delay the registration or otherwise require a recirculation of the prospectus contained in the registration statement, then such Holder shall have no such right to revoke its request. If the withdrawal of any Registrable Securities would allow, within the marketing limitations set forth above, the inclusion in the underwriting of a greater number of shares of Registrable Securities, then, to the extent practicable and without delaying the underwriting, the Company shall offer to the Holders an opportunity to include additional shares of Registrable Securities in the proportions discussed in Section 2.3 below.

(c) Termination or Withdrawal by the Company. The Company shall have

the right to terminate or withdraw any registration initiated by it under this Section 2.2 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration.

SECTION 2.3. Reduction of Offering. Notwithstanding anything

contained herein, if the managing Underwriter or Underwriters of an offering described in Section 2.2 hereof are of the opinion that (i) the size of the offering that the Holders, the Company and/or such other persons intend to make or (ii) the kind of securities that the Holders, the Company and/or any other persons or entities intend to include in such offering are such that the success of the offering would be materially and adversely affected by inclusion of the Registrable Securities requested to be included, then (A) if the size of the offering is the basis of such Underwriter's opinion, the amount of securities to be offered for the accounts of Holders shall be reduced pro rata (according to the Registrable Securities proposed for registration) to the extent necessary to reduce the total amount of securities to be included in such offering to the amount recommended by such managing Underwriter or Underwriters; provided that

if securities are being offered for the account of other persons or entities as well as the Company, then (1) in the case of a Primary Registration, the reduction in the amount of securities requested to be offered shall be made first

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pro rata among securities offered for the accounts of Holders and such other persons or entities, and (2) in the case of a Secondary Registration, the reduction in the amount of securities requested to be offered shall be made in accordance with the terms of the registration rights agreement pursuant to which such Secondary Registration is made, provided that if any such registration rights agreement is silent with respect to reductions in shares being registered thereunder, then with respect to the Registrable Securities intended to be offered by Holders, the proportion by which the amount of such class of securities intended to be offered by Holders is reduced shall not exceed the proportion by which the amount of such class of securities intended to be offered by such other persons or entities is reduced and (B) if the combination of securities to be offered is the basis of such Underwriter's opinion, (x) the Registrable Securities to be included in such offering shall be reduced as described in clause (A) above (subject to the proviso in clause (A)) or, (y) if the actions described in clause (x) would, in the judgment of the managing Underwriter, be insufficient to substantially eliminate the adverse effect that inclusion of the Registrable Securities requested to be included would have on such offering, such Registrable Securities will be excluded from such offering.

SECTION 2.4. Registration Procedures; Filings; Information. In connection

with any Shelf Registration Statement under Section 2.1 hereof, the Company will use its best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof as quickly as practicable, and in connection with any such request:

(a) The Company will as expeditiously as possible prepare and file with the Commission a registration statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate and which form shall be available for the sale of the Registrable Securities to be

registered thereunder in accordance with the intended method of distribution thereof, and use its best efforts to cause such filed registration statement to become and remain effective for a period of not less than 180 days or in the case of a Shelf Registration Statement as provided in Section 2.1 hereof.

(b) The Company will, if requested, prior to filing a registration statement or prospectus or any amendment or supplement thereto, furnish to each Selling Holder and each Underwriter, if any, of the Registrable Securities covered by such registration statement or prospectus copies of such registration statement or prospectus or any amendment or supplement thereto as proposed to be filed, and thereafter furnish to such Selling Holder and Underwriter, if any, such number of conformed copies of such registration statement, each amendment and supplement thereto (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such registration statement (including each preliminary prospectus) and such other documents as such Selling Holder or Underwriter may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Selling Holder.

(c) After the filing of the registration statement, the Company will promptly notify each Selling Holder of Registrable Securities covered by such registration

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statement of any stop order issued or threatened by the Commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered.

(d) The Company will use its best efforts to (i) register or qualify the Registrable Securities under such other securities or blue sky laws of such jurisdictions in the United States (where an exemption is not available) as any Selling Holder or managing Underwriter or Underwriters, if any, reasonably (in light of such Selling Holder's intended plan of distribution) requests and (ii) cause such Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company and do any and all other acts and things that may be reasonably necessary or advisable to enable such Selling Holder to consummate the disposition of the Registrable Securities owned by such Selling Holder; provided that the Company will not be required to (A) qualify generally

to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph (d), (B) subject itself to taxation in any such jurisdiction or (C) consent to general service of process in any such jurisdiction.

(e) The Company will immediately notify each Selling Holder of such Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances then existing, not misleading and promptly make available to each Selling Holder a reasonable number of copies of any such supplement or amendment.

(f) The Company will enter into customary agreements (including an underwriting agreement, if any, in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities.

(g) The Company will make available for inspection by any Selling Holder of such Registrable Securities, any Underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other professional retained by any such Selling Holder or Underwriter (collectively, the "Inspectors"), all financial and other records, pertinent

corporate documents and properties of the Company (collectively, the "Records") as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information reasonably requested by any Inspectors in connection with such registration statement. Records which the Company determines, in good faith, to be confidential and which it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in such registration statement or (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction. Each Selling Holder of such Registrable Securities agrees that information obtained by it as a result of such inspections shall be deemed confidential and shall not be used by it as the basis for any market transactions in the securities of the company or its Affiliates or otherwise disclosed by it unless and until such is made generally

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available to the public. Each Selling Holder of such Registrable Securities further agrees that it will, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential.

(h) The Company will furnish to each Selling Holder and to each Underwriter, if any, a signed counterpart, addressed to such Selling Holder or Underwriter, of (i) an opinion or opinions of counsel to the Company and (ii) a comfort letter or comfort letters from the Company's independent public accountants (to the extent permitted by the standards of the American Institute of Certified Public Accountants), each in customary form and covering such matters of the type customarily covered by opinions or comfort letters, as the case may be, as the Holders of a majority of the Registrable Securities included in such offering or the managing Underwriter or Underwriters therefor reasonably requests.

(i) The Company will otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its securityholders, as soon as reasonably practicable, an earnings statement covering a period of twelve (12) months, beginning within three (3) months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 of the Commission promulgated thereunder (or any successor rule or regulation hereafter adopted by the Commission).

(j) The Company will use its best efforts to cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by the Company are then listed.

The Company may require, as a condition precedent to the obligations of the Company under the Agreement, each Selling Holder of Registrable Securities to promptly furnish in writing to the Company such information regarding such selling Selling Holder, the Registrable Securities held by it and the intended method of distribution of the Registrable Securities as the Company may from time to time reasonably request and such other information as may be legally required in connection with such registration.

Each Selling Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 2.4(e) hereof, such Selling Holder will forthwith discontinue disposition of Registrable Securities pursuant to the registration statement and prospectus covering such Registrable Securities until such Selling Holder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 2.4(e) hereof, and, if so directed by the Company, such Selling Holder will deliver to the Company all copies, other than permanent file copies then in such Selling Holder's possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice. Each Selling Holder of Registrable Securities agrees that it will immediately notify the Company at any

time when a prospectus relating to the registration of such Registrable securities is required to be delivered under the Securities Act of the happening of an event as a result of which information previously furnished by such Selling Holder to the Company in writing for inclusion

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in such prospectus contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading. In the event the Company shall give such notice, the Company shall extend the period during which such registration statement shall be maintained effective (including the period referred to in Section 2.4(ha) hereof) by the number of days during the period from and including the date of the giving of notice pursuant to Section 2.4(e) hereof to the date when the Company shall make available to the Selling Holders of Registrable Securities covered by such registration statement a prospectus supplemented or amended to conform with the requirements of Section 2.4(e) hereof.

SECTION 2.5. Registration Expenses. In connection with any

registration statement required to be filed hereunder, the Company shall pay the following registration expenses incurred in connection with the registration hereunder (the "Registration Expenses"): (i) all registration and filing fees, (ii) fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities), (iii) printing expenses, (iv) internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), (v) the fees and expenses incurred in connection with the listing of the Registrable Securities on each securities exchange on which similar securities issued by the Company are then listed, (vi) reasonable fees and disbursements of counsel for the company and customary fees and expenses for independent certified public accountants retained by the Company (including the expenses of any comfort letters or costs associated with the delivery by independent certified public accountants of a comfort letter or comfort letters requested pursuant to Section 2.4(h) hereof), (vii) the reasonable fees and expenses of any special experts retained by the Company in connection with such registration, and (viii) reasonable fees and expenses of one counsel (who shall be reasonably acceptable to the Company) for the Selling Holders. The Company shall have no obligation to pay any underwriting fees, discounts or commissions attributable to the sale of Registrable Securities, or any out-of-pocket expenses of the Holders (or the agents who manage their accounts) or any transfer taxes relating to the registration or sale of the Registrable Securities.

SECTION 2.6. Indemnification by the Company. The Company agrees to

indemnify and hold harmless each Selling Holder of Registrable Securities, its officers, directors and agents, and each Person, if any, who controls such Selling Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus relating to the Registrable Securities (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished in writing to the Company by such Selling Holder or on such Selling Holder's behalf expressly for inclusion therein. The Company also agrees to indemnify any Underwriters of the

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Registrable Securities, their officers and directors and each Person who controls such Underwriters within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act on substantially the same basis as that of the indemnification of the Selling Holders provided in this Section 2.6, provided that the foregoing indemnity with respect to any preliminary prospectus

shall not inure to the benefit of any Underwriter of the Registrable Securities from whom the person asserting any such losses, claims, damages or liabilities purchased the Registrable Securities which are the subject thereof if such person did not receive a copy of the prospectus (or the prospectus as supplemented) at or prior to the confirmation of the sale of such Registrable Securities to such person in any case where such delivery is required by the Securities Act and the untrue statement or omission of a material fact contained in such preliminary prospectus was corrected in the prospectus (or the prospectus as supplemented).

SECTION 2.7. Indemnification by Holders of Registrable Securities.

Each Selling Holder agrees, severally but not jointly, to indemnify and hold harmless the Company, its officers, directors and agents and each Person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such Selling Holder, but only with respect to information relating to such Selling Holder furnished in writing by such Selling Holder or on such Selling Holder's behalf expressly for use in any registration statement or prospectus relating to the Registrable Securities, or any amendment or supplement thereto, or any preliminary prospectus. In case any action or proceeding shall be brought against the Company or its officers, directors or agents or any such controlling person, in respect of which indemnity may be sought against such Selling Holder, such Selling Holder shall have the rights and duties given to the Company, and the Company or its officers, directors or agents or such controlling person shall have the rights and duties given to such Selling Holder, by Section 2.6 hereof. Each Selling Holder also agrees to indemnify and hold harmless Underwriters of the Registrable Securities, their officers and directors and each Person who controls such Underwriters within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act on substantially the same basis as that of the indemnification of the Company provided in this Section 2.7.

SECTION 2.8. Conduct of Indemnification Proceedings. In case any

proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Sections 2.6 or 2.7 hereof, such person (an "Indemnified Party") shall promptly notify the person against whom such indemnity may be sought (an "Indemnifying Party") in writing and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party, and shall assume the payment of all fees and expenses. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Indemnified Party and the Indemnifying Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the Indemnifying Party shall not, in connection with any proceeding or related proceedings in the

same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for all such Indemnified Parties, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Indemnified Parties, such firm shall be designated in writing by (i) in the case of Persons indemnified pursuant to Section 2.6 hereof, by the Selling Holders which owned a majority of the Registrable Securities sold under the applicable

registration statement and (ii) in the case of Persons indemnified pursuant to Section 2.7 hereof, the Company. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent, or if there be a final judgment for the plaintiff, the Indemnifying Party shall indemnify and hold harmless such Indemnified Parties from and against any loss or liability (to the extent stated above) by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an Indemnified Party shall have requested an Indemnifying Party to reimburse the Indemnified Party for fees and expenses of counsel as contemplated by the third sentence of this paragraph, the Indemnifying Party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than thirty (30) Business Days after receipt by such Indemnifying Party of the aforesaid request and (ii) such Indemnifying Party shall not have reimbursed the Indemnified Party in accordance with such request prior to the date of such settlement. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability arising out of such proceeding.

SECTION 2.9. Contribution. If the indemnification provided for in

Sections 2.6 or 2.7 hereof is unavailable to an Indemnified Party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (i) as between the Company and the Selling Holders on the one hand and the Underwriters on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Holders on the one hand and the Underwriters on the other from the offering of the securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits but also the relative fault of the Company and the Selling Holders on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations and (ii) as between the Company on the one hand and each Selling Holder on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of each Selling Holder in connection with such statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Holders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and the Selling Holders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth

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in the table on the cover page of the prospectus. The relative fault of the Company and the Selling Holders on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and the Selling Holders or by the Underwriters. The relative fault of the Company on the one hand and of each Selling Holder on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or such Selling Holder, and the Company's and the Selling Holder's relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Selling Holders agree that it would not be just

and equitable if contribution pursuant to this Section 2.9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages or liabilities referred to in Sections 2.6 and 2.7 hereof shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 2.9, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, and no Selling Holder shall be required to contribute any amount in excess of the amount by which the total price at which the securities of such Selling Holder were offered to the public exceeds the amount of any damages which such Selling Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Selling Holder's obligations to contribute pursuant to this Section 2.9 are several in the proportion that the proceeds of the offering received by such Selling Holder bears to the total proceeds of the offering received by all the Selling Holders and not joint.

SECTION 2.10. Participation in Underwritten Registrations. No Person

may participate in any underwritten registration hereunder unless such Person (a) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents in customary form and reasonably required under the terms of such underwriting arrangements and these registration rights provided for in this Article II.

SECTION 2.11. Rule 144. The Company covenants that it will file any

reports required to be filed by it under the Securities Act and the Exchange Act and that it will take such

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further action as any Holder may reasonably request, all to the extent required from time to time to enable Holders to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the Commission. Upon the request of any Holder, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

SECTION 2.12. Holdback Agreements.

(a) Restrictions on Public Sale by the Holder of Registrable

Securities. To the extent not inconsistent with applicable law, each Holder

whose securities are included in a registration statement agrees, upon receipt of prior written notice from the Company received not later than 17 days prior to the effective date of such registration statement, not to effect any sale or distribution of the issue being registered or a similar security of the Company, or any securities convertible into or exchangeable or exercisable for such securities, including a sale pursuant to Rule 144 under the Securities act, during the 90 days prior to, and during the 90-day period beginning on, the effective date of such registration statement (except as part of such

registration), if and to the extent requested in writing by the Company in the case of a non-underwritten public offering`or if and to the extent requested in writing by the managing Underwriter or Underwriters in the case of an underwritten public offering.

(b) If the Company determines in its good faith judgment that the filing of the Shelf Registration Statement under Section 2.1 hereof or the use of any related prospectus would require the disclosure of non-public material information that the Company has a bona fide business purpose for preserving as confidential or the disclosure of which`would impede the Company's ability to consummate a material transaction, and that the Company is not otherwise required by applicable securities laws or regulations to disclose, upon written notice of such determination by the Company, the rights of the Holders to offer,`sell or distribute any Registrable Securities pursuant to the Shelf Registration Statement or to require the Company to take action with respect to the registration or sale of any Registrable Securities pursuant to the Shelf Registration Statement shall be suspended until the earlier of (i) the date upon which the Company notifies the Holders in writing that suspension of such rights for the grounds set forth in`this Section 2.1(b) is no longer necessary and`(ii) 180 days. The Company agrees to give such notice as promptly as practicable following the date that such suspension of rights is no longer necessary.

(c) If all reports required to be filed by the Company pursuant to the Exchange Act have not been filed by the required date without regard to any extension, or if the consummation of any business combination by the Company has occurred or is probable for purposes of Rule 3-05 or Article 11 of Regulation S-X under the Act, upon written notice thereof by the Company to the Holders, the rights of the Holders to offer, sell or distribute any Registrable Securities pursuant to the Shelf Registration Statement or to require the Company to take action with respect to the registration or sale of any Registrable Securities pursuant to the Shelf Registration Statement shall be suspended until the date on which the Company has filed such reports or obtained and filed the financial information required by Rule 3-05 or Article 11

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of Regulation S-X to be included or incorporated by reference, as applicable, in the Shelf Registration Statement, and the Company shall notify the Holders as promptly as practicable when such suspension is no longer required.

ARTICLE III

MISCELLANEOUS

SECTION 3.1. New York Stock Exchange Listing. In the event that the

Company shall issue any Common Stock in exchange for OP Units pursuant to Section 8.6 of the Partnership Agreement, then in any such case the Company agrees to cause any such shares of Common Stock to be listed on the New York Stock Exchange prior to or concurrently with the issuance thereof by the Company.

SECTION 3.2. Remedies. In addition to being entitled to exercise all

rights provided herein and granted by law, including recovery of damages, the Holders shall be entitled to specific performance of the rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

SECTION 3.3. Amendments and Waivers. The provisions of this

Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given without the prior written consent of the

Company and the Holders or any such Holder's representative if any such Holder is Incapacitated. No failure or delay by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon any breach thereof shall constitute a waiver of any such breach or any other covenant, duty, agreement or condition.

SECTION 3.4. Notices. All notices and other communications in

connection with this Agreement shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or air courier guaranteeing overnight delivery:

(1) if to any Unit Holder, initially c/o Kilroy Realty Corporation, 2250 East Imperial Highway, El Segundo, California 90245 (Attention: President and Chief Executive Officer), or to such other address and to such other Persons as the Unit Holders may hereafter specify in writing; and

(2) if to the Company, initially at 2250 East Imperial Highway, El Segundo, California 90245 (Attention: President and Chief Executive Officer), or to such other address as the Company may hereafter specify in writing.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; when received if deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if

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telecopied; and on the next business day, if timely delivered to an air courier guaranteeing overnight delivery.

SECTION 3.5. Successors and Assigns. Except as expressly provided in

this Agreement, the rights and obligations of the Holders under this Agreement shall not be assignable by any Holder to any Person that is not a Holder. This Agreement shall be binding upon the parties hereto and their respective successors and assigns.

SECTION 3.6. Counterparts. This Agreement may be executed in any

number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Each party shall become bound by this Agreement immediately upon affixing its signature hereto.

SECTION 3.7. Governing Law. This Agreement shall be governed by and

construed in accordance with the internal laws of the State of California without regard to the choice of law provisions thereof.

SECTION 3.8. Severability. In the event that any one or more of the

provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

SECTION 3.9. Entire Agreement. This Agreement is intended by the

parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted by the Company with respect to the Registrable Securities. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject

matter.

SECTION 3.10. Headings. The headings in this Agreement are for

convenience of reference only and shall not limit or otherwise affect the
meaning hereof.

SECTION 3.11. No Third Party Beneficiaries. Nothing express or

implied herein is intended or shall be construed to confer upon any person or
entity, other than the parties hereto and their respective successors and
assigns, any rights, remedies or other benefits under or by reason of this
Agreement.

(Signature Page Follows)

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as
of the date first written above.

KILROY REALTY CORPORATION,

a Maryland corporation

By: /s/ Jeffrey C. Hawken

Name: JEFFREY C. HAWKEN

Title: EXECUTIVE VICE PRESIDENT
CHIEF OPERATING OFFICER

By: /s/ Richard E. Moran Jr.

Name: RICHARD E. MORAN JR.

Title: EXECUTIVE VICE PRESIDENT
CHIEF FINANCIAL OFFICER

KILROY REALTY, L.P., a Delaware limited
partnership

By: Kilroy Realty Corporation,
its general partner

By: /s/ Jeffrey C. Hawken

Name: JEFFREY C. HAWKEN

Title: EXECUTIVE VICE PRESIDENT
CHIEF OPERATING OFFICER

By: /s/ Richard E. Moran Jr.

Name: RICHARD E. MORAN JR.

Title: EXECUTIVE VICE PRESIDENT
CHIEF FINANCIAL OFFICER

Kilroy Airport Imperial Co., a California limited
partnership

By: The Kilroy Company, a California
corporation, its general partner

By: /s/ JOHN B. KILROY

Name: JOHN B. KILROY

Title: President

SECOND AMENDMENT TO
FOURTH AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF KILROY REALTY, L.P.

This Second Amendment to Fourth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. (this "Second Amendment") is entered into as -----

of December 30, 1999, by and between Kilroy Realty Corporation, a Maryland corporation ("General Partner"), Kilroy Realty, L.P., a Delaware limited -----

partnership (the "Partnership"), and Montebello Realty Corp., a Delaware -----

corporation (the "Series D Preferred Partner").

Recitals

Whereas, the signatories hereto desire to amend that certain Fourth Amended and Restated Agreement of Limited Partnership of the Partnership dated as of November 24, 1998, as supplemented by that First Supplement, dated January 6, 1999; Second Supplement dated February 22, 1999; Third Supplement dated March 9, 1999, Fourth Supplement dated March 31, 1999; and Fifth Supplement, dated March 26, 1999, and as amended by a First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of the Partnership, dated as of December 9, 1999 (the "First Amendment" and collectively, the "Agreement"). Capitalized -----

terms used herein but not defined herein having the definitions therefor set forth in the Agreement; and

Whereas, as of December 9, 1999, the Series D Preferred Partner contributed \$39,000,000 to the Partnership in exchange for the issuance by the Partnership to the Series D Preferred Partner of 780,000 9 1/4% Series D Cumulative Redeemable Preferred Units of the Partnership. In connection therewith, the Series D Preferred Partner was admitted to the Partnership, effective as of December 9, 1999 as an Additional Limited Partner; and

Whereas, as of the date hereof, the Series D Preferred Partner has made an additional contribution to the Partnership in the sum of \$6,000,000 in exchange for the issuance by the Partnership to the Series D Preferred Partner of an additional 120,000 Series D Preferred Units;

Now, therefore, in consideration of the foregoing, of the mutual promises set forth herein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree to continue the Partnership and amend the Agreement as follows:

1. Background. As of the date hereof, the Series D Preferred Partner has -----

contributed \$6,000,000 to the Partnership in exchange for the issuance to the Series D Preferred Partner of 120,000 Series D Preferred Units (as defined in the Agreement, as amended hereby). As of the date hereof, the Series D Preferred Partner is the holder of a total of 900,000 Series D Preferred Units and by execution of this Second Amendment the Series D Preferred Partner has agreed to be bound by all of the terms and conditions of the Agreement, as amended hereby.

2. Definition. Section 1.1 of the Agreement, as amended by that First

Amendment, is hereby amended by the deletion of the definition of Series D Contributor in its entirety and its replacement with the following:

"Series D Contributor" means Montebello Realty Corp., a Delaware

corporation, as a party to that certain Contribution Agreement, dated as of December 9, 1999, and that certain Contribution Agreement, dated as of December 30, 1999, and any Affiliate to which the Series D Preferred Units may be assigned in accordance with this Agreement.

3. Amendment to Article 19. The second sentence of Section 19.2 is

hereby deleted in its entirety and replaced with the following:

"The number of Series D Preferred Units shall be 900,000."

4. Exhibit A. The Agreement is hereby amended by adding to Exhibit A of

said Agreement the addendum to Exhibit A attached hereto and made a part hereof, so that all references to "Exhibit A" in the Agreement shall be deemed to be references to Exhibit A which shall include the addendum to Exhibit A attached hereto.

5. Full Force and Effect. Except as amended by the provisions hereof, the

Agreement, as previously amended, shall remain in full force and effect in accordance with its terms and is hereby ratified, confirmed and reaffirmed by the undersigned for all purposes and in all respects.

6. Binding. This Second Amendment shall be binding upon and shall inure

to the benefit of the parties hereto, their respective legal representatives, successors and assigns.

7. Governing Law. This Second Amendment shall be interpreted and

enforced according to the laws of the State of Delaware.

8. Counterparts. This Second Amendment may be executed in counterparts,

all of which together shall constitute one agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart.

(Space left intentionally blank)

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment as of the date first written above.

GENERAL PARTNER

KILROY REALTY CORPORATION,
a Maryland corporation

By: /s/ TYLER H. ROSE

Tyler H. Rose
Senior Vice President and Treasurer

(Space left intentionally blank)

SERIES D PREFERRED PARTNER

MONTEBELLO REALTY CORP., a Delaware corporation

By: /s/ ROSALIE GOLDBERG

Name: ROSALIE GOLDBERG
Title: AUTHORIZED SIGNATORY

ADDENDUM TO
EXHIBIT A

Name and Address of Partner: -----	Preference Units -----
Montebello Realty Corp. 800 Scudder's Mill Road Special Investments, Area 2-G Plainsboro, NJ 08536	120,000
TOTAL	120,000

ADMISSION OF NEW PARTNER AND AMENDMENT
TO LIMITED PARTNERSHIP AGREEMENT

THIS ADMISSION OF NEW PARTNER AND AMENDMENT TO LIMITED PARTNERSHIP AGREEMENT (this "Admission and Amendment") is entered into as of the 6th day of -----
October, 2000 (the "Closing Date") by and between Kilroy Realty, L.P., a Delaware limited partnership (the "Partnership") and Kilroy Airport Imperial -----
Company, a California limited partnership (the "New Partner"). All capitalized -----
terms contained herein, unless otherwise defined herein, shall have the meanings provided in the Partnership Agreement (as defined below).

RECITALS

WHEREAS, the partners of the Partnership are parties to the Fourth Amended and Restated Agreement of Limited Partnership, dated November 24, 1998 amended through the date hereof (as so amended, the "Partnership Agreement"). -----
The general partner of the Partnership is Kilroy Realty Corporation, a Maryland corporation (hereinafter the "Company" or the "General Partner"); and -----

WHEREAS, Section 12.2 of the Partnership Agreement contemplates the admission of Additional Limited Partners; and

WHEREAS, the New Partner owns a 99% limited partnership interest in Imperial Partners 25, L.P., a Delaware limited partnership (the "L.P. -----
Property");

WHEREAS, the New Partner and the Partnership have entered into that certain Contribution Agreement dated as of the Closing Date (the "Contribution -----
Agreement") pursuant to which the New Partner will contribute the L.P. Property -----
to the Partnership in exchange for Common Units of the Partnership (as more particularly described in the Contribution Agreement); and

WHEREAS, the New Partner and the Partnership have entered into that certain Contribution/Guarantee Agreement dated as of the Closing Date, pursuant to which the New Partner will contribute cash to the Partnership under the circumstances specified therein.

NOW THEREFORE, in consideration of the foregoing, of the covenants, promises and undertakings set forth herein, and for good and valuable consideration, the receipt of which is hereby acknowledged, the Partnership and the New Partner hereby agree as follows:

1. Contribution and Issuance of Common Units. In exchange for its -----
contribution of the L.P. Property, on the Closing Date (as defined in Contribution Agreement) the New Partner shall become an Additional Limited Partner of the Partnership pursuant to Section 12.2 of the Partnership Agreement and shall receive an aggregate of 1,133 Common Limited Partnership Units, based on a price per Common Limited Partnership Unit equal to \$26.47510, the average Closing Price of the Company's common stock, par value \$.01 per share (the "Common Stock") on The New York Stock Exchange, for the ten consecutive trading -----
days ending two business days before the Closing Date, rounded to the nearest whole Common Limited Partnership Unit.

2. Admission as Additional Limited Partners. By its signature hereto on

behalf of the Partnership and all of the Partners thereof, the Company, as
general partner of the Partnership, hereby consents to the admission of the New
Partner as an Additional Limited Partner on the Closing Date.

3. Agreement to Become Additional Limited Partners. The New Partner

hereby agrees to become an Additional Limited Partner and agrees to be bound by
all the terms and conditions of, and to make the representations and warranties
set forth in, the Partnership Agreement as amended to date. Furthermore, the
parties to this Admission and Amendment agree to be bound by the terms of the
Contribution Agreement, which shall be incorporated herein by this reference.

4. Power of Attorney.

(a) The New Partner constitutes and appoints the General Partner,
any Liquidator (as defined in the Partnership Agreement), and authorized officer
and attorney-in-fact of each, and each of those acting singly, in each case with
full power of substitution, as its true and lawful agent and attorney-in-fact,
with full power and authority in its name, place and stead to:

(1) execute, swear to, acknowledge, deliver, file and record
in the appropriate public offices (i) all certificates, documents and other
instruments (including, without limitation, the Partnership Agreement and the
Certificate of Limited Partnership of the Partnership and all amendments or
restatements thereof) that the General Partner or the Liquidator deems
appropriate or necessary to form, qualify or continue the existence or
qualification of the Partnership as a limited partnership (or a partnership in
which the Limited Partners have limited liability) in the State of Delaware and
in all other jurisdictions in which the Partnership may conduct business or own
property; (ii) all instruments that the General Partner or any Liquidator deems
appropriate or necessary to reflect any amendment, change, modification or
restatement of the Partnership Agreement in accordance with its terms; (iii) all
conveyances and other instruments or documents that the General Partner or any
Liquidator deems appropriate or necessary to reflect the dissolution and
liquidation of the Partnership pursuant to the terms of the Partnership
Agreement, including, without limitation, a certificate of cancellation; (iv)
all instruments relating to the admission, withdrawal, removal or substitution
of any Partner (as defined in the Partnership Agreement) pursuant to, or other
events described in, Article 11, 12 or 13 of the Partnership Agreement or the
Capital Contribution (as defined in the Partnership Agreement) of any Partner;
and (v) all certificates, documents and other instruments relating to the
determination of the rights, preferences and privileges of Partnership
Interests; and

(2) execute, swear to, acknowledge and file all ballots,
consents, approvals, waivers, certificates and other instruments appropriate or
necessary, in the sole and absolute discretion of the General Partner or any
Liquidator, to make, evidence, give, confirm or ratify any vote, consent,
approval, agreement, or other action which is made or given by the Partners
under the Partnership Agreement or is consistent with the terms of the
Partnership Agreement or appropriate or necessary, in the sole discretion of the
General Partner or any Liquidator, to effectuate the terms or intent of this
Admission and Amendment or the Partnership Agreement.

Nothing contained herein shall be construed as authorizing the General Partner
or any Liquidator to amend the Partnership Agreement except in accordance with
Article 14 thereof or as may be otherwise expressly provided for in the
Partnership Agreement.

(b) The foregoing power of attorney is hereby declared to be
irrevocable and a power coupled with an interest, in recognition of the fact

that the New Partner will be relying upon the power of the General Partner and any Liquidator to act as contemplated by the Partnership Agreement in any filing or other action by it on behalf of the Partnership and it shall survive and not be affected by the subsequent Incapacity of any New Partner or its Assignee and the transfer of all or any portion of such New Partner's or such Assignee's Common Units and shall extend to each New Partner's heirs, successors, assigns and personal representatives. The New Partner hereby agrees to be bound by any representation made by the General Partner or any Liquidator, acting in good faith pursuant to such power of attorney; and the New Partner or any Assignee hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the General Partner or any Liquidator, taken in good faith under such power of attorney. The New Partner shall execute and deliver to the General Partner or any Liquidator, within 15 days after receipt of the General Partner's or Liquidator's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator, as the case may be, deems necessary to effectuate the Partnership Agreement, this Admission and Amendment and the purposes of the Partnership.

5. Redemption/Exchange Rights. Notwithstanding the provisions of Section

8.6 of the Partnership Agreement, the New Partner shall not be entitled to the redemption/exchange rights stipulated in Section 8.6 of the Partnership Agreement with respect to any Common Limited Partnership Units held by the New Partner until a period of one year has elapsed since the Closing Date (as defined in the Contribution Agreement). Except for the foregoing, the procedures for tendering Common Units after the anniversary of the Closing Date, including, without limitation, the methodology for calculating the cash redemption value, provisions regarding the General Partner's option to exchange tendered Common Limited Partnership Units for its Common Stock in lieu of a redemption, and restrictions on a New Partner's ability to exercise such rights shall be as provided in Section 8.6 of the Partnership Agreement.

6. Partnership Distributions and Allocations.

(a) Distributions. The New Partner shall be entitled to

distributions based on the number of Common Units held by the New Partner on the applicable Partnership Record Dates in accordance with Article 5 of the Partnership Agreement; provided, however, the amount of the distribution to the New Partner for the quarter in which the New Partner is admitted to the Partnership shall be prorated based upon the actual number of days that the New Partner was a Partner during such quarter.

(b) Allocations of Income and Loss. The New Partner shall be

allocated Net Income or Net Loss in accordance with its Percentage Interest in the Partnership, subject to the Regulatory Allocations, in accordance with Article 6 and Section 12.2.B of the Partnership Agreement.

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(c) Section 704(c) Allocations. Notwithstanding anything to

the contrary in the Partnership Agreement, this Admission and Amendment or the Contribution Agreement, Tax Items with respect to Partnership Interests (or underlying property) which are being contributed to the Partnership by the New Partner (including Tax Items resulting from any adjustment to the Gross Asset Value of such properties) shall be shared among the Partners in accordance with Section 6.4 of the Partnership Agreement using the "traditional method" as described in Regulations Section 1.704-3(b)(1).

7. Miscellaneous.

(a) In the event of any conflict between the Partnership Agreement and this Admission and Amendment, the provisions of this Admission and

Amendment shall supersede any and all conflicting or different provisions contained within the Partnership Agreement. Any amendments to this Admission and Amendment, including, without limitation, any amendments affecting the transferability of the Common Limited Partnership Units, must be executed by the New Partner in order to be effective. This Admission and Amendment shall be deemed to be an amendment to the Partnership Agreement.

(b) This Admission and Amendment may be executed in any number of counterparts and each such counterpart shall be deemed to be an original, but all of which, when taken together, shall constitute one agreement.

(Signature Page Follows)

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IN WITNESS WHEREOF, the parties have entered into this Admission and Amendment as of the date and year first written above.

"THE PARTNERSHIP"

KILROY REALTY, L.P.,
a Delaware limited partnership

By: KILROY REALTY CORPORATION
a Maryland corporation, its general partner

By: /s/ Hugh Green

Name: HUGH GREEN

Its: EXECUTIVE VICE PRESIDENT

By: /s/ Tyler H. Rose

Name: TYLER H. ROSE

Its: SENIOR VICE PRESIDENT AND
TREASURER

NEW PARTNER

KILROY AIRPORT IMPERIAL COMPANY,
a California limited partnership

By: The Kilroy Company
a California corporation, its general
partner

By: /s/ Marshall L. McDaniel

Name: MARSHALL L. MCDANIEL

Its: EXECUTIVE VICE PRESIDENT AND
SECRETARY

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INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-72229, Amendment No. 1 to Registration Statement No. 333-45097, Registration Statement No. 333-34638, and Registration Statement No. 333-49948 of Kilroy Realty Corporation on Forms S-3, and Registration Statement No. 333-43227 of Kilroy Realty Corporation on Form S-8 of our report dated March 9, 2001, appearing in this Annual Report on Form 10-K of Kilroy Realty Corporation for the year ended December 31, 2000.

/s/ Deloitte & Touche LLP

Los Angeles, California
March 26, 2001